FITCH AFFIRMS NIAGARA FRONTIER TRANSP AUTH'S (NY) AIRPORT REV BONDS AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-New York-21 September 2018: Fitch Ratings has affirmed Niagara Frontier Transportation Authority, NY's (NFTA) approximately $62 million of series 2014A&B airport revenue refunding bonds at 'BBB+'. NFTA also has approximately $32.7 million of parity debt that is not rated by Fitch. The Rating Outlook is Stable.

KEY RATING DRIVERS
The rating reflects Buffalo Niagara International Airport's (BNIA) historically stable enplanement base with dependency on Canadian cross-border air travelers, low debt burden and manageable near-term capital investment needs. The airport's financial metrics are favorable to other airports in the rating category. However, the airport has a history of making subsidy transfers to support other authority transportation operations including the Metro Transit System and the Niagara Falls International Airport (NFIA), which limits the airport's ability to build liquidity, as growing deficits of NFIA could drain the Airport Development Fund (ADF).

O&D Airport with Exposure to Canadian Traffic - Revenue Risk (Volume): Midrange
BNIA is a medium-hub airport with an origination and destination (O&D) enplanement base of 2.4 million in fiscal-year (FY) 2018. The airport's proximity to the Canadian border, in particular fare pricing advantages provided by the airport, allow it to capture a significant amount of Canadian traffic, which the airport estimates to be approximately 40% of locally originating passengers. The airport is served by a diverse set of low-cost and national carriers with no one airline accounting for more than 32% of enplanements in FY 2018. Competition from Toronto's main airport and to a lesser extent nearby NFIA operations may pressure airline services at BNIA and result in regional market share shifts.

Compensatory Use and Lease Agreement - Revenue Risk (Price): Midrange
Under the current airline use and lease agreement (AUL), which extends through March 31, 2019, terminal rates are calculated using a modified compensatory methodology and landing fees are calculated using a cost-compensatory rate-setting methodology. While the base rate-setting approach limits airline payments to NFIA, additional protections are established through mid-year adjustments and an "extraordinary coverage" provision for signatory airlines to make up rate covenant deficiencies in the subsequent year. The airport's cost per enplanement (CPE) fell to $10.75 due to increasing enplanement levels.

Manageable Capital Plan - Infrastructure Development and Renewal: Midrange
The five-year capital improvement plan (CIP) totals $112.4 million, largely funded with grants and passenger facility charge (PFC) revenues. Major projects include building a snow-removal storage building, expansion of the terminal baggage claim area and terminal improvements. The authority anticipates issuing approximately $70 million in new debt in 2019 to partially finance the capital program, as available resources in the airport development fund may be at some risk due to expected draws for subsidies to other authority operations.

Some Variable-Rate Exposure Offset with Swaps - Debt Structure: Midrange
The airport has a mix of fixed- and variable-rate debt. The variable-rate debt (34%) is hedged with swap agreements through Goldman Sachs. The projected total debt service schedule is flat at approximately $13 million, which then declines to $7.3 million in FY 2024 following the maturity of the 2004 bonds. Bond covenants and reserves are standard for airport credits at this rating level.

Financial Profile

The airport has adequate coverage ratios and modest leverage. The debt service coverage ratio (DSCR) in FY 2018 is approximately 1.4x when calculated with both PFCs as DS offset and with PFCs as revenues and averages 1.3x through the forecast period. Total leverage calculated as net debt-to cash flow available for debt service (CFADS) is moderate for this airport's size at 2.9x, but falls to 1.5x by 2021. The airport also had sufficient liquidity with 331 days cash on hand (DCOH) in FY 2018, and has historically remained above 200 days.

PEER GROUP
Among its peers rated around the 'BBB+' level, such as Albany County Airport Authority (A-/Stable), BNIA demonstrates a comparable DSCR but with a higher CPE. BNIA also has a stronger cash position with 331 DCOH and similar leverage levels, but remains weaker relative to its peer Albany due to some exposure to competition from surrounding airports and exchange-rate risk. The subsidy transfers to NFIA and off-airport transfers from airport revenues in the ADF confine BNIA to the 'BBB' category due to its lack of financial flexibility.

RATING SENSITIVITIES
Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
--Traffic declines resulting in elevated leverage above 4.0x for a sustained period of time;
--Increasing subsidy for NFIA or off-airport transfers, weakening the airport's liquidity position;
--Revisions to the capital program size or sources of funds, leading to more a material increase in leverage and a negative impact on key financial metrics.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
--Steps to eliminate off-airport transfers may lead to an upgrade to the 'A' category; Fitch does not see this as a likely development in the near term.

CREDIT UPDATE

Performance Update

Traffic increased in FY 2018 with enplanements up approximately 4.0% from FY 2017. The growth in enplanement activity is primarily attributed to the commencement of non-stop flights by Frontier Airlines. Passenger traffic has experienced continued growth YTD 2019 through four months ended July, with enplanements up approximately 8.0% from YTD 2018. Enplanement growth over FY 2019 is expected to be positive given the new services offered by Frontier and American Airlines.

Operating revenues increased 4.2% in FY 2018, attributed to the uptick in enplanement activity. Airline revenues increased 5.5%, driven by increases in both terminal revenues and landing fees. Non-airline revenues increased 3.0%, driven by strong growth in parking and concessions. Concessions and commissions in 2018 were $1.2 million higher than 2017, primarily due to an increase in auto rental and parking fees at the airport. The increase in operating revenues is offset by a 6.1% expense increase in FY 2018, related to maintenance and repairs. Maintenance and repairs increased due to higher snowplowing and baggage system maintenance costs at BNIA. Fitch-calculated DSCR totaled approximately 1.4x in FY 2018 (compared with a Fitch base-case projected 1.5x). The lower coverage is primarily driven by higher expenses. Total net debt to CFADS equals 2.9x in FY 2018.

In FY 2018, the authority implemented a 1-year Transportation Network Company (TNC) pilot program that began on June 29, 2017. Under the pilot program, Uber paid the authority a one-time application fee and a flat fee, while Lyft paid a one-time application fee and $3.00 per pickup trip and $3.00 per drop off fee. The pilot program was extended through Dec. 31, 2018 and the fees were revised, with both companies now paying $2.50 per pickup trip and $2.50 per drop off trip. It is estimated that the authority will collect $358,740 from the two companies during this extension period and approximately $700,000 from the two companies for calendar year 2019.

Fitch Cases

Fitch's base case scenario assumes 1.5% enplanement growth in 2019 followed by flat growth of 0.5% per annum through the forecast period. Airline revenues are expected to grow at 2.5% in 2019 and 2.0% per annum thereafter. Non-airline revenues are expected to grow at 1.5% in 2019 and 1.0% per annum thereafter. Expenses are projected to grow 4.0% in 2019 and annually at 3.0% per annum thereafter. The base case also assumes NFIA subsidy payments and off-airport transfers based on the authority forecast. Under such assumptions, coverage averages 1.3x (PFCs as DS offset), with CPE levels reaching $11.89 by 2023. Leverage is expected to fall below 2.0x by 2020.

Fitch's rating case scenario assumes a near-term enplanement stress of 7.0% in FY 2020, followed by flat traffic with no recovery in subsequent years. The rating case also assumes 2.4% average annual airline revenue growth and -0.4% average annual non-airline revenue decline to reflect the traffic loss. A higher expense growth rate of 3.5% per annum is also assumed in all years except in 2020 when expenses are expected to grow at a lower 2.0% to reflect the enplanement stress, followed by flat growth in 2021. Under the rating case scenario, coverage trends down to 1.25x (PFCs as DS offset) in 2020, while CPE grows to $13.24 by 2023. Leverage is expected to fall below 2.0x by 2021. Metrics may not be consistent with the current rating level absent management actions to improve financial flexibility.

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Applicable Criteria
Airports Rating Criteria (pub. 23 Feb 2018)
https://www.fitchratings.com/site/re/10021613
Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)