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

Fitch Ratings-Chicago-06 June 2018: Fitch Ratings has affirmed the 'A-' rating on Albany County Airport Authority's (ACAA) outstanding $62.8 million of airport revenue bonds. The Rating Outlook is Stable.

The authority has an additional $14.4 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 stabilizing enplanement base as shown by the past few years of modest traffic increases. 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 streams. The airport's current and projected financial performance indicates declining leverage metrics and modest, yet improving, 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 1.4 million enplanements within New York State's stable capital region, with minimal competition. The airport exhibited moderate enplanement volatility with a historical peak-to-trough of 15.6%; however, steady growth over the past few years has resulted in a nearly complete recovery and enplanements stand at 90% of their 2004 peak level. Some carrier concentration exists with Southwest Airlines (BBB+/Positive) maintaining a 40% majority 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 only provided narrow net revenue debt service coverage.

Fitch views ACAA's reasonable cost per enplanement (CPE) of $6-$7 favorably without upward pressure, and should provide for the retaining 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. Fitch notes that the significant drop off in debt service in 2019 should provide ACAA ample capacity to take on additional debt while maintaining favorable leverage metrics. Fitch has modeled in an additional $12 million of new bonds into its analysis in 2018, 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 $11.1 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 $12 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 1.4x in 2017 and forecast to remain within the 1.3x-1.5x range through 2022. The airport's liquidity position is considered moderate at 252 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 2.5x in 2017 offset the modest coverage and 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+/Stable) and Hartford (CT) (A/Stable). Hartford benefits from a stronger air service area, larger enplanement base, and higher coverage levels in comparison with 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 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.

Future 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 traffic growth has continued on a solid upward trajectory, growing 0.7% in 2017 (following 8.4% in 2016), and is up another 1.5% YTD 2018 for the three months through March. Stable performance in 2017 is attributed to minimal changes in air service. 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 projects enplanements to remain stable at 1.4 million for 2018 with tepid 1% growth thereafter.

The airport benefits from a diverse carrier mix with no single airline accounting for more than a 40% market share (Southwest continues to lead). American is next at 22%, followed by Delta at 16%, and United at 15%. Further, the airport has been benefiting from increased enplanement volume from JetBlue, now accounting for 6.4% of total airline market share.

The airport's AUL, with hybrid rate setting terms, was last renewed in January 2016 and will expire in December 2020, with negotiations to progress in 2019 and 2020.

Performance remained generally in line with expectations in 2017. Airline revenues rose 6.7% to $9 million from $8.4 million, while non-airline revenues grew by 4.6% to about $39 million, largely attributed to strong performance in rental car, concession and fixed base operation (FBO) revenues. Total revenues experienced positive growth of 4.4% as a result. Operating expenses grew by 4% to about $34 million, mainly reflecting an increase in FBO expenses. Overall, the expense profile has

remained relatively flat over the last 10 years. Year to date expenses through March 2018 reveals an 8% increase in operating expenses.

Supported by the authority's stable financial profile coupled with an amortizing debt profile, Fitch calculated a DSCR of 1.4x (treating PFCs as revenues) and 1.6x on an indenture basis. Leverage was 2.3x and the authority had an adequate 252 days cash on hand.

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, the majority of funding is expected to come from grants, with the remainder from airport cash and new money borrowings. Additionally, the timing should be flexible. Fitch notes that the significant drop off in debt service in 2019 should provide ACAA ample capacity to take on additional debt while maintaining favorable leverage metrics. Fitch has modeled in an additional $12 million of new bonds into its analysis in 2018, though the timing and size of future issuances are still uncertain.

Fitch Cases
Based on dialogue with management, Fitch has modeled in a lesser $12 million of additional debt for the landside projects in 2018 versus the $34 million assumed in prior consultant reports. Fitch also tapered down the forecast rental car growth in 2017 to 1% based on forecasted enplanement growth. Enplanements grow at a modest 1% per year through 2022 while airline revenues grow at an average of 3.2% per year and non-airline revenues 0.6%. Operating expenses grow 6.2% in 2018 followed by 2.5% per annum thereafter. The result is Fitch-calculated DSCR of no less than 1.3x that averages 1.5x (1.5x and 1.7x, respectively, on an indenture basis) and leverage that falls to 1x by 2022 despite the additional issuance. CPE remains in the $6-$7 range.

Fitch's rating case maintains the $12 million new debt assumption, but models in a 7% stress to enplanements in 2019 followed by 1.5%-2.0% 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 2019 given the enplanement loss, but are stressed to 3% per year thereafter. Minimum Fitch-calculated DSCR is 1.3x and averages 1.4x, while indenture-based coverage is no less than 1.5x with an average of 1.6x. Leverage is still very low at 1.1x by 2022 and CPE is just slightly higher, peaking at $7.53 in 2022.

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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. 24 Aug 2017)
(https://www.fitchratings.com/site/re/902689)

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