S&P Global
Ratings

RatingsDirect®

Summary:

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

Primary Credit Analyst:
Kurt E Forsgren, Boston + 1 (617) 530 8308; kurt.forsgren@spglobal.com

Secondary Contact:
Todd R Spence, Farmers Branch + 1 (214) 871 1424; todd.spence@spglobal.com

Table Of Contents

Summary:

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

Credit Profile		
US$689.575 mil arpt sys rev and rfdg bnds (AMT) ser 2021A due 10/01/2051		
Long Term Rating	A+/Stable	New
US$2.885 mil taxable arpt sys rev and rfdg bnds ser 2021B due 10/01/2023		
Long Term Rating	A+/Stable	New
Metropolitan Washington Arpts Auth AIRPORT (FGIC) (National)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'A+' long-term rating to Metropolitan Washington Airports Authority (MWAA), D.C.'s $692.46 million series 2021A and series 2021B revenue and revenue refunding bonds. In addition, S&P Global Ratings affirmed its 'A+' long-term rating and underlying rating (SPUR) on the authority's revenue bonds outstanding. The outlook is stable.

At the same time, S&P Global Ratings affirmed its:

- 'AA+/A-1+' joint rating on the series 2003D1 and 2009D 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
- 'AA+/A-1' joint rating on the series 2010C and 2011A variable-rate bonds, backed by a LOC provided by Sumitomo Mitsui Banking Corp., reflecting the application of joint criteria and assuming low correlation; and
- 'AA+/A-1' joint rating on the series 2010D variable-rate bonds, backed by a LOC provided by Barclays, reflecting the application of join criteria and assuming low correlation.

Bond proceeds will be applied to capital costs related to MWAA's ongoing capital program, to refund certain fixed rate series and take out any outstanding commercial paper notes, to convert unhedged variable-rate bonds to fixed rate, and to partially terminate certain swaps based on market conditions. Prior to this transaction, MWAA's debt portfolio totaled $4.2 billion in senior-lien bonds in its aviation enterprise fund, which is separate from its Dulles Corridor enterprise fund that accounts for operations of the Dulles Toll Road. Of the total aviation system debt, 84% is fixed rate, 11% is synthetically fixed with four interest rate swaps (with an unfavorable mark-to-market of $132 million as of March 31, 2021), and 4% is unhedged variable-rate debt. The swaps, in our view, pose a low contingent liquidity risk given the lack of collateral posting requirements and the rating on the authority compared with termination triggers. The authority's liquidity position and access to credit markets provide additional flexibility. The unhedged variable-rate debt totals $182 million and is supported by letters of credit. MWAA also has $200 million in an undrawn commercial paper capacity program. After the sale of the series 2021A and 2021B bonds, total debt is estimated to be approximately $4.4 billion, with proportionally more fixed-rate bonds and final maturity in 2051.

Securing all bonds is a pledge of the net revenues derived by MWAA from operation of the airports system composed of Washington Reagan National Airport (DCA) and Dulles International Airport (IAD), 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 $201.9 million funded with cash and investments.

On April 22, 2021, S&P Global Ratings revised the outlook on MWAA's aviation bonds to stable from negative due to a variety of factors that we expect will stabilize credit quality over the next 12-24 months, including improving health and safety conditions in the U.S., an expanding economy, as well as growing passenger volumes as discretionary travel continues to increase and business travel restrictions ease. In our view, prudent actions taken to mitigate the financial impact of the pandemic combined with anticipated federal operating grants to be received provide further confidence that MWAA's management team will continue to manage its budget and operations to maintain credit quality consistent with the rating throughout the outlook period, which is generally as long as two years. For additional information, see "Ratings Outlooks On Most U.S. Transportation Infrastructure Issuers Revised To Stable From Negative," published April 22, 2021, on RatingsDirect.

Credit overview

The 'A+' long-term rating and SPUR reflect our view of MWAA's very strong enterprise risk profile and strong financial risk profile. The enterprise risk assessment incorporates our view of the authority's weakened market position, reduced rate-making flexibility, and significantly lower enplaned passenger levels because of the COVID-19 pandemic and its associated effects. Our financial profile is based on what we expect to be the authority's improving revenue-generating capacity with lower cash flow performance metrics over the two-year outlook horizon relative to historical levels but supported by very strong liquidity and financial flexibility. We anticipate debt service coverage (DSC; S&P Global Ratings-calculated) for fiscal years 2021-2023 will remain depressed but could return to adequate levels as passenger activity normalizes, the airlines continue to meet their obligations under the use-and-lease agreement, and nonairline revenue projections return to historical performance characteristics.

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 recent spike in unemployment resulting from the pandemic;
- 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 at approximately 1,000 days of operating costs in 2020 and

more than $1 billion in audited unrestricted cash and investments as of Dec. 31, 2020, excluding future federal operating grants.

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

- Weakened demand profile attributable to the lingering effects of the ongoing COVID-19 pandemic (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, with DSC projected to return to adequate levels by 2023 (1.1x S&P Global Ratings-calculated and 1.7x MWAA-calculated) assuming a base-case traffic recovery scenario; and
- Higher cost per enplanement and debt metrics with depressed traffic levels.

Environmental, social, and governance (ESG) 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 has resulted in significant operating and financial pressures for the authority. We analyzed physical risks related to environmental factors and consider MWAA to be moderately exposed to coastal flooding and storm surges for DCA specifically. Our assessment of governance factors is in line with our view of the standard for the airport sector.

Stable Outlook

Upside scenario

We could raise the rating over the next two years as the trajectory of MWAA's enplanement recovery and the stabilization of activity levels supports a stronger market position--MWAA's competitive position among regional and international gateway airports--and we believe S&P Global Ratings-calculated DSC will return to adequate levels while maintaining very strong liquidity.

Downside scenario

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

Credit Opinion

MWAA entered the pandemic operationally and financially strong with combined traffic from its two-airport system at an all-time peak, adequate DSC, and very strong overall liquidity levels. However, like all other airports that we rate, MWAA's enplanement levels were dramatically and negatively affected by the pandemic, declining to 7.8 million enplaned passengers in 2020, compared with 24.3 million in 2019. Domestic and international traffic were down 66% and 77%, respectively. This steep decline and anemic recovery precipitated a number of actions by MWAA, including reducing operating expenses (excluding workforce reductions as a condition of receiving federal grants), deferring capital spending and certain planned projects to preserve cash, and refunding bonds for debt service savings. While 2020 expenses declined 9.3% to $603 million from 2019 levels, 2020 aeronautical revenues (55% of operating revenues) fell almost 19% to $265 million while non-aeronautical revenues (45% of operating revenues) declined 50% to $218 million. Despite these pressures, the authority made significant progress on major construction works underway. These include the Dulles International Metrorail station and the new 14-gate north course and terminal expansion at DCA, including a significant relocation of security screen checkpoints, all part of the authority's $2.4 billion plan partially funded from about $800 million in future additional bonds through 2026.

In our view, MWAA has been proactive in mitigating and managing the financial implications of severe passenger declines and we expect projected financial performance metrics could return to levels consistent with the rating over the two-year outlook horizon if traffic recovers as projected. The authority has or expects to receive approximately $438 million in federal grants under the pandemic-targeted relief laws passed by Congress, including $229 million in Coronavirus Aid, Recovery, and Economic Security (CARES) Act funding, $42.7 million of grant funding under the Airport Coronavirus Response Grant Program (ACRGP), and $166 million under the American Rescue Plan Act (ARPA). The authority intends to use these non-capital grants--which we view as non-recurring, non-operating revenues and exclude from our DSC calculations--to pay operating expenses, offset debt service, or provide rent and revenue-sharing relief to concessionaires at the airports until activity levels improve. Approximately $74 million in CARES Act grants were drawn in 2020, leaving about $363 million to offset fixed costs or revenue losses from 2021-2024, which provides the authority flexibility while reducing cash flow generated from operations.

A key performance measure going forward, particularly for volume-based revenues, notably concessions (parking, rental car, food and beverage), is passenger traffic, which we believe the authority has conservatively projected under two recovery scenarios. Currently, the picture is improving rapidly, albeit from a severely depressed base. Forward-looking airline schedules (which can and do change depending on seasonality and bookings), and capacity as measured by flight operations and aircraft type are showing stepped increases in the coming months.

At DCA where American Airlines has the largest market share at 52%, average daily departures are anticipated to increase to approximately 75% of pre-pandemic levels by June 2021 and management expects airlines will return to utilizing their federally allocated slots (which were temporarily waived until Oct. 30, 2021) in the fall at this normally operationally constrained airport. Completion of the new north concourse will also improve regional hubbing efficiency for American as traffic recovers. Similarly, at IAD where United Airlines had a 72% market share and in 2019 was the sixth-largest hub in that airline's network based on departing seats, average daily departures are scheduled to increase to almost 100% of pre-pandemic levels by June 2021. As larger aircraft with more seats are substituted into schedules, the authority expects enplaned passengers will increase more gradually with system-wide traffic reaching about 85% of 2019's levels by 2023.

Although uncertainty remains and each of the authority's airports has exposures to travel segments we expect to lag in the recovery (i.e., business travel, which at DCA was estimated to be about 40% of originating passengers in 2019, and international travel, which at IAD generated 34% of enplaned passengers in 2019), as well as competition from Baltimore-Washington International for originating domestic passengers, we believe that actual enplanements could meet or exceed these conservative projections.

S&P Global Ratings expects U.S. economic activity and growth will accelerate in 2021 as public health conditions continue to improve. The steady pace of vaccination in the U.S. has allowed for the easing of capacity restrictions with many state and local governments fully or partially lifting mask mandates. Vaccination progress is part of our assessment of U.S. economic and credit implications across public finance (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

In addition to an improving public health picture, we see a positive tailwind for the U.S. airport sector provided by several factors including a rebounding U.S. economy, federal grants support, elevated disposable income, and pent-up demand for travel. We expect continued steady improvement in activity measures including passenger levels from a depressed base at different growth rates, depending on local or regional market characteristics (e.g., geography, composition of demand between leisure and business) as well as macroeconomic trends (e.g. global travel restrictions, government mandates and regulations). The extent to which the pandemic has permanently affected consumer travel behavior remains unclear, and while travel habits or patterns may eventually return to pre-pandemic levels, it is unlikely to occur at the same speed as the decline beginning in March 2020.

More broadly, we believe faster economic growth, lower recession risk, and higher levels of disposable income will propel the recovery. S&P Global Economics has raised real GDP growth forecasts for 2021 and 2022 to 6.5% and 3.1%, respectively, from 4.2% and 3.0% in the December forecasts and now expects the U.S. economy will return to 2019 levels during the second quarter, one quarter earlier than without the stimulus. An accelerating U.S. economic recovery has also reduced the risk of recession over the next 12 months to a much lower 10%-15% from 20%-25%. After falling by 3.9% last year, a 73-year record low, consumer spending is expected to jump by 6.9% in 2021, a 66-year high, and 4.2% the following year. (See "Economic Outlook U.S. Q2 2021: Let The Good Times Roll", March 24, 2021.)

MWAA benefits from providing important air service to the region under a long-term federal lease expiring in 2067. DCA (860 acres, 58 contact gates, and three runways) is across the Potomac River from Washington in Arlington, Va., serving mostly domestic flights. IAD (11,830 acres, 97 contact gates, and 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).

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- How We Apply Our Global Not-For-Profit Transportation Infrastructure Enterprise Criteria, Nov. 2, 2020

Ratings Detail (As Of May 20, 2021)		
Metropolitan Washington Arpts Auth arpt sys var rate bnds (AMT) ser 2010D dtd 08/03/2020 due 10/01/2040		
Long Term Rating	AA+/A-1	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Ratings Detail (As Of May 20, 2021) (cont.)		
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT (FGIC)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Metropolitan Washington Arpts Auth JOINTCRIT		
Long Term Rating	AA+/A-1	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Metropolitan Washington Arpts Auth JOINTCRIT		
Long Term Rating	AA+/A-1+	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Metropolitan Washington Arpts Auth JOINTCRIT		
Long Term Rating	AA+/A-1	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Metropolitan Washington Arpts Auth JOINTCRIT		
Long Term Rating	AA+/A-1+	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Stable	Affirmed
Metropolitan Washington Arpts Auth AIRPORT		
Long Term Rating	A+/Stable	Affirmed

Ratings Detail (As Of May 20, 2021) (cont.)

Many issues are enhanced by bond insurance.