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29 April 2020

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Airports – US

Airports have options to use CARES Act funds to prevent technical events of default

The recently passed Coronavirus Aid, Relief and Economic Stimulus (CARES) Act provides US airports with a significant amount of cash grants to offset lost revenue during the coronavirus-driven downturn in travel demand. Most US airports' debt documents specifically exclude grant funds from being included as revenue in the calculation of rate covenants. However, airports are finding ways to apply the grant funds to support required payments and prevent technical events of default, primarily by using the funds to offset operating expense requirements to increase net revenue or to reduce debt service requirements that must be paid by net revenue. Airports also have the ability to amend definitions to include grants from specific legislation to apply, as some did to include the federal interest subsidy for Build America Bonds issued following the 2008-09 recession. Some airports may not be able to find ways to include the grants in a timely manner to stave off a technical default.

Our definition of default does not include so-called technical defaults unless the obligor fails to cure the violation and fails to honor the resulting debt acceleration that may be required. Technical defaults are defined defaults that given lenders additional rights, but are not payment defaults. Missing the rate covenant, which is typically based on a calculation of debt service coverage ratio (DSCR), may become a technical event of default on either the first or second consecutive year of noncompliance. In most instances, raising rates in the year following the first missed rate covenant cures the default. Technical events of default pose risk to bondholders if investors elect to accelerate debt in the face of the default. However, because US airport bond investors do not have access to assets and typically only have recourse to the airport revenue stream with similar classes of investor, there is not a clear rationale for accelerating for a missed rate covenant. We do not currently expect any defaults per our definition if air travel substantially recovers in the next 24 to 36 months.

To help avoid payment default, grant funding will supplement existing liquidity to meet airports' financial obligations despite uncertainty as to the legal classification of the inflow. CARES Act funding will provide a sizable source of liquidity for most airports (see Appendix for final CARES Act grants). We estimate that each airport's announced funding will generally provide funds for six to 12 months of operating expense and debt service, though some small airports will receive amounts that achieve far greater lengths. Federal Aviation Administration guidance indicates that airports will have to submit invoices for paid operating and debt service expenses, suggesting that payments will be paid on a reimbursement basis. If funds are only given as reimbursements, most airports have adequate existing liquidity to front the payments. Generally accepted accounting principles (GAAP) accounting, which guides revenue and expense recognition for most airports, may also introduce some mismatches that could contribute to missed rate covenants.

However, grants are most commonly excluded from the definition of revenue in existing airport debt documentation like indentures, bond ordinances, etc. Some indentures allows grants to be included as revenue in the event that they are not limited in purpose, as is the case with CARES Act grants, which are available for any legal purpose. Only a few airports can include the grants as revenue under existing definitions.

Where grants are not defined as revenue, airports will use grants to pay operating expenses or debt service. Airports that apply grant funding to operating expense may be able to reduce the operating expense considered in covenants to increase net revenue. Similarly, airports can apply grant funding to pay debt service to reduce annual definitional requirements. Airports could also use funds to defease debt that would have the similar effects. All options provide additional relief to airlines by reducing the obligation that airlines will have to cover under rate-recovery frameworks. Airports with net revenue rate covenants above 1.0x may be more likely to apply funds toward debt service if the airport is looking to minimize airline charges. Exhibit 1 shows an illustrative example of how an airport with a rate covenant of 1.25x (without benefit from a rolling coverage account) could apply $50 of grant funding to offset a 50% decrease in nonairline revenue.

Exhibit 1

Applying grant funding to debt service minimizes airline costs but results in weaker net revenue coverage

Illustrative example of how an airport with a rate covenant of 1.25x could apply $50 of grant funding to offset a 50% decrease in nonairline revenue

	Pre-Outbreak	Grants not applied	Grant applied as revenue	Grant to offset opex	Grant applied to debt service
Airline Revenue	100	100	100	100	100
Non-Ariline Revenue	150	75	75	75	75
CARES Act Funding			50		
less Operating Expense	-125	-125	-125	-75	-125
Net Revenue	125	50	100	100	50
Debt Service	100	100	100	100	50
DSCR before "true up"	1.25x	0.50x	1.00x	1.00x	1.00x
Required increase in airline revenue to meet rate covenant		75	25	25	12.5
% Increase		75%	25%	25%	13%
DSCR using all inflows over all outflows		1.25x	1.25x	1.25x	1.13x
Bond ordinance DSCR		1.25x	1.25x	1.25x	1.25x

This assumes that all debt service is assigned to a cost center with airline rate recovery.
Source: Moody's Investors Service

Separately, airports seeking to provide outright relief to airlines will maintain credit quality, regardless of missing the rate covenant and a technical event of default. Airports that are connecting hubs, which typically rely on a primary airline under a long-term lease, will be more likely to provide outright relief to airlines from the grants or existing liquidity. We view reasonable relief to airlines to be an appropriate mitigation against the potential of an airline bankruptcy. Though airline use and lease agreements have been accepted in previous airline bankruptcies, any bankruptcy introduces risk that the airline could significantly reduce space. Though the costs will absorbed by other airlines, the transition period is unsettled with an increase in risk.

Appendix: CARES Act grant amounts for airport enterprises we rate

Exhibit 2

Issuer Name	Rating	CARES Act Grant ($ million)	CARES Grant as % of FY18 Operating Revenue + PFCS
A.B. Won Guam International Airport Authority, GU	Baa2 negative	20.7	27%
Alaska (State of) Airport Enterprise, AK	A1 stable	48.1	32%
Albany County Airport Authority, NY	A3 stable	15.3	30%
Albuquerque (City of) NM Airport Enterprise, NM	A1 stable	19.7	29%
Atlanta (City of) GA Airport Enterprise, GA	Aa3 stable	338.5	46%
Augusta (City of) GA Airport Enterprise, GA	Baa2 stable	19.4	115%
Austin (City of) TX Airport Enterprise	A1 stable	58.7	30%
Billings (City of) MT Airport Enterprise, MT	Baa2 stable	12.7	110%
Birmingham Airport Authority, AL	A3 stable	18.7	36%
Boise City (City of) ID Airport Enterprise, ID	A1 stable	18.9	55%
Broward (County of) FL Airport Enterprise, FL	A1 stable	135.0	38%
Burbank-Glendale-Pasadena Airport Authority, CA	A2 stable	21.1	33%
Burlington (City of) VT Airport Enterprise, VT	Baa2 stable	8.7	41%
Capital Region Airport Commission, VA	A2 stable	18.8	34%
Charleston County Airport District, SC	A1 stable	22.3	36%
Charlotte (City of) NC Airport Enterprise, NC	Aa3 stable	135.6	45%
Chicago (City of) IL Midway Airport Enterprise, IL	A3 stable	82.3	33%
Chicago (City of) IL O'Hare Airport Enterprise, IL	A2 stable	294.4	24%
Clark (County of) NV Airport Enterprise, NV	Aa3 stable	195.5	31%
Cleveland (City of) OH Airport Enterprise, OH	A3 stable	46.3	28%
Dallas (City of) TX Airport Enterprise, TX	A1 stable	53.8	35%
Dallas-Fort Worth International Airport Board, TX	A1 stable	299.2	28%
Denver (City & County of) CO Airport Enterprise, CO	A1 stable	269.1	29%
Des Moines (City of) IA Airport Enterprise, IA	A2 stable	23.1	53%
Eagle County Air Terminal Corporation, CO	Baa2 stable	3.3	30%
Fresno (City of) CA Airport Enterprise, CA	Baa1 stable	12.9	44%
Grand Junction Regional Airport Authority, CO	Baa2 stable	5.7	75%
Greater Orlando Aviation Authority, FL	Aa3 stable	170.7	27%
Greenville-Spartansburg Airport District, SC	A2 stable	25.8	62%
Hawaii (State of) Airport Enterprise, HI	A1 stable	133.3	34%
Hillsborough County Aviation Authority, FL	Aa3 stable	81.0	31%
Horry (County of) SC Airport Enterprise, SC	A2 stable	19.3	63%
Houston (City of) TX Airport Enterprise, TX	A1 stable	200.1	32%
Huntsville Madison County Airport Authority, AL	A3 stable	13.8	40%
Indianapolis Airport Authority, IN	A1 stable	52.3	29%
Kansas City (City of) MO Airport Enterprise, MO	A2 stable	43.3	29%
Kenton County Airport Board, KY	A1 stable	42.9	35%

Issuer Name	Rating	CARES Act Grant ($ million)	CARES Grant as % of FY18 Operating Revenue + PFCS
Lee (County of) FL Airport Enterprise, FL	A2 stable	36.6	32%
Long Beach (City of) CA Airport Enterprise, CA	A3 stable	18.4	33%
Los Angeles International Airport Enterprise, CA	Aa2 stable	323.6	20%
Manchester (City of) NH Airport Enterprise, NH	Baa1 negative	12.1	27%
Massachusetts Port Authority	Aa2 stable	141.3	18%
Memphis-Shelby County Airport Authority, TN	A2 stable	24.7	23%
Metropolitan Knoxville Airport Authority, TN	A3 stable	25.8	77%
Metropolitan Nashville Airport Authority, TN	A2 stable	55.0	31%
Metropolitan Washington Airports Authority, DC	Aa3 stable	229.1	27%
Miami-Dade (County of) FL Airport Enterprise, FL	A2 stable	206.9	23%
Milwaukee (County of) WI Airport Enterprise, WI	A1 stable	29.0	31%
New Orleans Aviation Board, LA	A2 stable	42.8	43%
Niagara Frontier Transportation Authority, NY	A3 stable	21.6	30%
Norfolk Airport Authority, VA	A3 stable	19.8	41%
Oklahoma City Airport Trust, OK	A1 stable	21.8	31%
Omaha Airport Authority, NE	Aa3 stable	32.8	55%
Palm Beach (County of) FL Airport Enterprise, FL	A1 stable	36.6	43%
Philadelphia (City of) PA Airport Enterprise, PA	A2 stable	116.3	24%
Phoenix (City of) AZ Airport Enterprise, AZ	A1 stable	147.9	29%
Portland (City of) ME Airport Enterprise, ME	Baa1 stable	12.2	45%
Port Authority of New York and New Jersey	Aa3 stable	443.8	15%
Port of Seattle, WA	A1 stable	192.1	30%
Raleigh-Durham Airport Authority, NC	Aa3 stable	49.6	29%
Rapid City (City of) SD Airport Enterprise, SD	Baa2 stable	9.3	108%
Rhode Island Airport Corporation, RI	Baa1 stable	21.7	29%
Richland-Lexington Airport District, SC	Baa1 stable	8.9	41%
Sacramento (County of) CA Airport Enterprise, CA	A2 stable	49.8	24%
Salt Lake City (City of) UT Airport Enterprise, UT	A2 stable	82.4	39%
San Antonio (City of) TX Airport Enterprise, TX	A1 stable	39.7	30%
San Diego County Regional Airport Authority, CA	A1 stable	91.2	29%
San Francisco Airport Commission, CA	A1 stable	254.8	22%
San Jose (City of) CA Airport Enterprise, CA	A2 stable	65.6	31%
St. Louis (City of) MO Airport Enterprise, MO	A2 stable	60.0	37%
Susquehanna Area Regional Airport Authority, PA	Baa3 stable	9.8	32%
Tulsa Airports Improvement Trust, OK	Baa1 stable	15.5	35%
Wayne County Airport Authority, MI	A1 stable	141.9	31%

Source: Moody's Investors Service from Federal Aviation Administration data

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REPORT NUMBER 1223019

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