

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades Philadelphia (City of) PA Airport Enterprise's revenue bonds to A1; outlook is stable

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New York, October 28, 2024 -- Moody's Ratings (Moody's) has upgraded the Philadelphia (City of) PA Airport Enterprise's (Philadelphia International Airport) rated revenue bonds to A1 from A2. The outlook is stable. The airport enterprise has approximately \$1.4 billion outstanding in revenue bonds.

RATINGS RATIONALE

The upgrade to A1 reflects the improved financial position resulting from the airport's acquisition of its parking assets from the City of Philadelphia (A1 stable) 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. (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.

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.

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 OF THE RATINGS

- 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 OF THE RATINGS

- Longer-term negative shift in enplanements reflecting a changed market position
- Unexpected, unrecovered expenses that decrease liquidity on a sustained basis
- Capital plan results in substantial increases in debt above currently projected levels in the medium term and above similarly rated peers in the long 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 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.

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.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Airports and Related Issuers published in February 2023 and available at <https://ratings.moodys.com/rmc-documents/398689>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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