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Albany County Airport Authority, New York; Airport

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Long Term Rating A/Stable Upgraded

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Unenhanced Rating A(SPUR)/Stable Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'A' from 'A-' on Albany County Airport Authority, N.Y.'s debt outstanding. The outlook is stable.

The raised rating 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 on the authority reflect our opinion of its strong enterprise risk and financial risk profiles. Our enterprise risk profile assessment reflects Albany International Airport's (ALB) recent growing enplanement trends that we expect will remain at least stable although it has experienced some weakness during 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 because of fund a portion of the capital improvement plan (CIP) for additional parking capacity. Similarly, although we expect ALB's debt burden to rise, potentially \$12 million depending on grant funding, 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 is reflective of ALB's role as an origin-destination airport that has had generally stable enplanements levels that we expect will remain generally stable (currently 1.4 million) with some modest fluctuations;
- Extremely strong service area economic fundamentals, which include high GDP per capita, an 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 successfully managing and operating its

airport facilities with detailed financial transparency and financial planning we consider generally conservative with demand-driven capital planning.

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

- Debt service coverage (S&P Global Ratings calculated) that we expect will remain at levels we consider strong, which includes the effects of the authority's \$12 million of additional new money debt planned in late 2018;
- Very strong debt and liabilities capacity that we expect will remain so, including effects of authority's additional debt plans; and
- Adequate liquidity and financial flexibility, reflective of strong unrestricted reserves to debt offset by generally adequate level of days' cash on hand.

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. Additional bonds may be issued if net revenues on outstanding 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 IRS three-pronged test secure all of the authority's debt as well.

ALB, classified as a small hub airport by the FAA, is located about seven miles from downtown Albany, the state capital. ALB has two primary runways, a 290,000-square-foot terminal, and almost 7,000 parking spaces.

Outlook

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

Upside scenario

We could raise the rating if enplanement trends materially improve to levels we view as sustainable reflective of an improved competitive position.

Downside scenario

Although unlikely, we could lower the rating if enplanements materially fall or the authority issues significantly more debt than expected, weakening financial metrics.

Enterprise Risk

Our assessment of ALB'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 to the U.S. average rate. The MSA's population of approximately 900 thousand, although projected to grow at a lower rate over the next three years (0.4%) than the nation overall (2.4%), provides what we believe is a solid O&D enplanement base for ALB.

Albany County is located along the west bank of the Hudson River, and its largest employer is state government, with more than 51,000 employees. Employment in health care industry, higher education, and Private-sector growth investments centered on nanotechnology helps diversify the economy. Despite stability provided by 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 origin and destination 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. Previously, traffic had declined through the recession--from 2009-2011--before flattening and falling to a low of 1,215,000. 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 2018. The airport has assumed enplanements will only grow to approximately 1.5 million by 2024, which we consider conservative.

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 the airport experienced positive growth 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 management and financial management; and organizational effectiveness.

The authority's actual performance relative to forecast has been favorable. Management forecasts have conservative assumptions, 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 the financial performance of the airport on a monthly basis. We also considered the authority's detailed financial transparency in our assessment. The authority maintains a five year formal 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 prior 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 historic performance, our financial profile risk assessment considered pro forma figures, which reflects the authority's plan to issue approximately \$12 million of additional new money debt in late 2018. Such pro forma figures reflect a higher debt burden and annual debt service requirements; no material draws on authority's unrestricted cash reserves; and a steady, though modest, increases in demand and related net revenue growth. Our financial profile assessment also considered the authority's financial policies, which we consider credit neutral.

Financial performance

The strong financial performance assessment reflects our expectation that debt service coverage (DSC), per our calculations, will be maintained at levels we consider strong. More specifically, DSC (S&P Global Ratings calculated) for fiscals 2017 and 2016 was relatively stable at around 1.4x. We expect DSC, per our calculations, will be maintained at levels comparable to that achieved in fiscal 2016 and 2017, despite the authority's plan to issue \$12 million of new money debt in 2018. Coverage per the indenture is higher at 1.6x in fiscal 2017 which uses eligible passenger facility charges as a debt offset instead of a 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 is projected to increase to \$7.53 by 2025.

Debt and liabilities

We assess the authority's debt and liabilities capacity as very strong, based on our expectation that debt to net revenues will likely remain under 10x, despite the authority's additional debt plans. Per our calculations, debt to net revenues equaled 5.3x at fiscal year-end 2017, and 6.5x at year-end in fiscal 2016. We expect the authority's debt per enplanement to increase to a moderate \$70, resulting from the planned additional debt issue.

We consider the authority's capital plan manageable. The airport is currently 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. An increasing priority has been parking capacity. As a result, it is likely that future spending will focus on enhancing the capacity of the airport's parking facilities. There are no other additional debt plans beyond the one planned later this year.

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 we generally consider adequate. For fiscal 2017, the authority's unrestricted cash and investments balance totaled \$23.1 million, providing around 252 days' cash, up from 100 days' in 2008. The authority's pro forma unrestricted reserves to total expected debt outstanding is about 26%, a level we consider strong.

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