



**Rating Action: Moody's assigns Baa1 to Portland (City of) ME Airport Enterprise's Series 2023 General Airport Refunding Revenue Bonds; outlook stable.**

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07 Jun 2023

**Approximately \$15 million of debt securities affected**

New York, June 07, 2023 -- Moody's Investor Service has assigned Baa1 to the proposed issuance by Portland (City of) ME Airport Enterprise of about \$15 million of General Airport Refunding Revenue Bonds, Series 2023. The rating outlook is stable. The proceeds of the issuance will be used to refund the airport's Series 2013 bonds.

Portland (City of) ME Airport Enterprise currently expects, subject to market conditions, to price the Series 2023 bonds during the week of June 12, 2023.

**RATINGS RATIONALE**

The Baa1 credit rating reflects Jetport's stable service area anchored by higher education and tourism providing for a decent recovery in passenger levels. Total enplanements for FY2023 is estimated to be approximately 11.5% lower than the FY2019 pre-pandemic peak following a 56.5% decrease during FY2019-FY2021. Enplanements for FY202 are forecasted to grow 6.8% considering a significant seat capacity increase for the upcoming summer season. Moody's calculated debt service coverage ratios for FY2022 is strong at 3.11x during a transitional year but likely to return to a historical range of approximately 1.40x as the expense profile normalizes. Jetport's unrestricted cash position in FY2022 has built up to \$32.3 million, representing 754 days cash on hand, as certain projects were deferred during the pandemic but expected to lower as works resume. Carrier diversity continues to be strong with no airline representing more than 30% of traffic and includes multiple low-cost carriers.

The credit profile further incorporates competition from Boston-Logan International airport which has historically absorbed growth in the area but Jetport has shown greater stability compared to other regional small hub airports due to its position as the primary airport for central and northern Maine and a competitive cost profile. Jetport's 5-year capital improvement plan is primarily grant funded with no need for additional debt financing, positioning Jetport to improve their leverage position from a moderate debt to O&D passenger of \$94.29 for FY2022.

**RATING OUTLOOK**

The stable outlook reflects a stable enplanement base with moderate growth in the medium term which will support decent coverage ratios while the lack of debt-financing for capital plans will allow for continued reduction in leverage metrics and a stable cost profile.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING**

- Continued and sustainable period of enplanement growth stemming from a greater demand for local air service
- Substantial revenue growth resulting in sustained DSCR by net revenue above 1.75x (without federal grants)
- Liquidity sustained above 600 days cash on hand

## FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Sustained decline or lower-than-projected growth in enplanements that negatively impacts revenues and PFC collection
- DSCR by net revenues consistently lower than 1.20x
- Deteriorating competitive position coupled with loss of airline diversity

## LEGAL SECURITY

The bonds are secured by a senior lien on net revenues of Jetport. The bonds are additionally secured by a three-pronged debt service reserve funded at the lesser of i) maximum annual debt service (MADS); ii) 10% of the stated principal; or iii) 125% of average annual debt service. Other indenture-required reserves include an M&O reserve sized at three months of operating expenditures and a renewal and replacement reserve sized at the jetport's discretion. The rate covenant requires that net revenues provide a minimum 125% coverage of debt service. The additional bonds test requires that net revenues for 12 of the prior 18 months meet either 125% of maximum annual debt service, including new debt, or that projected net revenues will satisfy the rate covenant for five years after debt issuance or three years after project completion.

## USE OF PROCEEDS

Proceeds of the Series 2023 bonds will be used to refund all of the outstanding Series 2013 bonds.

## PROFILE

Portland International Jetport is Maine's largest airport by number of passengers serving most of the major domestic airlines. The jetport is located in Cumberland County, approximately five miles west of downtown Portland with direct access to US Interstate 95. The jetport facilities include two runways, one 7,200 feet long and a 6,100 foot crosswind runway; a 300,000 square-foot passenger terminal building divided into three levels with 14 passenger gates; and parking facilities with a total of 3,744 spaces.

## METHODOLOGY

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published in February 2023 and available at <https://ratings.moodys.com/rmc-documents/398689>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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## CREDIT OPINION

28 June 2023



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## Portland (City of) ME Airport Enterprise

Update to credit analysis following assignment of Series 2023 ratings

### Summary

Portland Airport Enterprise's ("Jetport"; Baa1 stable) credit profile reflects a stable service area anchored by higher education and tourism providing for a decent recovery in passenger levels. Enplanements for FY2023 are estimated to be approximately 11.5% lower than the FY2019 pre-pandemic peak with modest growth expected for FY2024 driven by a significant seat capacity increase for the upcoming summer season. Carrier diversity continues to be strong with no airline representing more than 30% of traffic and includes multiple low-cost carriers.

The credit profile further incorporates competition from Boston-Logan International airport which has historically absorbed growth in the area but Jetport has shown greater stability compared to other regional small hub airports due to its position as the primary airport for central and northern Maine and a competitive cost profile. Jetport's 5-year capital improvement plan is primarily grant funded with no need for additional debt financing, positioning Jetport to improve their leverage position over time.

### Credit strengths

- » Stable service area that is the primary economic driver for the state
- » Strong airline diversity that includes legacy and low-cost carriers, with the primary carrier accounting for only 30% of enplanements
- » Higher historical enplanement stability than other small hub airports in the region due to the jetport's role as primary airport for central and northern Maine, which is subject to less competition from Boston-Logan International
- » Five-year capital plan remains limited in scope, with relatively small airport contributions expected

### Credit challenges

- » Competition from nearby Boston-Logan International Airport
- » Moderately high leverage as a result of the 2012 expansion and renovation of the jetport's terminal
- » Historically narrow DSCR
- » Small enplanement base, although growth is expected over the medium term

## Rating outlook

The stable outlook reflects a stable enplanement base with moderate growth in the medium term which will support anticipated debt service coverage ratios (DSCR). The lack of debt-financing for capital expenditures will allow for continued reduction in leverage metrics and a stable cost profile.

## Factors that could lead to an upgrade

- » Continued and sustainable period of enplanement growth stemming from a greater demand for local air service
- » Substantial revenue growth resulting in sustained DSCR by net revenue above 1.75x (without federal funds)
- » Liquidity sustained above 600 days cash on hand

## Factors that could lead to a downgrade

- » Sustained decline or lower-than-projected growth in enplanements that negatively impacts revenues and PFC collection
- » DSCR by net revenues consistently lower than 1.20x
- » Deteriorating competitive position coupled with loss of airline diversity

## Key indicators

Exhibit 1

	2018	2019	2020	2021	2022
Total Enplanements ('000)	971	1,075	820	482	981
Enplanement Annual Growth (%)	6	11	-24	-41	104
Debt Outstanding (\$'000)	112,060	108,995	96,585	94,575	92,465
Adjusted Debt Per O&D Enplaned Passenger (\$)	125.19	107.82	128.91	213.57	101.98
Days Cash on Hand	394	485	416	612	754
Total Coverage By Net Revenues (x)	1.15	1.62	1.13	1.90	3.11
Total Coverage (Bond Ordinance) (x)	1.34	2.45	1.22	2.48	3.79

Source: Moody's Investors Service, Portland Airport Enterprise Audited Financial Statements

## Profile

Portland International Jetport is Maine's largest airport as measured by the number of passengers serving most of the major domestic airlines. The jetport is located in Cumberland County, approximately five miles west of downtown Portland with direct access to US Interstate 95. The jetport facilities include two runways, one 7,200 feet long and a 6,100 foot crosswind runway; a 300,000 square-foot passenger terminal building divided into three levels with 14 passenger gates; and parking facilities with a total of 3,744 spaces.

The jetport is owned and operated by the city (Portland (City of) ME, Aa1 stable) and is managed by its airport director who is appointed by the city manager. The city manager is appointed by majority vote of the city council, is the administrative head of the city and is responsible to the city council for the administration of all departments. The airport director has sole responsibility for hiring all personnel necessary to operate the jetport.

## Detailed credit considerations

### Revenue Generating Base

A steady underlying economic service area is expected to support continued enplanement growth at the Jetport over the medium-term. The air trade area consists of the cities of Portland (Aa1, stable) and South Portland (Aaa, stable), as well as a seven-county

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area, which is the primary economic region for the state of Maine (Aa2, stable). The area's industry profile includes a diverse group of businesses, particularly focused in education and health services.

The City of Portland has a low unemployment rate of 2.4% in 2022 compared to 3.5% at the national level and per capita income at 109% of the US average. The City's reputation as a vibrant center for arts and culture and a nationally recognized hub for cuisine remains attractive to both young professionals and retirees. Portland continues to benefit from investments in health-care and higher education including Maine Medical Center's \$525 million expansion of hospital and campus facilities and the Roux Institute launching a new graduate school aimed towards artificial intelligence and machine learning.

The jetport operates in a competitive market and will continue to have a minority of passenger traffic as the region continues to favor the nearby large, international hub at Boston-Logan International (BOS), which gives access to a larger flight offering and greater flight frequency. The jetport faces substantial competition from Boston-Logan International and, to a lesser degree, Manchester-Boston Regional Airport, which are 112 miles and 78 miles away from the jetport, respectively. The jetport also benefits from its capacity to capture north-south traffic in areas north of Portland. BOS is a hub for JetBlue and offers an array of carriers and routes, including many low-cost, ultra low-cost, and international carriers. Historically, the large-hub airport in the Boston region has absorbed much of the region's enplanement growth. However, within the northeast, BOS and the jetport were the only two airports to surpass their prior peak passenger volumes, showing the jetport's strong and growing passenger base and travel demand.

Jetport benefits from a high level of airline diversity, which is unusual for small-hub airports, and the diversity should continue to improve due to the growing presence of new entrants. American Airlines is the airport's largest carrier at 29.4% followed by Delta at 24.6% and United at 20.5%. The remaining share consists of mostly low-cost carriers Southwest, Frontier and JetBlue.

The city has agreements with airlines that commenced in July 2016 and negotiated extension through June 30, 2025. The agreement uses a compensatory rate making methodology with a provision for majority-in-interest approval for capital improvements. Additionally, the agreement includes an extraordinary coverage provision offering some additional rate recovery to meet the rate covenant, allowing the jetport to adjust rental and landing fee rates when estimated costs vary by 30% or more, ensuring a 1.25 times coverage of debt service and required deposits. In the event such extraordinary payments are made, the jetport must repay the airlines when uncommitted funds become available.

### Financial Operations and Position

Jetport reached a peak of 1.1 million enplanements in FY2019 before experiencing a 56.5% drop to 481.5 thousand enplanements in FY2021. FY2022 showed a strong rebound with a 103.6% increase to 980.6 thousand, supported by strong leisure volume from July through October 2021. 9-months YTD FY2023 is 3.2% higher than the same period in FY2022 and expected to finish the fiscal year similar to FY2022 levels which is 11.5% lower than the FY2019 peak. Management is forecasting a 6.8% increase in enplanements for FY2024 as seating capacity for Q1 2024 is up 16.1% over FY2019 levels driven by new service from Breeze Airways.

The recovery in FY2022 has led to a strong net revenue DSCR of 3.11x, up from 1.90x in FY021 and 1.13x in FY2020. This performance could be attributable to operating expenses being kept low while revenues recover during a transitional year. However, Moody's expects the expense profile to normalize and DSCR to return to levels similar to ones produced prior to the pandemic.

Jetport benefitted from federal relief funds relating to COVID-19 totaling \$26.1 million, which was used to stabilize cost to airlines. CPE peaked in 2021 at \$12.49, and dropped to \$6.83 in fiscal year 2022. As of FYE 2022, \$8.2 million remains unspent which will be used to target CPE at an estimated \$7.78 for FY2023 and \$9.26 for FY 2024. CPE in the past remained very stable at about \$7-8 following the jetport's terminal expansion project. CPE at the jetport is the lowest in the Boston region, with nearby Manchester-Boston Regional at \$31.28 and Boston-Logan International at \$50.97, favorably differentiating the jetport as a low-cost option for carriers.

### LIQUIDITY

Jetport's unrestricted cash position has built up to \$32.3 million in FY2022, representing 754 days cash on hand. Prior to the pandemic, Jetport's unrestricted cash position was steadily around \$20 million range with about 450 days cash on hand. We expect liquidity to lower as certain projects that were deferred during the pandemic resume but to remain robust.

## Debt and Other Liabilities

As of fiscal 2022 year-end, the jetport had \$92.5 million of GARB debt outstanding, which translates to \$94.3 debt per O&D enplaned passenger. This leverage is moderately high for a regional small hub airport and is the result of debt funding for the terminal expansion project, which was completed in 2012. However, Jetport does not have plans for additional debt in the near-to-medium term. The 2023-2027 capital improvement plan totals \$93 million, 87% of which is expected to be funded with federal or state funds and 13% from internal funds. The most significant project of which is a federal inspection service facility to allow for international passenger processing at \$11.4 million.

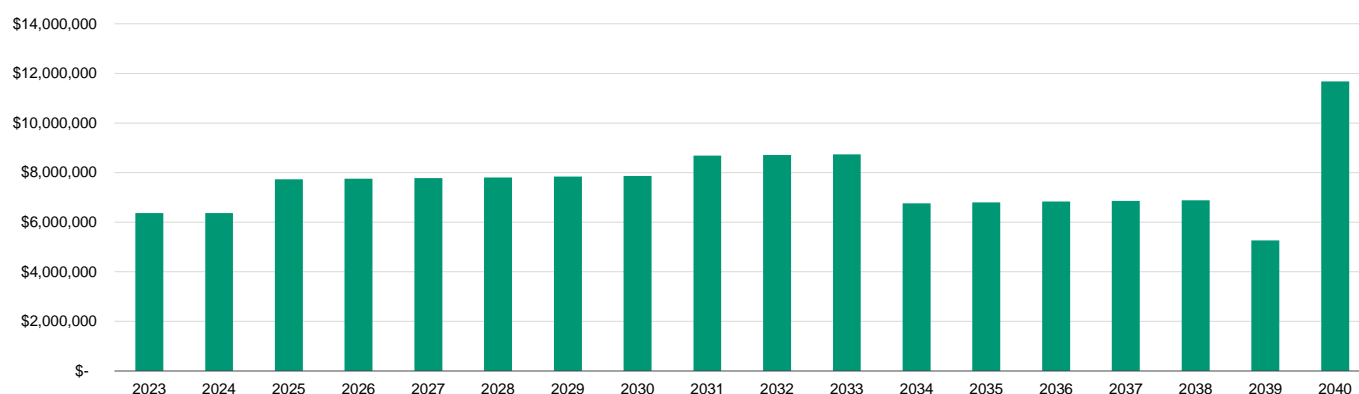
## DEBT STRUCTURE

Jetport has all fixed rate and amortizing. Debt service will be \$6.4 million in fiscal 2023, and will increase through 2033 to \$8.7 million. The Series 2023 bonds will be used to refund Series 2013 bonds for interest savings through FY2032.

Exhibit 2

### Debt service schedule for the Jetport

USD



In 2040, the Debt Service Reserve fund is expected to be utilized to cover debt service, so debt service will effectively be level with 2039.

Source: Portland Airport Enterprise

## DEBT-RELATED DERIVATIVES

None.

## PENSIONS AND OPEB

For fiscal 2022, our adjusted net pension liability for the jetport was \$7.5 million. This unfunded pension liability is not a key credit consideration for the jetport as it is less than 8% of total debt outstanding. We adjust the reported pension liabilities of entities that report under governmental accounting standards, to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on plan assets. Under our adjustments, we value liabilities using a market based discount rate for high quality taxable bonds, a proxy for the risk of pension benefits.

## ESG considerations

### Environmental

Portland (City of) ME Airport Enterprise's environmental risk (E-3 issuer profile score) reflects moderate carbon transition risk. Evolving decarbonization policies around the globe and regulations may increase operating costs for airlines and result in higher airfares that reduce the demand for air travel. Further, the desire by some to reduce carbon emissions may lead to reduced travel, in particular, corporations seeking to reduce their carbon footprints. Our consideration of carbon transition risks are balanced by neutral-to-low risk for physical climate risks, water management, natural capital, and waste and pollution.

### Social

Portland (City of) ME Airport Enterprise has neutral-to-low (S-2 issuer profile score) credit exposure to social risks. This is reflective of neutral to low risks related to customer relations, demographic and social trends, employee health and safety, human capital, and

responsible production. Levels of social risk related to the linkage between carbon transition and demographic and societal policies to be lower in the US than in other regions given the geographically dispersed nature of the country and the lack of viable rail alternatives.

### Governance

Portland (City of) ME Airport Enterprise's exposure to governance risk is neutral-to-low (G-2 issuer profile score) as it relates to our assessment of management credibility and track record, financial strategy & risk management, organizational structure, compliance and reporting, and board structure, policies and procedures. Regulation of US publicly owned airports tightly restricts the use of funds generated by US airports to aviation purposes and essentially eliminates the possibility that a municipal owner could extract value from the airport at the expense of bondholders.

### Rating methodology and scorecard factors

The principal methodology used was Publicly Managed Airports and Related Issuers. The A3 scorecard indicated outcome is one notch higher than the Baa1 rating reflecting strong coverage ratios during a transitional FY2022 which is expected to normalize in the near-term.

Note: The grid is a reference tool that can be used to approximate credit profiles in the airport sector in most cases. However, the grid is a summary that does not include every rating consideration. Please see the Publicly Managed Airports and Related Issuers methodology report for more information about the limitations inherent to grids.

Exhibit 3

#### Portland (City of) ME Airport Enterprise Methodology Scorecard

Rate Making Framework:		Compensatory	
Factor	Subfactor	Score	Metric
1. Market Position	a) Size of Service Area (millions)	Baa	0.70
	b) Economic Strength and Diversity of Service Area	Baa	
	c) Competition for Travel	Baa	
2. Service Offering	a) Total Enplanements (millions)	Ba	0.98
	b) Stability of Traffic Performance	Baa	
	c) Stability of Costs	A	
	d) Carrier Base (Primary Carrier as % of Total Enplanements)	Aa	29.0%
3. Leverage and Coverage	a) Net Revenue Debt Service Coverage	Aaa	3.11x
	b) Debt + ANPL (in USD) per O&D Enplaned Passenger	Ba	\$102
Notching Considerations		Notch	Metric
4. Liquidity		1	754
5. Connecting Traffic	% O&D Traffic	0	100%
6. Potential for Increased Leverage		0	
7. Debt Service Reserves		0	
Rating:			
Scorecard Indicated Outcome:		A3	

Source: Moody's Investors Service

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