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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

Credit Profile		
US$212.95 mil arpt rev bnds (Portland Intl Arpt) ser 25B due 07/01/2049		
Long Term Rating	AA-/Stable	New
US$24.92 mil arpt rev bnds (Portland Intl Arpt) ser 25A due 07/01/2049		
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

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the Port of Portland, Ore.'s pro forma $24.92 million series 25A (non-alternative minimum tax) and $212.95 million series 25B airport revenue bonds (GARBs), issued for the Portland International Airport (PDX). At the same time, S&P Global Ratings affirmed its 'A+' long-term rating on the port's 2017 bank note, and its 'AA-' issuer credit rating (ICR) and long-term rating on the approximately $616 million of GARBs outstanding that are on par with the proposed GARBs. The outlook is stable.

We assess the ratings using our "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises" criteria.

The ratings 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 ratings on the port also reflects a positive holistic analysis adjustment we apply to accurately reflect the overall creditworthiness of PDX, a large-hub airport that has nearly 10 million enplanements and 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 significant additional debt needed to fund a large $2.1 billion capital improvement program (CIP).

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

- Very strong market position, reflecting PDX's favorable enplanement trends that we expect to continue from 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. A rising airline cost structure from debt financing a large CIP tempers the assessment;
- Extremely strong service area economic fundamentals, which include favorable economic activity as measured by GDP per capita, a population of approximately 2.4 million in the Portland-Vancouver-Hillsboro metropolitan statistical area (MSA), above-average expected population growth, and unemployment rates lower than the national average;

- Low industry risk relative to that of other industries and sectors; and
- Extremely strong management and governance, reflecting 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.

The financial risk profile reflects our view of the port's:

- Strong financial performance, reflecting our expectation that management will maintain debt service coverage (DSC), as per our calculations, at levels we consider strong, although lower than recent levels, due to significant additional debt needs;
- Very strong debt and liabilities capacity, which reflects our expectation that the port's debt capacity will weaken temporarily because of management enhancing revenues to meet rising debt service requirements from the port issuing additional GARBs to fund $867 million of CIP project costs; and
- Very strong and liquidity and financial flexibility, reflecting our expectation that the port's available liquidity will range from about 600-800 days' cash on hand and 20%-50% of debt outstanding, taking into account the funding of its large CIP.

Securing the GARBS is a senior lien on the net revenues of the airport only, and there is no pledge of additional port revenues. Bond proceeds will fund capital improvements at PDX and repay some commercial paper (CP) notes issued to finance a portion of the projects the GARBs will now fund. The projects, which are part of the CIP, include those in the terminal, on the airfield, and in the ground transportation areas at the airport. These projects are intended to make the airport run more efficiently and make it more resilient to seismic events. At the same time the port will issue the series 25 bonds, it will issue series 2019 PDX customer facility charge revenue (CFC) bonds. The series 25 GARBs and series 2019 CFC bonds will fund a new six-level parking and rental car facility. For more information on the 2019 CFC bonds, see the report published March 20, 2019, on RatingsDirect.

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 the 30th busiest airport in the U.S., based on 2017 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 five 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.

Outlook

The stable outlook reflects our expectation that demand for PDX will remain generally stable or positive, management will adjust rates and charges to maintain strong DSC (S&P Global Ratings-calculated) despite rising debt levels from debt issues planned to fund the CIP, and the port's liquidity position will stay near current levels.

Upside scenario

We do not expect to raise the ratings in the next two years, given the port's significant debt needs.

Downside scenario

We could lower the ratings in the next two years if the port's DSC, as per our calculations, or debt capacity weaken materially more than we expect.

Enterprise Risk

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

Economic fundamentals

The service area economic fundamentals reflects our assessment of the Portland-Vancouver-Hillsboro metropolitan area. The Portland metro area has very favorable economic activity as measured by GDP per capita of $64,892 (which is higher than the national average), unemployment rates below or comparable with the national average, a population of about 2.4 million, and above-average expected population growth over the next three years. Portland is the largest city in Oregon and 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

Our market position assessment considers PDX's general favorable enplanement trends due to airport serving the expanding Portland metropolitan area and limited competition. PDX has a relatively large O&D enplanement base, totaling 8.4 million in fiscal 2018 or 85% of 9.7 million total enplanements. Enplanements rose strongly from fiscal years 2014-2018, at a compound annual growth rate (CAGR) of 5.8%. Fiscal 2018 total enplanements increased 3.3% to 9.7 million. Enplanements for fiscal 2019 is projected to increase 2.4% to nearly 10 million. PDX has diverse air carrier mix with Alaska Air Group, accounting for 43.1% of total enplanements in fiscal 2018, the leading carrier by passenger volume. The airport's cost per enplanement (CPE) is projected to increase to $18.53 by fiscal 2024 following the port issuing $867 million of additional GARBs to fund its $2.1 billion CIP. In fiscal 2018, CPE was a moderate $9.82.

Management and governance

The managerial and governance assessment reflects the port's 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 to modify the plan as necessary until the next scheduled update in 2023.

The port has formal financial targets, which include maintaining minimum GARB debt service coverage (DSC) of 1.7x, stand-alone passenger facility charge (PFC) DSC 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 forecast to develop financial and operating targets for airline cost per enplanement, 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 port's risk-management program includes insurance to protect the port against a variety or 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 2025, and has a hybrid rate-making model, with residual rate-making for the airline cost center covering operations and maintenance (O&M) 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 to 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 and 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

Our financial risk profile assessment considers the port's overall historical results and financial projections, for 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 port's 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 consider the financial projections that were prepared in connection with the bond issue reasonable. The forecast assumes total enplanements will increase 2.3%, on average from fiscal years 2019-2024, which is lower than the 2.7% CAGR the airport had from 2008-2018, during which enplanements grew to 9.3 million in fiscal 2018 from 7.4 million in fiscal 2008. This includes a 10.7% drop and 2.7% drop in fiscal years 2009 and 2010. The forecast also projects PDX's airline cost per enplanement increasing to nearly $19 in fiscal 2024 from a moderate $9.82 in fiscal 2018.

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 the PDX's GARBS and third-lien bank note, 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 CIP, the port's pension bonds outstanding, and any PDX CP notes or bank notes outstanding. Our coverage and debt to net revenues calculations, however, do not include PFC and customer facility charge (CFC) revenues, which are restricted for paying debt service on port's stand-alone PFC bonds and CFC-backed series 2019 CFC revenue bonds. Consequently, the numbers we use in our assessments exclude the port's PFC stand-alone and CFC-backed debt.

Financial performance

Our financial performance assessment reflects we expect coverage, as per our calculations, to be maintained at a level we consider strong, at 1.6x-1.8x from fiscal years 2020-2024 as it 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 to 2x from fiscals 2020-2024. PDX's airline cost per enplanement is projected to increase to a high of $18.53 by fiscal 2024 from $9.82 for fiscal 2018.

Debt and liabilities

The debt and liabilities capacity assessment considers the port's $867 million of additional GARBs needed to fund its $2.1 billion CIP, which will weaken the port's debt capacity to a level we consider strong at about 13x in fiscal years 2019 and 2020, before improving to levels we consider very strong (below 10x).

After this proposed issuance, the port will have approximately $939 million of debt outstanding, consisting of $854 million of GARBs and about $85 million of pension bonds and contract loans. This figures increases to about $1.7 billion after the port issues additional GARBs to fund $867 million of CIP project costs. Other debt that we assess separately from the port's GARB credit are the stand-alone PFC debt that totals approximately $120 million; and the $169 million of series 2019 PDX CFC bonds that will be issued at the same time as this issue.

Liquidity and financial flexibility

The liquidity and financial flexibility assessment reflects our expectation that the port's overall liquidity will remain at a level we consider very strong with cash on hand at 600-800 days' worth and unrestricted reserves to debt staying within 20%-50% of debt. Our assessment does not include port's stand-alone PFC debt, the 2019 CFC bonds, or the liquidity available for that debt.

Our assessment also includes 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, do not carry contingent liquidity risk. We also apply these criteria in evaluating the reimbursement agreement associated with the port's 2017 bank note and the CP program. The port will reimburse Barclays Bank PLC, 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.

Ratings Detail (As Of March 20, 2019)		
Portland Intl Arpt ICR		
Long Term Rating	AA-/Stable	Affirmed
Port of Portland, Oregon		
Portland Intl Arpt, Oregon		
Port of Portland (Portland Intl Arpt) bank note		
Long Term Rating	A+/Stable	Affirmed