S&P Global Ratings

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Summary:

Okaloosa County, Florida; Airport

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Credit Profile		
Okaloosa Cnty arpt		
Long Term Rating	BBB+/Stable	Affirmed
Okaloosa Cnty arpt		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings has affirmed its 'BBB+' rating on Okaloosa County, Fla.'s airport revenue bonds. The outlook is stable.

The debt was issued for the Destin-Fort Walton Beach Airport (VPS).

The parity bonds consist of series 2007 and 2014 airport revenue bonds. We do not rate the 2014 bonds, which were privately placed. Net airport revenues secure the bonds. In addition, customer facility charges (CFCs) are pledged to the series 2007 bonds, while passenger facility charges (PFCs) are pledged to the series 2014 bonds.

Key credit weaknesses, in our view, are the airport's:

- Relatively high air carrier concentration; and
- History of moderate volatility in enplanement levels due to competition from other airports in the region

Offsetting credit strengths, in our opinion, include:

- A good service area economy, allowing the airport to maintain a steady level of enplanements in recent years; and
- A good financial risk profile characterized by good financial capacity to service its debt obligations, a strong liquidity position, a relatively low debt burden, and low airline cost structure that we expect to remain so given the airport has no additional debt needs.

VPS' enplanements have fluctuated somewhat, but have been generally stable through fiscal 2015, averaging 380,000 for fiscal years 2012-2015; and an estimated 457,000 for fiscal year-end 2016 (Sept. 30), up 18% from the 388,000 passengers enplaned in fiscal 2015. Management attributes the slight increase in fiscal 2015 enplanements to airlines adding seats satisfy pent-up demand. A majority of the growth in fiscal 2016 is attributable to new service on Allegiant Air LLC, GLO, and Contour Airlines. Also, American Airlines Inc., Delta Air Lines Inc., and United Air Lines Inc. have upgraded many of their planes serving the airport from the 50-seat regional jet aircraft to the larger, dual class configured, 76-seat aircraft.

Management projects enplanements to be approximately 581,000 in fiscal 2017, based on additional service additions from existing airlines. In particular, Allegiant recently announced new seasonal service to 11 cities in 2017 in addition to the six it announced in 2016. For 2017, management projects, at 85% load factor, 528,887 enplanements and approximately 1.06 million total passengers.

We consider VPS' air carrier diversity weaker relative to peers with Delta and its contracted carrier (Atlantic Southeast Airlines) representing approximately 50% of total enplanements in fiscal 2016. We expect this figure to fall modestly in 2017, with recent additions by Allegiant.

Okaloosa County (with an estimated population of 197,000), in northwestern Florida, includes the incorporated cities of Cinco Bayou, Crestview, Destin, Fort Walton Beach, Laurel Hill, Mary Esther, Niceville, Shalimar, and Valparaiso. Eglin Air Force Base, one of the largest military installations in the world, anchors the local economy, with tourism activities also an economic contributor. The county has about 24 miles of beaches directly facing the Gulf of Mexico with Fort Walton Beach and Destin as its hub. In addition, the area economy has gradually diversified; it now includes health care, defense-related technology, and educational services. Income indicators for the county are what we consider good, with a median per capita effective buying income at 105% of the national average in 2014. The average unemployment rate for the county in August 2015 was 4.5%, down from 5.3% in August 2014, which is lower than the August 2015 average unemployment rates for the state (5.4%) and nation (5.1%).

In our opinion, the airport has good financial capacity to service its debt obligations. It levies a $4.50 PFC, while the CFC rate is $3.75. In fiscal 2015, VPS collected $1.6 million of CFC revenues (1.8x the debt service for the series 2007 bonds) and $1.3 million of PFC revenues (1.2x the debt service budgeted for the series 2014 bonds and the Florida Local Government Finance Commission [FLGFC] loan for Taxiway A Rehabilitation). The airport's revenue bond DSC (per our calculations) for fiscal 2015, is a good 1.34x. A FLGFC loan refinanced the subordinate State Infrastructure Bank (SIB) loan debt service for fiscal 2015. As a result, no revenues paid the SIB loan debt service in fiscal 2015. Based on unaudited fiscal 2016 figures, total DSC ratio is a good 2.0x. Our DSC calculations for include net general airport revenues plus PFC applied to the debt service for the 2014 bonds and CFC applied to the debt service for the 2007 bonds. Our DSC calculations do not, however, include funds held in coverage accounts, which is allowable under the indenture for meeting the rate covenant. Airport officials intend to maintain total DSC of at least 1.30x, per our calculation, which we believe is achievable given that debt service on the revenue bonds is relatively level and that VPS has no plans in the medium term to issue senior or subordinate debt for new money purposes.

The airport's liquidity position is strong, in our opinion, and we expect this to continue. Management reported that VPS' audited unrestricted cash and investments balance for fiscal 2015 totaled $10.2 million, providing about 472 days' cash on hand, based on the airport's 2015 operating expenses. As of Sept. 30, 2016, management reported an unaudited unrestricted cash and investment balance of approximately $8.7 million (about 395 days). Management intends to maintain unrestricted cash at $7 million-$8 million, equal to about one year's operating expenses for 2017 and beyond.

VPS has direct-purchase obligations outstanding: the 2014 revenue bonds, which are on par with the series 2007 bonds. The 2014 bonds, however, pose no contingent liquidity risk, in our opinion, since such bonds, like the 2007 bonds, have no acceleration provisions and have the same events of defaults and remedies as series 2007. The airport has no interest rate swaps outstanding.

We consider VPS' debt burden moderate at $50.39 per enplanement, based on 385,000 passengers enplaned in fiscal 2015 and $19.4 million in debt outstanding (as of Sept. 30, 2015), including $17 million of revenue bonds and $2.4 million of subordinate loans. The airport's airline cost structure, in our opinion, is low with an estimated cost per enplanement of about $5.48 for fiscal 2016 and $5.54 based on fiscal 2017 budgeted figures. Airlines had been operating under an agreement that expired Sept. 30, 2013, and was extended through Sept. 30, 2016. Under its terms, terminal rents were calculated under a compensatory approach, while landing fees were calculated using a residual approach; revenue-sharing credits are in effect in both cases. On Oct. 1, 2016, a new five-year airline agreement began with similar terms and a five-year mutual agreement extension.

In September 2015, the VPS entered an $8 million short-term loan with the FLGFC's pooled commercial paper (CP) loan program. A letter of credit (LOC) from JPMorgan Chase Bank N.A. supports the entire FLGFC pooled CP loan program. FLGFC issues the notes, not the airport. In the event of a failed remarketing, the JPMorgan LOC provides liquidity support. The FLGFC issues CP to provide proceeds lent to issuers such as the county. The maximum allowable amount under the loan for VPS is $8 million. The county has drawn $3.5 million on the loan to date: $2.5 million to refinance the airport's subordinate SIB loans outstanding, and $1 million for new money. Any new money draws will only be for a new air traffic control tower project at Destin Executive Airport and a roadway project at Bob Sikes Airport. We expect Federal Aviation Administration (FAA) and Florida Department of Transportation (FDOT) grants that have already been awarded for those projects will repay the draws under the program. The draws are intended to provide interim funding until the grants arrive. The airport has no additional borrowing needs, except for draws under the FLGFC loan.

The airport's projected five-year (2016-2020) CIP totals about $34 million. Anticipated funding sources include FAA grants (approximately 90%), FDOT grants (approximately 5%), and about $5.2 million from local (approximately 5%) funds.

Outlook

The stable outlook reflects our expectation that, over the next two years, management will maintain DSC (S&P Global Ratings-calculated) and liquidity near expected levels, and that enplanements will be generally stable-to-positive.

Upside scenario

Although unlikely, we could raise the rating during the outlook period if DSC (S&P Global Ratings-calculated), liquidity, and enplanements continue improve at the current rate to levels that we believe are sustainable.

Downside scenario

We could lower the rating over the next two years if a material erosion in DSC (S&P Global Ratings-calculated) or liquidity position occurs.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.