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Ratings

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Summary:

Albany International Airport, New York
Albany County Airport Authority; Airport

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Credit Profile		
Albany Cnty Arpt Auth, New York		
Albany Intl Arpt, New York		
Albany Cnty Arpt Auth (Albany Intl Arpt) arpt (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating to 'A' from 'A-' on the Albany County Airport Authority, N.Y.'s airport revenue bonds, issued for Albany International Airport (ALB).
- The rating action reflects our view of the airport's recovering activity and improved market position with year-to-date enplanement performance through July 2.6% ahead of budget, as well as our expectation of stronger financial performance metrics.
- The outlook is stable.

Security

Net airport system revenues secure the bonds. Revenues include all income and revenue from all sources collected or accrued from rates, passenger facility charges (PFCs), rentals, fees and any other compensation and investment income earned by the authority.

As of Dec. 31, 2021, the authority had $69 million of fixed-rate debt outstanding. It must set rates and charges such that net revenues provide at least 1.25x debt service; under the authority's indenture, PFC revenues ($4.05 million in fiscal 2021) are allowed as an offset to debt service to achieve this target. ALB has cash-funded debt service reserves of $7.4 million plus $8.3 million in PFCs on hand.

Credit overview

Overall, the rating action reflects our expectation that ALB's strong rebound in enplanement levels to near pre-pandemic levels will be sustained, supporting a return to business-as-usual rate-making with an improved market position assessment and a return of its enterprise risk profile assessment back to the pre-pandemic level of strong. We expect ALB will maintain financial metrics (S&P Global Ratings-calculated) consistent with an unchanged strong financial risk profile.

Key credit strengths of ALB include our opinion of its:

- Role as a small hub airport with a very high origin-and-destination customer base (99% of 2021 total enplanements) serving Northeastern New York, Western New England, and Southern Vermont and its relatively diverse air carrier mix with the top two carriers--Southwest (SWA) and American Airlines (AAL)--accounting for 32.8% and 22.8% of total enplanements, respectively;

- Financial performance we consider strong with debt service coverage (DSC) at 1.26x in fiscal 2021 and our expectation that DSC will be near or greater than 1.25x (S&P Global Ratings-calculated) excluding non-operating federal grants. Management-calculated DSC improves to 1.57x in 2021 and 1.58x in 2022 including non-operating revenues and other adjustments permitted under the bond indenture, including use of PFCs as a debt service offset;
- Very strong debt and liabilities capacity with debt-to-net revenues we believe are likely to remain between 5x-10x (5.3x in fiscal 2021) as traffic and net revenue improves and given no additional near-term debt plans; and
- Very strong management and governance that has established a record of managing and operating its airport facilities with flexibility to adjust revenues, expenses, and capital spending, as needed, to maintain steady financial results.

Offsetting credit weaknesses of ALB include our opinion of its:

- Relatively small enplanement base with a sufficient base of demand supporting our adequate market position assessment.
- Generally smaller service area and population, exhibiting weaker demographic trends with projected population declines in the Albany-Schenectady-Troy metropolitan statistical area (MSA) over the next three years; and
- Modest exposure to competition from nearby airports, including Rutland-Southern Vermont Airport (RUT), which is 73 miles north; Bradley International Airport (BDL), about 74 miles away south; and Stewart International Airport (SWF), about 81 miles south.

Environmental, social, and governance

We analyzed ALB's risks and opportunities related to environmental, social, and governance (ESG) credit factors relative to its market position, management and governance, and financial performance. Elevated health and safety concerns, which we consider a social risk factor, are abating given the recovery in air passenger traffic; however, we still believe this sector has a moderately negative risk exposure, given the substantial effect on airports at the onset of the pandemic. All other environmental and governance credit factors are neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that ALB's enplanements will return to near or above pre-pandemic levels on a sustainable basis, supporting financial metrics (S&P Global Ratings-calculated) that are consistent with a strong financial risk profile.

Downside scenario

Although unlikely, we could lower the rating if enplanements decline materially or if we expect financial metrics, particularly DSC and debt-to-net revenues, will be sustained at weaker levels consistent with a lower rating.

Upside scenario

We could raise the ratings within the two-year outlook period if we believe DSC (S&P Global Ratings-calculated) can consistently be maintained over 1.25x, and overall liquidity improves to levels we consider very strong with days' cash at or above 400 days.

Credit Opinion

The upgrade is based on ALB's improved overall enterprise risk profile assessment and market position of strong, reflecting year-to-date performance we believe is sustainable and likely to return to pre-pandemic levels over the near term. Activity levels for ALB closed fiscal 2021 at nearly 1 million enplanements, or only 64% of 2019's levels; however, traffic in 2022 continued its upward trend and we believe is likely to reach either near or above pre-pandemic levels by fiscal 2022-year end (Dec. 31), or 1.225 million, based on management projections, with year-to-date activity surpassing budgeted estimates by 2.6%. Additionally, in our view, the authority has conservatively forecasted total enplanement levels continuing their upward trajectory, reaching 92% (1.4 million) and 99% (1.5 million) of 2019 levels for fiscal years 2023 and 2024, respectively, which is aligned with historical enplanements and our updated baseline activity estimate of 90% for the U.S. airport sector. We consider the airport's carrier mix to be relatively diverse. Southwest Airlines Co. (SWA) enplaned 32.8% of traffic in 2021, followed by American Airlines Inc. (AAL), with 22.8%, for a total of 55.6%. For more information, see "Updated U.S. Transportation Infrastructure Activity Estimates Show Air Travel Normalizing And It’s A Long Road Back For Transit Operators," published July 27, 2022, on RatingsDirect.

Our financial risk profile remains unchanged at strong as DSC in fiscal 2021 recovered to 1.26x (S&P Global Ratings-calculated) and is expected to be near or above that level (and comparable with historical) due to a combination of improved activity levels and lower annual debt service requirements ($8.9 million in fiscal 2021 vs. $12 million in fiscal 2020). Management-provided indenture DSC was 1.57x in fiscal 2021 and 1.58x for fiscal 2022 (due to the inclusion of federal aid as operating revenue) and is expected to be above that level (and comparable with historical) as enplanement levels continue to recover. Management will apply the remaining federal aid for debt service requirements and operations & maintenance (O&M) to offset revenue losses from COVID-19, although we do not include these one-time grant money receipts in our coverage calculation. The authority received $37.2 million in federal aid through the CARES Act, CRRSAA, and American Rescue Plan Act; only allocating $10.9 million and $15.8 million in 2020 and 2021, respectively. The authority is entitled to $5 million from CRSSA, which it expects to collect this year and allocate before the federal program expires in March 2025. Our assessment, based on historical results, also reflects our expectation that ALB's debt-to-net revenues of 6.1x will remain in the very strong range (between 5x-10x). The authority has ample liquidity with $22.3 million in unrestricted cash, equating to about 242 days' cash on hand (S&P Global Ratings-calculated) based on 2021 audited results, and no expected material draws on unrestricted cash reserves.

The authority's 2020-2024 capital improvement program (CIP) was approved in 2019 in the amount of $180 million. As of Dec. 31, 2021, the airport has outstanding contractual commitments for the completion of $6.8 million in capital improvement projects of which $2 million will be eligible for partial reimbursement from the FAA and the state. We view the authority's moderately sized CIP as manageable given that there are no additional debt needs in the near term. The airport operates under a hybrid model. Landing fees are based on a cost center residual methodology and terminal rental rates on a compensatory methodology under the Signatory Airline Use and Lease Agreement (ULA) provided for service capacity for the airport. The ULA, which expired on Dec. 31, 2020, provides for airline concessions if revenues are underperforming and extraordinary coverage protection is warranted. Due to the COVID-19 pandemic that began in March 2020, the typical five-year renewal term was modified to three one-year renewal terms (2021, 2022, and 2023), followed by one two-year (2024-2025) option.

S&P Global Ratings believes that currently, economic momentum will likely protect the U.S. economy from recession in 2022. But, with supply-chain disruptions worsening as the weight of extremely high prices damages purchasing power and aggressive Federal Reserve policy increases borrowing costs, economic effects are likely in 2023. Our U.S. GDP growth forecast is 2.4% for 2022 and 1.6% for 2023 (compared with 2.4% and 2.0%, respectively, in May 2022) and, while our baseline signals a low-growth recession, we believe the likelihood of a contraction or technical recession is rising--to 40% (35%-45% band). The wider band reflects increased uncertainty over the Russia-Ukraine conflict. Supply-chain disruptions, worsened by the Russia-Ukraine conflict and the China slowdown, remain the largest stumbling block for the U.S. economy. As inflation expectations become more entrenched, extreme price pressures will likely last well into 2023. We expect the unemployment rate, at 3.6% in May and just over its pre-pandemic level, will remain near that rate until early 2023 before rising to top 4.3% by the end of 2023 and climbing over 5.0% by the end of 2025 as the economy slows. The Fed is now likely to push rates from zero at the beginning of the year to 300 basis points by year-end and reach 3.50%-3.75% by mid-2023. It will keep monetary policy tight until inflation decelerates and nears its target in second-quarter 2024. We expect the Fed will start to cut rates in third-quarter 2024. Our lower GDP and inflation forecasts for 2023 and 2024 reflect this more aggressive policy stance. (see "Economic Outlook U.S. Q3 2022: The Summer Of Our Discontent," published June 27, 2022, on RatingsDirect).

Albany International Airport, NY -- Financial And Operating Data

	--Dec. 31--				
	2021	**2020**	**2019**	**2018**	**2017**
Financial performance					
Total operating revenue ($000)	40,775	30,819	51,843	50,829	48,027
Plus: interest income ($000)	264	310	1,403	488	11
Plus: other committed recurring revenue sources ($000)	4,010	2,673	4,131	3,203	3,978
Less: total O&M expenses excluding noncash expenses ($000)	33,767	33,191	39,536	37,350	33,395
Numerator for S&P Global Ratings' coverage calculation ($000)	11,282	611	17,841	17,170	18,621
Total debt service ($000)	8,940	12,055	11,803	11,860	12,966
Denominator for S&P Global Ratings' coverage calculation ($000)	8,940	12,055	11,803	11,860	12,966
S&P Global Ratings-calculated coverage (x)	1.26	0.05	1.51	1.45	1.44
Debt and liabilities					
Debt ($000)	74,918	83,483	96,672	94,230	79,567
EBIDA ($000)	7,008	(2,372)	12,307	13,479	14,632
S&P Global Ratings-calculated net revenue ($000)	11,282	611	17,841	17,170	18,621
Debt to net revenue (x)	6.1	124.3	5.2	5.3	4.2
Debt to EBIDA (x)	9.8	(32)	7.5	6.7	5.3
Liquidity and financial flexibility					
Unrestricted cash and investments ($000)	22,357	21,399	31,834	27,170	23,091
Unrestricted days' cash on hand	241.7	235.3	293.9	265.5	252.4

Albany International Airport, NY -- Financial And Operating Data (cont.)					
	--Dec. 31--				
	2021	2020	2019	2018	2017
Available liquidity to debt %	32.4	28.2	34.4	30	29.9
Operating metrics - airport					
Rate-setting methodology	Hybrid	Hybrid	Hybrid	Hybrid	Hybrid
Total EPAX (000)	976	520	1,519	1,467	1,417
Origin and destination EPAX %	99	99	99	99	99.2
Primary passenger airline carrier name	Southwest	Southwest	Southwest	Southwest	Southwest
Primary airline EPAX market share %, including regional affiliates	32.8	33.5	32.1	38.5	40
Passenger airline revenue ($000)	10,909	10,729	11,386	14,261	13,227
Debt per EPAX ($)	70.7	146.05	60.93	61.68	54.56
Airline cost per EPAX ($)	11.18	20.63	7.5	9.72	9.33
Annual PFC revenue ($000)	4,055	1,859	6,195	5,639	5,431
PFC rate ($)	4.5	4.5	4.5	4.5	4.5

O&M--Operations and maintenance. EBIDA = Total operating revenue - total O&M expenses excl. noncash expenses. EPAX--Enplanements. PFC--Passenger facility charge. S&P Global Ratings-calculated net revenue = (Total operating revenue + other recurring nonoperating revenue committed to debt service) - total O&M expenses excl. noncash expenses. Available liquidity = unrestricted cash and investments + total contingent liquidity resources - contingent liabilities. Examples of total contingent liquidity resources include working capital line of credit and other available cash reserves not already included in unrestricted cash and investments. See Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions criteria for more S&P Global Ratings definitions and calculations.

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 August 31, 2022)		
Albany Cnty Arpt Auth, New York		
Albany Intl Arpt, New York		
Albany Cnty Arpt Auth (Albany Intl Arpt) arpt rev rfdg bnds		
Long Term Rating	A/Stable	Upgraded
Albany Cnty Arpt Auth (Albany Intl Arpt) arpt rev rfdg bnds		
Long Term Rating	A/Stable	Upgraded

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.