S&P Global
Ratings

RatingsDirect®

Summary:

Philadelphia
Philadelphia International Airport; Airport; Joint Criteria

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Philadelphia, Pennsylvania		
Philadelphia International Airport, Pennsylvania		
Philadelphia (Philadelphia International Airport)		
Long Term Rating	A-/Positive	Affirmed
Philadelphia (Philadelphia International Airport) arpt (AGM)		
Unenhanced Rating	A-(SPUR)/Positive	Affirmed
Philadelphia (Philadelphia International Airport) (FGIC)		
Unenhanced Rating	A-(SPUR)/Positive	Affirmed

Rating Action

S&P Global Ratings revised the outlook to positive from stable and affirmed its 'A-' long-term rating and underlying rating (SPUR) on Philadelphia's airport revenue bonds outstanding, issued for Philadelphia International Airport (PHL), using its "Global Not-For-Profit Transportation Infrastructure Enterprises" criteria, published Nov. 2, 2020.

The outlook revision reflects our view that there is at least a one-in-three chance that we could raise the rating within our two-year outlook period, given the airport's actual fiscal year-to-date performance materially exceeds budget for fiscal year ending June 30, 2022; continued vaccine progress; and easing of restrictions that we believe could result in an improved market position, overall liquidity, or both. Although PHL's enplanement recapture rate for fiscal 2021 of 41% lags S&P Global Ratings' updated activity recovery estimates of 47% for airports with a June 30 fiscal year end, we believe there is an increasing likelihood of air travel demand recovering more strongly in the second and third quarters of this year and normalizing during the next two years. We could raise the rating if PHL's enplanement recovery meets or exceeds the airport's current forecast, which assumes total enplanements for fiscal year ending June 30, recovering to about 51% for fiscal 2022, 85% for fiscal 2023, 96% for fiscal 2024, 101% for fiscal 2025, and 103% for fiscal 2026. We view this as conservative for fiscal 2022 and reasonable for fiscal years 2023-2026, with PHL recapturing approximately 70% of pre-pandemic levels, on average, for the first six months of fiscal 2022. For more information, see "Outlook For U.S. Not-For-Profit Transportation Infrastructure: Mostly Stable; Airports Remain Positive As Operators Navigate A New Variant And A New Normal," published Jan. 12, 2022, on RatingsDirect, and "Updated U.S. Transportation Infrastructure Activity Estimates Show Air Travel Normalizing By 2023 And A Stymied Transit Recovery," Jan. 12, 2022.

At the same time, S&P Global Ratings affirmed its 'AA/A-1' joint rating on the airport's parity variable-rate demand bonds series 2005C, of which approximately $46.1 million is outstanding. The rating reflects the application of joint

criteria (assuming low correlation) on S&P Global Ratings' underlying rating (SPUR) on PHL and the direct-pay, irrevocable letters of credit from Wells Fargo Bank N.A.

The airport has approximately $1.7 billion in revenue bonds outstanding, consisting of $1.45 billion of airport revenue bonds, $125.3 million of commercial paper notes, and $115 million of taxable notes (direct-purchase debt). The timing of the airport's next new money bond issuance needed to fund a portion of its $1.26 billion capital improvement program is expected in 2025 with an estimated par amount of $266 million.

Credit overview

The outlook revision on the SPUR reflects our opinion of PHL's strong enterprise risk profile and adequate financial risk profile; a one-notch positive holistic adjustment; and a potential higher rating within our two-year outlook period if activity continues to recover and normalize near pre-pandemic levels. The positive holistic adjustment of one notch to our rating, in our view, better reflects the overall creditworthiness of PHL, an airport that has experienced relatively high activity levels historically (with total enplanements increasing to about 16 million in fiscal 2019 from about 14.8 million in fiscal 2017) because of its populous service area, limited competition, and importance to the American Airlines Inc. system; and steady financial results through different economic conditions.

The city of Philadelphia operates PHL and the Northeast Philadelphia Airport, a small general aviation airport that operates at a loss. Together, they constitute the airport system. We consider PHL's consolidated financial results in our financial risk profile assessment. Net project revenues; amounts payable to the city under a qualified swap; and all amounts on deposit in, or credited to, some aviation funds secure the bonds. Project revenues include all revenues from system occupants and users. Net project revenues do not include interdepartmental charges, which we view as additional operating and maintenance expenses. As a result, we include them in our adjusted debt service coverage (DSC) calculations although they are subordinate to debt service under the general airport revenue bond ordinance. A portion of passenger facility charges is pledged to pay debt service for the airport's series 2020C and 2021 bonds. If needed, the city also has access to a cash-funded debt service reserve account totaling $122 million as of Feb. 2, 2022.

As enplanements continue to recover and stabilize and the airport exhausts the use of pandemic-related grants through 2024, we expect coverage, per our calculations that exclude use of pandemic grants ($78.8 million in fiscal 2020; $37.6 million in fiscal 2021; $28.9 million in fiscal 2022; $31.9 million in fiscal 2023; and $31.9 million in fiscal 2024) given their non-reoccurring nature and amounts carried over from previous years, will improve to near 1x in fiscal 2023. We also expect debt to net revenues will be generally around 10x-15x, taking into account additional debt plans in 2025; and days' cash will be about 300-450 for fiscal years 2022-2026 as enplanements continue to recover and stabilize, the airport returns to business-as-usual rate-setting flexibility, exhausts the use of pandemic grants through fiscal 2024, and targets maintaining unrestricted cash reserves at least equal to approximately one year's worth of total operating expenses. We understand that this higher cash on hand target will be discussed as PHL negotiates new multiyear airline agreements this year. The current agreements expire June 30, 2022. We expect PHL will continue to operate as a fully residual airport under the new agreements. If the airport is unable to execute new agreements before the current agreements expires, it will pass rates by regulation until a new long-term agreement can be executed. We consider PHL's weaker financial metrics for fiscal years 2021 and 2022 not an accurate view of where we think the airport's metrics will be on a forward-looking basis.

Key credit strengths, in our opinion, include PHL's:

- Large-hub classification serving a large origin and destination market with favorable economic fundamentals that spans 11 counties with limited competition and role as a key component of American Airlines' route system;
- Skilled and very strong management team that is effective and experienced in mitigating financial and operational risks;
- Historically steady financial performance; and
- Liquidity and financial flexibility metrics we expect will fluctuate at levels we consider strong to very strong with $305.8 million for fiscal year ended June 30, 2021, providing above 504 days of operating costs and 20% of debt outstanding, falling to levels we consider strong with days' cash of about 300-350 days and about 10% to 15% of debt through fiscal 2023 before improving to more than 400 days and about 20% of debt for fiscal years 2024-2026.

Key credit weaknesses, in our view, are PHL's:

- Exposure to the lingering COVID-19 pandemic impacts, including variable enplanements, especially from the international and business travel segments, which could hamper cash flow generation from activity-based revenue sources;
- Relatively high airline concentration, with American Airlines (B-/Stable/--) and its regional affiliates, accounting for 65% of fiscal 2021 total enplaned passengers (down from about 70% pre-pandemic); and
- Rising airline cost structure and debt metrics.

Environmental, social, and governance

We analyzed PHL's risks and opportunities related to environmental, social, and governance (ESG) credit factors relative to its market position, management and governance, and financial performance. We view the airport's ESG factors as generally in line with the sector standard. Pandemic-related activity declines, which we view as a social factor, affected revenue performance, although this risk is abating and is not a material credit factor, in our view. All other environmental and governance credit factors are in line with our view of the sector. We will continue to evaluate risks and opportunities.

Positive Outlook

Upside scenario

We could raise the ratings within the two-year outlook period if we believe enplanements have recovered and normalized to levels we view as consistent with a stronger market position or if we believe the airport can maintain DSC (S&P Global Ratings-calculated) at about 1x, debt to net revenues below 10x, and an overall liquidity position we consider very strong with days' cash at or above 400 days and unrestricted reserves to debt at or above 20%.

Return to stable scenario

We could revise the outlook to stable if the recent recovery in enplanements weakens or if we expect PHL's overall financial metrics will be consistent with an adequate financial risk profile.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of March 14, 2022)		
Philadelphia, Pennsylvania		
Philadelphia International Airport, Pennsylvania		
Philadelphia (Philadelphia International Airport) arpt rev rfdg bnds (Philadelphia Arpt) ser 2005C dtd 06/02/2005 RMKT dtd 12/23/2008 due 06/15/2025		
Long Term Rating	AA/A-1	Affirmed
Unenhanced Rating	A-(SPUR)/Positive	Affirmed
Philadelphia (Philadelphia International Airport) arpt rev rfdg bnds (Philadelphia Arpt) ser 2005C dtd 06/02/2005 RMKT dtd 12/23/2008 due 06/15/2025		
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Philadelphia (Philadelphia International Airport) arpt (AGM)		
Unenhanced Rating	A-(SPUR)/Positive	Affirmed
Philadelphia Industrial Development Authority, Pennsylvania		
Philadelphia International Airport, Pennsylvania		
Philadelphia Auth for Indl Dev (Philadelphia Intl Arpt) (FGIC) (National)		
Unenhanced Rating	A-(SPUR)/Positive	Affirmed

Many issues are enhanced by bond insurance.

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.