S&P Global Ratings

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## Summary:

# Rhode Island Commerce Corp. Rhode Island Airport Corp.; Airport

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**Summary:**

# Rhode Island Commerce Corp. Rhode Island Airport Corp.; Airport

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| **Rhode Island Commerce Corp, Rhode Island** | | |
| Rhode Island Airport Corp, Rhode Island | | |
| Rhode Island Commerce Corp arpt | | |
| *Long Term Rating* | A/Stable | Upgraded |
| Rhode Island Commerce Corp arpt (AGM) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Upgraded |
| Rhode Island Commerce Corp arpt (BAM) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Upgraded |
| Rhode Island Commerce Corp (Rhode Island Arpt Corp) arpt | | |
| *Long Term Rating* | A/Stable | Upgraded |

Many issues are enhanced by bond insurance.

## Credit Highlights

- S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'A' from 'A-' on Rhode Island Commerce Corp.'s general airport revenue bonds, issued for Rhode Island Airport Corp. (RIAC).
- The outlook is stable.
- The rating action reflects our view of a strong rebound in national air travel demand, as well as a recovery in RIAC passenger traffic in 2022, following a steep decline during the COVID-19 pandemic.
- RIAC projects further strong passenger growth in 2023 will bring enplanements fully back to pre-pandemic levels in the summer of 2023 based on recently announced route expansions by airlines serving its main airport, Rhode Island T.F. Green Airport (PVD). We believe traffic levels are likely to return to near pre-pandemic levels, thus supporting an improved market position assessment and strong enterprise risk profile.

### Security

RIAC's net revenues secure the bonds. Cash-funded debt service reserve accounts that meet the lesser of 10% of par, 1.25x average annual debt service, or a maximum annual debt service test also secure RIAC's debt outstanding. The corporation also maintains fully cash funded debt service, except for its direct-purchase debt. All debt is fixed-rate, and the airport has not entered any swap transactions.

Security provisions include a 1.25x rate covenant (including pledged passenger facility charges and transfers as required); a projected additional bonds test based on the rate covenant; and a 25% limit on transfers to the revenue fund from the general fund.

As of audited June 30, 2022, PVD has approximately $169.1 million in airport revenue bonds outstanding.

## Credit overview

The rating action reflects our view of a strong rebound in national air travel demand, as well as a recovery in RIAC passenger traffic in 2022, following a steep decline during the pandemic. RIAC projects further strong passenger growth in 2023 will bring enplanements fully back to pre-pandemic levels in the summer of 2023 based on recently announced route expansions by airlines serving its main airport. We believe traffic levels are likely to return to near pre-pandemic levels, thus supporting an improved market position assessment and strong enterprise risk profile. For more information on national trends, see "U.S. Transportation Infrastructure 2023 Activity Estimates Show Air Travel Likely To Fully Recover, With Transit Ridership Still Lagging," published Jan. 9, 2023, on RatingsDirect.

PVD entered the pandemic operationally and financially strong, with traffic at approximately 2 million enplaned passengers, and strong debt service coverage (DSC) and overall liquidity levels. Nevertheless, the airport's activity levels fell during the pandemic, comparable with the industry, to about 60%-70% year over year. However, over the past 12 months, PVD's monthly enplaned passengers have climbed back to about 80% of 2019 pre-pandemic levels, with one-month December 2022 enplanements at 79% of December 2019 enplanements. Based on nine recently announced route expansions by airlines serving PVD, RIAC projects that passenger traffic will be fully back to 2019 levels by the summer of 2023.

The rating reflects our opinion of PVD's strong enterprise risk and financial risk profiles. The enterprise risk profile reflects a significant origin and destination nature with relatively good air carrier diversity. Boston Logan International Airport is the nearest competitor, approximately 60 miles away. Southwest Airlines Co. remains the primary commercial carrier, enplaning approximately 31% of traffic in calendar 2022, down slightly from previous years.

Our financial risk profile assessment is also strong, based on strong management that has used federal stimulus funds and high cash on hand to manage through the pandemic, and our belief that improved limited future debt needs and recovered passenger traffic trends can support higher ongoing revenues and DSC comparable to pre-pandemic levels. Our financial risk profile incorporates our expectation RIAC will exhibit at least adequate ongoing financial performance; the airport's moderate cost and debt structure ($12.07 cost per enplanement and $117 debt per enplanement--all for 2022); debt-to-net revenues at 7.6x with no additional debt plans in the near term; and very strong liquidity (our calculation of 875 days' cash on hand in fiscal 2022). RIAC net revenues have been running more than $5 million above budget so far in fiscal 2023 year to date through October 2022. Its liquidity improved during the pandemic, in part the result of being award $46.8 million of federal stimulus funds, of which RIAC has received and utilized only about 51% to date.

Key credit strengths, in our opinion, include RIAC's:

- Very strong liquidity and financial flexibility, with several years of rising liquidity levels, reaching $85.5 million in unrestricted cash and equivalents at fiscal year-end 2022 (cash further improved to $94.5 million as of November 2022);
- Very strong management and governance, with a good track record of operating the major lines of business and managing risk, as evidenced by high liquidity, conservative budgeting, and meeting financial targets; and
- Very strong debt and liability capacity, with a manageable capital improvement plan and no additional debt needs in the near term.

A key credit weakness offsetting the above strengths, in our view, is our calculation of only 1.01x maximum annual debt service coverage in fiscal 2022, when excluding passenger facility charges and federal aid (although RIAC calculates 2.04x annual DSC and compliance with its rate covenant when including these revenues), combined with a competitive rating-setting environment within the Boston area, which in our view weakens cash flow generation ability from activity-based revenue sources.

### Environmental, social, and governance

We analyzed RIAC's risks and opportunities related to environmental, social, and governance credit factors relative to the corporation's market position, management and governance, and financial performance. Health and safety risks, which we consider a social risk factor, are abating, as reflected in PVD's enplanement recovery, but are moderately negative in our analysis of the sector, given the shock that these types of events have on air travel and mobility behavior. All other environmental and governance credit factors are neutral in our credit rating analysis.

## Outlook

The stable outlook reflects our expectation that the airport's capital plans and finances will be prudently managed, PVD's enplanements will continue to recover and normalize near pre-pandemic levels, and financial metrics (S&P Global Ratings-calculated) will be maintained at levels consistent with a strong financial risk profile.

### Downside scenario

We could lower the rating over our two-year outlook period if PVD's enplanements passenger traffic declined significantly and we believed the decline would remain in place for an extended period, or if liquidity and DSC materially weaken.

### Upside scenario

Although unlikely, we could raise the rating if we raised our market position assessment of PVD within the competitive Boston area service area, and new issuance debt plans remained limited.

## Credit Opinion

S&P Global Ratings currently believes that the U.S economy will fall into a recession in 2023. Supply-chain disruptions remain and will continue to drive inflation, which remains high, although it likely peaked in third-quarter 2022. Because the weight of high prices adversely affects purchasing power and the Federal Reserve remains aggressive in its policies to combat inflation, borrowing costs are expected to increase. Our U.S. GDP growth forecast is 1.8% for 2022 and a 0.1% decline for 2023 (compared with 1.6% and 0.2% growth, respectively, in September 2022). While economic momentum has protected the U.S. economy this year, what is in store for 2023 is the larger issue. Extremely high prices and aggressive rate hikes will weigh on affordability and aggregate demand. With the Russia-Ukraine conflict ongoing, tensions over Taiwan escalating, and the China slowdown exacerbating supply-chain and pricing pressures, the U.S. economy appears to be teetering on the edge of recession. We expect the unemployment rate, at 3.7% in October and just above its pre-pandemic level, will remain near that rate until early 2023 before rising to 5.6% by the end of 2023, then slowly descend to 4.7% by fourth-quarter 2025. The Fed will keep its tight monetary policy stance until inflation begins to moderate in late 2023 with the risk for more rate hikes this year and the next. Our lower GDP and inflation forecasts for 2023 and 2024 reflect the likely outcome of this more aggressive policy stance. See "Economic Outlook U.S. Q1 2023: Tipping Toward Recession," Nov. 28, 2022.

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022