

RatingsDirect®

Summary:

Pensacola, Florida Pensacola Regional Airport; Airport

Primary Credit Analyst:

Joseph J Pezzimenti, New York (1) 212-438-2038; joseph.pezzimenti@standardandpoors.com

Secondary Contact:

Todd R Spence, Dallas (1) 214-871-1424; todd.spence@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Pensacola, Florida Pensacola Regional Airport; Airport

Credit Profile

Pensacola, Florida

Pensacola Regl Arpt, Florida

Pensacola

Unenhanced Rating BBB(SPUR)/Stable Outlook Revised

Pensacola (Pensacola International Airport)

Long Term Rating BBB/Stable Outlook Revised

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has revised its outlook on Pensacola, Fla.'s airport revenue bonds issued for Pensacola Regional Airport (PNS) to stable from negative. At the same time, Standard & Poor's affirmed its 'BBB' rating on the bonds.

The outlook revision reflects our view of improved debt service coverage (Standard & Poor's-calculated) and liquidity that we expect will continue at sufficient levels for the rating.

The rating reflects our assessment of the following credit weaknesses:

- Below average (although adequate) debt service coverage (DSC; Standard & Poor's-calculated) and liquidity position for an airport this size;
- Fluctuating enplanement trends; and
- Moderately high exposure to Delta Air Lines Inc. and its affiliates, which accounted for approximately 43% of fiscal 2014 total enplanements.

In our view, offsetting credit strengths include:

- A good origin-destination market, which we believe provides PNS with a good base of demand that has been no lower than about 701,000 enplanements from fiscal years 2005-2014; and
- No additional general airport revenue bond (GARB) needs.

PNS' net revenues secure the series 2005A, 2008A, and 2008B GARBs, as well as a 2010 Compass Mortgage bank bonds and 2012 Coastal Bank and Trust bank notes that are on par. In addition, a portion of passenger facilities charges (PFCs) are committed to pay part of the debt service on the airport's 2008B airport revenue bonds. Although the 2010 and 2012 GARB notes are privately placed, they do not pose any contingent liquidity risk because they share the same events of defaults and remedies as airport's other GARBs. The airport has approximately \$60.9 million of

GARB debt, or \$78.74 per enplaned passenger.

PNS also has privately placed Bank of American revenue notes series 2012, of which \$11.8 million remains outstanding. A portion of the airport's customer facility charge (CFC) revenues secure these obligations alone. The notes, however, do have some acceleration provisions. We view the credit exposure to PNS limited because these obligations are solely secured by CFC revenues. The notes mature Dec. 31, 2015. Pensacola intends to roll the notes in December 2015, while paying down the principal by about \$1.5 million to \$2.7 million with available CFC revenues.

Much like many airports, PNS' demand fell in fiscal years 2008 and 2009 because of record fuel prices in the summer of 2008, the recession, and most airlines' resulting reduction in domestic capacity. The airport's enplanement trends, however, fared worse than national trends for scheduled domestic enplanements, with 13.9% fewer passengers at fiscal year-end 2009 (Sept. 30), while domestic scheduled enplanements on U.S. airlines fell 7.2%. Enplanements for fiscal year-end 2010 and 2011 increased 2.7% and 8.3% respectively. Enplanements in fiscal 2012 fell again by 3.1%, before increasing 0.3% in fiscal 2013 and 2.1% in fiscal 2014 to nearly 774,000. PNS benefits from its proximity to Pensacola's military bases, which provide a good base of air travel demand. A financial forecast management provided shows enplanements steadily increasing to 890,000 in fiscal 2020 from about 778,000 in fiscal 2015, which we believe might be too optimistic given the airport's fluctuating enplanement trends.

Delta is the primary carrier at PNS, accounting for 43% total enplanements in fiscal 2014, followed by American Eagle at 29%, and Southwest Airlines Co. at 14%. These three account for approximately 86% percent of enplanements. We view the airport's airline cost structure as moderate, averaging \$7.26 per enplaned passenger from fiscal years 2012-2014. Airport management projects cost per enplanement being no higher than \$8.67 from fiscal years 2015-2020.

We view the airport GARB DSC as adequate. More specifically, DSC (Standard & Poor's-calculated, which excludes previous-year transfers and includes committed PFCs in the numerator rather than as an offset to debt service) was a slim 1.04x in fiscal 2012 before improving to 1.26x in 2013 and 1.34x in 2014. Although we view DSC (Standard & Poor's-calculated) as below average for an airport of this size, we expect it to remain adequate. DSC (Standard & Poor's-calculated) based on the airport's financial projections is no lower than about 1.47x through fiscal 2020.

PNS' indenture coverage, which includes transfers from the previous period, exceeded the 1.25x requirement. Indenture coverage was 1.84x in fiscal 2012, 1.62x in fiscal 2013, and 1.80x in fiscal 2014. Although the airport has the legal flexibility to satisfy its rate covenant with unlimited use of previous-year transfers, we expect management will operate PNS such that annual debt service coverage per our calculations will consistently exceed 1x.

The airport's liquidity levels have been a credit concern before recently improving to levels we consider adequate. PNS' unrestricted cash position was only \$611,000 (16 days' cash on hand) in fiscal 2012 before improving to \$7.8 million (225 days) in fiscal 2013 and \$10.7 million (319 days) in fiscal 2014. We expect the airport's liquidity to remain adequate. Management reported an unaudited unrestricted cash and investments balance of approximately \$8.5 million as of March 31, 2015, which management projects will continue at or above this level through fiscal 2020.

The 2015-2018 capital improvement program (CIP) for PNS totals approximately \$24.3 million. Expected funding sources include \$13.4 million (55%) of federal funds, \$6.4 million (27%) of local funds, and \$4.3 million (18%) of Florida

Department of Transportation funds. Key CIP projects include a \$6.7 million cargo apron rehabilitation and expansion project, approximately \$7.1 million allocated to projects related to commerce park project, and \$5.4 million in taxiway rehabilitation projects. The airport has no additional GARB debt planned.

PNS has one swap outstanding, hedging the \$6.9 million 2010 revenue bonds. Compass Mortgage Corp. is the swap counterparty. As of Sept. 30, 2014, the swap had a mark-to-market value of negative \$130,078, not in the airport's favor. PNS has no collateral posting requirements under the swap nor is the termination of the swap tied to the rating falling to a certain level. Consequently, we view the swap termination provisions as posing low contingent liquidity risk.

Outlook

The stable outlook reflects expectation that PNS will maintain consistently adequate DSC (Standard & Poor's-calculated) and liquidity position and enplanements will be near current levels. We could lower the rating if the airport fails to maintain adequate DSC (Standard & Poor's-calculated) and liquidity position or if it experiences a material drop in demand. We don't expect to raise the rating in the next two years, but could beyond then if DSC (Standard & Poor's-calculated) and liquidity improve to levels we consider good and sustainable, and demand is relatively stable.

Related Criteria And Research

Related Criteria

- Criteria: Airport Revenue Bonds In The U.S. And Canada, Nov. 15, 2013
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

Related Research

- 2015 U.S. Airport Medians Report: Proactive Management Actions And Improving Demand Should Allow Most Airports To Maintain Credit Quality, Feb. 12, 2015

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.