

Rating Action: Moody's assigns A2 to City of Philadelphia, PA Airport Revenue and Refunding Bonds, Series 2021; outlook is stable

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New York, June 15, 2021 -- Moody's Investors Service has assigned an A2 rating to the City of Philadelphia (PA) \$318.3 million Airport Revenue and Refunding Bonds, Series 2021 (AMT/Private Activity). Moody's maintains A2 ratings on \$1.3 billion outstanding airport debt. The outlook is stable.

RATINGS RATIONALE

The A2 rating reflects Philadelphia International Airport's (PHL) fundamentally strong market position for travel in the Philadelphia metropolitan region as well as its maintenance of moderate coverage and leverage levels. The airport system has a reasonable degree of financial resiliency and could withstand a 15% reduction of FY 2020 operating revenue in FY 2021 before turning to the airlines for rate recovery under its residual agreement, as well as approximately a year of cash for more immediate needs.

Given the June 30 fiscal year end, the airport system's FY 2020 metrics were only impacted in its last quarter by the pandemic. At 11.8 million FY 2020 enplanements were down 26% from the prior year's 16.1 million. In response to the crisis, the system received \$116.4 million in CARES funds, \$28.9 million in CRRSA funds and expects \$115.3 million of ARPA funds while taking steps to reduce operating expenses. FY 2020 debt service coverage on a Moody's net revenue basis was 1.03x after the benefit of federal grants while leverage as measured by adjusted debt to O&D enplanements increased to a still manageable \$254.21. Liquidity remained in the range of a year's cash on hand, which we view reasonable as residual agreements do not allow for the accumulation of large cash balances.

As of March 2021, monthly enplanements at PHL were 55% down from 2019. Management's baseline recovery scenarios track with Moody's International Gateway Faster Recovery, with a return to 2019 enplanements in FY 2025 driven by domestic travel. The system has approximately \$144 million of available federal grant funding remaining, which is expected to cushion metrics over the next three to four years. Capital improvement needs are modest, and the approximate \$466.4 million of debt expected through FY 2026 would not have a material impact on total leverage levels given the front-loaded debt service profile.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

RATING OUTLOOK

The stable outlook is predicated on our view that enplanements will recover at a rate similar to other US international hubs, with coverage, leverage and costs per enplanement returning to pre-pandemic levels.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- A significant positive change in market position and/or traffic and revenue growth well above the current projection
- Liquidity improving to more than 600 days cash on hand on a sustained basis

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- 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

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 net 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.

USE OF PROCEEDS

The 2021 Bonds will be used to (i) fund certain capital improvements at PHL, (ii) refund all or a portion of the Series 2011A and Series 2011B Bonds, and (iii) fund required reserves, capitalized interest and costs of issuance for the 2021 Bonds.

PROFILE

The Philadelphia Airport System is owned by the City of Philadelphia and operated by the city's Division 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.

METHODOLOGY

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published in March 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1140469. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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