FitchRatings

Fitch Affirms Albany County Airport Authority at 'A-'; Outlook Stable

Fitch Ratings-Chicago-16 August 2017: Fitch Ratings has affirmed Albany County Airport Authority's (ACAA) outstanding $86 million airport revenue bonds at 'A-'. The Rating Outlook is Stable.

KEY RATING DRIVERS

Summary: The rating reflects ACAA's small, completely O&D traffic base within New York State's capital city with minimal competition and stabilizing enplanement base as evidenced by the past few years of strong performance. The rating further reflects the airport's adequate cost recovery mechanisms via a hybrid airline use and lease agreement (AUL), passenger facility charges (PFCs), and growing yet modest non-airline revenue streams. Additional debt is possible over the next few years, yet it is not expected to weaken the ACAA's fiscal position. ACAA's current and projected financial performance is considered commensurate with the current rating with favorable debt metrics and modest, yet improving, DSCR offsetting more limited liquidity levels. Fitch's rating case, incorporating the additional debt, projects average Fitch-calculated debt service coverage and leverage of 1.44x and 2.1x, respectively, through fiscal 2021.

CAPITAL REGION AIRPORT, STABILIZING TRAFFIC BASE (Revenue Risk - Volume: Midrange) (Revised from Weaker):
The airport serves a small, but entirely O&D traffic base of more than 1.4 million enplanements within New York State's stable capital region, with minimal competition. The airport exhibited moderate volatility with a historical peak-to-trough of 15.6%, however strong growth over the past few years has resulted in a nearly complete recovery and enplanements stand at 90% of their peak 2004 level. Some carrier concentration exists with Southwest Airlines ('BBB+'/Outlook Stable) maintaining a 40% majority market share, though service reduction risk is partially mitigated by Southwest's historically stable presence.

ADEQUATE COST RECOVERY (Revenue Risk - Price: Midrange):
The airport utilizes a hybrid AUL, which alongside PFCs, provides for 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 only provided for narrow coverage of debt service costs once operating expenses are considered. Fitch views ACAA's reasonable cost per enplanement (CPE) of $6-$7 favorably, as these levels should provide for retainage of air service as well as some rate-making flexibility.

MODEST CAPITAL PROGRAM (Infrastructure Renewal & Development: Stronger): ACAA's amended five-year capital plan through 2019 remains modest at $142.5 million, representing an increase of $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 (50%), airport cash (25%), and new revenue bonds (25%) and the timing should be flexible. The significant drop off in debt service in 2019 should provide the airport ample capacity to take on additional debt while maintaining favorable leverage metrics. Fitch has modeled in an additional $15 million of new bonds into its analysis in 2019, though the timing and size of future issuances are still uncertain.

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 nearly $12 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 modeled $15 million, deleveraging could be more modest in the near term.

FINANCIAL METRICS: Fitch-calculated DSCRs (treating PFCs as revenues rather than DS offsets) for the airport are considered modest, at 1.4x in 2016 and forecast to remain within the 1.3x-1.5x range through 2021 in its rating case. The airport's liquidity position is considered narrow at 250 days cash on hand (DCOH) in comparison to a median of 444 DCOH for small hub peers within Fitch's portfolio. However, favorable debt metrics, with leverage of less than 3x in 2016 offset the modest coverage and narrow liquidity metrics. Fitch expects leverage to remain within the 2x-3x range over the next few years under conditions of modest borrowing by ACAA.

PEER GROUP

ACAA's peers include other north-eastern U.S. airports with modest enplanement bases, such as Rhode Island ('BBB+'/Outlook Stable) and Hartford (CT) ('A'/Outlook Stable). Hartford benefits from a stronger air service area, larger enplanement base, and higher coverage levels in comparison to Albany, while Rhode Island's lower rating is largely explained by higher debt metrics, higher CPE, and weaker traffic performance.

RATING SENSITIVITIES

Future Developments that May, Individually or Collectively, Lead to Negative Rating Action:
--Material increases in debt without commensurate increases in revenue which lead to leverage above 4x on a sustained basis.
--A substantial deterioration in passenger traffic which pressures the airport's ability to generate non-aviation revenue or causes CPE to become uncompetitive.

Future Developments that May, Individually or Collectively, Lead to Positive Rating Action:
--While not likely in the near term, sizeable 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 traffic base continued its upward trajectory in 2016, growing a robust 8.5% to 1.4 million enplanements. This follows strong 5.5% growth in 2015 and is the third consecutive year of positive traffic demonstrating that a trough has been reached and recovery ensued. Growth is attributed to the improving economy as well as added service by Southwest and American Airlines, as well as the entrance of new carrier, JetBlue ('BB-'/Outlook Positive) in late 2015. Enplanements have nearly recovered their recessionary losses and are just 10% below the 2004 peak of 1.55 million. Stabilization is evident with enplanements up another 1.2% through six months for 2017 and Fitch expects steady annual growth in this range going forward.

The airport maintains a relatively diverse and stable carrier mix with Southwest as the largest airline carrier (40% market share). This is followed by American ('BB-'/Outlook Stable) with 21% and United Airlines at 15%. JetBlue accounts for just 6%. Southwest's moderate concentration risk is partially offset by its historical dedication to serving the airport.

The airport's renewed five-year AUL went into effect in 2016 and runs through 2020. One key change within the agreement is the inclusion of an additional $1.5 million allocated for capital contributions. Furthermore, the renewed agreement modified the revenue sharing provision to 80% terminal/20% airfield from 70% terminal/30% airfield. Revenue sharing increased in 2016 to $2.5 million from $1.8 million under the former AUL in 2015. A similar level is expected in 2017.

Operating revenues exhibited positive growth of 3.4% in FY2016 benefiting from continued growth in Non-Airline revenues, especially parking and concessions. Operating expenses grew by 2.4% to about $32 million mainly reflecting an increase in general and administrative expenses. Overall, performance was generally in line with Fitch's expectation. The notable exception was the increased revenue sharing to the carriers that slightly lowered coverage but significantly lowered CPE as well. Fitch-calculated DSCR (using PFCs as revenues) improved to 1.38x from 1.30x and indenture-based DSCR grew to 1.52x from 1.40x. Leverage fell to 2.93x from 3.99x and ACAA's cash position increased to 250 DCOH from 205.

ACAA amended its current five-year capital plan (2015-2019) by $22 million to a total of $142.5 million. The amended plan includes additional funding for terminal and landside projects which include improvements to the terminal and administrative building, passenger loading bridges, and additional funding for the garage expansion. The authority is considering a debt issuance within the next two years to fund the garage expansion project though the exact amount and timing remain uncertain. Recently, ACAA issued $14.4 million in airport revenue refunding bonds to refund Series 2003-2006 bonds, which Fitch does not rate.

Fitch Cases

Fitch believes the airport consultant's report to be largely reasonable and has adopted it as its base case with a few minor exceptions. Based on dialogue with management, Fitch has modelled in a lesser $15 million of additional debt for the parking garage in 2019 versus the $34 million used in the consultant report. Fitch also tapered down the forecast rental car growth in 2017 to 2% based on historical performance and forecast enplanement growth. Enplanements grow at a modest 1% per year through 2021 while airline revenues grow at an average of 4% per year and non-airline revenues 1.7%. Operating expenses grow 6.6% in 2017 followed by 2.5% per annum thereafter. The result is Fitch-calculated DSCR of no less than 1.45x that averages 1.52x (1.67x and 1.76x, respectively, on an indenture basis) and leverage that falls to 1.3x by 2021 despite the additional issuance. CPE remains in the $6-$7 range.

Fitch's rating case maintains the $15 million new debt assumption, but models in a 7% stress to enplanements in 2018 followed by 1%-2% recovery per year thereafter. Airline revenues are largely unchanged, but non-airline revenues move with enplanements. Operating expenses are assumed to be held flat in 2018 given the enplanement loss, but are stressed to 3% per year thereafter. Minimum Fitch-calculated DSCR is 1.34x and averages 1.44x, while indenture-based coverage is no less than 1.52x with an average of 1.64x. Leverage is still very low at 1.64x by 2021 and CPE is just slightly higher, peaking at $7.64 in 2019 before falling to $7.39 by 2021.

SECURITY

The bonds are secured by the net revenue generated by the airport. PFCs are excluded from the definition of revenue but may be pledged as revenue pursuant to the master bond resolution in order to either pay debt service or reduce debt service requirements.

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Applicable Criteria
Rating Criteria for Airports (pub. 14 Dec 2016) (https://www.fitchratings.com/site/re/891804)
Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016) (https://www.fitchratings.com/site/re/882594)

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