S&P Global
Ratings

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Summary:

Rhode Island Commerce Corp. Rhode Island Airport Corp.; Non-Recourse Proj, Single or Multi Tenants, Entert

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Rhode Island Commerce Corp (Rhode Island Arpt Corp) non-recource (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
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Unenhanced Rating	A(SPUR)/Stable	Upgraded
Rhode Island Commerce Corp (Rhode Island Arpt Corp) non-recourse (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
Rhode Island Commerce Corp (Rhode Island Arpt Corp) non-resource		
Long Term Rating	A/Stable	Upgraded

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings raised its rating on Rhode Island Commerce Corp.'s first-lien special facility revenue bonds outstanding, issued for Rhode Island Airport Corp. (RIAC), to 'A' from 'BBB+'.
- 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 and 2023, following a steep decline during the COVID-19 pandemic, which should restore car rental activity and financial metrics to near pre-pandemic levels.

Security

The bonds are secured by a first lien on net pledged revenue after payment of the corporation's portion of intermodal facility operating expenses, which exclude exclusive rental car company space. A backup pledge from the rental car companies pays the operating and maintenance expenses of the facility and debt service, if needed. General airport revenue is not pledged to the special facility bonds. A second lien on net pledged revenue secures separate Transportation Infrastructure Finance and Innovation Act (TIFIA) bonds. In accordance with the TIFIA bonds' standard springing-lien provision, they will become a first-lien obligation whenever a bankruptcy-related event occurs with the issuer. In addition, a state statute requires the rental car companies to hold customer facility charge (CFC) revenue in trust, insulating bondholders from exposure to individual rental car companies. Bondholders also benefit from cash-funded debt service reserve funds on the bonds equal to $7.2 million on both the special facility revenue bonds and TIFIA loan as of June 30, 2022.

As of audited fiscal year-end 2022, RIAC had approximately $74.7 million in special facility first-lien revenue bonds and second-lien TIFIA loans outstanding.

Credit overview

Our upgrade on bonds secured by the consolidated rental car center's (CONRAC) revenues reflects our opinion of the past year's strong rebound in national air travel demand, as well as the associated recovery in RIAC passenger traffic in 2022 and 2023, following a steep decline during the pandemic resulting in a return of rental car activity and financial metrics to near pre-pandemic levels.

RIAC projects continued strong passenger growth in 2023 will bring enplanements fully back to pre-pandemic levels by the end of summer 2023, based on recently announced route expansions by airlines serving its main airport, Rhode Island T.F. Green International Airport (PVD). We believe traffic levels are likely to return to near pre-pandemic levels in the current fiscal year, thus supporting an improved market position assessment, which has led us to improve our overall enterprise risk profile assessment for the special facility revenue bonds. The improved rating reflects our opinion of PVD's combined strong enterprise risk and continued strong financial risk profiles.

PVD entered the pandemic with traffic at approximately 2 million enplaned passengers. However, the airport's activity levels fell during the pandemic, comparable with the industry, to about 60%-70% year over year. Nevertheless, PVD calendar 2022 enplanements climbed back to 80% of 2019 pre-pandemic levels, while one-month January 2023 enplanements were also at 80% of one-month January 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 end of the summer of 2023. We expect these trends to translate into a return in rental car transaction days at the airport.

Our strong financial profile is based on CONRAC's revenue-generating capacity as reflected in its fiscal 2023 budget and historical fiscal year-end 2022 strong cash position, tempered by the facility's single-asset nature. We anticipate debt service coverage (DSC; S&P Global Ratings-calculated) in fiscal 2023 will be near 1.4x based on RIAC's fiscal 2023 budget and stronger-than-budgeted year to date revenues as passenger volume returns to pre-pandemic levels. In the fiscal year ended June 30, 2022, S&P Global Ratings-calculated coverage was less than 1x due to the pandemic-related drop off in traffic, with debt service subsidized by federal aid (which we do not factor into our coverage calculations, but that was sufficient to meet the indenture's required 1.25x rate covenant) and significant cash on hand. Both CONRAC and the PVD had strong liquidity at fiscal year-end 2022, with CONRAC having $23 million of unrestricted cash, or 2,428 days cash on hand, and the airport itself having 875 days' cash on hand for its operations. Including $7.2 million in combined first- and second-lien debt service reserve funds, CONRAC liquidity would be $29 million. Throughout the pandemic, rental car companies continued to meet their obligations under their use-and-lease agreements, which is a residual agreement whereby companies make up revenue deficiencies if the CFC rate is above a level determined under the agreement.

We expect pledged rental car CFC revenues will rise to a level that will support debt service funding requirements at near pre-pandemic levels in future years based on returning traffic volumes. CFC revenues fell 19.7% in fiscal 2020 and fell another 43.3% in fiscal 2021 (for a cumulative decline of 54.4%), before bouncing back a strong 58.5% in fiscal 2022 over fiscal 2021's level. CFC revenues in fiscal 2022 were 72% of fiscal 2019 revenues, while CFC revenues for the six months July 2022-January 2023 were up 21% over the same period in fiscal 2022, and were approximately 83% of fiscal 2019 levels. Historical DSC of both special facility bonds and the TIFIA loan by net operating revenues before the pandemic were good, including utility facility charges and airport facility charges, at 1.80x in fiscal 2019 and 1.49x in fiscal 2018. The CFC rate is $6.00, the utility facility charge rate is $1.00 per transaction day, and the airport facility charge is 95 cents. RIAC can change rates at its discretion, if needed.

Key credit strengths, in our opinion, are the facility's:

- Extremely strong service area economic fundamentals, which include favorable economic activity as measured by GDP per capita, unemployment levels comparable with the national average, and a large service area population;
- Adequate pro forma financial performance and very strong liquidity and financial flexibility, with more than 2,000 days' cash on hand; and
- Lack of additional debt needs in the near term.

Key credit weaknesses, in our opinion, are the facility's:

- Single-asset exposure, with a narrow revenue stream tied to a subset of arriving passengers that rent vehicles at PVD; and
- Potential inherent vulnerabilities related to reliance on the rental car industry.

For information on RIAC's separately secured general airport revenue bonds, see our summary analysis published Jan. 13, 2023, on RatingsDirect.

Environmental, social, and governance

We analyzed CONRAC's risks and opportunities related to environmental, social, and governance credit factors relative to CONRAC's market position, management and governance, and financial performance and view them neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view that airport enplanements and rental car activity will stabilize at near pre-pandemic levels in 2023, producing financial metrics that we consider generally consistent with an overall strong financial risk profile.

Downside scenario

We could lower the rating if we expect CONRAC's DSC on both the special facility bonds and the TIFIA loan (S&P Global Ratings-calculated) or debt-to-EBIDA metrics will not be maintained at levels we consider strong (1.25x-3.00x and 10x-15x, respectively), or we believe rental car transaction days will significantly decline.

Upside scenario

Given the narrow revenue stream and our expectation that financial performance will remain only adequate, we do not expect to raise the rating during our two-year outlook period.

Credit Opinion

S&P Global Ratings believes that the U.S economy will fall into a shallow recession in 2023, although increased credit tightening stemming from recent events in the banking sector has elevated the likelihood of a hard landing. Supply-chain disruptions continue in certain sectors and, while inflation likely peaked in third-quarter 2022 as prices for goods products moderated, prices for services excluding housing remain elevated. Our U.S. GDP growth forecast is 0.7% for 2023 and a 1.2% for 2024. We also now expect U.S. GDP to decline by 0.3 percentage points from its peak in first-quarter 2023 to its third-quarter trough. If correct, this will beat the 2001 recession as the softest recession since 1960. We expect the unemployment rate, at 3.6% in February 2023 and just above its pre-pandemic level, will rise in 2023 and peak at 5.4% in second-quarter 2024 before declining in late 2025. Our lower GDP and inflation forecasts for 2023 and 2024 reflect the likely outcome of the Federal Reserve's continued aggressive policy stance to keep interest rates higher until inflation exhibits declines toward its 2% target. We believe the federal funds rate will peak at 5.00%-5.15% by May 2023 with the first interest rate cut in mid-2024. See "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," March 27, 2023.

Related Research

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