MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Assigns A2 to Philadelphia PA Airport Revenue and Refunding Bonds Series 2017A & B; outlook is stable

Global Credit Research - 06 Dec 2017

New York, December 06, 2017 -- Issue: Airport Revenue and Refunding Bonds, Series 2017A (Non-AMT); Rating: A2; Rating Type: Underlying LT; Sale Amount: $145,210,000; Expected Sale Date: 12/14/2017; Rating Description: Revenue: Other;

Issue: Airport Revenue and Refunding Bonds, Series 2017B (AMT); Rating: A2; Rating Type: Underlying LT; Sale Amount: $577,580,000; Expected Sale Date: 12/14/2017; Rating Description: Revenue: Other;

Summary Rating Rationale

Moody's Investors Service has assigned an A2 rating to the Philadelphia (City of) PA Airport Enterprise's Series 2017A (Non- AMT) and Series 2017B (AMT) Airport Revenue and Refunding Bonds. Moody's has also affirmed the A2 rating on all outstanding parity bonds. Total debt outstanding is $1.68 billion after issuance. The city owns and operates Philadelphia International Airport (PHL) and Northeast Philadelphia Airport (PNE).The ratings reflect PHL's strong market position for travel in the Philadelphia metropolitan region as well as the airport's maintenance of moderate leverage levels though its newly-rationalized capital plan. Leverage is expected to increase over time as the airport completes its plan, which will also increase airlines costs above the current levels, but both leverage and costs will remain moderate for a A2 rated international gateway airport. The rating also considers that the very low liquidity and heightened competitive environment is mostly offset by a large, robust service area that provides sufficient demand to support an international hub. The combination of low liquidity, comparatively low coverage metrics on a net revenue basis and the construction risk of the capital program positions the rating weakly within the A2 category and any further deterioration in liquidity, failure to achieve the enplanement forecast by the airline consultant, or increases in the project cost during construction would place negative pressure on the rating.

Rating Outlook

The stable outlook reflects our expectation that the airport will see stable enplanements, liquidity will continue to improve, and debt associated with capital spend will be issued on the schedule indicated in the offering documents.

Factors that Could Lead to an Upgrade

Liquidity improving to more than 600 days cash on hand

Above average enplanement growth on a sustained basis, demonstrating a stronger market position

Factors that Could Lead to a Downgrade

Unexpected, unrecovered expenses that further decrease liquidity

Capital plan results in substantial increases in debt above currently projected levels in the mid-term

Leverage exceeding $300 debt per O&D passenger

Enplanement growth trends below the 1% consultant forecast

Legal Security

The bonds are secured by a pledge of net revenues. Bondholders also benefit from a rate covenant of 100% of O&M and 150% of debt service on GARBs in a given year or 100% of O&M, debt service on GARBs, debt service on GO bonds issued for airport improvements, and subordinate obligations secured by amounts available for debt service. There is also a debt service reserve fund, funded to the standard three-prong test.

Use of Proceeds

The current offering is a mix of new money and refunding. The city plans to use the proceeds to (1) pay for a portion of the airport's Capital Development Program; (2) Currently refund Series 2007A, 2007B, 2009A and certain outstanding commercial paper notes; (3) fund the related Sinking Fund Reserve Requirement for the outstanding bonds, including the current offering; (4) fund capitalized interest on a portion of the current offering; and (5) fund cost related to issuance of the current offering.

Obligor Profile

PHL is located approximately eight miles southwest of downtown Philadelphia and is classified by the FAA as a large hub airport based on enplanements. It has operated as an American Airlines hub since the merger with US Airways in 2015, which had been the dominant carrier since the 1980s.PHL's terminal complex is located north of the two main runways and includes seven terminals, each with a concourse; a landside building for ticketing, check-in, and security; and a separate baggage claim building. The complex is approximately 3.3 million square feet and contains 126 aircraft gates. Approximately 150,000 square feet of terminals have been developed for concessions. PHL's airfield consists of four runways - two main, parallel runways, a shorter crosswind runway and a commuter runways - as well as taxiways and apron parking. The runways system is capable of handling the largest commercial aircrafts operated by the signatory airlines.The Philadelphia Parking Authority (PPA) owns and operates five parking garages at PHL (11,800 spaces), as well as a number of remote surface parking lots (7,100 spaces) served by shuttle buses. PPA leases the land from the city through the Aviation Department in a ground lease that goes through 2030. The ground lease provides for a payment to the airport equal to gross receipts less O&M, debt service on PPA bonds issued to finance capex at the airport and reimbursements to PPA for capex and prior year operating deficits related to airport operations. An agreement between the FAA and PPA caps PPA's administrative costs at 28% of its total administrative costs across facilities, located on and of airport.

Methodology

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published in October 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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