

FITCH RATES METROPOLITAN WASHINGTON AIRPORTS AUTHORITY REVS 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-18 May 2018: Fitch Ratings has assigned an 'AA-' rating to the Metropolitan Washington Airports Authority's (MWAA) approximately \$612 million series 2018A airport system revenue and refunding bonds. Fitch has also affirmed the authority's approximately \$4.5 billion outstanding airport revenues bonds at 'AA-'. The Rating Outlook is Stable.

KEY RATING DRIVERS

SUMMARY: The rating reflects MWAA's very strong credit attributes, including the resilience of its complementary dual-large hub airport system serving the strong and growing District of Columbia air trade service area; well-balanced system-wide carrier mix; recently completed capital program at Dulles International Airport (IAD), with a new, smaller program focused at Reagan National Airport (DCA) to be able to serve projected demands; and stable financial profile. The large debt burden and rising airline cost profile, particularly at IAD, remain concerns. However, MWAA's current airline use and lease agreement (AUL) partially mitigates this with enhanced revenue sharing between airports. Rating case leverage is projected to increase in the near term, but fall below 7x net debt/cash flow available for debt service (CFADS) by 2023.

STRONG MARKET POSITION - Revenue Risk (Volume): Stronger
MWAA's large traffic base, anchored by a strong underlying economic region and diverse, complementary domestic and international service offerings at IAD and DCA, reached a new peak of 23.3 million enplanements in 2017. Following the most recent recession, enplanement declines at IAD were offset by steady, solid growth at DCA. Positively, IAD has returned to growth mode and is forecast to grow faster than DCA through 2023. United Continental Holdings, Inc. (BB/Stable) is the lead carrier at IAD with a 63% carrier market share, while American Airlines Group, Inc. (BB-/Stable) handles approximately 50% of DCA. On a system wide basis, market share is more diverse, with United having the largest share at 35%. Nearly 80% of system traffic is O&D leading to greater stability and the airports system maintains a 64% regional market share.

FAVORABLE RATE SETTING APPROACH - Revenue Risk (Price): Stronger
MWAA's AUL runs through 2024 with a hybrid compensatory model, providing an overall favorable airport system cost recovery approach by bridging significant cost imbalances. Revised terms allow for tiered surplus revenue sharing from DCA to subsidize IAD's costs tied to substantial debt-financed capital investments. An increased level of hard coverage recovery, coupled with provisions such as extraordinary coverage protection and net revenue sharing with the carriers, is provided within the rate setting framework. Proactive management has allowed the authority to contain airline costs and continuously beat both budget and original airport consultant forecasts for CPE while maintaining stable to improving coverage levels.

MAJOR CAPITAL NEEDS ADDRESSED - Infrastructure Development/Renewal: Stronger
Both airports are modern facilities in good condition. The prior 15-year \$5 billion capital construction program (CCP) focused on IAD whereas the new \$1.9 billion 2015-2024 CCP is predominantly for DCA. It will be approximately 91% bond funded, however DCA should have the debt capacity. IAD is already benefitting by way of increased revenue generation from the former CCP and the new CCP should similarly enhance DCA's revenue generating ability.

LARGELY CONSERVATIVE CAPITAL STRUCTURE - Debt Structure: Stronger
MWAA's debt is fully amortizing with more than 82% fixed-rate obligations, 12% synthetically fixed-variable-rate obligations and only 5% unhedged variable-rate debt. Further, this exposure

is partially mitigated by the authority's large unrestricted cash position. Sound covenants and reserve requirements are similar to other rated airports. Management is proactive with refunding opportunities and another \$1.6 billion of outstanding debt will be callable through 2024.

FINANCIAL PROFILE

Leverage in 2017 of 7.2x net debt/CFADS is consistent with the current rating; however, it is forecast to peak around 9.0x before returning to 7.0x or less by 2023. The largely stable historical debt service coverage ratio (DSCR) of 1.4x-1.5x has been improving of late, with a slightly higher expectation over the medium term given the current AUL and recent enplanement trends. Liquidity remains strong at 984 days cash.

PEER GROUP

Comparable large-hub, international gateway peers include Los Angeles International Airport (LAX; senior/sub AA/AA-/Stable) and San Francisco International Airport (SFO; A+/Stable). Both airports similarly have stronger volume and price assessments as well as high debt levels incurred for infrastructure spending. LAX benefits from a greater, more resilient enplanement base with less carrier concentration, lower leverage, and higher coverage accounting for its higher rating. SFO has stronger enplanement trends, but slightly higher leverage and a higher CPE. Further, its operational and financial profiles are tied to a single airport whereas MWAA benefits from a dual-airport system.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

- Additional leverage sustained in excess of 8.0x net debt/CFADS for the new capital program that materially affects financial flexibility;
- Significant or unanticipated changes in the airport's current traffic base or shifts in commitments from leading carriers;
- The authority's inability to manage the airports system cost profile putting pressure on debt coverage metrics and charges to carriers.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

- Upward rating migration is unlikely in the near-to-medium term given the authority's leverage and cost profile; however, in the longer term, sustained leverage below 6.0x may support a rating upgrade.

TRANSACTION SUMMARY

MWAA is expected to issue approximately \$612 million of series 2018A (AMT) airport system revenue and refunding bonds with approximately \$389 million par to refund series 2008A and 2009C bonds for debt service (DS) savings and the remaining \$223 new money to fund project costs, reserves and cost of issuance. The refunding bonds will be 21-year fixed rate, will not extend the final maturity of the refunded bonds, and are estimated to generate NPV DS savings of \$35 million. The new money bonds will also be fixed rate, but with a 30-yr term. The bonds are expected to price the week of May 28, 2018.

Performance Update

The authority's two airport system experienced system-wide enplanement growth of 2.8% in 2017, building upon the 1.9% experienced in 2016, and resulting in a five-year CAGR of 2.1%. Enplanements now total 23.3 million, continuing to set a new peak level. Overall, enplanements have been fairly resilient supported by the economic strength of the airports' catchment area and the complementary nature of the dual-airport system structure.

Notably, stronger growth of 4.2% occurred at Dulles while National grew 1.5%, reflecting a slowdown from the previous growth that resulted from American's slot divestitures and increased service by LCCs at DCA. IAD's international service continues to expand (up 3.7% in 2017), however, United increased its domestic service (up 4.9%) leading to Dulles' domestic enplanements growing a strong 4.5% in contrast to many years of flat-to-negative domestic growth. Positive trends continue through the first two months of 2018, though are dampened by lower volumes in January 2018 due to weather-related flight cancellations and lower load factors as well as an uptick in 2017 from the inauguration and Women's March. February began the reversal with DCA enplanements holding flat and IAD growing a robust 7.1% due to new domestic service and increased capacity, with Frontier (252.4% increase) and SWA (23.7% increase) leading the way, and IAD's international enplanements (up 6%) due to increased service and capacity as well as higher load factors. Going forward, stronger growth is anticipated to continue at IAD than DCA.

The authority's current AUL took effect in 2015 and, coupled with its recent enplanement growth, generated a 2017 indenture-based DSCR of 1.77x, notably higher than the 1.45x in 2014 and above the budgeted 1.59x. Fitch's calculation of DSCR, which treats passenger facility charges (PFC) as revenue rather than debt service offsets, was 1.67x. Relative to the old agreement, the 2017 financial results benefit from increased hard coverage charged to the carriers as well as more favorable provisions for sharing of net remaining revenues (NRR).

In addition to improving coverage, the hybrid commercial compensatory agreement now allows MWAA to use DCA's NRR to subsidize IAD's sizeable cost base (resulting from its recent capital program) according to a tiered structure. The AUL taken together with a Commonwealth of Virginia grant resulted in a 2017 reported CPE of \$17.00 at IAD, down significantly from \$26.55 in 2014 and once again below forecast. The grant should again provide some reprieve to carriers in 2018 before CPE stabilizes around \$22-\$23 in Fitch's rating case, reasonable for an international gateway in a major market with a newly constructed facility.

CPE remained flat at DCA at \$13.44 in 2017, a level in-line with forecast and largely consistent with the historical average (excluding 2014) and projected \$13-\$15 range through 2023. Still, should enplanements fall short of forecast or management be unable to contain expenses, CPE could rise to levels inconsistent with the current rating, especially at Dulles International.

In return for DCA's sharing of NRR, a new \$1.2 billion capital program will be undertaken at the airport through 2024, matching the term of DCA's agreement. The first universal amendment to the AUL extends the term of IAD's agreement to be co-terminus with that of DCA in exchange for another \$446 million of projects added to the CCP for Dulles such that it totals \$652 million through 2024.

The authority's prior \$5 billion 2001-2016 CCP focused primarily on IAD. Therefore, the current 2015-2024 \$1.9 billion 10-year capital program is predominantly focused on development at DCA. Key projects include a new north concourse and securing National Hall behind the TSA screening point. A new parking garage is also still in the planning stages for the end of the CCP. Similar to the developments at IAD, several of the projects at DCA should be revenue generating in nature.

Fitch Cases

Fitch believes management's case assumptions are reasonable given past performance and Fitch's expectation for future performance taking into account a view of the local and national economies as well as future air service and adopted this case as its base case. MWAA's forecast reflects assumptions of a 1.5% traffic compound annual growth rate (CAGR) between 2017 and 2023 and management of expense growth at a 4.5% CAGR over the same period. DSCR averages 1.7x through 2023. If PFCs are treated as revenues instead of being used to offset annual debt service,

coverage hovers around 1.6x through 2023. CPE ranges from \$11-\$14 for DCA and remains below \$20 at IAD. Leverage peaks around 8.7x in 2019 as a result of new borrowings for the CCP; however, it evolves to a more moderate 6.9x by 2023.

Fitch developed a rating case scenario under which system-wide enplanements decline by 3.9% in 2019 followed by recovery of 1.5%-2.0% annual growth through 2023. Non-airline revenues were adjusted to reflect weaker performance in terms of enplanements such that the concession revenue CAGR for 2017-2023 was 1.6% (compared to 2.4% in the base case). Transfers from the general purpose fund were also assumed to be slightly lower (2.1% CAGR versus 2.8% in the base case). Operating expenses were conservatively still grown at 4.5% CAGR despite the lower enplanement volume. The results are an approximate 2 basis point drop in coverage on average, indicating slightly less financial flexibility, and CPE increases over the management case by approximately \$0.88 at DCA and \$3.45 at IAD by 2023. The modest decrease in DSCRs reflects the strength of the revenue framework in which airlines make higher payments to support MWAA's financial profile. Similar to the base case, leverage increases in the near-term to 9.0x before falling to below 7.0x by 2023. Additional leverage beyond that already anticipated or operational or financial conditions that prevent this downward trend in leverage could be a cause for rating concern to the extent it remains above 8.0x for a sustained period.

Contacts:

Primary Analyst
Jeffrey Lack
Director
+1-312-368-3171
Fitch Ratings, Inc.,
70 West Madison Street
Chicago, IL 60602

Secondary Analyst
Seth Lehman
Senior Director
+1-212-908-0755

Committee Chairperson
Scott Zuchorski
Senior Director
+1-212-908-0659

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Airports Rating Criteria (pub. 23 Feb 2018)

<https://www.fitchratings.com/site/re/10021613>

Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017)

<https://www.fitchratings.com/site/re/902689>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB

SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.