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Portland, Maine Portland International Jetport; Airport

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Portland, Maine

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Credit Profile

US\$57.03 mil gen arpt rfdg rev bnds (Portland Intl Jetport) ser 2019 due 01/01/2040

Long Term Rating A-/Stable New

Portland, Maine

Portland Intl Jetport, Maine

Portland (Portland Intl Jetport) GARB rfdg bnds

Long Term Rating A-/Stable Upgraded

Portland (Portland Intl Jetport) (non-amt)

Long Term Rating A-/Stable Upgraded

City Portland, gen airport revenue bonds, ser 2003 A&B (Portland Intl Jetport)

Unenhanced Rating A-(SPUR)/Stable Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term rating on Portland, Maine's general airport revenue bonds outstanding, issued for Portland International Jetport (PWM), to 'A-' from 'BBB+'. At the same time, S&P Global Ratings assigned its 'A-' long-term rating to PWM's estimated \$57.03 million series 2019 general airport revenue refunding bonds. The outlook is stable.

The upgrade reflects our expectation that PWM will maintain debt service coverage (DSC; S&P Global Ratings-calculated) at levels we consider strong, and debt and liabilities capacity at levels we consider very strong, along with no additional debt needs.

The rating on PWM reflects our opinion of the airport's strong enterprise risk and financial risk profiles. The rating also reflect a negative holistic analysis adjustment we apply to accurately reflect the overall creditworthiness of PWM, given its comparatively lower enplanement levels and small service area. The enterprise risk profile reflects an origin and destination (O&D) airport with a stable and expanding baseline level of demand and diverse carrier mix, offset by comparatively lower activity levels and some regional competition. Our financial risk profile reflects the impact of the proposed series 2019 bond refinancing with DSC metrics that we expect to remain within a range we consider strong (1.25x-3.0x), along with meaningful available liquidity and ample debt and liabilities capacity.

The enterprise risk profile reflects our view of PWM's:

- Adequate market position that reflects PWM's role as an O&D airport with a recent trend of enplanement growth, supported by a stable base level of demand and diverse carrier mix but offset by comparatively low levels of activity and regional competition, particularly from Boston's Logan International Airport (about 103 miles and a two-hour drive away);

- Extremely strong economic fundamentals, reflecting favorable economic activity as measured by GDP per capita, below-average unemployment, a smaller service area, and an average projected population growth rate;
- Low industry risk relative to that of other industries and sectors; and
- Strong management and governance, demonstrating good strategic planning and competency in operating an airport of this size, along with management's conservative approach to financial and capital planning.

The financial risk profile reflects our view of PWM's:

- Strong financial performance, reflecting our expectations that DSC (S&P Global Ratings-calculated) will be maintained at levels we consider strong following the issuance of the proposed series 2019 bonds, given a decline in annual debt service requirements from the refinancing, no additional debt needs, willingness by management to implement timely rate adjustments, and supported by relatively positive enplanement trends, albeit more susceptible to airline service-level decisions than larger hubs;
- Very strong debt and liabilities capacity, with debt-to-net revenues that we expect will generally remain within a range of 5x-10x, including the effects of the proposed series 2019 bonds, resulting in a reduction in total debt outstanding coupled with no additional debt needs; and
- Strong liquidity and financial flexibility, reflecting our expectation that management will maintain liquidity of at least 365 days' cash on hand as it uses a modest portion of its unrestricted reserves to fund a portion of its capital improvement plan (CIP) needs.

Securing the bonds are net airport revenues, plus passenger facility charge (PFCs), with respect to the PFC-eligible portion of the debt service. The indenture flow of funds also contains provisions for a maintenance and operating reserve (of three months' expenditures) and a renewal and replacement reserve. PWM will have approximately \$92.8 million in debt outstanding following the issuance of the series 2019 bonds. All of the airport's debt is fixed-rate, with no variable-rate debt, swaps, or direct-purchase debt outstanding.

We consider the bond provisions to be credit neutral. A debt service reserve, funded to the lesser of maximum annual debt service (MADS), 125% average annual debt service, or 10% of par, provides additional liquidity. A rate covenant (1.25x DSC) is also in effect, as is an additional bonds test of 1.25x based on historical or projected net revenues. However, parking operations are not linked to the airline use and lease agreements for setting rates and charges. More specifically, under the provisions, although net revenues from all PWM operations secure the bonds, the airport's revenue-raising ability is limited to adjusting parking rates, because these financed parking facilities construction. S&P Global Ratings does not consider this a material weakness, because non-airline revenue has covered associated costs with notable margins. Although other airports' revenue bond provisions do not typically make this distinction, in practice, PWM management budgets to exclude parking operations from the airline rate base.

Bond proceeds will refinance all of the series 2010 bonds outstanding for interest rate savings. In addition, the series 2019 bond proceeds will be used to fund a debt service reserve and pay issuance costs. The anticipated par amount of the series 2019 bonds is \$57.03 million.

The jetport provides air transportation services for portions of southwestern Maine, including the Portland-South Portland metropolitan statistical area (MSA)--the largest MSA in the state--and portions of eastern New Hampshire.

PWM occupies approximately 840 acres of land in the city and in the adjacent city of South Portland, located about three miles west of Portland's downtown. In fiscal 2018, PWM's enplanements and operating revenue totaled approximately 970,000 and \$22.9 million, respectively.

Outlook

The stable outlook reflects our expectation of generally stable enplanement levels with modest fluctuations, supporting a strong financial profile with no additional debt needs.

Upside scenario

Given PWM's comparatively lower passenger levels and exposure to airline service-level decisions, we do not expect to raise the rating during the two-year outlook period.

Downside scenario

Although unlikely, we could lower the rating if DSC declines to levels that we view as adequate or enplanements substantially decline, suggesting a weaker market position.

Enterprise Risk

Our assessment of PWM's enterprise risk profile considers the airport's service area economic fundamentals, industry risk, market position, and management and governance.

Economic fundamentals

The assessment of the service area economic fundamentals reflects favorable economic activity as measured by GDP per capita; a relatively large service area with an estimated population of more than 525,000 residents in the primary catchment area; and a projected three-year population growth rate of 1.14%. Unemployment in the Portland-South Portland MSA (estimated at 2.5% in 2018) is slightly below the U.S. rate. We believe the favorable economic fundamentals of the immediate catchment area provide for a solid O&D base level of demand for PWM, translating to increased demand at the airport.

Market position

Our market position assessment considers PWM's role as an O&D airport with a recent trend of enplanement growth, supported by a stable base level of demand and diverse carrier mix. Tempering our assessment are comparatively low levels of activity and regional competition, particularly from Boston Logan International Airport. Enplanement levels have been positive in recent years, with record results four years consecutively and strong performance historically during different economic cycles. Enplanements were 1.1 million in fiscal 2019, based on unaudited results, up 14.2% from approximately 970,000 in fiscal 2018. This followed increases of 6.2% in fiscal 2018 and 4.3% in fiscal 2017. Management's enplanement forecast through 2024 estimates 2.0% growth annually, which we consider reasonable given recent enplanement trends. Historical growth is largely attributable to airlines adding seats to satisfy pent-up demand in response to growth in the Portland MSA, new services from Southwest Airlines Co. and Frontier Airlines Inc., or expanded service from existing major airline providers such as United Air Lines Inc., despite a recent more limited service offering from JetBlue Airways Corp. Nevertheless, we believe PWM's demand characteristics, similar to

those of many small-hub airports, leave it exposed to periods of volatility and softer demand levels across different economic cycles.

We consider PWM's carrier diversity excellent. The top three airlines in unaudited fiscal 2019, based on enplanement market share, were American Airlines Inc. at 30.2%, followed by Delta Air Lines Inc. at 24.7%, and United at 19.5%. These market shares have remained historically stable, and we expect them to modestly diversify over the near term with PWM's recent addition of low-cost carriers that have expanded service. Nevertheless, given the relatively smaller market and the role the airport plays as a feeder to larger-hub networks, overall passenger traffic is susceptible to airline service-level decisions and more variability is likely. From 2009's enplaned passenger total of 862,000, PWM traffic reached a low of 812,000 in 2013, before reaching 960,000 in 2018 and peaking at 1.1 million in fiscal 2019.

PWM is exposed to some competition, with the nearest airports, Manchester Boston Regional Airport and Boston Logan, 96 and 103 miles away, respectively. It also attracts customers from larger regions, with the next-largest commercial airport in Bangor, Maine, 130 miles to the north.

We consider PWM's cost structure to be moderate and steady. Cost per enplanement (CPE) ranged from \$7.85-\$8.71, per our calculations, during the past five years through fiscal 2018, which we view as moderate for the rating category. CPE is expected to decline modestly, to \$7.45 in fiscal 2019, based on unaudited results, following the 14.2% year-over-year growth in enplanements. We expect CPE to remain moderate, given expected enplanement growth.

Management and governance

The managerial and governance assessment reflects our view of the airport's strategic positioning, risk management and financial management, and organizational effectiveness.

PWM does not maintain a host of specific financial and operational policies, but we believe management's informal goals, track record, and planning practices support our view of the airport's management and governance. We understand that management works to maintain an informal target of 365 days' cash on hand, a level it has exceeded each year since fiscal 2014, along with 1.5x DSC (as per the indenture) above the rate covenant of 1.25x.

Supporting our assessment of management and governance is management's track record of operating the airport, with consistently improving financial and operational results. Management proactively adjusts rates and manages costs to achieve specific financial targets. It also maintains multiyear projections for its CIP. All debt is fixed-rate, and PWM is not exposed to any contingent liabilities.

The airport's airline lease and use agreements run through June 2021. The agreements are hybrid, with the terminal being compensatory and the airfield costs residual. They also contain extraordinary coverage protection provisions, whereby if net revenues allocable to the bonds are projected to not meet 125% of debt service, airlines will make payment in the rates for rentals, fees, and charges, which we view positively.

Financial Risk

The assessment of PWM's financial risk profile reflects our view of the airport's financial performance, debt and liabilities capacity, and liquidity and financial flexibility. We also consider PWM's historical performance and pro forma

figures that reflect the effect of the proposed series 2019 bond issuance. We base our assessment of financial performance, debt and liabilities capacity, and liquidity and financial flexibility on pro forma figures prepared in connection with this issue. Such pro forma figures provide lower annual debt service requirements and principal outstanding following the refinancing, unrestricted reserves above 365 days' cash on hand, no additional debt needs, and modest growth in net revenues and enplanements through 2024. The forecast assumes operating revenue growth of approximately 1%-4%, and enplanement growth of about 2%, which we consider reasonable given the five-year average annual enplanement growth of about 6% since fiscal 2014 and historical revenue growth of 6% since 2014. Furthermore, we evaluated our assessments under various pro forma stress-test scenarios, using lower-revenue scenarios given the airport's smaller size and level of enplanements. Our financial profile assessment also considers the airport's financial policies, which we view as credit neutral.

Financial performance

The financial performance assessment reflects our expectation that PWM will maintain DSC (S&P Global Ratings-calculated) at levels we consider strong following the issuance of the proposed series 2019 bonds, given a decline in annual debt service requirements from the refinancing, no additional debt needs, and generally stable enplanement trends. Total debt service requirements were \$8.6 million in fiscal 2019, and estimated aggregate annual debt service following the proposed series 2019 bond refinancing will decline to about \$7.4 million-\$7.6 million through fiscal 2030, excluding a partial payment in fiscal 2020. Debt service requirements then fluctuate between about \$5.3 million-\$8.8 million through final maturity in fiscal 2040. DSC, per our calculations, was 1.15x in fiscal 2018 after a step-up in debt service and overstated maintenance and operations (M&O) expenses included in 2018, instead of fiscal 2019. DSC increased to 1.74x in fiscal 2019 based on unaudited results after a 14.2% increase in enplanements, and lower O&M expenses. Following the proposed series 2019 bond refinancing, we expect DSC will be above 1.25x, a level we consider strong. Our DSC calculation includes interest income and PFCs applied to debt service as revenues.

Indenture coverage calculations, which reduce debt service by the amount of eligible PFCs allocated to debt service, were 2.57x, 1.34x, and 1.55x in fiscal years 2019 unaudited, 2018, and 2017, respectively.

Debt and liabilities

We consider the debt and liabilities capacity assessment to be very strong, given our expectation that debt-to-net revenues will generally remain within a range of 5x-10x, including the effects of the proposed series 2019 refinancing bonds, which results in a modest reduction in total debt outstanding. Debt-to-net revenues improved to 7.3x in fiscal 2019 based on unaudited results, declining from 11.6x in fiscal 2018. Following the refinancing, total debt outstanding will decline from \$109.0 million in fiscal 2019 to \$92.8 million in fiscal 2020. In addition, we expect enplanement growth, coupled with the reduction in debt outstanding, to result in debt-to-net revenues at or below 10x, a level we consider very strong.

The airport's five-year CIP is modest, totaling \$49.09 million for fiscal years 2020-2024, with anticipated funding sources as follows: 54.2% from federal and state money, 31.9% from eligible PFCs, and 13.9% from PWM funds on hand. Following the refinancing, PWM will have \$92.8 million in debt outstanding and debt per enplanement of \$84 based on unaudited fiscal 2019 enplanement levels, which we consider moderate. We expect that debt per enplanement and debt-to-net revenues will decline as the airport amortizes its debt and funds the CIP, with no

additional debt needs in the near term.

Liquidity and financial flexibility

The liquidity and financial flexibility assessment reflects our expectation that, per its informal policy, PWM will maintain unrestricted reserves exceeding at least 365 days' cash on hand, a level we consider to be strong. At fiscal year-end 2018, the airport reported \$19.1 million in unrestricted reserves, equal to 393 days' cash on hand or 16% of debt outstanding. Based on unaudited fiscal 2019 results, unrestricted reserves improved to \$23.1 million, equal to 524 days' cash on hand or 26% of debt outstanding. Nevertheless, we expect PWM to use a portion of its unrestricted reserves to fund about 13.9%, or \$6.8 million, of its CIP over the next five years, and generally remain at or above 365 days' cash on hand, a level we consider strong. Furthermore, PWM's manageable capital needs and positive enplanement trends will contribute to generally stable liquidity levels, supporting the liquidity and financial flexibility assessment.

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