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Ratings

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Rhode Island Commerce Corp. Rhode Island Airport Corp.; Airport

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Long Term Rating	A/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its rating on the Rhode Island Commerce Corp.'s general airport revenue bonds (GARBs) to 'A' from 'BBB+', issued for Rhode Island Airport Corp. (RIAC). The outlook is stable.

The upgrade reflects the application of our "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises" criteria published March 12, 2018, on RatingsDirect.

The rating reflects our opinion of T.F. Green Airport's (PVD) strong enterprise risk and financial risk profiles. The enterprise risk profile assessment reflects the airport's market position as a small-hub, with access to an economically diverse service area that provides PVD with a sufficient demand base; and historical declines in enplanements and competition for other nearby airports. The financial risk profile reflects our expectation that the RIAC's coverage metrics will remain strong with a moderate debt burden while the corporation maintains a strong liquidity position without any additional debt needs.

The enterprise risk profile reflects our view of the airport's:

- Adequate market position due to fluctuating traffic trends due to competition but retaining a significant origin-destination (O&D) nature with relatively good air carrier diversity, although recent strong enplanement growth of 17% in fiscal 2018 to 2.1 million;

- Extremely strong service area economic fundamentals, which include favorable economic activity as measured by GDP per capita, unemployment levels comparable with the national average, and a large service area population;
- Low industry risk relative to that of other industries and sectors; and
- Very strong management and governance, with a good track record of operating the major lines of business and managing risk, as evidenced by improving financial performance, conservative budgeting, and meeting financial targets.

The financial risk profile reflects our view of PVD's:

- Debt service coverage (DSC; S&P Global Ratings-calculated) at approximately 1.5x that we expect will remain at levels that we consider strong through the capital plan;
- Very strong debt and liabilities capacity, signified by total debt-to-net revenues of under 10x that we expect will continue; and
- Strong liquidity and financial flexibility with several years of rising liquidity levels, reaching $48.4 million in unrestricted cash and equivalents at fiscal year-end 2018, although the airport might use some cash to accelerate demand warranted project plans.

RIAC's net revenues secure the bonds. We consider bond provisions credit neutral. They include a 1.25x rate covenant (including pledged passenger facility charges and transfers as required); a projected additional bonds test based on the rate covenant; and a 25% limit on transfers to the revenue fund from the general fund. Cash-funded debt service reserve accounts that meet the lesser of 10% of par, 1.25x average annual debt service, or maximum annual debt service test also secures RIAC's debt outstanding. The corporation also maintains surety policies on various series of debt. However, it has also fully cash funded these reserves as well, except for its direct purchase debt. All debt is fixed-rate, and the airport has not entered any swap transactions.

RIAC's main facility is PVD in Warwick, eight miles south of Providence, as well as five general aviation airports. PVD has direct access to Interstate Highway 95. The airport completed its current terminal in September 1996, and expanded it to 19 jet gates and two commuter gates in 1998. It has two runways and more than 7,000 public parking spaces, including two parking garages, an hourly surface lot, and long-term parking. A third parking garage adjacent to PVD's garages contains approximately 1,500 spaces.

Outlook

The stable outlook reflects our expectation that DSC will remain strong during our two-year outlook period, despite some fluctuating traffic trends.

Upside scenario

Over the next two years, if debt capacity materially improves, we could raise the rating.

Downside scenario

Although unlikely in that time, we could lower the rating if traffic declines significantly or financial margins deteriorate.

Enterprise Risk

Our assessment of RIAC's enterprise risk profile considers PVD's service area economic fundamentals, industry risk, market position, and management and governance.

Economic fundamentals

The service area's extremely strong economic fundamentals include favorable levels of economic activity as measured by GDP per capita; relatively large population, with more than 1.6 million residents in the metropolitan statistical area (MSA), which constitutes the immediate catchment area for PVD; and a slower projected three-year population growth rate of 0.6% compared with the national average of 2.4%. Projected unemployment in the MSA (4.0% in 2018) is near the U.S. rate. We believe the favorable economic fundamentals of the airport's immediate catchment area provide for a solid O&D demand base.

Market position

We consider PVD's market position adequate, reflecting a catchment area that extends beyond Providence and includes portions of eastern Connecticut and southern Massachusetts. Boston Logan International Airport is the nearest competitor, approximately 60 miles away. PVD is a small-hub airport, with about 2.1 million enplanements in fiscal 2018, and traffic has increased dramatically,with enplanements up 17.1% compared with fiscal 2017. PVD's traffic has declined significantly since fiscal 2005, due to capacity cuts and competition from Logan, to a low of 1.8 million enplanements in 2015. Before 2016, traffic trends had fallen perennially since 2005. Fiscal years 2014 and 2015 enplanements declined 0.4% and 3.8%, respectively, to under 1.8 million mostly due to Southwest Airlines Co.'s route realignment and reduced capacity; the airline constitutes about half of the declines in fiscal 2014 and, along with United Air Lines Inc., reduced seats through fiscal 2015. New service, particularly with new carriers, has boosted enplanements year-to-date, however. Southwest continues to be the primary commercial carrier, enplaning approximately 39% of traffic in fiscal 2018. The carrier mix is moderately diverse. The top three airlines enplane about 72% of traffic in fiscal 2018, with US Airways Inc. (now American Airlines Inc.) and Delta Air Lines Inc. constituting 23% and 10% of enplanements, respectively.

PVD's cost structure is moderate in our view. Cost per enplanement (CPE) for fiscal 2018 was moderate at $9.87, down modestly from fiscal 2015's $13.36, but is competitive with that of other airports in the region. We expect the CPE to continue to decline or remain below $10.

Management and governance

The corporation's very strong management and governance assessment reflects strategic positioning; risk management and financial management; and organizational effectiveness. Management proactively adjusts rates and controls costs to achieve specific financial goals. It monitors key metrics monthly and would take corrective action if actual performance fell short of targeted levels, although actual performance has outperformed targeted levels recently from increased enplanements.

We view PVD's capital needs as moderate. RIAC's capital plan totals $264.7 million through fiscal 2022 and focuses largely on airfield and sound mitigation projects which are substantially complete. The largest element is a runway extension project, estimated at about $91 million. Management has no additional debt plans at this time, focusing on its strategy of improving its competitive position and demand driven projects.

The airport operates under a hybrid rate-setting methodology with their airline use and lease agreements. The current agreement took effect June 30, 2015 and extends through 2020. It uses a residual rate methodology for landing fees and apron rental rates where the terminal rental rate methodology is compensatory.

Financial Risk

Our assessment of PVD's financial risk profile as strong reflects its financial performance, debt and liabilities capacity, and liquidity and financial flexibility. Our financial profile risk assessment considers historical figures, which reflect the facility's past financial performance and our expectation that future performance will mirror historical results. Our financial profile assessment also considers the obligor's financial policies, which we view as credit neutral.

Financial performance

The strong financial performance assessment reflects our expectation that DSC, as per our calculations, will remain in the strong category. Airport operating revenues have increased 9.8% in fiscal 2018 to $71.8 million, and operating expenses, before depreciation, have increased 5.6% to $41.9 million, demonstrating PVD's general stability. By our calculation, DSC improved in fiscal years 2018 to levels we consider strong, at about 1.5x, and we expect it to be near over this level for the next several years. Our DSC calculation excluding grants and transfers. However, coverage calculated according to the bond indenture adds transfers and a coverage account. The cost structure remains low, providing some ability to adjust rates if needed.

Debt and liabilities

We assess RIAC's debt and liabilities capacity as very strong based on a declining debt burden and strong net revenue performance that translated to total debt-to-net revenue metrics of under 10x for the previous three fiscal years. PVD's cost structure has become more competitive in recent years when compared to peers in the region. Management expects to maintain CPE below $10. As of June 30, 2018, PVD had approximately $236 million in senior-lien airport revenue debt, or approximately $110 per enplanement. Customer facility charge revenues secure an additional $80.3 million. RIAC refunded its 2004A, 2005A, B and C series with direct purchase debt in fiscal 2015 and 2016; all debt is still fixed-rate and there are no swaps outstanding. The corporation has four series of direct-purchase debt with TD Bank N.A., Santander U.K. Plc, and Century Bank, issued pursuant to the airport's master indenture and amended through supplemental indentures. There are no contingent liquidity risks related to this debt because there are no rights of acceleration with respect to the bonds.

Liquidity and financial flexibility

We assess PVD's liquidity and financial flexibility as strong. The airport has built unrestricted cash and equivalents steadily, with increases each year since 2014 to $48.4 million at fiscal year-end 2018. Available liquidity provided approximately 422 days' cash on hand. Furthermore, as of June 30, 2018, unrestricted reserves equated to approximately 21% of total debt. Both metrics support our assessment. We believe PVD's metrics are sufficiently strong to enable it to apply some cash to funds the capital program while maintaining its financial strength.