FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Greater Orlando Aviation Auth (FL) Sr Bonds 'AA-'; Outlook Stable

Tue 18 Jan, 2022 - 5:12 PM ET

Fitch Ratings - New York - 18 Jan 2022: Fitch Ratings has assigned an 'AA-' rating to Greater Orlando Aviation Authority (GOAA, or the authority), Florida's $175.2 million of series 2022A airport facilities revenue bonds, $64.0 million of series 2022B airport facilities revenue bonds, $8.6 million of series 2022C airport facilities refunding revenue bonds, $21.5 million of series 2022D airport facilities refunding revenue bonds and $11.6 million of series 2022E airport facilities refunding revenue bonds.

Fitch has also affirmed the 'AA-' rating on approximately $1.6 billion in outstanding senior lien airport facilities revenue bonds and the 'A+' rating on approximately $883 million in outstanding subordinate lien airport facilities revenue bonds. The Rating Outlook on all bonds is Stable.

RATING RATIONALE

The ratings reflect Orlando International Airport's (OIA, the airport) leading origination and destination (O&D) market position and diverse carrier mix. GOAA benefits from a rate-by-resolution airline agreement, which provides competitive airline costs and strong cost recovery supplemented by passenger facility charges (PFCs) and historically robust non-airline revenue streams. Fitch also views positively the authority's proactive capital management and maintenance of its strong liquidity position.

A combination of the approved federal aid packages as well as revenue streams derived from the participating airlines and commercial tenants should enable GOAA to preserve stable financial metrics in the near term. Leverage has been trending upward in conjunction with the sizable $3.6 billion capital improvement program (CIP) and associated borrowing, but is expected to stabilize at a level consistent with the current rating. The subordinate lien's lower rating reflects its junior claim to airport revenues coupled with lower covenant levels.

KEY RATING DRIVERS

Stable Traffic, Diverse Carriers - Revenue Risk (Volume): Stronger

The airport serves a large O&D pre-pandemic enplanement base of over 24 million (17 million in fiscal 2021), benefitting from encompassing Florida's premier leisure market. The airport's carrier diversity is a credit positive, with Southwest Airlines (BBB+/Negative) holding the largest share of enplanements at 24% in fiscal 2021 (ending Sept. 30). Enplanements were growing at a 7.2% five-year CAGR prior to the pandemic, and Fitch expects growth to continue following recovery to historical levels given the strong market fundamentals. Fitch considers Orlando to be a leader among the large-hub airports in terms of operational recovery to historical peak levels.

Competitive Cost Structure - Revenue Risk (Price): Stronger

GOAA sets rates by resolution, and the current five-year rate agreement expires Sept. 30, 2024. GOAA's rate agreement features compensatory rate-making for the terminal coupled with residual rate-making for the airfield, and a revenue sharing mechanism for participating airlines from net remaining revenues after debt service. The agreement accommodates passenger growth and facilitates consistency in terminal costs across the North and South Terminal facilities. Airline costs remain relatively low for a large hub, with cost per enplaned passenger (CPE) at $7.71 in fiscal 2021. Fitch's rating case forecasts CPE to rise to the $11 range as the planned borrowing for capital improvements move forward, but remain competitive for a large-hub airport considering the significant infrastructure investments underway.

Sizable Capital Program Advanced - Infrastructure Development and Renewal: Midrange

Due to the decrease in demand since the onset of the pandemic, the multi-year CIP was revised to $3.6 billion from the previously adopted $4.1 billion CIP set in 2019. GOAA's updated CIP through 2027 is primarily comprised of a $2.3 billion South Terminal Complex (STC) Phase 1 project and the accompanying $530 million STC Phase 1 Extension (1X). Following completion and the expected opening of the STC in July 2022, only $781 million of capital improvements will remain. The plan is mostly debt-funded at roughly 72%, including prior and future airport debt with the majority of borrowings having already been issued, leaving modest future increases to GOAA's debt position. Grants, pay-go PFCs and airport cash comprise the remainder of funding sources.

Conservative Debt Structure - Debt Structure: Stronger (Sr)/Midrange (Sub)

The airport's overall capital structure encompasses two liens of fixed-rate, long-term debt with standard structural features and a manageable amortization profile. The subordinate lien has a junior claim to airport revenues and lower covenants for rates and future borrowings. However, the liens are supported by fully funded debt service reserve funds (DSRF). The proposed series 2022 transaction and expected borrowing in 2023 associated with the capital plan will result in elevated total annual debt service that peaks in fiscal 2023 before declining through maturity.

Financial Profile

GOAA demonstrated sound financial performance in fiscal 2021 (unaudited) despite considerable revenue pressures related to pandemic-led traffic declines, with indenture-based debt service coverage at 5.7x (senior)/1.6x (total), or 3.2x and 1.4x, respectively, with debt service offsets treated as revenues. All-in leverage decreased to 4.4x in fiscal 2021 due to the application of federal relief grants and defeasance of outstanding debt, but is expected to increase in the near term to 6.5x following proposed CIP-related borrowings in 2022 and 2023. Positively, GOAA maintained robust liquidity levels equal to 877 days cash on hand (DCOH) as of FYE 2021.

PEER GROUP

The airport's peers include other large-hub south Florida airports with similar market characteristics, such as Tampa Hillsborough County (AA-/A+/Stable) and Fort Lauderdale/Broward County (A+/Stable), with GOAA's and Tampa's higher ratings reflecting stronger liquidity positions, manageable leverage and more robust coverage levels. All three airports benefit from carrier diversity and each have invested significantly in recent years for both redevelopment and expansion needs.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A continued period of material traffic declines resulting in erosion of the airport's current strong financial position and credit metrics compared to current expectations, resulting in sustained leverage metrics above 9x.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Continued progress on the current capital program along with recovery to historical traffic levels leading to metrics that are comparable to 'AA' rated large-hub peers, could lead to positive rating action on both liens.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

TRANSACTION SUMMARY

GOAA plans to issue approximately $239.2 million of series 2022A and series 2022B new money bonds, and $41.7 million of series 2022C, series 2022D, and series 2022E refunding bonds. The series 2022A and B bonds will be the last tranche of debt for the STC, and bond proceeds will primarily be used to finance approximately $260.4 million of STC Phase 1 and Phase 1X project costs and refund associated draws on the authority's lines of credit. Bond proceeds of the refunding bonds will be used to refund all or a portion of GOAA's outstanding series 2011B, series 2011C, series 2011D and series 2012A bonds for debt service savings of roughly $7.6 million.

CREDIT UPDATE

Similar to airports nationwide, Orlando experienced a significant decline in passenger volumes beginning in March 2020 as air travel was sharply curtailed by the effects of the pandemic. Passenger travel continued to be affected by the pandemic in fiscal 2021, although the magnitude of reductions in comparison to pre-pandemic levels decreased due to the strong rebound in domestic air travel driven by increased U.S. vaccinations and a surge in leisure air traffic. Enplanements finished fiscal 2021 down 32% when compared with fiscal 2019; enplanements were down 41% in fiscal 2020. International passenger traffic at the airport, which historically accounted for 14% of fiscal 2019 passengers, recovered significantly in 2021, reaching 45% of 2019 levels in November 2021.

Orlando continues to be a leader among the large-hub airports in terms of traffic recovery to historical levels, with estimated YTD enplanements through the first three months of fiscal 2022 recovering to 89% of enplanements during the same period in 2019. Prior to the pandemic, the 7.2% five-year CAGR through 2019 highlights the positive trends in underlying demand, as well as airline's support for increased international and domestic services.

At the onset of the pandemic, management instituted significant cost-savings measures and budget monitoring procedures, including implementing a hiring freeze, reducing non-essential contractual services, and deferring certain renewal and replacement projects. Due to these significant cost-cutting measures, total O&M of $274 million in fiscal 2020 was approximately 22% lower than the original budget of $350 million. The airport also implemented a comprehensive plan early on to provide relief to airlines, in-terminal concessions and rental car companies, utilizing payment deferrals and waivers.

Fitch expects the airport to maintain financial stability, further supported by federal grants, through the forecast period. The authority was awarded a total of $383.8 million in federal relief grants, of which $353.4 million is available to reimburse OIA's O&M expenses and debt service, and $26.3 million for concession-related relief. As part of its proactive approach to mitigating the effects of the pandemic, the authority strategically defeased $202.5 million in outstanding bonds and $29.5 million in associated interest in 2021, realizing $33 million in debt service savings over the next 11 years. GOAA utilized its existing lines of credits as liquidity for the defeasance and has received reimbursements from the federal relief funds for amounts drawn.

GOAA also allocated a portion of the grants towards subordinated debt service and O&M expenses. As of Dec. 31, 2021, GOAA has fully drawn all CRRSA grants and has approximately $87.1 million in CARES Act and $21 million in ARPA concession relief grants remaining. The authority will closely monitor its operational and financial position and adjust the use of remaining available funds as necessary.

FINANCIAL ANALYSIS

Given that the airport has not yet fully returned to normal operations and recovered to historical traffic levels due to the current operating environment, Fitch's rating case is also considered the base case. Both Fitch cases incorporate the proposed transaction, planned series 2023 issuance, and planned uses of federal relief funds. The differences for each case focus on the level and speed of the recovery starting in 2022 and through the next several years.

The Fitch rating case incorporates actual performance in fiscal 2021 (unaudited), which reflects a 32% decline in enplanements relative to fiscal 2019, followed by recovery to approximately 90% of 2019 levels in fiscal 2022. Fitch also assumes that enplanements will return to 100% of fiscal 2019 levels by fiscal 2023, with growth of 2% per year thereafter. Under this scenario, senior coverage and total coverage (excluding transfers) with PFCs treated as revenues average 2.6x and 1.5x, respectively. All-in leverage under the rating case peaks at 6.5x in fiscal 2023, but falls to 6.2x by the end of the forecast period. CPE rises to the $11 range, which remains low compared with peers and is viewed as reasonable for the traffic profile of the airport.

Fitch's downside case reflects a prolonged recovery back to 2019 levels. Under this scenario, enplanements recover to 82% in fiscal 2022, 90% in fiscal 2023, 95% in fiscal 2024 and 100% in fiscal 2025. Even with the slower recovery trajectory, Fitch views the financial profile as strong. Senior coverage excluding transfers averages 2.5x with PFCs treated as revenues and total coverage averages 1.4x with PFCs as revenues. All-in leverage peaks at 6.9x in fiscal 2023, falling to 6.4x by 2025. The authority has taken various actions to ensure continued compliance with coverage requirements and will take additional action if there is an indication that recovery is decelerating.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Greater Orlando Aviation Authority (FL)			
Greater Orlando Aviation Authority (FL) /Airport Revenues - Subordinated Obligations/1 LT	LT	A+ Rating Outlook Stable Affirmed	A+ Rating Outlook Stable
Greater Orlando Aviation Authority (FL) /Airport Revenues/1 LT	LT	AA- Rating Outlook Stable Affirmed	AA- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Airports Rating Criteria (pub. 22 Oct 2020) (including rating assumption sensitivity)

Infrastructure and Project Finance Rating Criteria (pub. 23 Aug 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.3.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Greater Orlando Aviation Authority (FL)	EU Endorsed, UK Endorsed

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