S&P Global Ratings

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Greater Orlando Aviation Authority, Florida; Airport

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Credit Profile		
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Greater Orlando Aviation Auth arpt		
Long Term Rating	AA-/Stable	Upgraded
Greater Orlando Aviation Auth arpt		
Long Term Rating	A+/Stable	Upgraded

Rating Action

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on the Greater Orlando Aviation Authority (GOAA or the authority), Fla.'s senior-lien airport facilities revenue bonds to 'AA-' from 'A+' and raised its rating on the authority's subordinate-lien debt to 'A+' from 'A'. The outlook is stable.

At the same time, S&P Global Ratings assigned its 'AA-' long-term rating with a stable outlook to GOAA's pro forma $175.165 million series 2022A (AMT) airport facilities revenue bonds, $64.04 million series 2022B (taxable) airport facilities revenue bonds, $8.605 million series 2022C (AMT) airport facilities refunding revenue bonds, $21.51 million series 2022D (non-AMT) airport facilities refunding revenue bonds, and $11.58 million series 2022E (taxable) airport facilities refunding revenue bonds.

The upgrade reflects Orlando International Airport's (MCO) demonstrated financial resilience and rate-setting flexibility during a period of materially depressed activity levels, along with MCO's strong passenger recovery trends exceeding our expectations and S&P Global Ratings' updated activity recovery estimates. We believe the traffic levels are sustainable and support an improved market position assessment and very strong enterprise risk profile.

GOAA's senior bonds are secured by a pledge of airport system revenues, including available passenger facility charge revenues, while GOAA's priority subordinated bonds are secured by a pledge of airport system revenues subordinate to the senior bonds revenue pledge. Upon the issuance of the series 2022ABCDE bonds, cash-funded debt service reserves for GOAA's senior and subordinate bonds will total approximately $122.9 million and $60.3 million, respectively, providing additional liquidity to bondholders.

The series 2022A and 2022B bond proceeds will be used to finance a portion of the cost of the new South Terminal Complex, make a deposit to the composite debt service reserve account, refinance certain draws on GOAA's lines of credit and associated accrued interest related to the capital improvements being financed by the bonds, and pay costs of issuance. The series 2022C, 2022D, and 2022E refunding bond proceeds will be used to refund all or a portion of GOAA's airport facilities revenues bonds, series 2011C (Non-AMT), 2011B, 2012A (AMT), and 2011D (taxable), that will meet or exceed management's minimum present value savings target of 3% of the refunded par amount for current refundings and 5% of the refunded par amount for advance refundings.

GOAA operates MCO and Orlando Executive Airport (ORL). The City of Orlando owns both airports, and the authority operates them under a 50-year agreement expiring in 2065. While MCO serves commercial air service carriers, ORL is a general aviation airport. MCO is defined as a part of the airport system under the bond resolution; ORL is not. As a result, ORL's revenues are not pledged to the bonds outstanding. Regardless, our financial risk profile assessment is based on GOAA's consolidated financial results, which are dominated by MCO with ORL operating near breakeven or at a slight deficit.

As of Dec. 31, 2021, GOAA had approximately $2.8 billion in debt outstanding, consisting of approximately $1.639 billion of senior-lien bonds, $882.9 million of subordinate-lien bonds, $251.2 million outstanding under various lines of credit, and $50.2 million in loans outstanding from the Florida Department of Transportation. Not included in these amounts are GOAA's $121.3 million of special purpose facilities bonds outstanding that are secured by customer facility charge revenues. GOAA has no swaps outstanding.

Credit overview

The rating action reflects our opinion of GOAA's very strong enterprise risk and strong financial risk profile and is based on the airport's impressive enplanement recovery to near pre-pandemic levels, financial resiliency, and an improved rate-setting environment and overall market position. The ratings also incorporate a one-notch positive holistic analysis adjustment in arriving at the 'AA-' long-term rating on the senior airport revenue bonds. The positive adjustment, in our view, better reflects the overall creditworthiness of GOAA.

In November 2020, as a result of the pandemic, we lowered our assessment of MCO's market position to incorporate the weaker demand and rate-setting environment, uncertain recovery trajectory, and our expectation of lower financial metrics as we calculate them, which in turn lowered our overall enterprise risk profile to strong from very strong. The pandemic-induced severe drop in demand saw MCO's enplanements as of fiscal year ending Sept. 30, 2020, decline to 59% of fiscal 2019 levels. The passenger traffic recovery at MCO in recent months, however, has exceeded national trends and surpassed S&P Global Ratings' updated activity estimates, with May, June, July, August, September, and October 2021 monthly enplanements at about 85%, 90%, 93%, 85%, 97%, and 90% respectively, compared with pre-pandemic 2019 levels. For more information see, "Updated U.S. Transportation Infrastructure Activity Estimates Show Air Travel Normalizing By 2023 And A Stymied Transit Recovery," published Jan. 12, 2022, on RatingsDirect, and "U.S. Transportation Infrastructure Sector Update And Medians: U.S. Airport Sector View Is Now Positive," Nov. 10, 2021.

The combination of vaccine progress, easing mobility restrictions, strong economic growth, and pent-up domestic leisure travel demand to Florida and the Orlando region in particular has contributed to MCO's recent strong rebound in air travel demand, which we expect will be sustained. Although the passenger recovery could stall or be hampered by ongoing threats from coronavirus variants, weakening consumer confidence, and restrictions that inhibit travel, we believe the return and stabilization of MCO's passenger levels have facilitated financial planning and rate-setting by airport management. This, in turn, will allow MCO to achieve and maintain balanced financial operations from reoccurring operating revenues and a business-as-usual rate-making environment, supporting the higher rating.

The authority's financial performance is dominated by MCO, which is one of the nation's largest airports on an origin-destination (O&D) basis because of its very important role serving the unique Orlando market, resulting in consistently high activity levels and strong financial results. Our opinion of GOAA's overall financial risk profile is unchanged at strong, reflecting our expectation that GOAA's financial metrics (S&P Global Ratings-calculated) will be maintained at levels consistent with an overall strong financial risk profile on a sustainable basis. More specifically, we expect coverage will generally be above 1.25x, debt to net revenue approximately 10x-15x, and day's cash on hand at 340-425 for fiscal years 2022-2025. We evaluated audited fiscal 2020 results, unaudited fiscal 2021 results, and financial projections for fiscal years 2022-2025 that we consider reasonable. We view GOAA's weaker coverage levels in fiscal years 2021 and 2022 of 1.0x to 1.1x (S&P Global Ratings-calculated) as transitory and not indicative of longer-term, steady-state financial performance that we expect will produce coverage of about 1.4x-1.5x for fiscal years 2023-2025, levels we consider strong and achievable. Our coverage calculation excludes the application of federal stimulus aid to offset revenue losses given their nonrecurring nature. While we exclude these revenues from our calculations, our favorable view of expected financial performance is further supported by the enhanced flexibility provided by approximately $383.8 million in total U.S. Department of Transportation operating grants administered by the Federal Aviation Administration and awarded to GOAA ($4.1 million to OEA and $379.7 million to MCO), which can be used to pay debt service, offset revenue losses, provide rate relief to airlines and airport concessionaires, and for other eligible uses. GOAA used $144.8 million in federal operating grants in fiscal 2021, and plans to use $176.5 million in fiscal 2022, $15 million in fiscal 2023, and the remaining $17.1 million in fiscal 2024. As of Dec. 31, 2021, GOAA has fully drawn all CRRSA grants and has approximately $87.1 million in CARES Act and $21 million in ARPA concession relief grants remaining. We consider GOAA's overall liquidity position strong and we expect it will remain so, with unaudited estimated unrestricted cash and investment balances of approximately $439 million as of Sept. 30, 2021, providing 624 days' cash on hand that we expect will be maintained near this amount, providing about 340 days-425 days for fiscal years 2022-2025.

Our revised market position assessment for MCO results in a very strong overall enterprise risk profile, reflecting MCO's strong recent recovery in demand and historically favorable demand characteristics due to limited competition from other airports; large and primarily O&D passenger base; good carrier diversity; and relatively large, growing, and economically vibrant service area that also is a popular destination for conventions and tourists, with several major theme parks nearby.

Key credit strengths, in our opinion, are:

- MCO's role as the largest airport in the state, serving a unique and expanding service area economy, relatively high activity (totaling 24.8 million enplanements in fiscal 2019 and a projected 22.3 million in fiscal 2022), limited competition, and generally favorable historical enplanement trends with high O&D enplanements (95% of total enplanements), and relatively diverse carrier mix, with Southwest Airlines Co. accounting for about 24% of fiscal 2021 activity, followed by Spirit Airlines at about 17%;

- A relatively large primary service area, which includes the Orlando-Kissimmee-Sanford metropolitan area with an estimated population of more than 2.6 million, that has generally favorable levels of economic activity as measured by GDP per capita, above-average expected population growth, and above-average unemployment rates;
- Financial metrics (S&P Global Ratings-calculated) that we expect will be maintained at levels consistent with an overall strong financial risk profile on a sustainable basis, reflecting our expectation of coverage generally above 1.25x, debt to net revenue at 10x-15x, and day's cash on hand at 340-425 for fiscal years 2022-2025; and
- Extremely strong management and governance, reflective of proactive financial planning and risk management practices we consider fiscally prudent and effective, and a management team we consider very experienced and capable in operating an airport the size and scale of MCO.

Key credit weaknesses, in our opinion, are GOAA's:

- Rising airline cost structure and relatively high debt burden from debt financing a large capital improvement plan (CIP); and
- Service area economy that is reliant on tourism that could be slower to recover during weak economic cycles, with destination passengers (visitors) historically making up approximately 70% of MCO's total O&D enplanements.

The stable outlook reflects our expectation that MCO's recent enplanement levels will be sustained or continue to improve and normalize, allowing GOAA to maintain financial metrics, per our calculations, that are consistent with a strong financial risk profile.

Environmental, social, and governance

We analyzed MCO's risks and opportunities related to environmental, social, and governance credit factors relative to its market position, management and governance, and financial performance. Elevated health and safety concerns, which we consider a social risk factor, are abating and are currently considered credit neutral in our analysis. We view MCO's overall environmental risks, however, as elevated relative to those of industry peers given its location in central Florida, which is historically prone to severe weather-related events, particularly hurricanes. Finally, we believe GOAA's governance risks to be in line with those of the airport sector. We will continue to evaluate these risks and opportunities as the situation evolves.

Stable Outlook

Upside scenario

We could raise the ratings within the next two years if air travel demand outperforms current forecasts and we view that trend to be sustainable and consistent with a stronger market position. In addition, GOAA maintaining its financial metrics at levels consistent with a very strong financial risk profile would also be a key consideration.

Downside scenario

We could lower the ratings within the next two years if MCO enplanements decline significantly or financial metrics are materially weaker than expected for an extended period.

Credit Opinion

The U.S. economy has felt less impact with each wave of the coronavirus and has been able to withstand the damage. We maintain our assessment of U.S. recession risk over the next 12 months at 10%-15%--our lowest assessment in six years. However, as supply chain disruptions continue, S&P Global Economics has lowered its U.S. GDP growth forecast to 5.5% for 2021 and 3.9% for 2022 (from 5.7% and 4.1%, respectively). Supply chain disruptions are the largest stumbling block for the U.S. economy. Although there are signs that supply chain issues are easing, we expect price pressures will last well into this year and inflation will not reach the Federal Reserve's target until late 2023. Surging inflation continues to erode consumer confidence, as the latest University of Michigan Consumer Sentiment Index reading hit its lowest level in the past 10 years. Consumers registered disappointment both today, and in the future, with current conditions falling to a 10-year low while expectations dropped to an eight-year low. Despite the slowdown, GDP is still likely to rise to a 37-year high in 2021, with solid readings for this year, on continued economic demand from healthy balance sheets. For more information, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," Nov. 29, 2021.

We view various actions taken or planned by management in response to the COVID-19 pandemic favorably, which included reducing operating budgets, reducing and deferring certain CIP improvements, and using some of its $383.8 million of federal relief aid to defease $202.5 million of principal and associated interest of $29.5 million, producing $33 million of debt service savings over the next 11 years.

We consider the financial projections prepared in connection with the series 2022ABCDE bond issuance reasonable, including fiscal 2022 total enplanements recovering to about 90% of fiscal 2019 levels, and 100% or more for fiscal years 2023-2025; and approximately $124.5 million in additional debt in fiscal 2023 to complete the debt-financing of GOAA's $3.6 billion 2021-2027 CIP.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of January 19, 2022)		
Greater Orlando Aviation Auth arpt (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
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Many issues are enhanced by bond insurance.