



RATING ACTION COMMENTARY

Fitch Rates Alaska International Airport Sys Revs Series 2021 'A+'; Outlook Stable

Fri 23 Jul, 2021 - 3:35 PM ET

Fitch Ratings - New York - 23 Jul 2021: Fitch Ratings has assigned an 'A+' rating to Alaska International Airport System's (AIAS) approximately \$88 million of senior refunding revenue bonds, series 2021A, 2021B and 2021C, issued by the State of Alaska. The Rating Outlook for all bonds is Stable. The state of Alaska owns AIAS, which operates the Anchorage (ANC) and Fairbanks (FAI) international airports, as well as the Lake Hood/Spennard Seaplane Base.

RATING RATIONALE

The rating reflects AIAS' well-anchored cargo position and air service monopoly, supported by a modestly sized traffic base, conservative debt structure and a stable financial profile. Cargo activities have a long track record at AIAS but remain volatile in nature, which is somewhat mitigated by the airport system's stable pre-pandemic passenger enplanement base of over three million. AIAS' fully residual rate methodology results in a strong financial profile, with modest operating revenue growth, and controlled operating expenses. Its liquidity position remains strong with over 600 days cash on hand (DCOH) as of fiscal 2020.

Leverage (net debt to cash flow available for debt service [CFADS]) remains relatively low, with a peak of 3.2x in Fitch's rating case.

KEY RATING DRIVERS

Essential Market Position - Revenue Risk (Volume): Midrange

Air travel is essential in Alaska due to a lack of alternatives, which provided a stable pre-pandemic origination and destination (O&D) base of over 3.4 million. Two major airports, Anchorage (ANC) and Fairbanks (FAI), are strategically located for air cargo along the great circle route. Cargo, which provides over half of total operating revenues, benefits from recent trends in e-commerce spending but remains exposed to volatility in economic patterns.

Favorable Rate Setting Approach - Revenue Risk (Price): Stronger

Carriers operate under a full residual operating agreement, which allows AIAS to set and adjust rates to ensure sufficient revenues for operating and maintenance, reserves and the rate covenant. The operating agreement became effective in 2014 for a period of 10 years. Cost per enplanement (CPE) was \$12.39 in fiscal 2020, within the range of its peers.

Modest Capital Program - Infrastructure Development and Renewal: Stronger

The airport system's capital program of \$120 million from fiscal 2022 through fiscal 2023 is funded through grants and internal reserves. The largest project, resurfacing the ANC airfield, is allotted approximately \$30 million per year through fiscal 2023. Terminal facilities are relatively new and in good condition.

Conservative Debt Structure - Debt Structure Stronger

The system has a conservative debt structure, with entirely fixed rate debt after the series 2021 refunding, along with relatively standard covenants and reserve requirements. AIAS has a track record of accelerating its leverage reduction by using available cash to pay down debt and lower annual debt service.

Financial Profile

AIAS's healthy balance sheet helped manage financial metrics of 2.1x net debt to CFADS, \$126 debt per enplanement, and 630 DCOH in fiscal 2020. The debt service coverage ratio (DSCR) in fiscal 2020 was 2.6x with PFCs included as revenues. AIAS' DSCR is expected to decrease toward the 1.25x rate covenant under Fitch's rating case over the next few years as the airport system reduces charges under the residual airline agreements. Net debt to CFADS remains strong, between 1.5x and 3.5x in Fitch's rating case, varying as rates are adjusted and CARES Act funds decline.

PEER GROUP

Louisville (A+/Negative) and Memphis (A/Stable) airports are Fitch-rated peers with dual dependency on cargo operations and passenger traffic. Memphis has higher leverage at 10.6x in fiscal 2020 and less liquidity than AIAS.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--While positive rating action in the near term is not expected given recovery uncertainties, a continued period of positive passenger and cargo trends, coupled with leverage remaining at low levels taking into account future capital needs, could position AIAS for an improving credit profile.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--New borrowings for non-revenue-generating projects that would materially increase total leverage above the historical 5x to 7x range;

--Significant cargo and passenger enplanement volatility and material changes in internal liquidity;

--Management's inability to continue to successfully control operating costs, resulting in rising airline costs on a sustained basis.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

TRANSACTION SUMMARY

AIAS expects to issue approximately \$89 million senior refunding revenue bonds, series 2021. Proceeds will completely refund AIAS' outstanding 2009A (variable rate), 2010A, 2010C and 2010D bonds, fund the debt service reserve, and cover the costs of issuance. The bonds will be fixed rate, refund all existing AIAS variable rate debt, and be on parity with existing senior bonds. The refunding is expected to provide approximately \$25 million in net present value savings (or 17% of refunded principal) and amortize through fiscal 2036, without extending the maturity of the refunded bonds. Sources for the transaction also include AIAS' contribution of approximately \$51 million in available cash and funds set aside for debt service on the refunded bonds, reducing total outstanding revenue bond debt from the current \$319 million to approximately \$254 million post-transaction.

CREDIT UPDATE

Performance Update

Air cargo is an essential component of AIAS' operational and financial strength, and Fitch expects AIAS will continue to be served by various U.S. and foreign-flag carriers. Cargo as measured by certified maximum gross takeoff weight (CMGTW) surged during the pandemic, increasing by 19% and 30% in fiscal 2021 relative to fiscal 2020 and fiscal 2019, respectively. Combined cargo and passenger CMGTW increased by 13% in fiscal 2021, compared with growth of 5% and 2% in fiscal years 2020 and 2019, respectively. Large carriers such as UPS and Cathay Pacific Airways refuel in Alaska, accounting for 14% and 13% of total CMGTW in fiscal 2020, respectively. FedEx, Atlas Air and China Airlines each

has significant market share, ranging from 7% to 10%. Almost all airlines that refuel in Alaska have the ability to bypass AIAS airports, which presents a risk to cargo volumes. However, the risk is partially mitigated by certain economic advantages that stem from using AIAS for carrying more cargo as well as the investments in place by FedEx and UPS for training and cargo sorting facilities at ANC.

Enplanements decreased by 45% in fiscal 2021 year to date (through May) and 22% in fiscal 2020 due to the pandemic. The peak monthly decline of 89% occurred in April 2020. The monthly declines have steadily improved since with March 2021 monthly enplanements down 28% compared to May 2019. Alaska Airlines is the dominant carrier, accounting for 69% of enplanements in fiscal 2020. Carrier concentration is not an immediate credit concern, although sustained single-carrier dominance could pose future challenges to pass costs to passenger carriers if cargo revenue declines in future years. AIAS is historically 100% O&D because, while ANC and FAI are hubs, aviation/other alternatives are not present, which is a credit strength.

Operating revenues, comprising airfield and non-airfield revenues, decreased 3.2% to \$137 million in fiscal 2020 due to the onset of the pandemic in the fourth quarter. Total revenues, including \$9.9 million out of the \$33.1 million in CARES Act funds and PFC charges applied to debt service of \$8.5 million, increased 5.1% in fiscal 2020. The airport system plans to allocate remaining CARES Act funds and additional funds from the Coronavirus Response and Relief Supplemental Appropriation Act (CRRSAA) and American Rescue Plan Act (ARPA) from fiscal 2021 through fiscal 2023. Unaudited operating revenue in fiscal 2021 declined by approximately 13% according to preliminary results. The decline is due to the pandemic and downward adjustments to rates facilitated by CARES Act funding. Operating expenses decreased 5.3% in fiscal 2020, partially due to an adjustment adding back a \$7.7 million non-cash pension liability re-allocation in fiscal 2019.

Although the conduit bonds issued to finance construction of the Anchorage CONRAC facility are not an AIAS liability, AIAS contributed \$3.1 million of its CARES Act funds to reduce the customer facility charge (CFC) rate back to the Dec, 31, 2020 level, effective April 1, 2021. The ANC CONRAC facility increased its CFC fee by 106% on Jan. 1, 2021 due to reduced rental car volumes during the pandemic.

For more information on AIAS, please see Fitch's press release 'Fitch Affirms AIAS Revenue Bonds at 'A+'; Outlook Revised to Stable' dated May 5, 2021 and available at www.fitchratings.com.

SECURITY

The bonds are secured by a pledge of net airport system revenues. The state also applies PFC funds to pay debt service.

Asset Description

The State of Alaska owns AIAS, which operates Anchorage (ANC) and Fairbanks (FAI) international airports as well as the Lake Hood/Spennard Seaplane Base. ANC is the primary passenger airport in the state and is an important international cargo airport. FAI is an essential transportation and distribution center for interior and northern Alaska.

DATE OF RELEVANT COMMITTEE

04 May 2021

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
-------------	--------	-------

ENTITY/DEBT	RATING	PRIOR
Alaska International Airports System (AK)		
● Alaska International Airports System (AK) /Airport Revenues/1 LT	LT	A+ Rating Outlook Stable Affirmed
		A+ Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Anne Tricerri

Director

Primary Rating Analyst

+1 646 582 4676

anne.tricerri@fitchratings.com

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

Erik Diehl

Analyst

Secondary Rating Analyst

+1 312 205 3397

erik.diehl@fitchratings.com

Scott Monroe, CFA

Senior Director

Committee Chairperson

+1 415 732 5618

scott.monroe@fitchratings.com

MEDIA CONTACTS

Sandro Scenga

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[Infrastructure and Project Finance Rating Criteria \(pub. 24 Mar 2020\) \(including rating assumption sensitivity\)](#)

[Airports Rating Criteria \(pub. 22 Oct 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.3.0 ([1](#))

ADDITIONAL DISCLOSURES

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Alaska, State of (AK)

EU Endorsed, UK Endorsed

DISCLAIMER

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, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. 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 WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2021 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.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Industrials and Transportation US Public Finance Infrastructure and Project Finance

North America United States
