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Metropolitan Washington Airports Authority, DC Bond Rating Lowered To 'A+' From 'AA-' On Significant Passenger Declines

July 31, 2020

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BOSTON (S&P Global Ratings) July 31, 2020--S&P Global Ratings lowered its long-term rating and underlying rating (SPUR) on Metropolitan Washington Airports Authority (MWAA), D.C.'s revenue bonds outstanding to 'A+' from 'AA-'. The outlook is negative.

At the same time, we lowered to 'AA+/A-1+' from 'AAA/A-1+' our joint rating on the series 2003 and 2009 variable-rate bonds, backed by a line of credit (LOC) from TD Bank N.A., reflecting the application of joint criteria and assuming low correlation.

In addition, we affirmed our 'AA+/A-1' joint rating on the series 2010 and 2011 variable-rate bonds, backed by a LOC provided by Sumitomo Mitsui Banking Corp., reflecting the application of joint criteria and assuming low correlation.

"The rating action and negative outlook reflects our expectation that activity levels at the authority's two airports-- Ronald Reagan Washington National (DCA) and Washington Dulles International (IAD)--will be materially depressed, unpredictable or demonstrate anemic growth due to the COVID-19 pandemic and associated effects outside of management's control," said S&P Global Ratings credit analyst Kurt Forsgren.

Overall, the ratings reflect our view of MWAA's:

- Favorable service area economic fundamentals;
- Two-large-hub, balanced airports system and dominant provider to the nation's capital;
- Extremely strong governance and management; and
- Consistently robust liquidity position.

Partially offsetting the above strengths, in our view, are MWAA's:

- Exposure to potentially prolonged weak or unpredictable enplanement levels as a result of the ongoing COVID-19 pandemic and lingering ancillary effects (such as the pandemic-induced recession; shifting travel restrictions; stay-at-home and social distancing restrictions; or behavioral changes with respect to air travel, particularly business travel), which complicates budgeting and planning;
- Hampered cash flow generation ability, particularly derived from activity-based concession revenue sources and a weakened rate-setting environment; and
- Rising cost per enplanement and debt metrics.

Our rating action incorporates our opinion regarding the health and safety risks posed by the COVID-19 pandemic, which we view as a social factor in our ESG framework that is resulting in significant operating and financial pressures for the authority. We analyzed MWAA's risks related to environmental and governance factors, and consider them to be in line with our view of the standard for the airport sector. We will continue to evaluate these risks as the situation evolves.

The negative outlook reflects our view of the significant uncertainty with regard to the extent to which the COVID-19 pandemic endures and continues to affect the airports' recovery, including whether key financial and operating metrics will rebound and stabilize.

We could lower the rating if we come to believe that MWAA's enplanements will remain materially depressed for longer than we currently expect, negatively affecting financial metrics for an extended period.

We could revise the outlook to stable in the next two years with improved clarity on the trajectory of MWAA's activity recovery. When making this assessment, we will evaluate if the authority's ability to maintain financial metrics is sustainable and consistent with the rating.

Related Research

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

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Summary:

Metropolitan Washington Airports Authority, District of Columbia; Airport; Joint Criteria

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Metropolitan Washington Airports Authority, District of Columbia; Airport; Joint Criteria

Credit Profile		
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Negative	Downgraded

Rating Action

S&P Global Ratings lowered its long-term rating and underlying rating (SPUR) on Metropolitan Washington Airports Authority (MWAA), D.C.'s revenue bonds outstanding to 'A+' from 'AA-'. The outlook is negative.

At the same time, we:

- Lowered to 'AA+/A-1+' from 'AAA/A-1+' our joint rating on the series 2003 and 2009 variable-rate bonds, backed by a line of credit (LOC) from TD Bank N.A., reflecting the application of joint criteria and assuming low correlation; and
- Affirmed our 'AA+/A-1' joint rating on the series 2010 and 2011 variable-rate bonds, backed by a LOC provided by Sumitomo Mitsui Banking Corp., reflecting the application of joint criteria and assuming low correlation.

MWAA plans to convert the series 2010D bonds, which are currently held via a direct placement with Wells Fargo Bank National Assn., to a weekly variable-rate mode. A letter of credit (LOC) from Barclays Bank PLC (A/Negative/A-1) will be provided on the date of conversion, on or about Aug. 10, 2020. Following the conversion, the long-term component of the rating will reflect the joint support of the LOC provided by Barclays Bank PLC, and the underlying rating on MWAA, the obligor, assuming a low correlation. The short-term component of the rating will solely reflect the short-term rating on Barclays Bank PLC.

Securing all bonds is a pledge of the net revenues derived by MWAA from operation of the airports system, including airline rentals, fees and charges, and all concession revenues. Passenger facility charge (PFC) revenues are excluded from revenues unless legally pledged, although in practice the airport does apply PFCs to reduce eligible debt service. If needed, the authority also has access to a common debt service reserve account totaling $256.6 million funded with cash and investments.

As of July 1, 2020, the authority has approximately $4.4 billion in airport system debt, which is accounted for within the authority's aviation enterprise fund, separate from its Dulles Corridor enterprise fund and the operations of the

Dulles Toll Road.

Credit overview

The rating action and negative outlook on the SPUR reflects our expectation that activity levels at the authority's two airports-- Ronald Reagan Washington National (DCA) and Washington Dulles International (IAD)--will be materially depressed, unpredictable or demonstrate anemic growth due to the COVID-19 pandemic and associated effects outside of management's control. In our view, the severe drop in demand has diminished MWAA's overall credit quality and will likely pressure financial metrics relative to historic levels going forward. We view this precipitous decline not as a temporary disruption with a relative rapid recovery, but rather as a backdrop for what we believe will be a period of sluggish air travel demand that could extend beyond our rating outlook horizon.

MWAAA entered the pandemic operationally and financially strong with combined traffic at an all-time peak (24.3 million enplaned passengers), adequate debt service coverage (DSC) levels, and very strong overall liquidity levels. However, enplanement levels are down nearly 60% January through June compared to 2019 and a high degree of uncertainty exists regarding the trajectory of a recovery in aviation activity, complicating financial planning and increasing operational challenges. For additional information, see "Ratings Outlooks On U.S. Transportation Infrastructure Issuers Revised To Negative Due To COVID-19 Pandemic," published March 26, 2020, on RatingsDirect, and "Activity Estimates For U.S Transportation Infrastructure Show Public Transit And Airports Most Vulnerable To Near-Term Rating Pressure," published June 4, 2020.

The SPUR reflects the MWAA's very strong enterprise risk profile and strong financial risk profile. Our forward-looking view resulted from a weakening of MWAA's market position assessment, which in turn lowered our enterprise risk profile assessment to very strong from extremely strong. Under our criteria, market position is a primary credit factor that incorporates activity level trends, passenger volatility, rate-setting flexibility and additional considerations outside of the operator's control including health scares. Within our overall enterprise risk profile, market position assessment is the highest weighted factor (60% weight), followed by industry risk (20%), economic fundamentals (10%) and management and governance (10%). Within our overall financial risk profile, we consider such factors as financial performance (55% weight), debt and liabilities capacity (35%), and liquidity and financial flexibility (10%). For additional information regarding our criteria, see "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions," published March 12, 2018.

Our revised market position assessment for MWAA results in a lower but still very strong overall enterprise risk profile, incorporating its role as operator of a diversified, two-large-hub airport system serving a region with extremely strong economic fundamentals. Although United Airlines Inc. dominates the airline market share at IAD (68%) and American Airlines Inc. is the dominant carrier at DCA (52%), on a combined basis the system demonstrates good airline diversity; no one airline represents more than 37% of total enplanements. Other advantages supporting our market position assessment include MWAA's unique role serving the nation's capital region, strong demand for the slot-controlled DCA airport, historically affording air carriers operating there higher yields, and IAD's longer-term capacity to handle passenger growth somewhat constrained by nearby competition. IAD shares a portion of its service area with Baltimore-Washington International (BWI), 30 miles away, which has seen its market share of regional domestic traffic increase slightly due to growth by Southwest Airlines.

Our overall financial risk profile is unchanged at strong, as we evaluate management's strategy and the shape of the traffic recovery along with the anticipated impact on financial metrics. Our financial risk profile incorporates the authority's historically adequate financial performance, with 1.22x DSC in 2019 (S&P Global Ratings-calculated; 2.05x indenture); the system's comparatively higher cost and debt structure ($14.82 cost per enplanement [CPE] at IAD; $11.49 CPE at DCA; $187 combined debt per enplanement--all for 2019); debt-to-net revenues at 14x with the need for $1.2 billion in additional new money bond-financed capital requirements for 2021-2025; and very strong liquidity (over 1,000 days' cash on hand in 2019).

We believe existing liquidity in concert with mitigation measures taken thus far to reduce outlays, and the $229 million in Coronavirus Aid, Recovery, and Economic Security (CARES) Act funding will allow the authority to weather the near-term activity decline. Management anticipates applying the CARES Act money to offset a portion of debt service in fiscal 2020 ($329.6 million) and fiscal 2021 ($334.5 million). We could weaken the financial risk profile if enplanements remain depressed for an extended period, further pressuring financial metrics including DSC (S&P Global Ratings-calculated) and debt-to-net revenue.

Key credit strengths, in our opinion, include MWAA's:

- Favorable service area economic fundamentals, which will support robust air travel demand due to good economic activity as measured by GDP per capita, a growing population base, and ample employment opportunities despite the spike in unemployment resulting from COVID-19;
- Two-large-hub airports system, which serves as a dominant provider of largely origination-destination air service to the nation's capital, providing a diversity and balance of air service options and mix of air carriers;
- Extremely strong governance and management, as evidenced by a deep and experienced team generally achieving or exceeding financial and operational goals, tracking and disclosing detailed and conservative projections, and evaluating and mitigating material risks while demonstrating a history of successfully managing large capital programs; and
- Consistently robust liquidity position, with liquidity in recent years generally at or above 1,000 days of operating costs, most recently estimated at $1.2 billion in unrestricted cash and investments as of May 31, 2020.

Partially offsetting the above strengths, in our view, are MWAA's:

- Exposure to potentially prolonged weak or unpredictable enplanement levels as a result of the ongoing COVID-19 pandemic and lingering ancillary effects (such as the pandemic-induced recession; shifting travel restrictions; stay-at-home and social distancing restrictions; or behavioral changes with respect to air travel, particularly business travel), which complicates budgeting and planning;
- Hampered cash flow generation ability, particularly derived from activity-based concession revenue sources and a weakened rate-setting environment; and
- Rising cost per enplanement and debt metrics.

Environmental, social, and governance factors

Our rating action incorporates our opinion regarding the health and safety risks posed by the COVID-19 pandemic, which we view as a social factor in our ESG framework that is resulting in significant operating and financial pressures for the authority. We analyzed MWAA's risks related to environmental and governance factors, and consider them to be in line with our view of the standard for the airport sector. We will continue to evaluate these risks as the situation evolves.

Negative Outlook

Downside scenario

We could lower the rating if we come to believe that MWAA's enplanements will remain materially depressed for longer than we currently expect, negatively affecting financial metrics for an extended period.

Return to stable scenario

We could revise the outlook to stable in the next two years with improved clarity on the trajectory of MWAA's enplanement recovery and stabilization of activity levels. When making this assessment, we will evaluate if the authority's ability to maintain financial metrics is sustainable and consistent with the rating.

Credit Opinion

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the pandemic and its effect on the economy and air travel. Our current economic forecasts anticipate a slower recovery beginning in third-quarter 2020, ending at a negative 5.0% real GDP growth rate in 2020 and rebounding to 5.2% growth in 2021, a full percentage point weaker than our previous 2021 estimate of 6.2%. With this summer's national virus transmission rates rising to new peaks, uncertainty is elevated again. Several states have shut down parts of their economies and instituted new quarantine restrictions which could possibly erode the bounce-back in the third-quarter 2020 real GDP growth of 22.2% (annualized). The recovery remains fragile--in particular, because of uncertainty about the timing of an effective vaccine being readily available, fears of another wave of COVID-19, and the reluctance of surviving businesses to quickly rehire workers. Our economic forecasts and macro credit implications associated with the pandemic assume a vaccine or effective treatment is widely available in the second half of 2021. (See "U.S. Economic Update: A Recovery At Risk As COVID-19 Surges," published July 22, 2020.)

MWAA's system-wide enplanements through January and February in fiscal 2020 were ahead of 2019 levels by 9.6% and 5.7%, respectively. However, as the COVID-19 pandemic became more widespread in March with accelerating new cases, business shutdowns, and travel restrictions, enplanements plummeted in March to 55% below March 2019 levels, and further in April to 96% below April 2019 levels. Enplanements for May and June were between 93% and 86% below those in the same months in 2019, with overall enplanements for fiscal 2020 down 58.8%. Passenger activity at IAD has been trending better than other origination-destination airports largely due to United Airlines' hubbing operations. MWAA's financial planning assumptions based on passenger recovery scenarios closely align with S&P Global Ratings' baseline and downside activity estimates.

MWAA's experienced management team has taken a variety of actions to mitigate the collapse of passenger activity across the system that has negatively affected volume-based revenues, including those derived from concession as well as aeronautical revenues such as landing and international arrival fees. Such actions include:

- Expense reductions associated with closing parking garages,
- Eliminating shuttle buses,
- Instituting hiring limits,
- Cutting non-essential discretionary spending--combined, fiscal 2020 operating expenses are 4.7% lower than in 2019 through June; and
- Deferring $118 million in capital project expenditures in 2020 and $114 million in 2021.

Besides deferring the capital projects detailed above the authority's $2.3 billion capital improvement plan, featuring a new North Concourse related enhancements at DCA ($1.4 billion) and a variety of projects at IAD, is continuing with no new-money issuance anticipated until 2021.

Although MWAA has demonstrated resilience during previous economic cycles, health scares, and events such as 9/11, the challenges facing the authority's airports and the sector as a whole as the pandemic endures are significant. With regard to financial recovery, MWAA's strategy focuses on remaining competitive with regional competitors and other international gateway airports; and lowering CPE, particularly at IAD where United operates a hub.

We believe challenges ahead relate to the significant decline in system-wide operating revenues, which through June 2020 are 26.3% lower than in 2019, including January and February results prior to the passenger declines. This includes concession revenues, which are down 38%, and airline revenues that are lower by 19.5%. Given the dearth of passengers, MWAA management waived for 2020 the minimum annual guarantees concessionaire are required to pay under their agreements, which was expected to total $177 million. Including rental car and other concessions, this total could increase to an estimated $226 million. In addition, MWAA management offered the airlines rent deferrals for April-June 2020 but are fully anticipating full remittance by airlines of all terminal rent and landing fees in the current 2020 fiscal year.

MWAA benefits from providing important air service to the region under a long-term federal lease expiring in 2067. DCA (860 acres, 44 contact gates, three runways) is across the Potomac River from Washington in Arlington, Va., serving mostly domestic flights. IAD (11,830 acres, 82 contact gates, four runways) is 26 miles west of Washington in Fairfax and Loudoun counties, Va., serving both domestic and international flights. Governance of the authority is provided by a 17-member board with six-year staggered terms, appointed by the governor of Virginia (seven members), the mayor of the District of Columbia (four), the governor of Maryland (three), and the President of the United States (three).

We consider MWAA's swaps credit neutral and pose low contingent liquidity risk, given the lack of collateral posting requirements and the authority rating compared with termination triggers. In addition, the authority's liquidity position and access to credit markets provide additional flexibility. As part of its $4.4 billion aviation debt portfolio, the authority has an authorized commercial paper program of up to $200 million, $454.7 million of existing LOC-supported variable-rate debt, $245.6 million in unhedged variable-rate debt, and $497.4 million in interest rate swaps that would require it to pay the swap providers approximately $191.5 million if terminated.

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 July 31, 2020)		
Metropolitan Washington Arpts Auth AIRPORT (FGIC) (National)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT (AGM)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT (FGIC)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT (MBIA) (National)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Metropolitan Washington Arpts Auth JOINTCRIT		
Long Term Rating	AA+/A-1	Affirmed
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Metropolitan Washington Arpts Auth JOINTCRIT		
Long Term Rating	AA+/A-1+	Downgraded
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Metropolitan Washington Arpts Auth JOINTCRIT		
Long Term Rating	AA+/A-1	Affirmed
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Metropolitan Washington Arpts Auth JOINTCRIT		
Long Term Rating	AA+/A-1+	Downgraded
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Negative	Downgraded
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Negative	Downgraded

Ratings Detail (As Of July 31, 2020) (cont.)		
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Negative	Downgraded
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.