Fitch Rates Miami-Dade County, FL's Aviation Revs 'A'; Outlook Stable

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NEW YORK--(BUSINESS WIRE)--Fitch Ratings assigns an 'A' rating to Miami-Dade County, Florida's approximately $736 million aviation revenue refunding bonds series 2014A&B, issued on behalf of the Miami-Dade County Aviation Department (MDAD). Fitch also affirms the county's $5.74 billion parity aviation revenue bonds at 'A'. The Rating Outlook is Stable.

KEY RATING DRIVERS

RATING RATIONALE: The rating reflects the airport's strong position in the south Florida market for both domestic and international air service. Miami stands-out as one of nation's strongest international gateway airports with a dominant position for Latin American and Caribbean air services. The airport's capital program is essentially complete while the financial metrics have exhibited stability in recent years. Leverage is expected to remain at levels consistent with the current rating levels.

Revenue Risk - Volume: Midrange

LEADING INTERNATIONAL GATEWAY AIRPORT: MIA is a well-positioned, leading international gateway airport to serve the building Latin American market. Despite shifting trends in the aviation industry and competition from nearby Fort Lauderdale Airport, overall traffic activity remains robust with approximately 20.2 million enplanements. The passenger base is well-balanced for both origination/destination (O&D) and connecting passengers as well as international and domestic operations. American Airlines maintains a sizable connecting hub at Miami serving 67% of total passengers. American's recently completed merger with US Airways does remove the near term uncertainty over the carrier's future service decisions. The Miami air travel market is well anchored and the airport has a solid franchise for significant traffic activity.

Revenue Risk - Volume: Stronger

RESIDUAL RATE SETTING: All of the airport's costs are adequately covered by the use agreement rate setting mechanisms. The current agreement extends until 2017. While airline costs have been relatively high, with the estimated cost per enplanement (CPE) of slightly above $20 for fiscal years 2013 and 2014, updated CPE forecasts indicate stability at current traffic levels based on the combination of improving non-airline revenue trends as well as lower post-construction operating costs.

Debt Structure Risk: Stronger

CONSERVATIVE DEBT STRUCTURE: All of the airport's debt are fixed rate obligations and amortize with mostly level debt service through final maturity in 2041. Most of the debt service reserves are funded with cash and investments.

Infrastructure Development/Renewal Risk: Stronger

CAPITAL PROGRAM COMPLETION: Substantially all of the $6.5 billion capital program has been expended and the overall budget has remained intact over the past several years. MDAD expects future needs will be far smaller in scale and additional borrowings are not foreseen over the near term.

HIGH LEVERAGE AND MODEST COVERAGE: Airport debt levels (approx. $290 per enplanement and 12x net debt/CFADS) in conjunction with past financings for a terminal driven capital program are very high. Leverage should slowly moderate over the next five years but still remain elevated at 11x - 12x. Debt service coverage ratios (DSCR) on a historical basis are stable at close to 1.54x but are supported by fund balance transfers and debt service offsets from passenger facility charge deposits.

PEERS: Peers to Miami Airport would include other major hubs and international gateway airports, such as Dallas-Ft. Worth (DFW, rated 'A') and Chicago O'Hare (rated 'A-'). Each of these airports has sizable traffic bases, significant hubbing operations and large debt burdens to support capital programs.

RATING SENSITIVITIES

Negative - Material losses or increased volatility in aviation activity, considering the particular exposure to the operations of American Airlines, could result in rating pressure.

Negative - Operating costs that trend materially above current forecast parameters, also leading to upward revisions to airline costs weaken credit quality.

Negative - Development of a new capital program that results in raising leverage metrics would pressure the rating.

Positive - Expansion of the traffic base of carrier mix diversification that leads to improved financial and cost flexibility may lead to a positive rating development.

SECURITY

The bonds are secured by net revenues of the county's Port Authority Properties (PAP), the main asset of which is MIA.

TRANSACTION SUMMARY

The county intends to issue approximately $736 million in parity aviation revenue refunding bonds for the purposes of generating debt service savings. The bonds are expected to be issued in fixed rate mode with a final maturity in 2037. The 'A' rating on the refunding bonds is consistent with the affirmed rating on MIA's outstanding parity aviation revenue bonds.

MIA's enplanement activity continues to demonstrate growth with an increase of 1.7% in fiscal 2014 to 20.2 million enplanements. The overall passenger traffic growth rates appear to be slowing from those seen several years ago although Fitch notes that the overall traffic resiliency reflects the relative strength of international traffic, particularly to Latin American markets that have close economic and cultural ties to the Miami metropolitan area. Expanded services from American are also a result of increased gate availability at the airport's North Terminal facility. The airport is served by a diverse mix of airlines, including 10 scheduled domestic carriers, 41 scheduled foreign flag airlines, and 25 all cargo carriers. Miami's leading role for international operations is not only relevant for passenger operations but as well for air cargo. Miami currently ranks in the top two positions for U.S. airports in terms of nonstop international destinations and international air cargo tonnage.

Still, Fitch views future traffic stability to remain an ongoing risk consideration given the high concentration of traffic from American's operations. American and its affiliate American Eagle collectively represents 67% of MIA's total passenger traffic and support a key part of the airport's domestic and international traffic operations. American's market share of total passenger traffic has remained mostly stable over the past several years and Fitch does not expect the recent American merger with US Airways to have material changes to the operational activities.

In addition to general economic conditions, both domestically as well as internationally across Latin American regions, MIA's base of service also faces ongoing competitive threats for its domestic O&D traffic from nearby Ft. Lauderdale Airport (FLL). FLL currently has a much lower cost profile and is served by a broader diverse mix of domestic legacy and low cost carriers. FLL is also undergoing a substantial expansion and redevelopment on both its airfield and terminal facilities, and could create a more challenging environment for MIA with regards to sustaining the traffic growth off its existing passenger traffic base.

Taking into consideration the airport system's residual rate-setting methodology, financial operations have been largely stable over the past several years with debt service coverage holding in the 1.45x to 1.55x range, taking into account Improvement Fund transfers. Airline revenues account for about 50% of total revenues and have increased measurably in recent years to support the airport's growing cost base. However, non-airline commercial revenues have also risen in conjunction with the rising traffic levels. Otherwise, coverage is typically at or near the 1.2x - 1.25x range net of the use of such transfers.

MIA's approximately $5.7 billion in senior-lien debt translates to approximately $290 per enplanement based on the 2014 traffic base but no additional debt is planned over the next several years to complete the funding of the current capital program. Estimated net debt to CFADS for fiscal 2014 is high for large hub airports at 12x but will ultimately moderate. Airport unrestricted fund balances at about $273 million in FY2014, or 258 days cash on hand, have been largely stable but somewhat constrained given the residual airline agreements.

Fitch notes that the airport's current $6.5 billion capital program is substantially complete and remains at about the budget estimates indicated over the past several years. Key projects tied to terminal redevelopment have been completed including the new in-line baggage system to service the newly rebuilt North Terminal (Concourse D). At this time Fitch views the capital program risk to be minimal to the credit profile.

Estimated airport CPE was $20.54 in fiscal 2014, a modest increase from $20.39 in fiscal 2013. These levels are generally high even for international gateway airports. However, the most recent CPE forecast report indicates materially lower growth trends as seen from previous projections. The combination of rising passenger levels, growing non-airline revenues, and containment in operating costs results in CPE rising to less than $22-$23 range by 2018. Earlier forecasts assumed CPE levels rising to $30 and higher over the same time period. Fitch notes the airport's forecasted CPE may become a barrier to bring in new carrier service for domestic based traffic but is partially mitigated by higher yields typically attained by the airlines for international travel

Additional information is available at 'www.fitchratings.com'.