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Ratings

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Albany County Airport Authority, New York
Albany International Airport; Airport

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Credit Profile		
US$14.285 mil arpt rev bnds (Albany International Airport) (Non -amt) ser 2018A due 12/15/2038		
Long Term Rating	A/Stable	New
US$7.68 mil arpt rev bnds (Albany Intl Arpt) (Amt) ser 2018B due 12/15/2038		
Long Term Rating	A/Stable	New
Albany Cnty Arpt Auth, New York		
Albany Intl Arpt, New York		
Albany Cnty Arpt Auth (Albany Intl Arpt) arpt rev rfdg bnds		
Long Term Rating	A/Stable	Affirmed
Albany Cnty Arpt Auth (Albany Intl Arpt) arpt rev rfdg bnds		
Long Term Rating	A/Stable	Affirmed
Albany Cnty Arpt Auth (Albany Intl Arpt)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has assigned its 'A' long-term rating to the Albany County Airport Authority, N.Y.'s $14.3 million series 2018A and $7.7 million series 2018B airport revenue bonds, issued for the Albany International Airport (ALB). At the same time, S&P Global Ratings affirmed its 'A' long-term rating and underlying rating (SPUR) on the authority's debt outstanding. The outlook is stable.

The rating action reflects the application of our updated rating criteria, "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions," published March 12, 2018, on RatingsDirect.

The ratings further reflect our opinion of the authority's strong enterprise risk and financial risk profiles. Our enterprise risk profile assessment reflects ALB's recent growing enplanement trends that we expect will remain at least stable, although the airport has experienced some weakness during previous weak economic cycles. Our financial risk profile assessment reflects our opinion that the authority's coverage metrics will remain strong as the debt burden moderately increases through this proposed issuance to fund primarily additional parking capacity. Similarly, although ALB's debt burden will rise we expect the airport's debt and liabilities capacity to remain very strong.

The strong enterprise risk profile reflects our view of the authority's:

- Adequate market position that reflects ALB's role as an origin and destination (O&D) airport that has had generally stable enplanements levels that we expect will remain generally stable (currently 1.45 million) with some modest fluctuations;

- Extremely strong service area economic fundamentals, which include high GDP per capita, a metropolitan statistical area (MSA) with approximately 900,000, and unemployment levels in line with the U.S. average, despite low three-year projected population growth rates;
- Low industry risk relative to that of other industries and sectors; and
- Very strong management and governance that has established a history of managing and operating its airport facilities with detailed financial transparency and financial planning that we consider generally conservative, with demand-driven capital planning.

The strong financial risk profile reflects our view of the authority's:

- Debt service coverage (DSC; S&P Global Ratings-calculated) that we expect will remain at levels that we consider strong, which includes the effects of the proposed series 2018 debt;
- Very strong debt and liabilities capacity that we expect will continue, including effects of authority's additional debt; and
- Adequate liquidity and financial flexibility, reflecting strong unrestricted reserves to debt that is offset by generally adequate days' cash on hand.

Bond proceeds will fund a portion of the cost of the Upstate Airport Development & Revitalization Project, fund the bond reserve fund, and pay issuance costs. The main project's bond proceeds will fund a new 1,000-unit parking garage, parking access improvements, and terminal rehabilitation and passenger amenities improvements.

Net airport revenues secure the bonds. As of Dec. 31, 2017, the authority had $77.3 million of debt outstanding, which is all fixed rate, and it has no swaps outstanding. We consider the bond to be credit neutral. The airport must set rates and charges such that net revenues provide at least 1.25x debt service; under the airport's indenture passenger facility charge revenues are allowed as an offset to achieve this target. The authority may issue additional bonds if net revenues on existing and proposed debt yield at least 1.25x maximum annual debt service (MADS) or if a consultant's report demonstrates projected net revenues will meet 1.25x MADS. Cash-funded debt service reserves, funded at the lesser of the Internal Revenue Service (IRS) three-pronged test secure all of the authority's debt as well.

ALB, classified as a small-hub airport by the Federal Aviation Administration (FAA), is about seven miles from downtown Albany, the state capital. It has two primary runways, a 290,000-square-foot terminal, and almost 7,000 parking spaces without including the additional parking spaces planned.

Outlook

The stable outlook reflects our expectation that enplanements will remain generally stable and that coverage, as per our calculations, will remain strong.

Upside scenario

We could raise the rating if the airport's debt burden capacity and available liquidity materially increase because of rising net revenues.

Downside scenario

Although unlikely, we could lower the rating if enplanements materially decline.

Enterprise Risk

Our assessment of the authority's enterprise risk profile as strong reflects its extremely strong economic fundamentals, low industry risk, adequate market position, and very strong management and governance.

Economic fundamentals

In our view, ALB's primary service area maintains extremely strong economic fundamentals. Supporting this view are the MSA's high GDP per capita of $61,364 and its unemployment rate of 4.2% that is comparable with the U.S. average rate. The MSA's population of approximately 900,000, although projected to grow at a lower rate over the next three years (0.4%) than the nation overall (2.4%), provides a solid O&D enplanement base for ALB, in our view.

Albany County is located along the west bank of the Hudson River, and its largest employer is the state government, with more than 51,000 employees. Employment in the health care and higher education industries as well as private-sector-growth investments centered on nanotechnology help diversify the economy. Despite stability from the county's major employers, we believe slow population growth and aging demographics could dampen economic trends in the long term.

Market position

We consider ALB's overall market position adequate, benefitting from generally stable enplanement trends given its O&D nature. More specifically, enplanement trends since fiscal 2014 have been encouraging with fiscal 2017 enplanements reaching 1.4 million, up from 1.2 million in fiscal 2013. Management projects fiscal 2018 enplanements to reach 1.45 million and forecasts them to increase to 1.5 million in fiscal 2019. Previously, ALB traffic declined through the recession--from 2009-2011--before flattening and falling to a low of about 1.2 million. Since then, improvements in the local and national economy and the absorption of route changes have stabilized traffic. We expect enplanements to grow modestly through the forecast period. The airport has assumed enplanements will only grow to approximately 1.56 million by 2023, which we consider reasonable.

We consider the airport's carrier diversity moderately concentrated. Southwest Airlines Co. enplaned 40.0% of traffic in 2017, followed by American Airlines Inc. (used to be served by US Airways) and Delta Airlines Inc., with 21.6% and 15.8%, respectively, for a total of 77.4%. Through fiscal years 2015 and 2016, ALB's enplanements increased due to additional service provided by various airlines.

Management and governance

We assess the authority's management and governance as very strong, reflecting our view of its strategic positioning, risk and financial management, and organizational effectiveness.

The authority's actual performance relative to forecast has been favorable, in our view. Management forecasts have conservative assumptions, as evidenced by a history of the authority's actual results typically exceeding forecast. Management has demonstrated an ability to maintain consistent margins despite unfavorable changes in activity levels due to monitoring ALB's financial performance on a monthly basis. We also considered the authority's detailed financial transparency in our assessment. Management maintains a five-year formal capital improvement plan (CIP), along with a one-year plan in the operating budget.

The authority has a five-year airline use-and-lease agreement effective Jan. 1, 2016, with the same air carriers that were signatories under the previous agreement--United, American, Southwest, Delta, and Cape Air--as well as JetBlue. The agreement uses a hybrid rate-setting methodology, whereby landing fees are based on a cost center residual methodology and terminal rental rates on a compensatory methodology.

The authority's board is made up of seven members, with four appointed by the majority leader of the Albany County Legislature and three members appointed by the Albany County Executive.

Financial Risk

Our assessment of ALB's financial risk profile as strong reflects the authority's strong financial performance, very strong debt and liabilities capacity, and adequate liquidity and financial flexibility. In addition to the airport's historically strong performance, our financial profile risk assessment considered pro forma figures, which reflect the authority's forecast including the effects of the additional debt. Pro forma figures reflect a higher debt burden and annual debt service requirements; no material draws on the authority's unrestricted cash reserves, and a steady, albeit modest, increase in demand and related net revenue growth. Our financial profile assessment also considered the authority's financial policies, which we view as credit neutral.

Financial performance

The strong financial performance assessment reflects our expectation that the authority will maintain DSC (S&P Global Ratings-calculated) at levels that we consider strong. More specifically, DSC for fiscal years 2017 and 2016 was relatively stable at around 1.4x. We expect the authority to maintain DSC, as per our calculations, for the next five years at levels comparable with those achieved in fiscal 2016 and 2017. Coverage, as per the indenture, is higher at 1.6x in fiscal 2017, which uses eligible passenger facility charges as a debt offset instead of revenue, as per our calculations. We consider the authority's airline cost structure moderate, with a fiscal 2017 cost per enplanement of $6.57, which management projects to increase to $6.70 by 2023.

Debt and liabilities

We assess the authority's debt and liabilities capacity as very strong, reflecting our expectation that debt to net revenues will likely remain under 10x, including the effects of the additional debt. Debt to net revenues (S&P Global Ratings-calculated) was 5.3x at fiscal year-end 2017, and 6.5x at fiscal year-end 2016. We expect the authority's debt per enplanement to increase, but remain under what we consider a moderate $65 level, resulting from the additional debt issuance.

The authority's capital plan is manageable, in our opinion. The airport is in the middle of its 2015-2019 capital plan, which was adopted in 2014 and includes all the projects the authority could undertake. The authority will determine which projects to debt finance, depending on the availability of grant funding. There are no other additional debt plans.

Liquidity and financial flexibility

We assess the authority's liquidity and financial flexibility as adequate. Improved operations and a more favorable use-and-lease agreement have allowed the authority to improve its liquidity position. We expect the authority to preserve its unrestricted cash reserves as a result of not materially drawing down its cash reserves to fund its CIP. The authority's liquidity position has gradually improved to levels that we generally consider adequate. For fiscal 2017, the authority's unrestricted cash and investments balance totaled $23.1 million, providing about 252 days' cash, up from 100 days' in 2008. The authority's pro forma unrestricted reserves to total expected debt outstanding is about 28%, a level we consider strong.