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Port of Portland, Oregon Consolidated Rental Car Facility (Portland International Airport); Non-Recourse Proj, Single or Multi Tenants, Entert

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Credit Profile

US\$169.37 mil customer fac chg rev bnds (Consolidated Rental Car Facility (Portland Intl Arpt)) ser 2019 due 07/01/2049

Long Term Rating

A-/Stable

New

Rationale

S&P Global Ratings assigned its 'A-' long-term rating to the Port of Portland, Ore.'s (the port) proposed \$169.4 million series 2019 Portland International Airport (PDX or the airport) customer facility charge (CFC) revenue bonds issued to pay or reimburse the port for the design, construction, equipping, and installation of the consolidated rental car facility project (CONRAC or the facility) at PDX. The outlook is stable.

We assess the bonds using our "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises" (TIE) criteria, published March 12, 2018.

The rating reflects our opinion of the facility's strong enterprise risk and financial risk profiles, tempered by the port's limited history of collecting CFC revenues at PDX and because the CONRAC is at the beginning of the construction phase.

Our enterprise risk profile assessment reflects PDX's recent history of generally stable demand for rental cars. We expect rental car demand at PDX to be near levels reported for fiscal years 2016-2018 and estimated for fiscal 2019 during the construction phase of the new parking addition and consolidated rental car facility (PACR) project. Although PDX is experiencing favorable enplanement trends from serving an expanding metropolitan area, we believe demand for rental cars could be constrained due to competition from transportation network companies (TNCs) and other alternatives, and the cyclical nature of rental car demand, which is influenced by changes in business travel and tourism. Our financial risk profile assessment reflects our expectation that debt service coverage (DSC) based on CFC revenues will be maintained at a level we consider strong, tempered by the narrow revenue pledge. Our assessment also reflects our expectation that available liquidity will be adequate and the CONRAC's debt capacity will be very strong, assuming CFC revenues are near current levels and no additional debt is needed to fund the construction.

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

- Strong market position, reflective of relatively stable rental car demand at a large-hub airport with favorable enplanement trends from serving an expanding metropolitan area, tempered somewhat by competition from TNCs and the cyclical nature of rental car demand, which is influenced by changes in business travel and tourism;
- Extremely strong service area economic fundamentals, which include favorable levels of economic activity as

measured by GDP per capita, a population of approximately 2.4 million in the Portland-Vancouver-Hillsboro metropolitan statistical area, above-average population growth, and unemployment rates at or below the national average;

- Low industry risk relative to that of other industries and sectors; and
- Very strong management and governance, highlighted by management's conservative approach to financial and capital planning to mitigate risk, along with its historical success managing construction risk by completing most projects on time and within budget.

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

- Adequate financial performance, supported by DSC (S&P Global Ratings-calculated) that we expect will remain above 1.4x, tempered by the narrow revenue pledge;
- Very strong debt and liabilities capacity, with debt to CFC revenues that we expect will trend below 10x as the debt amortizes with no additional CFC debt planned; and
- Adequate liquidity and financial flexibility, reflecting our expectation of available liquidity to debt at or above 11%.

The proposed \$169.4 million aggregate CFC revenues bonds will fund a portion of the design, construction, equipping, and installation of the CONRAC at PDX; fund a debt service reserve fund for the bonds; pay principal and interest issued for the CONRAC under the port's existing commercial paper program; and fund related costs associated with the issuance.

CFC revenues, interest income, and contingent fee payments remaining after use for any purposes under the general airport revenue bond (GARB) ordinances, if warranted, net of CFC administrative costs secure the bonds. Rental car companies will make contingent fee payments if actual or projected CFC revenues are insufficient to meet DSC. Other than contingent fee payments remaining after use for any purposes under the GARB ordinances, general airport revenue is not pledged to the CFC revenue bonds. Bondholders benefit from the following: a rate covenant where net revenues equal at least 1.50x DSC on senior bonds (with 0.25x rolling coverage included) and 1.00x DSC on senior and subordinate bonds, a fully funded debt service reserve fund, and an additional bonds test that requires DSC of 1.25x and 1.0x for the senior lien and subordinate lien, respectively, on existing and projected bonds. We consider bond provisions to be credit neutral.

The proposed CONRAC will consolidate all rental car activities into one on-airport site within walking distance of the terminal with no shuttle service required. The CONRAC is a component of the port's PACR project and will be financed by the CFC bonds, whereas general airport revenue bonds, to be issued concurrently with the CFC bonds, will fund the new public parking addition.

The PACR facility will be a six-level structure. The CONRAC component will consist of the first three levels of the PACR facility, with approximately 724,000 square feet of space for on-airport rental car activities and approximately 2,070 parking spaces for rental cars, as well as a new 30,000-square-foot rental car customer service lobby on a single level of a rental car center next to the PACR facility. The public parking component of PACR is expected to occupy levels four through six of the facility and add approximately 2,450 public parking spaces. The rental car center will be a four-level structure and the upper three levels of the rental car center are not part of the PACR; any construction work

on the upper three levels of the rental car center will not be funded by proceeds of the CFC bonds, but instead by the Port's anticipated general airport revenue bonds to be issued separately from the CFC bonds.

Effective November 2018, the guaranteed maximum price (GMP) for all PACR design and construction was established as \$243.4 million. The port estimates the total cost of the PACR to be approximately \$282.2 million, with the CONRAC costing approximately \$156.6 million, and the public parking addition costing approximately \$125.6 million. The PACR's general contractor provided payment and performance bonds and will be assessed liquidated damages if the scope under the design-build agreement does not meet interim and final completion dates. Design work is 90% complete, and the design and permitting work is expected to be completed by July 2019. The expected completion date is November 2021.

Outlook

The stable outlook reflects our expectation that demand for rental cars at PDX will be relatively stable, supporting DSC (S&P Global Ratings-calculated) above 1.25x, and the project will not experience significant cost overruns.

Upside scenario

Since the CONRAC is not expected to be completed until November 2021, we do not expect to raise the rating in the next two years.

Downside scenario

We could lower the rating if DSC, as per our calculations, falls substantially or rental car demand at PDX materially declines, suggesting a weaker market position.

Enterprise Risk

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

Economic fundamentals

The assessment of the project's service area economic fundamentals reflects our assessment of the Portland-Vancouver-Hillsboro metro area. The area has very favorable economic levels as measured by GDP per capita of \$64,892 (higher than the national average), unemployment rates comparable with the national average, an estimated 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 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

Our market position assessment considers PDX's relatively stable demand for rental cars due to Portland's healthy and diverse economy and favorable visitor trends, offset somewhat by competition from TNCs, other alternatives, and the cyclical nature of rental car demand. The airport's relatively large origin and destination (O&D) enplanement base of

8.4 million in fiscal 2018 (85% of 9.7 million total enplanements) supports rental car demand at PDX, providing about 4.5 million visiting O&D deplanements (or 55% of the 8.2 million O&D deplaned passengers in fiscal 2018). We expect the airport's O&D enplanement base will contribute to generally stable demand for rental cars in the future.

The proposed CONRAC will be within walking distance of the airport's passenger terminal with no shuttling required due to its proximity. Although all on-airport and off-airport rental car companies will use the CONRAC, we believe emerging competition from TNCs could constrain demand for rental cars at PDX and possibly constrain CFC rate increases.

Rental car activity, as measured by transaction days, has been relatively flat since fiscal 2016, despite previous historical growth. Fiscal 2018 had 3.7 million rental car transaction days with an average rental length of approximately 4.1 days. Management began collecting a CFC rate in January 2014. In fiscal 2018, CFC revenues totaled \$15.6 million, down 3.1% from \$16.3 million in fiscal 2017, but still well above \$14.2 million in fiscal 2015, which was the first full year of CFC collections. A baseline forecast done in connection with this bond issue assumes total rental car transaction days within the four-day cap increasing 2.3% annually from fiscal 2020--2024. Given the airport's relatively flat rental car demand, we consider the forecast moderately aggressive.. Currently, three rental car companies and eight brands operate at the airport, with relatively balanced market shares. All current brands plus Payless, Sixt, Enterprise CarShare, and ZipCar will operate from the new CONRAC.

We view the CFC rate as moderate, providing the CONRAC with adequate pricing power. The executive director of the port has the sole ability to adjust the CFC rate if needed. The current CFC rate, set in January 2014, is \$6.00.

Management and governance

The managerial and governance assessment reflects the CONRAC's strategic positioning; risk management and financial management; and organizational effectiveness. We expect management will continue to act prudently in the collection of CFC revenues at PDX, with anticipated indenture DSC (which includes a CFC coverage fund as part of CFC revenues) above the 1.5x requirement. Since CFC revenues will not be used to pay for the operating and maintenance expenses of the CONRAC, we also are expecting a considerable buildup of available liquidity, which could be used to pay debt service to avoid the need to raise the CFC or collect contingent fee payments from the rental car companies. The debt profile is limited to fixed-rate bonds, with no exposure to variable-rate debt.

All rental car agencies operating at the airport signed amended concession agreements for an initial 20-year term from 180 days following operations of the facility, and this can be extended for an additional 10-year period. The agreement requires the companies to collect the CFCs, then remit them in full to the airport.

The port's management team has established a track record of operating a large-hub airport, while achieving strong financial results. Despite construction risk, management has historically outperformed initial cost estimates, with 87% of completed capital projects totaling \$1.16 billion below the original budget over the past 10 years. We consider the executed GMP for the CONRAC prudent, limiting the project cost increases to scope changes, if any.

Financial Risk

Our assessment of the CONRAC's financial risk profile reflects the facility's financial performance, debt and liabilities capacity, and liquidity and financial flexibility. In addition to the CONRAC's historical performance, our financial profile risk assessment considered pro forma figures inclusive of the proposed bond issuance assuming no CFC revenue growth, a November 2021 project completion date, no CFC rate adjustments, and no additional CFC-backed debt. Our financial profile assessment also considers the CONRAC's financial policies, which we consider credit neutral.

Financial performance

Our financial performance assessment reflects our expectation that DSC (S&P Global Ratings-calculated; excludes rolling coverage fund) will remain above 1.4x because of favorable activity trends, level annual debt service requirements, and no additional debt plans. Our assessment, however, is tempered by the narrow pledged revenue stream. The level debt service structure results in payments of approximately \$10.9 million annually from 2020-2049, with a smaller interest-only payment in 2019. We forecast DSC (S&P Global Ratings-calculated and indenture DSC) of 1.44x in fiscal 2020 assuming no revenue growth from fiscal 2018. We believe stable demand and adequate rate-setting flexibility will enable the facility to continue producing strong DSC. The facility's narrow revenue stream limits our assessment of financial performance, with only CFC revenues expected to secure the bonds.

Debt and liabilities

We assess the facility's debt and liabilities capacity based on our expectation that debt to CFC revenues will trend below 10x with no additional CFC-backed bonds planned and the amortization of the series 2019 beginning in 2020. The facility's debt profile is limited to fixed-rate bonds and it is not exposed to variable-rate debt.

Liquidity and financial flexibility

Our liquidity and financial flexibility assessment reflects our expectation of available liquidity to debt at or above 11% with approximately \$18 million available by June 30, 2019. Since operating and maintenance expenses of the proposed CONRAC will be paid from the rental car companies and not CFC revenues, we expect available liquidity to increase over time.

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