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Ratings

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Port of Portland, Oregon
Portland International Airport; Airport

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Port of Portland, Oregon
Portland International Airport; Airport

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US$44.82 mil rfdg rev bnds (amt) (Portland Intl Arpt) ser 26C due 07/01/2028		
Long Term Rating	AA-/Stable	New
US$14.025 mil rfdg rev bnds (non amt priv activity) (Portland Intl Arpt) ser 26B due 07/01/2040		
Long Term Rating	AA-/Stable	New
US$11.495 mil rfdg rev bnds (non amt govt purp) (Portland Intl Arpt) ser 26A due 07/01/2040		
Long Term Rating	AA-/Stable	New
Port of Portland, Oregon		
Portland Intl Arpt, Oregon		
Port of Portland (Portland Intl Arpt)		
Long Term Rating	AA-/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to the Port of Portland, Ore.'s pro forma $11.495 million series 26A (non-alternative minimum tax governmental purpose), $14.025 million series 26B (non-alternative minimum tax private activity), and $44.82 million series 26C (alternative minimum tax) refunding revenue bonds (GARBs), issued for the Portland International Airport (PDX). At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on the approximately $798 million of GARBs outstanding that are on par with the proposed GARBs. The outlook is stable.

Securing the GARBS is a senior lien on the net revenues of the airport only; there is no pledge of additional port revenues. Subject to market conditions, the port expects to apply the proceeds of the proposed series 26ABC refunding bonds, together with trustee-held funds, to refund all or a portion of the series 20ABC bonds outstanding.

The port has approximately $878 million of debt outstanding, consisting of $798 million of GARBs and about $80 million of pension bonds and contract loans. Other debt that we assess separately from the port's GARB credit are the stand-alone passenger facility charge (PFC) debt that totals approximately $112 million and the $163 million of series 2019 PDX customer facility charge (CFC) revenue bonds.

Credit overview

The rating affirmation reflects our expectation that PDX will experience a period of softening demand due to the COVID-19 outbreak and management will implement measures to reduce expenses, defer capital spending, and increase rates, if necessary, to maintain steady financial metrics if activity levels fall materially. For additional information, please see "COVID-19's Potential Effects In U.S. Public Finance Vary By Sector," published March 5, 2020, on RatingsDirect).

The rating reflects our opinion of the port's very strong enterprise risk profile and strong financial risk profile. These assessments reflect our opinion of operations at PDX, which dominates the port's finances. The rating on the port also reflects a positive holistic analysis adjustment we apply to accurately reflect the overall creditworthiness of PDX, a large-hub airport with almost 10 million enplanements (of which 96% are domestic) that is the dominant provider of commercial air service within the state of Oregon. The airport's role and a very experienced and effective management team, in our view, should provide the port with the financial capacity to maintain steady financial results, despite a softening in demand or significant additional debt needed to fund a large $2.1 billion capital improvement plan (CIP).

The port has successfully managed through past shocks, such as from 2000-2002 when PDX experienced a 12.3% drop in enplanements (returning to near 2000 levels by 2005), and from 2008-2010 when the airport experienced a 13.1% drop in enplanements (returning to near 2007 levels by 2013). In these two cases, the largest one-year decline was 10.8% in fiscal 2002 and 10.7% in fiscal 2009. The first shock was due primarily to the terrorist attacks on Sept. 11, 2001 and a nationwide economic slowdown; the second shock was attributed to oil prices escalating to a high of $147 per barrel in July 2008, which prompted airlines to raise prices and reduce capacity system-wide, combined with a national economic recession that began in December 2007.

Key credit strengths are:

- PDX serving a relatively large and growing origin-destination (O&D) passenger base supported by the expanding Portland metropolitan area and limited competition from other airports;
- Debt service coverage (DSC), per our calculations, that we expect will remain at levels we consider strong, although lower than recent levels;
- A very experienced and effective management team that we believe employs prudent financial policies and procedures to mitigate the port's financial and operational risks; and
- A very strong liquidity position that will mitigate potential short-term shocks.

Key credit weaknesses are:

- The port issuing significant additional GARBs to fund $1.2 billion of CIP project costs, which could pressure DSC levels and temporarily weaken its debt capacity; and
- A rising airline cost structure from the port debt financing its large CIP.

The stable outlook reflects our expectation that the port's liquidity position will stay near current levels and that the port will maintain DSC (S&P Global Ratings-calculated) at levels we consider strong, despite PDX experiencing a period of softening demand due to the COVID-19 outbreak or rising debt levels from the port issuing additional debt to fund its CIP.

Stable Two-Year Outlook

Downside scenario

We could lower the rating in the next two years if PDX enplanement levels materially decline and we believe a quick recovery is unlikely; or the port's DSC, as per our calculations, or debt capacity weaken materially more than we expect.

Upside scenario

We do not expect to raise the rating in the next two years, given the port's significant debt needs and uncertainty caused by the COVID-19 outbreak.

Credit Opinion

Enterprise Risk Profile

Our assessment of the port's enterprise risk profile as very strong considers the facility's service area economic fundamentals, market position, and management and governance. Our assessment also considered industry risk, which we view as low relative to that of other industries and sectors.

Economic fundamentals

We consider the port's service area economic fundamentals extremely strong. Our assessment of the Portland-Vancouver-Hillsboro metropolitan area considers the Portland metro area's very favorable economic activity as measured by GDP per capita of $73,364 (which is higher than the national average), unemployment rates comparable with the national average, an estimated population of about 2.5 million, and above-average expected population growth over the next three years. Portland is the largest city in Oregon and the second largest in the Pacific Northwest after Seattle. The area has a broad and diverse economy with leading sectors that include technology, transportation, manufacturing, tourism, higher education, and health care.

Market position

We view PDX's market position as very strong, reflecting its generally favorable enplanement trends due to serving the expanding Portland metropolitan area and limited competition. PDX has a relatively large O&D enplanement base, totaling 8.5 million in fiscal 2019, or 85% of almost 10 million total enplanements. Enplanements rose strongly from fiscal years 2014-2018, at a compound annual growth rate of 5.8%. Fiscal 2019 total enplanements increased 2.4% to 9.97 million. The port is forecasting fiscal 2020 enplanements will increase 1% to about 10.1 million. For the six months ended Dec. 31, 2019, however, enplanements declined slightly (0.4%) year over year. The decline is attributed to the grounding of the Boeing 737 MAX aircraft, which is used by Southwest Airlines, United Airlines, American Airlines, and Air Canada. Southwest Airlines, however, was the only airline at PDX with scheduled service using the 737 MAX aircraft. PDX has a diverse air carrier mix, in our opinion. Alaska Air Group accounting for about 43% of total enplanements in fiscal 2019, is the leading carrier by passenger volume, followed by Southwest (17.5%), Delta (14.1%), United (10.8%), and American Airlines (6.7%). Air Canada only accounted for 1.1% of PDX total enplanements in fiscal 2019. The airport's cost per enplanement (CPE) is projected to increase to $16.14 by fiscal 2024 after the port issues additional GARBs to fund the $1.2 billion of CIP project costs. In fiscal 2019, CPE was a moderate $9.13.

The port operates maritime, aviation, and industrial properties. PDX is on 3,200 acres on the southern edge of the Columbia River, 12 miles northeast of downtown Portland. The Federal Aviation Administration (FAA) considers PDX a large-hub airport. It ranks as the 30th busiest airport in the U.S., based on 2018 enplaned passenger data from the FAA. Seattle-Tacoma International Airport is the closest major airport facility (160 miles to the north) and does not, in our opinion, provide a viable alternative. The only other commercial service airports in the state are smaller airports that are at least 100 miles from Portland. PDX has three runways. The passenger terminal includes four attached concourses. Port-owned parking facilities provide approximately 17,000 public and employee parking spaces across a seven-story, short-term public parking garage; a seven-story long-term parking garage; an economy surface parking lot; and two employee surface parking lots, one of which is being repurposed for construction use through fiscal 2025.

Management and governance

We view the port's management and governance as extremely strong, reflecting our assessment of its strategic positioning; risk management and financial management; and organizational effectiveness. We also consider the port's governance structure credit neutral.

The port's strategic plan, most recently updated in 2018, includes several key initiatives, including customer service improvements at PDX, revitalizing the port's marine business, and developing adaptable solutions for shippers. We expect the port will modify the plan as necessary until the next scheduled update in 2023.

The port has formal financial targets, which include maintaining minimum GARB DSC of 1.7x, stand-alone PFC DSC of 2x, and airport revenue fund balance of 300 days' cash on hand, which it has met or exceeded consistently. Management annually updates the port's long-term operating forecast alongside the capital plan, using forecasts to develop financial and operating targets for airline CPE, landing fees, terminal rents, income projections, and capital funding plans. The port uses key management targets and metrics from its annual budget and long-range planning forecasts to measure actual performance. Senior leaders and the executive management team review and discuss monthly results and evaluate quarterly year-end projections. If actual results are trending unfavorably relative to budget, senior management will discuss what it can defer or what opportunities are available to generate additional revenue.

The port has adopted policies for debt, swaps, and seismic resiliency. Internal control policies relate to execution of contracts and expenditure approval; investments; employee ethics; and providing an anonymous employee hotline to report any wrongdoing. The risk management program includes insurance to protect the port against a variety of risks such as cybersecurity breaches, property damage, floods, earthquakes, terrorism events, casualty and liability, personnel, and financial losses.

Signatory airline agreements are in place, as are many agreements with airport concessionaires. The PDX airline agreement extends through 2030, and has a hybrid rate-making model, with residual rate-making for the airline cost center covering operations and maintenance expense plus 1.3x annual funded DSC. The agreement has a majority-in-interest disapproval process for airline cost center projects exceeding $1 million in project cost, and includes a provision for revenue-sharing of nonairline revenues of up to $6 million per year (plus additional revenue sharing if the airport DSC exceeds 1.75x).

The management team takes a comprehensive approach when evaluating its capital needs. This includes long-term planning to ensure the facilities can handle future activity levels, mitigate some risks (like seismic events), and target service levels; and using an asset management program. To help management with its decision-making process, the port's asset management program provides an analysis of alternatives to replacing an asset and the consequences if management postpones a project. The port reviews the first five years of the CIP frequently for changes in business priorities, asset conditions, regulatory requirements, funding opportunities, and other conditions. Management monitors and reviews annually the CIP's out-years in the context of meeting operational capabilities, supporting port financial targets, and deciding on a programmatic approach to assets.

We consider the port's management team very experienced and effective in running all aspects of a large-hub airport. There are no plans for changes to senior management, except for a decision on a new CFO that we expect later this year.

Financial Risk Profile

Our financial risk profile assessment of strong considers the port's overall historical results and financial projections, which PDX dominates. The port's marine and general aviation business segments operate near break-even, with PDX revenues sometimes used to pay operating or capital expenses of the general aviation airports. We evaluate the port's historical and pro forma figures in assessing its financial performance, debt and liabilities capacity, and liquidity and financial flexibility. Our financial profile assessment also considers the port's financial policies, which we view as credit neutral.

We base our DSC and debt-to-net-revenues calculations on revenues and expenses of PDX and the port's marine and general aviation business segments; property tax revenues that cover the pension bond debt service not covered by the airport; and debt service for PDX's GARBS and the port's pension bonds. The numbers we use in our debt-to-net-revenues calculations include the port's existing GARBs, the proposed GARBs, other GARBs needed to fund the CIP, and the port's pension bonds outstanding. Our coverage and debt-to-net-revenues calculations, however, do not include PFC and CFC revenues, which are restricted for paying debt service on the port's stand-alone PFC bonds and CFC-backed series 2019 CFC revenue bonds. Consequently, the numbers we use in our assessment exclude the port's PFC stand-alone and CFC-backed debt.

Financial performance

We consider the port's financial performance strong, as evidenced by coverage, as per our calculations, that we expect will be maintained at levels we consider strong, at 1.6x-1.8x from fiscal years 2020-2024 as it experiences a period of softening demand due to the effects of the COVID-19 outbreak and issues additional debt to fund its large $2.1 billion CIP. The indenture GARB DSC, which is based only on PDX revenues and expenses, ranges from about 1.7x-2x from fiscal years 2020-2024. PDX's airline CPE is projected to increase to a high of $16.14 by fiscal 2024 from $9.13 for fiscal 2019.

Debt and liabilities

We view the port's debt and liabilities capacity as very strong. Our assessment considers the port's issuing additional GARBs to fund $1.2 billion of project costs for the $2.1 billion 2020-2024 CIP, which will weaken its debt capacity, but still remain at levels we consider very strong (with debt to net revenues below 10x).

Major projects in the CIP include a $1.65 billion terminal core redevelopment project and a $219 million terminal balancing project. These projects are intended to make the airport run more efficiently and make it more resilient to seismic events. Also included in the CIP is a $282 million six-level parking and rental car facility, funded with proceeds from GARBs, CFC bonds, and cash.

The port has approximately $878 million of debt outstanding, consisting of $798 million of GARBs and about $80 million of pension bonds and contract loans. This figure increases to about $1.7 billion after the port issues additional GARBs needed to fund CIP project costs. Other debt that we assess separately from the port's GARB credit are the stand-alone PFC debt that totals approximately $112 million and the $163 million of series 2019 PDX CFC bonds.

Liquidity and financial flexibility

We assessed the port's overall liquidity and financial flexibility as very strong, which reflects our expectation that liquidity will remain at levels that will provide 600-800 days' cash on hand and unrestricted reserves to debt will stay within 20%-50% of debt. As of June 30, 2019, the port's unrestricted cash and investments totaled approximately $406 million (680 days' cash on hand). Our assessment does not include the port's stand-alone PFC debt, the 2019 CFC bonds, or the liquidity available for that debt.

Our assessment also includes the application of our criteria, "Contingent Liquidity Risks in U.S. Public Finance Instruments," published March 5, 2012. We include an evaluation of contingent liquidity risk because the port has direct-purchase obligations and interest rate swaps, in our view, that do not carry contingent liquidity risk. We also apply these criteria in evaluating the reimbursement agreement associated with the port's $300 million 2019 commercial paper (CP) program. The port will reimburse Bank of America, the provider of an irrevocable direct pay letter of credit (LOC) backstopping the port's CP program, with the bank note. If the CP cannot be remarketed as it matures, the liquidity support provided by the LOC will constitute an advance to the port under the bank note. The port must then reimburse the bank over five years for any advances made on the port's behalf, in the form of draws on the LOC. Our analysis identified immediate acceleration as a remedy available to the bank if any event of default is triggered under the reimbursement agreement. While immediate acceleration of advances under the LOC could stress the port's liquidity position, we view as remote the likelihood of the events of default occurring while significant draws are outstanding. There is approximately $34 million of CP outstanding.