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# Fitch Affirms Hillsborough County Port District at 'A'; Outlook Revised to Positive

Fitch Ratings - New York - 02 Nov 2022: Fitch Ratings has affirmed the 'A' rating on Hillsborough County Port District, FL's (Port Tampa Bay, the Port) approximately \$79 million in outstanding revenue bonds and notes. The Rating Outlook has been revised to Positive from Stable.

## RATING RATIONALE

The Positive Outlook reflects the port's strong coverage metrics in Fitch's rating case and expectations for manageable additional leverage over the near to medium term, leading to potential upward rating movement. The 'A' rating reflects the port's diversified operating revenues coupled with a strong fiscal position evidenced by strong liquidity and low leverage. The port's diversified profile and lesser exposure to cruise helps to insulate financial performance from cruise stress.

## KEY RATING DRIVERS

### **Strategic Location - Revenue Risk (Volume): High Midrange**

The port's proximity to downtown Tampa, with a catchment area in central Florida approaching 10 million people, and its competitive position as the deepest gulf port in Florida support its cargo and cruise businesses; both have shown modest resilience during periods of economic downturn. The port's revenue diversity helps to soften volatility attributable to moderate exposure to the emerging economies of Mexico and Brazil, the volatile nature of revenue related to the commodity-based cargo business, and potential fluctuations in the region's construction sector.

Revenue Risk - Volume - High Midrange

### **Diversified Revenue Base - Revenue Risk (Price): Midrange**

While the port remains exposed to the discretionary cruise business, long-term leases accounted for over 50% of operating revenues, helping to insulate from volume fluctuations. The port's revenues are expected to substantially track inflation and there is minimal evidence of political interference.

Revenue Risk - Price - Midrange

### **Manageable Capital Plan - Infrastructure Development & Renewal: Stronger**

The port's anticipated capital investments include several improvement and expansion projects that seek to increase intermodal connectivity and enhance the district's current revenue base. Although

short-term capital projects are fully funded through cash or grants, management expects the capital improvement plan to include additional debt to support the more expansive master plan through 2030.

The port has adequate debt capacity, especially after 2022 when existing debt obligations fall substantially. The port's credit is further enhanced by the district's ability to levy an ad valorem tax used to fund capital projects, reducing the dependency on port operations for funding.

Infrastructure Dev. & Renewal - Stronger

### **Moderate Variable-Rate Debt Component - Debt Structure: Stronger**

The port's debt is full fixed rate or synthetically swapped to fixed rate. The debt structure currently reflects a rapid amortization profile over the next three years, providing considerable flexibility if the port pursues additional borrowing for projects under its master plan. The lack of cash-funded debt service reserves is somewhat mitigated by a strong cash position, with over \$87.2 million of unrestricted cash on hand as of Sept. 30, 2022, though cash expenditures for the capital plan could reduce liquidity.

Debt Structure - Senior - Stronger

### **Financial Profile**

The port's healthy financial performance is evidenced by the stable senior and total debt service coverage ratio (DSCR) of 3.8x and 3.0x, respectively, in fiscal 2022 based on unaudited financials. Senior net debt to cash flow available for debt service (CFADS) and total net debt to CFADS were modest at 1.2x and 2.4x, respectively.

### **PEER GROUP**

Peers include Jacksonville Port Authority (A/Stable) which has diverse cargo profiles and a similar revenue base. Both ports benefit from minimum annual guarantees covering over half of operating revenues.

### **RATING SENSITIVITIES**

#### **Factors that could, individually or collectively, lead to negative rating action/ downgrade:**

--Total rating case DSCR weakening to 1.6x or lower on a sustained basis;

--Material increases in leverage materially above 4.5x due to new borrowings or meaningful reductions in liquidity levels; and

--Substantial declines in cargo activity and cruise passengers processed at the port and supporting revenues.

## **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

--Total rating case DSCR at or above 1.8x on a sustained basis;

--Maintenance of sound liquidity and further comfort that leverage will remain below 3.5x after future debt issuance plans are cemented.

## **Best/Worst Case Rating Scenario**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **CREDIT UPDATE**

Preliminary fiscal 2022 operating revenues showed a strong recovery, growing by approximately 19% from 2021 to \$67.5 million and operating expenses increased 18% from 2021 to \$36.2 million. The revenue rebound was supported by a return to cruise activity during the year. The increase in operating expenses was due to management filling positions that were previously left vacant as well as the increased costs associated with the increased activity at the port.

Port Tampa Bay's cruise activity was brought to a complete stop starting on March 14, 2020, following the Centers for Disease Control and Prevention's No Sail Order. In fiscal 2021, the port had zero cruise passengers. Cruising has since restarted and the port is expecting a full recovery of cruise activity beginning in fiscal 2023. As of the 3Q22 quarterly cruise report, the port had over 330,800 passengers and 129 cruise ships so far in 2022, indicating solid progress

Currently, there is a terminal expansion underway. The expansion includes increased storage to 97 acres from 67, berth expansion to 4,500 feet from 3,200, an additional new gate, and three new gantry cranes.

The port anticipates completion of \$78.3 million in capital improvement projects in 2023. At \$35.4 million, Hooker's Point Development is the largest component of the capital plan and includes berth and road improvements. Capital projects will be funded by proceeds of the 2018 bonds, port revenues, federal & state grants, ad valorem taxes and investments by tenants. Management does not expect to issue new debt to fund new projects in 2023.

## **FINANCIAL ANALYSIS**

The Fitch base and rating cases incorporate preliminary fiscal 2022 (YE September 30) operating results

and the fiscal 2023 budget. Revenues increased by nearly 20% in fiscal 2022 and 13% in fiscal 2023, largely driven by a strong cruise year in fiscal 2023. Non-cruise revenues grow at 3% per year from fiscal 2024 through 2027. Operating expenses increase by a similar percentage as revenues and then are anticipated to grow by 3% per year thereafter.

In the base case, senior and total DSCR average 4.2x and 3.2x respectively from 2022 through 2027. Total leverage falls to 0.9x in fiscal 2027, accounting for cash contributions to the port's capital program in conjunction with maintenance of \$50 million in liquidity.

Fitch's rating case maintains the base case assumptions for fiscal 2022 and 2023, however Fitch assumes 0% growth in revenues in fiscal 2024 and modest 2% growth thereafter. Operating expenses grow by 4% per year from 2024 through 2027. In the rating case, senior and total DSCR average 3.9x and 3.0x respectively from 2022 through 2027. Total leverage declines to 1.0x in fiscal 2027. As in the base case, cash is drawn for the capital plan while maintaining a balance of \$50 million.

## **SECURITY**

The district's outstanding revenue bonds and senior bank loans are secured by a parity lien on net revenues derived from port operations. Under the indenture, property tax receipts are excluded from the definition of pledged gross revenues.

### **Asset Description**

Port Tampa Bay is the largest port in the state of Florida by tonnage and land. Port properties encompass 5,000 acres and are located across six main areas in Hillsborough County (Channelside, Hookers Point, Eastport, Port Ybor, Port Sutton and Port Redwing). Port Tampa Bay derives the major portion of its revenues as a landlord port from dockage, wharfage and rent, while providing the facilities for tenants to conduct diversified cargo and cruise operations.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG Considerations**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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**Rating Actions**

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Hillsborough County Port District (FL)				
<hr/>				
• Hillsborough County Port District (FL) /Port Facilities Revenues/ 1 LT	LT	A 	Affirmed	A 

**RATINGS KEY   OUTLOOK   WATCH**

POSITIVE		
NEGATIVE		

## RATINGS KEY OUTLOOK WATCH

EVOLVING



STABLE



### Applicable Criteria

[Infrastructure & Project Finance Rating Criteria \(pub.20 Jul 2022\) \(including rating assumption sensitivity\)](#)

[Transportation Infrastructure Rating Criteria \(pub.16 May 2022\) \(including rating assumption sensitivity\)](#)

### Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.3.1 [\(1\)](#)

### Additional Disclosures

[Solicitation Status](#)

### Endorsement Status

Hillsborough County Port District      EU Endorsed, UK Endorsed

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