

FITCH AFFIRMS ALBANY COUNTY AIRPORT AUTHORITY AT 'A-'; OUTLOOK STABLE

Fitch Ratings-San Francisco-21 June 2019: Fitch Ratings has affirmed the Albany County Airport Authority's (ACAA) outstanding \$55.2 million of airport revenue bonds at 'A-'. The Rating Outlook is Stable.

The authority has an additional \$35.3 million of outstanding parity debt that Fitch does not rate.

KEY RATING DRIVERS

Summary: The rating reflects ACAA's relatively small traffic base serving New York State's capital city with minimal competition and a modestly growing enplanement base. The rating further reflects the airport's adequate cost recovery mechanisms and revenue generation utilizing a hybrid airline use and lease agreement (AUL), passenger facility charges (PFCs), and growing, yet modest, non-airline revenue. The airport's current and projected financial performance indicates declining leverage metrics and modest DSCR offsetting more limited liquidity levels.

Limited Traffic Base - Revenue Risk (Volume): Midrange

The airport serves a small, but entirely origination/destination (O&D) traffic base of approximately 1.5 million enplanements within New York State's stable capital region, with minimal competition. Enplanements have experienced modest recent growth, with a 10-year CAGR of 0.6% through 2018. Moderate carrier concentration exists with Southwest Airlines (A-/Stable) maintaining a 39% market share, though service reduction risk is partially mitigated by Southwest's historically stable presence at the airport.

Adequate Cost Recovery - Revenue Risk (Price): Midrange

The airport utilizes a hybrid AUL, which, alongside PFCs, provides adequate recovery of operating expenses and debt service costs. While non-airline revenue growth has been persistent through traffic downturns, cost recovery via both airline revenues and non-airline revenues has historically provided relatively narrow but stable net revenue debt service coverage. A terminal fee credit and landing fees incentive plan was adopted in 2018. Fitch views ACAA's reasonable cost per enplanement (CPE) of \$6-\$7 favorably without upward pressure, and should provide for retainage of air service as well as some rate-making flexibility.

Modest Capital Program - Infrastructure Development & Renewal: Stronger

Albany's amended five-year capital plan through 2019 remains modest at \$142.5 million, representing an increase of approximately \$22 million to include additional funding for terminal and landside projects given recent enplanement growth. Positively, funding will come from a variety of sources including grants, airport cash, and new revenue bonds and the timing should be flexible. A new five-year capital plan is expected later this summer. The airport issued \$22.6 million in series 2018 bonds to fund part of the capital plan and Fitch has modelled in an additional \$8.5 million of new bonds into its analysis in 2019.

Conservative Debt Structure - Debt Structure: Stronger

The airport's debt structure is conservative, comprising all senior, fixed-rate and fully amortizing debt. ACAA benefits from strong structural features, with a cash-funded debt service reserve fund of \$12.5 million alongside an adequate rate covenant of 1.25x. Leverage has continued to decline over time and should continue to do so in Fitch's rating case, though should ACAA issue more than the modelled \$8.5 million, deleveraging could be more modest in the near term.

Financial Profile

Fitch-calculated DSCRs (treating PFCs as revenues as opposed to debt service offsets) for the airport are considered modest, at 1.3x in 2018 and forecast to remain within the 1.2x-1.5x range through 2023. The airport's liquidity position is considered moderate at 266 days cash on hand (DCOH) in comparison with other small hub peers within Fitch's portfolio. However, favorable debt metrics, with leverage of less than 3x in 2018 offset the modest coverage and liquidity metrics. Fitch expects leverage to remain within the 1.5x-3x range over the next few years under conditions of modest borrowing by ACAA.

PEER GROUP

ACAA's peers include other northeastern U.S. airports with modest enplanement bases, such as Hartford (CT) (A/Stable) and Rhode Island (BBB+/Positive). In comparison to ACAA, Hartford and Rhode Island benefit from larger enplanement bases (3.1 million and 1.8 million, respectively) and higher coverage levels (2.5x and 2.0x). Hartford also has lower leverage (0.9x) and a stronger air service area. Rhode Island's lower rating is largely explained by higher debt metrics (leverage of 5.7x), higher CPE (\$12, compared to \$8.58 for Hartford and \$6.57 for ACAA), and weaker traffic performance.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Negative Rating Action:

- Material increases in debt without commensurate increases in revenue that lead to leverage above 4x on a sustained basis.
- A substantial deterioration in passenger traffic that pressures the airport's ability to generate non-aviation revenue or causes CPE to become uncompetitive.

Developments That May, Individually or Collectively, Lead to Positive Rating Action:

- While not likely in the near term, sizable positive traffic growth that leads to a stronger Fitch-calculated rating case DSCR profile alongside stabilized leverage below 2.0x.

CREDIT UPDATE

Performance Update

The airport's enplanement base grew 3.4% in 2018 to 1.47 million, driven by the start of services by Frontier Airlines and Allegiant Airlines in the second half of 2018. Year-to-date for the five months through May 2019, traffic is up another 4.6%. 2018 traffic levels have grown at a five-year CAGR of 3.8%, while the 10-year CAGR is reflective of more modest growth at 0.6%. In an effort to encourage carriers to increase flight frequency, the airport has adopted a more aggressive terminal fee credit and landing fees incentive plan as of March 2018. Management expects enplanements to grow beyond their original projection of 1.5 million in 2019, with conservative 1% growth thereafter.

Performance remained generally in line with expectations in 2018. Airline revenues rose 3.5% to \$9.6 million from \$9.3 million, while non-airline revenues grew by 6.4% to about \$41 million, largely attributed to strong performance in parking and fixed base operation (FBO) revenues. Total revenues experienced positive growth of 4.6% as a result. Operating expenses grew by 11.8% to \$37.4 million, mainly reflecting an increase in FBO expenses relating to fuel sales. Overall, the expense profile has remained relatively flat over the last 10 years. The 2018 cost-per-enplanement (CPE) was flat at \$6.57. Supported by the authority's stable financial profile coupled with an amortizing debt profile, 2018 Fitch-calculated DSCR is 1.3x (treating PFCs as revenues) and 1.4x on an indenture basis. Leverage rose to 3.0x due to the \$22.6 million series 2018 A&B bond issuance. The authority continues to maintain adequate cash reserves, with 266 days cash on hand.

A new capital plan will be prepared in summer 2019 to replace the expiring plan. The current five-year capital plan through 2019 remains modest at \$142.5 million. Positively, the majority of funding is expected to come from grants, with the remainder from airport cash and new money

borrowings. The main project is the Albany Airport Modernization Project, which includes a new 1,000 space garage, terminal improvements, and a modernized parking access system, expected to be completed in Q1 2020. A \$22.1 million grant from New York State was received in late 2018 to partially fund the project. Additionally, the airport issued \$22.6 million in new debt in November 2018, and is contemplating an additional issuance of around \$8.5 million in the near term. Further, they obtained a new \$10 million bank line of credit to support the airport redevelopment, payable from future grant revenues. The authority anticipates refunding the series 2010 bonds, which are callable March 15, 2020.

Fitch Cases

Based on dialogue with management, Fitch has modelled in \$8.5 million of additional debt in 2020 for the Airport Modernization Project. Fitch's base case assumes enplanements grow at 2.3% in 2019, followed by a modest 1% per annum through 2023. Airline revenues grow 3.8% in 2019, followed by 2% per annum, and non-airline revenues track enplanements, excluding a boost in parking revenues in 2019 due to a rate increase. Operating expenses grow 6.1% in 2019 (tracking YTD results) followed by 2.5% per annum thereafter. The result is Fitch-calculated DSCR of no less than 1.3x that averages 1.4x (1.5x and 1.6x, respectively, on an indenture basis) and leverage that falls to 1.3x by 2023 despite the additional issuance. CPE remains in the \$6-\$7 range.

Fitch's rating case models in a 7% stress to enplanements in 2020 followed by 1.5%-2.0% recovery per year thereafter. Airline revenues grow slightly above base case in the later projection years to maintain the 1.25x rate covenant and non-airline revenues move with enplanements. Operating expenses are assumed to be held flat in 2020 given the enplanement loss but are stressed to 3% per year thereafter. Minimum Fitch-calculated DSCR is 1.2x and averages 1.3x, while indenture-based coverage is no less than 1.3x with an average of 1.4x. Leverage is still low at 1.5x by 2023 and CPE is slightly higher, peaking at \$7.61 in 2023.

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Applicable Criteria

Airports Rating Criteria (pub. 23 Feb 2018)

<https://www.fitchratings.com/site/re/10021613>

Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)

<https://www.fitchratings.com/site/re/10038532>

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