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CREDIT OPINION
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Philadelphia (City of) PA Airport Enterprise

Update following upgrade to A1

Summary

Philadelphia (City of) PA Airport Enterprise's credit profile reflects the improved financial position resulting from the airport's acquisition of its parking assets from the Philadelphia Parking Authority and the favorable structure of its new lease agreement with the airlines. Philadelphia International Airport's (PHL) liquidity is poised to improve substantially following the renewal of its residual use and lease agreement with its signatory airlines, which allows for the airport to ramp up its operating reserves, allocating from $1 million up to $10 million annually to the airport's O&M account. PHL's leverage, as measured by adjusted debt per origin & destination enplaned passenger, will continue to decline to lower than historical levels due to rapid amortization of previously issued debt which limits net debt increases, providing the airport with headroom to borrow to fund its capital plan. The credit profile also reflects PHL's fundamentally strong market position for travel in the Philadelphia metropolitan region and hub airport for connecting traffic and transatlantic gateway by American Airlines Inc. (AA) (Ba2 stable). We expect fiscal year 2025 enplanements (6/30) to exceed 2019 levels as American Airlines continues to grow its service offerings at the airport. Additionally, the A1 considers PHL's significant capital investment required to adapt to the shifting landscape of AA's capacity, anticipated beyond the projection period.

The airport does face competition from Newark Liberty International Airport (EWR) (Port Authority of New York and New Jersey, Aa3 stable), which is 90 miles away from PHL. Though the competing hub benefits from a broader service offering, the competitive risk to PHL is partially mitigated by capacity limits and slot restrictions of the New York-area airports.

Credit strengths

» Large, stable service area with a robust economy, forming the base for O&D demand

» A capital program that focuses on PHL's state of good repair

» Manageable leverage structured into a front-loaded debt service profile with nearly $430 million in debt amortizing through 2029

» Improved liquidity position stemming from the airport's new AULA, which allows for the airport to build up cash reserves

Credit challenges

» Competition from nearby airports in the New York and Baltimore metropolitan areas lowers passenger utilization rates

» Higher exposure to international traffic, which Moody's expects to be slower to recover from the pandemic impacts than domestic travel

» Though liquidity has improved, levels remain below other international hubs and similarly-rated airports (A1 median was 727 DCOH in FY2022)

Rating outlook

The stable outlook reflects the airport's continued enplanement recovery and expectation of improved liquidity owing to the airport's use and lease agreement. It also incorporates our expectation that the implementation of the capital improvement program will not further pressure leverage and coverage.

Factors that could lead to an upgrade

» Improvement in the fundamental strength of the origin and destination (O&D) enplanement base at Philadelphia International Airport

» Adjusted debt per O&D enplaned passenger below $150 on a sustained basis

Factors that could lead to a downgrade

» Longer-term negative shift in enplanements reflecting a changed market position

» Unexpected, unrecovered expenses that further decrease liquidity

» Capital plan results in substantial increases in debt above currently projected levels in the medium term

Key indicators

Exhibit 1

Philadelphia (City of) Airport Enterprise

Fiscal year	2019	2020	2021	2022	2023
Total enplanements ('000)	16,088	11,847	6,543	11,675	13,375
Enplanement annual growth (%)	5.5	(26.4)	(44.8)	78.4	14.6
Debt outstanding ($ millions)	1,677	1,625	1,530	1,673	1,658
Adjusted debt per O&D enplaned passenger ($)	190	254	391	225	193
Total adjusted debt to net revenues	11.73x	15.9x	14.6x	15.42x	9.89x
Total DSCR by net revenues	1.41x	1.03x	1.08x	1.11x	1.82x
Total DSCR (bond ordinance)	2.14x	2.27x	2.43x	2.62x	4.29x
Days cash on hand	327	324	482	576	679

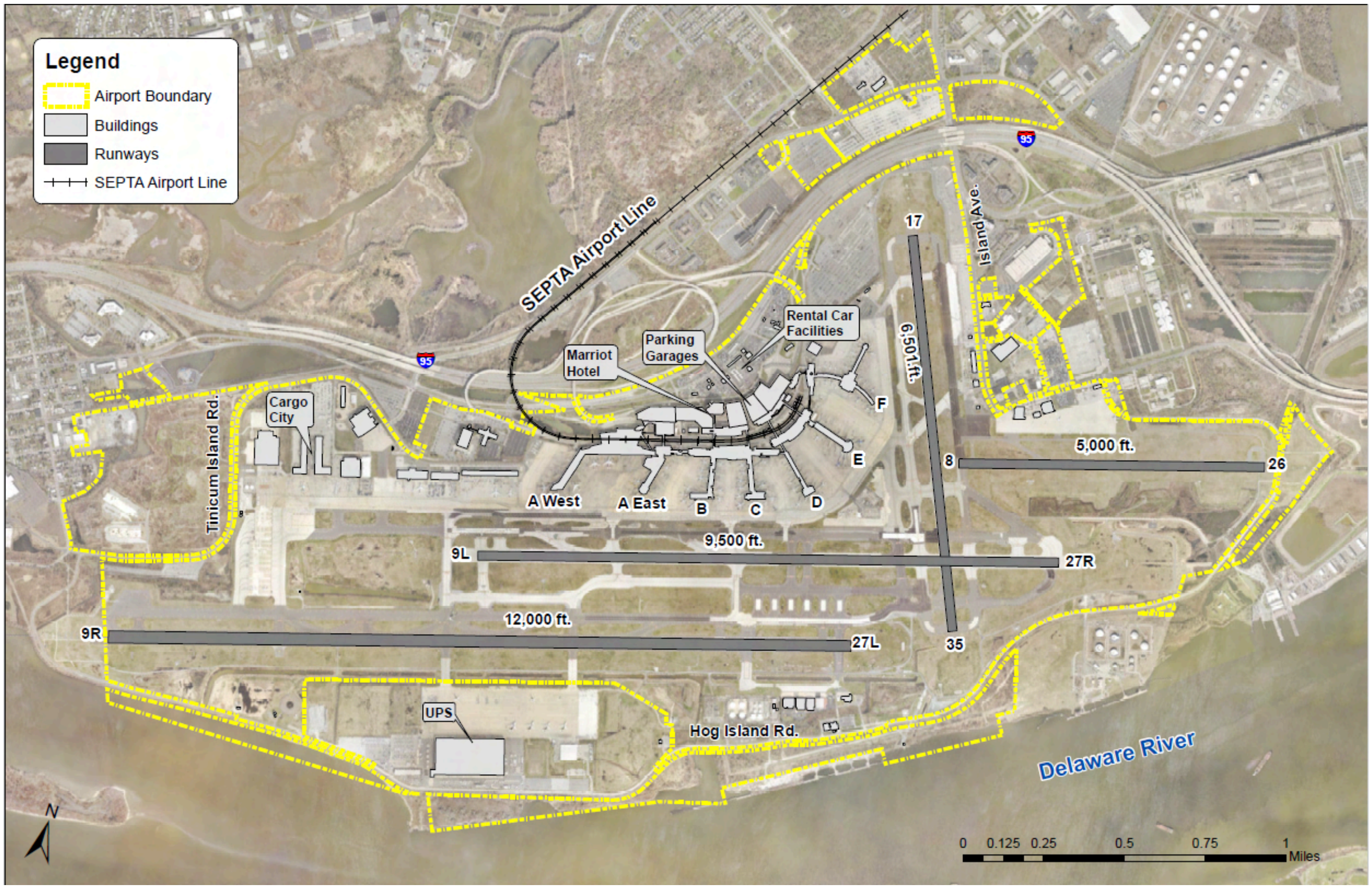
Source: Moody's Ratings

Profile

The Philadelphia Airport System is owned by the City of Philadelphia and operated by the city's Department of Aviation. It is comprised of Philadelphia International Airport (PHL) and its general aviation reliever airport, Northeast Philadelphia Airport (PNE). 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 runway - as well as taxiways and apron parking. The runways system is capable of handling the largest commercial aircrafts operated by the signatory airlines.

Exhibit 2
PHL Airport Layout



Source: PHL

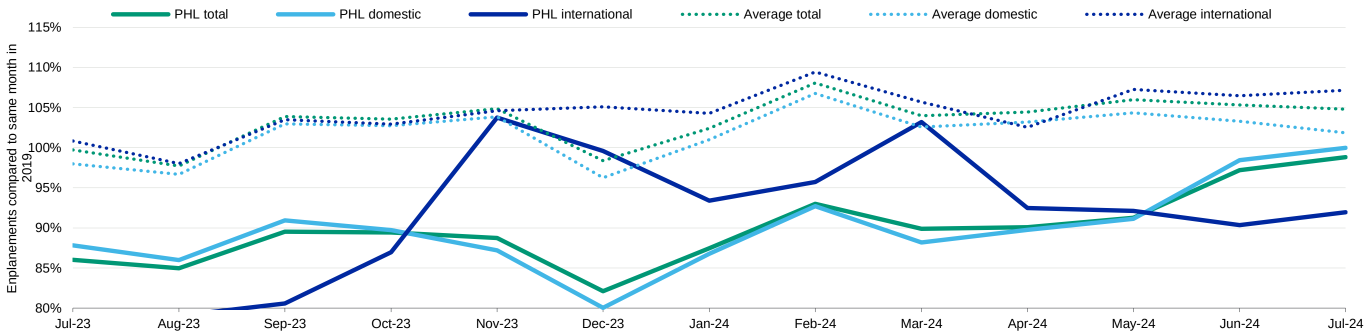
Detailed credit considerations

Revenue Generating Base: Despite weak international traffic recovery, PHL's large service area and strategic location will continue to support travel demand

PHL's enplanement recovery has lagged behind the national average due to prolonged recovery in international traffic. Fiscal 2023 enplanements reached 13.4 million, a 14.6% increase from fiscal 2022's enplanements but still -16.9% below fiscal 2019's enplanements. Estimated fiscal 2024 enplanements reached 14.7 million, an 8.7% increase over fiscal 2023 and -8.5% from fiscal 2019's enplanements. Enplanements in June and July 2024 respectively show traffic in the 98-99% range of 2019 levels, demonstrating continued improvement. International traffic recovery has lagged at PHL, hovering around the 90% range of 2019 levels in recent months, largely due to American Airlines' aircraft and pilot shortages. In normal conditions, approximately 13% of PHL's enplaned passengers are international travelers. During the pandemic, AA retired much of its fleet cocurrently, and has been facing aircraft shortages due to supply chain constraints as it awaits the delivery of new aircrafts, such as the Airbus a321XLR and Boeing 787-9 Dreamliner. International traffic recovery at PHL has been more reliant on the delivery of the Airbus a321XLR, which American Airlines has confirmed will be used on its premium transcontinent routes. Delivery began in 2024.

PHL currently offers service to 31 non-stop international destinations, 18 of which are transatlantic. Two of those transatlantic destinations were extended in 2024 (AA to Barcelona, Spain & Lisbon, Portugal), and three were new routes added in summer 2024 (AA to Nice, France, Naples, Italy, Copenhagen, Denmark). American recently announced four additional international routes (Guanacaste, Costa Rica; Barbados; Edinburgh, Scotland and Milan, Italy) which will start either later this year or in 2025.

Exhibit 3
PHL's international enplanement recovery has lagged its domestic recovery



Source: Moody's Ratings

Although airports with high connecting traffic have performed better, PHL's main carrier, American Airlines (63% of total enplanements in fiscal 2023), has opted to maintain more capacity at its hubs at Dallas-Fort Worth International Airport (A1 positive) and Charlotte-Douglas International Airport (Aa3 stable) as these two are more well-positioned geographically to support domestic connectivity. Nonetheless, PHL is expected to remain American Airline's main transatlantic gateway since it is better suited than other nearby airports like JFK to serve transatlantic destinations with dispersed demand. PHL is American Airlines' fifth largest hub and largest transatlantic gateway.

Travel demand at PHL is underpinned by its large and economically robust service area. The airport's primary service area consists of the Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Combined Statistical Areas (CSA), which is the sixth-largest CSA in the US by population. Philadelphia's economy continues to be anchored by some of the top higher education and health care institutions in the nation, and these institutions will be the cornerstone of the city's longer term recovery. Despite losing population during the pandemic, relocation data from Equifax show the flow of people moving out of the metro division has steadily slowed and better migration trends will buoy housing demand. As of August 2024, the city's unemployment has climbed up to 5.4%, higher than the state and the US average. In the longer term, unfavorable demographics and an unfriendly business climate will keep job growth ahead of the region's but lagging the U.S.'s.

PHL is the only commercial airport in the Philadelphia CSA. The closest commercial airports in the area are Trenton-Mercer Airport (TTN) and Atlantic City International Airport (ACY), both with limited levels of air service as compared to PHL. The airport does face competition from Newark Liberty International Airport (EWR) (Port Authority of New York and New Jersey, Aa3 stable), which is 90 miles away from PHL. Though the competing hub benefits from a broader service offering, the competitive risk to PHL is partially mitigated by capacity limits and slot restrictions of the New York-area airports. Philadelphia is also less than a two-hour drive from Baltimore–Washington International Airport (A1 stable), 110 miles to the southwest.

Ownership of airport parking garages to increase non-airline net revenues

In January 2022, the Department of Aviation assumed ownership of airport parking garages from Philadelphia Parking Authority (PPA) following the defeasance of the $53.8 million PPA airport parking bonds. The department used funds from its commercial paper program and available parking bond reserves to repay PPA's outstanding airport parking bonds. As a result, the department now has direct oversight of the parking operation, more control over its budget and costs, as well as the implementation of capital projects to better align with the airport's master planning process, all of which is positive from a credit perspective. Parking revenues will also increase the airport's non-airline revenues going forward, which could alleviate rates charged to airlines under the current airline use and lease agreement.

The new Airline Use and Lease Agreement is expected to help ramp up airport liquidity

PHL entered into a new residual use and lease agreement with its signatory airlines, effective July 1, 2023 through June 30, 2026, with the option for two one-year renewals. The term of the agreement was intended to allow flexibility as PHL's master plan is developed. The agreement provides pre-approval of $935 million in new capital funding to support operations at PHL and PNE – funding will be used for state of good repair work, upgrades throughout PHL's terminals, cargo program projects, as well as initial funding to support aviation-related development within the closed section of the PHL Economy Lot. The agreement also provides additional funding, which will increase the airport’s operating reserves from $1 million up to $10 million annually, allowing the airport to increase the balance in its O&M Account from 7% to 25% of annual operating expenses over the term of the agreement. DCOH is expected to remain above 600 days going forward during the term of the agreement, a sizeable gain from 190 days in 2019.

Financial and Operational Position: Credit metrics are expected to remain fair as relief grants get exhausted

The airport's coverage metrics have historically been narrow but adequate given its fully residual rate structure. In fiscal 2023, Moody's debt service coverage ratio (DSCR) on a net revenues basis was 1.8x, up from 1.1x in fiscal 2022, owing to the continued recovery from the pandemic and the usage of pandemic relief funds. The airport allocated the remaining $15 million in pandemic relief grants in fiscal 2024, resulting in an estimated DSCR 1.7x. When contemplating future borrowings, DSCR is expected to decline slightly thereafter, averaging 1.5x forward-looking.

Leverage as measured by Moody's adjusted debt per O&D enplaned passengers has declined in fiscal 2023 as the airport continues to recover. Leverage was $193 in 2023, down from $225 in 2022, and in line with 2019's $190. Moody's notes that leverage is expected to increase in the coming years as the airport issues debt to fund it's capital plan, however, with approximately $430 million in debt amortizing through 2029 due to the front-loaded debt structure, adjusted debt per O&D enplaned passenger levels will be manageable.

Liquidity

The airport system's liquidity position has improved over the last three years despite the pandemic downturn. As of fiscal 2023, the airport had around 679 days of liquidity, up from 576 days in 2022. In response to the crisis, the system's total amount awarded of federal relief funds was almost $261 million, from which approximately $100 million was applied to pay debt service and operating expenses in fiscal 2023. As mentioned above, Moody's expects DCOH to remain in the 600 days range due to the added liquidity features in PHL's new AULA.

Debt and Other Liabilities

Capital Improvement Plan

The airport's ongoing Capital Development Program (CDP) includes $1.8 billion of projects approved by the signatory airlines, of which $350 million has been spent to date. In general, the CDP is comprised of numerous projects that focus on renewal and rehabilitation work of the terminals, technology enhancements, and airfield enabling projects for cargo development at PHL.

The $1.8 billion CDP will be funded with PFCs, grants, previously issued debts, operating funds and approximately $1.2 billion of issuance debt expected through fiscal 2027. The airport anticipates CDP projects can be further deferred or advanced, as needed, based on recovery to pre-COVID-19 pandemic activity levels. Of the $1.2 billion, $266 million in new money is expected to be issued in calendar year 2025.

Legal Security

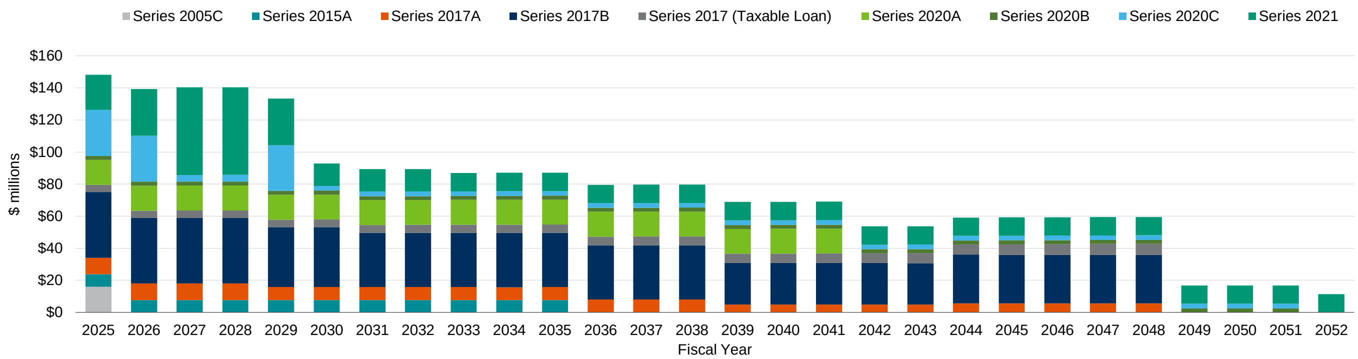
The bonds are secured by a pledge of net revenues. Bondholders also benefit from a rate covenant of 100% of net O&M and 150% of debt service on GARBs in a given year or 100% of O&M, debt service on GARBs, debt service on GO bonds issued for airport improvements, and subordinate obligations secured by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

Debt Structure

The airport has approximately $1.4 billion in outstanding general airport revenue bonds, all of which is currently on the senior lien. Series 2005C, with $15.8 million outstanding, is in variable-rate mode (indexed to SIFMA) through a Direct Purchase by US Bank and is hedged with an interest rate swap. This variable-rate liability represents approximately 1% of the airport’s long-term debt and matures in 2025. The debt portfolio is front-loaded.

PHL has a Series 2017 $110 million taxable loan that is not rated by Moody's.

Exhibit 4
PHL Annual Debt Service Profile



Source: PHL

Debt-Related Derivatives
The Series 2005C variable-rate bonds are hedged with a floating-to-fixed rate swap, provided by JPMorgan Chase Bank. The swap has a positive mark-to-market of $264,459 as of June 28, 2024.

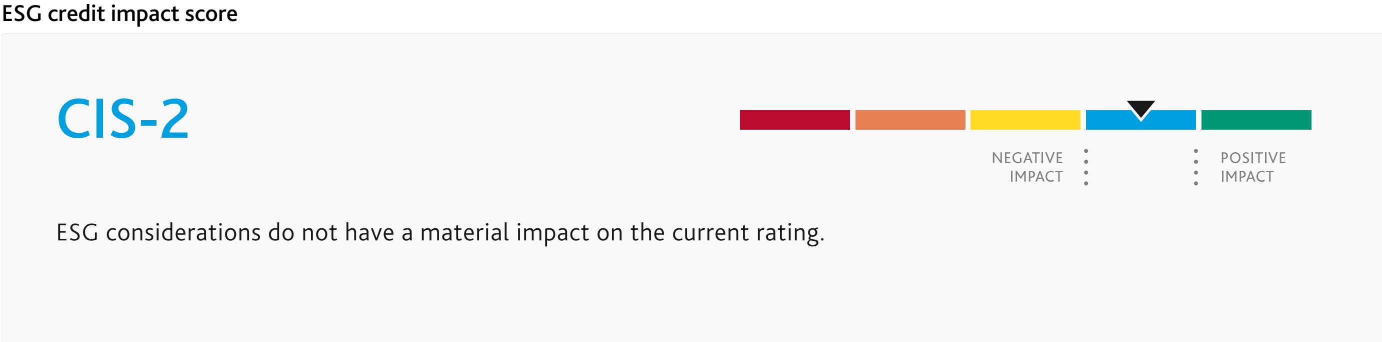
Pensions and OPEB
Moody's adjusts the reported pension liabilities of entities that report under governmental accounting standards, to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on the plan assets. Under our adjustment, we value liabilities using the FTSE Pension Liability Index (FTSE PLI), a high investment-grade long-term taxable bond index, as a discount rate to compute the present value of accrued benefits and a proxy for the risk of pension benefits.

Pursuant to GASB 68, as of fiscal 2023, the airport reported a net pension liability of $175 million. Moody's calculates an adjusted net pension liability (ANPL) at $295 million, based on our lower discount rate assumption (2.84% vs the airport's 7.50% reported rate). This amount is relatively high (18%) in relation to outstanding debt, but very manageable given rapid amortization of existing debt.

ESG considerations

Philadelphia (City of) PA Airport Enterprise's ESG credit impact score is CIS-2

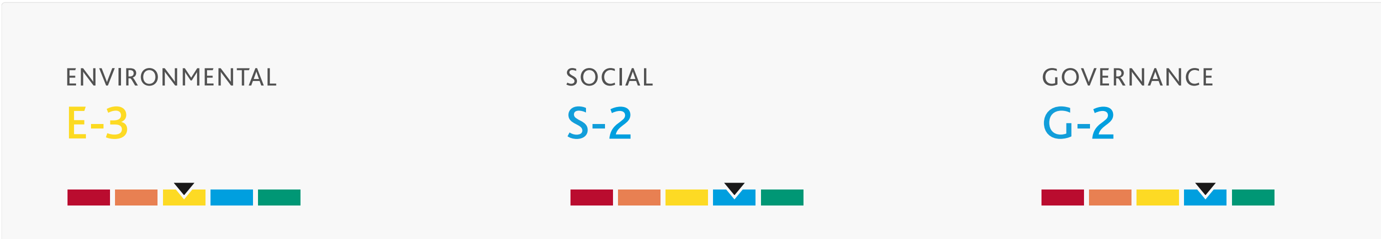
Exhibit 5
ESG credit impact score



Source: Moody's Ratings

Philadelphia (City of) PA Airport Enterprise (PHL) ESG credit impact score of **CIS-2** indicates that ESG considerations are not material to the rating.

Exhibit 6
ESG issuer profile scores



Source: Moody's Ratings

Environmental

PHL's **E-3** issuer profile score reflects moderate carbon transition risk through 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.

Social

PHL's **S-2** issuer profile score acknowledges that levels of social risk that are related to the linkage between carbon transition and demographic and societal policies are lower in the US/Canada than in other regions given the geographically dispersed nature of the country and the lack of viable rail alternatives.

Governance

PHL's **G-2** issuer profile score acknowledges that Federal Aviation Administration regulation of US airports tightly restricts the use of funds generated at 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. The Philadelphia Airport System is owned by the City of Philadelphia and operated by the city's Department of Aviation. It is comprised of Philadelphia International Airport (PHL) and its general aviation reliever airport, Northeast Philadelphia Airport (PNE).

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The principal methodology used in this rating is Publicly Managed Airports and Related Issuers rating methodology published in February 2023. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The scorecard indicated outcome under the Publicly Managed Airports and Related Issuers methodology is Aa3 for fiscal 2023, one notch above the A1 rating assigned to senior lien revenue bonds. The assigned A1 rating considers the airport's enplanement recovery, which has not yet returned to pre-pandemic levels as well as PHL's anticipated future borrowings.

The grid is a reference tool that can be used to approximate credit profiles in the US airport industry in most cases. However, the grid is a summary that does not include every rating consideration.

Exhibit 7
Rating methodology and scorecard factors
FY 2023

Regional Position:	**National**		
Rate Making Framework:	**Residual**		
Factor	**Subfactor**	**Score**	**Metric**
1. Market Position	a) Size of Service Area (millions)	Aaa	7.37
	b) Economic Strength and Diversity of Service Area	Aa	
	c) Competition for Travel	A	
2. Service Offering	a) Total Enplanements (millions)	Aaa	13.4 million
	b) Stability of Traffic Performance	Baa	
	c) Stability of Costs	A	
	d) Carrier base (Primary Carrier as % of Total Enplanements)	Baa	61.9%
3. Leverage and Coverage	a) Net Revenue Debt Service Coverage Ratio	Aa	1.82x
	b)Debt + ANPL per O&D Enplaned Passenger	Aa	$193
		Notch	Metric
4. Liquidity	Days Cash on Hand	1	679
5. Connecting Traffic	O&D Traffic	0	24% connecting
6. Potential for Increased Leverage		-0.5	
7. Debt Service Reserves		0	
Scorecard Indicated Outcome:		Aa3	

Source: Moody's Ratings

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