S&P Global Ratings

RatingsDirect®

Summary:

Manchester, New Hampshire Manchester Boston Regional Airport; Airport

Primary Credit Analyst:
Kevin R Archer, Chicago (312) 233-7089; Kevin.Archer@spglobal.com

Secondary Contact:
Kurt E Forsgren, Boston (1) 617-530-8308; kurt.forsgren@spglobal.com

Table Of Contents

Summary:

Manchester, New Hampshire
Manchester Boston Regional Airport; Airport

Credit Profile		
Manchester, New Hampshire		
Manchester Boston Regl Arpt, New Hampshire		
Manchester (Manchester Boston Regional Airport)		
Long Term Rating	BBB+/Stable	Affirmed
Manchester (Manchester Boston Regl Arpt) gen arpt rev bnds rfdg (Non-amt)		
Long Term Rating	BBB+/Stable	Affirmed
Manchester (Manchester Boston Regl Arpt) AIRPORTS		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Manchester (Manchester Boston Regl Arpt) AIRPORTS		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Manchester (Manchester Arpt)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on Manchester, N.H.'s general airport revenue refunding bonds, issued for Manchester Boston Regional Airport (MHT). The outlook is stable.

The ratings reflect our view of a small-hub airport with still-declining passenger traffic, a high debt burden, and weak debt service coverage (DSC) levels.

More specifically, credit weaknesses include our assessment of the following:

- Recent trend of declining enplanements, currently at about 1.0 million but down from 2.0 million in fiscal 2008;
- Continued weak, although stabilized, DSC (S&P Global Ratings-calculated), including 1.19x in fiscal 2016; and
- Debt per enplanement of approximately $154 in fiscal 2016,which we consider relatively high. However, it has declined in recent years.

We believe specific credit strengths include the following:

- Management's regular actions to adjust midyear for actual revenue by cutting expenses and increasing revenues, and reducing the overall debt burden and annual debt service through recent refundings;
- Strong liquidity, with a position of about $30 million including operating reserves, or 442 days' cash on hand, based on fiscal year-end 2016 results; and
- A manageable, $43 million five-year capital improvement program (CIP) through fiscal 2022, with no additional debt plans.

Bonds outstanding totaled about $150.4 million as of August 2017, down from $220 million in 2011; they mature in 2032. We consider the debt portfolio to be conservatively managed. All debt is fixed-rate. The airport has entered three direct purchase agreements; however, the bond purchase agreements for these transactions do not give any additional rights other than the rights granted to the bond owners under the general resolution.

MHT, which the city of Manchester owns and operates, is in Manchester and Londonderry, N.H., and 58 miles north of Boston. The airport serves a primary air service area population of up to 1.6 million. This proximity benefited MHT when Southwest Airlines Co. initiated service in fiscal 1998, then expanded it as traffic increased to a peak of 2.1 million enplaned passengers in fiscal 2005. However, traffic has decreased approximately 50% since, to approximately 1.04 million enplanements in fiscal 2016. We believe the declines reflect primarily service-level decisions by air carriers, particularly the ongoing contraction of service at the airport by Southwest after it decided to initiate service at Boston Logan in August 2009. The declines also reflect the recession; the contraction of the airline industry, particularly at small-hub airports such as MHT; and the expansion of JetBlue Airways Corp. and other low-cost alternatives at nearby Logan. Despite this growth and then declines, overall enplanements grew to 1.04 million in fiscal 2016 from 0.6 million in fiscal 1998. S&P Global Ratings believes that enplanements will remain near the 1.0 million mark. Fiscal year 2017 enplanements were down 5.3% but management indicates this was primarily attributable to more weather-related flight cancellations during January and February. Airlines, and not airport management, decide flight cancellations.

In our opinion, management has prudently managed finances with the operating challenges the airport has faced. Management has historically maintained a strong cash position, although it has declined slightly. For fiscal 2016, unrestricted cash (including operating reserves) was $30 million or 442 days' cash on hand, down from $35 million or 495 days in fiscal 2015. The decline in fiscal 2016 was due to the use of cash for the new consolidated car rental facility. For fiscal 2017, management projects unrestricted cash to increase $32.6 million or 476 days

DSC calculated as per the indenture, which allows the use of fund balances in the definition of revenues and debt service offset with a portion of dedicated passenger facility charges (PFCs), declined to 1.42x in fiscal 2015 from 1.83x in 2013. For fiscal 2016, DSC increased slightly to 1.60x. For comparative purposes, S&P Global Ratings' DSC calculation excludes coverage accounts and adds PFCs to revenue rather than using them as a debt service offset; under this calculation, DSC declined to 1.1x in fiscal 2015 from a high of 1.4x in fiscal 2007. For fiscal 2016, DSC increased slightly to 1.19x, but we consider this DSC to be low. The fiscal 2016 median DSC (S&P Global Ratings-calculated) for a small-hub airport was 1.94x and for a 'BBB' rated airport was 1.53x.

Management extended the airline lease and use agreements through June 30, 2020. The agreements are hybrid, with the terminal being compensatory and the airfield costs residual. They allow flexibility for MHT to increase fees with a 30-day notice should covenant levels look to be not achievable, and the airport can factor in $5 million for amortization of capital projects, an increase from $1 million in the original 1999 agreements. The cost per enplanement is moderate relative to those of other airports in the region, at just over $13.50 in fiscal 2017, but it has increased from $8.98 in fiscal 2013.

We consider MHT's CIP manageable. The six-year CIP (2017 through 2022) will cost about $43.3 million, and management has no additional debt plans. The program is funded primarily ($39.0 million) through federal grants. In addition, cash will fund about $2.2 million of the program, which we do not expect will have a major effect on the airport's liquidity position. Other sources of funds include state grants ($2.2 million).

MHT has $150.4 million in long-term debt as of Aug. 2, 2017. The airport's debt portfolio is 100% fixed-rate. We consider the debt per enplanement to be high, at $154. MHT entered a direct placement with Century Bank (Massachusetts) to refund the series 2008 variable-rate bonds with the series 2013A fixed-rate debt. The airport also refunded the series 2005A bonds with two fixed-rate direct placements with TD Bank N.A.: the series 2014A and series 2015A fixed-rate bonds. The agreements do not include any bank-favorable provisions, acceleratable events of default covenants, or cross-default allowances. S&P Global Ratings views these direct placements as on par with other general airport revenue bond debt.

Outlook

The stable outlook reflects our expectation that, despite any further significant declines in enplanements, MHT will maintain its strong liquidity position and adequate DSC (S&P Global Ratings-calculated).

Upside scenario

We do not expect to raise the rating during the two-year outlook period due to the relatively high debt load for the rating category and our expectation that the airport's overall credit profile will remain largely the same.

Downside scenario

We could lower the rating during the outlook period if financial metrics were to materially fall below historical levels.