

Spokane County, Washington Spokane Airport Board; Airport

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US\$100.44 mil arpt rev bnds (non-amt) (Spokane Airport Board) ser 2024A due 01/01/2054		
Long Term Rating	A/Stable	New
US\$36.805 mil arpt rev bnds (amt) (Spokane Airport Board) ser 2024B due 01/01/2054		
Long Term Rating	A/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'A' long-term rating to Spokane County, Wash.'s proposed \$100.8 million series 2024A (AMT) and \$36.8 million series 2024B (non-AMT) airport revenue bonds, issued on behalf of the Spokane Airport Board.
- The outlook is stable.

Security

The bonds are secured by a pledge of the airport system's net revenues. The system is defined as the collective of Spokane International Airport (GEG, or the airport), Felts Field Airport, Spokane International Airport Business Park, and related facilities. Customer facility charges (CFCs) may be classified as other pledged revenues; while passenger facility charges (PFCs) are available for debt service, they are not considered pledged revenues. The board will apply eligible PFCs as a debt service offset. The master resolution stipulates a rate covenant of 1.25x annual debt service. The additional bonds test is either 1.25x maximum annual debt service (MADS) for the historical test or 1.25x aggregate annual debt service for the prospective test.

Following this issuance, there will be approximately \$137.6 million in bonds outstanding.

Credit overview

The rating reflects our view of the airport system's prudent financial management, experienced leadership team, and regional essentiality, tempered somewhat by its comparatively small size and the scale of the debt being issued. It also reflects our expectation that the system has the capacity to absorb both proposed issuances while maintaining a strong financial risk profile.

The 2024 bonds will fund the remainder of the costs from the updates to concourse C, add a fourth fuel storage tank, expand parking, and construct an administrative building to address staffing needs.

Key credit strengths of the airport system are:

- Healthy air travel demand, as reflected by enplanements surpassing pre-pandemic levels, supported by a primarily origin-and-destination (O&D) passenger market, comparatively diverse and stable base of airlines, and an expanding service area economy;

- Strong financial performance, including estimated pro forma debt service coverage (DSC; S&P Global Ratings-calculated) that we expect will be maintained in excess of 1.25x throughout the authority's forecast period through 2029; and
- Very strong management and governance, demonstrating good strategic planning and competency in operating an airport of this size, along with management's conservative approach to financial and capital planning.

The system's key credit weaknesses, in our view, include:

- Large but manageable \$840.6 million capital improvement plan (CIP) through fiscal 2029 with potential for additional debt plans in fiscal years 2026; and
- Relatively small, albeit growing, air service area population and passenger base, with some exposure to tourism travel that could soften during an economic downturn.

Environmental, social and governance

We consider the influence of environmental, social, and governance (ESG) credit factors on the airport's credit risks and opportunities. Environmental risks are somewhat elevated for GEG because of the nearby Spokane River and Latah Creek, both of which run through the City of Spokane and have above-average flood potential. However, we expect the county's mitigation plans to reduce much of the risk to GEG.

We assess governance and social factors as neutral and in line with the rest of the sector.

Outlook

The stable outlook reflects our expectation that enplanements will be sustained near current levels and that the authority will adjust airlines rates and charges to maintain generally strong financial metrics as it moves forward with its partially debt-funded capital plan.

Downside scenario

We could lower the rating in the next two years if the airport board were to issue significantly more debt than currently expected or if the airport were to experience material declines in activity that pressure financial metrics.

Upside scenario

Although we view this as unlikely, we could raise the rating in the two-year outlook period if the airport experiences an accelerated increase in demand that we believe is sustainable, clarifies long-term funding of its capital plan, and has financial metrics that meet or exceed forecast.

Credit Opinion

Enterprise Risk Profile: Strong

Minimal competition in eastern Washington

Located in eastern Washington, the airport faces limited competition from peers. The nearest medium- and large-hub airports are hundreds of miles away, with the geography of the region establishing a de facto monopoly for GEG. As a result, it draws passengers from as far as Montana and western Canada. GEG's passenger traffic has been over 98% O&D, since at least fiscal 2019.

Anchoring institutions in and around Spokane that rely on GEG include higher education and healthcare providers, Fairchild Air Force Base, and Amazon. Several are partnered with the airport system and have facilities in the business park or use GEG to move cargo. Both Spokane International Airport and the business park have foreign-trade zone status, making the system an attractive option for companies doing international business.

Spokane International Airport is situated on an approximately 6,000-acre campus about 6 miles from Spokane's downtown business core. It has sixteen active gates across two concourses: split A/B and a separate C. A/B and C have their own TSA checkpoints and baggage claim systems, which management hopes to consolidate in the next phase of the current CIP. Over half of the costs for improving concourse C have already been funded from non-bond sources.

Small-hub airport with demand exceeding pre-pandemic levels with strong growth prospects

Over the five-year period immediately prior to the pandemic, enplanements at GEG had a compound annual growth rate (CAGR) of approximately 3.5%. Following a decline of 52.4% in 2020, GEG not only saw a full rebound in enplanements by 2023, but also set a record at nearly 2.1 million. Through July 2024, enplanements are 3.4% above 2023 levels at the same time, per management.

Though the growth is encouraging, GEG is not particularly reliant on its airlines for revenue. Less than one-third of GEG's revenues are generated by the airlines, and we view this diversification positively, as all net revenues of the system are available for debt service. Between 2019 and 2023, all nonairline revenues had a CAGR of 6.7%, compared with 0.7% for airline revenues.

We have reviewed the board's consultant report, completed by Leigh Fisher, which projects enplanement growth as well as key financial metrics for GEG. The baseline forecast from 2023-2029 implies a CAGR for enplanements of 2.2%, which we consider reasonable and in line with actual recent performance. The 2.2% CAGR is driven by a short-term 2.4% rise in enplanements in 2025, followed by a decline to 2.0% growth through the rest of the forecast period. In the pessimistic scenario, enplanements decline in 2025 and 2026, before recovering to 2.0% increases from 2027 through 2029.

Management insights: Deep managerial bench looking to the future

GEG and the broader airport system are operated by the Spokane Airport Board, which in turn is controlled jointly by Spokane County and the City of Spokane. The board has complete authority over system operations, but must have its budgets approved annually by both the city and county.

The management team behind the airport is highly experienced, with several members having worked in aviation, if not at GEG specifically, for decades. Multiple senior leaders are involved in statewide, regional, or national aviation and transportation trade organizations, and some have testified before Congress on behalf of the industry. This speaks

to the team's expertise and the importance of GEG to the Inland Northwest region.

Financial Risk Profile: Strong

Airport demand will continue to support sound financial metrics, despite additional debt needs

Our financial risk profile assessment is based on pro forma financial projections that incorporate the impacts of the series 2024A-B bonds and an additional estimated \$371.4 million of bonds in 2026, with continued enplanement growth supporting the DSC to be maintained at levels we consider strong (1.25x-3.0x). Additionally, we believe the airport will maintain an adequate debt and liabilities profile, with debt-to-net revenues fluctuating between 15x-20x after factoring in additional debt issuances in the next five years. We also expect the airport will maintain strong liquidity and financial flexibility, with days' cash on hand above 400 and liquidity-to-debt in the range of 10%-20%, while it funds its large CIP.

Hybrid rate-setting agreement with airlines renewed annually

The airport board does not maintain a long-term operating agreement with its partner airlines. The current agreement has been in effect since 1984, with periodic extensions and updates but no material changes to the rate-setting methodology. In the system, only GEG is subject to residual cost recovery. Per the airport's latest budget document, the board only applies a portion of net operating revenue as an offset when calculating rates and charges at GEG. As a result, the board retains more revenue, which is then applied to capital projects that improve the airport for all stakeholders.

Airport leadership has indicated a desire to establish a longer-term agreement with the airlines, though what that agreement might look like is still unclear and likely will not come together until 2025 at the earliest.

Further issuance expected in 2026 to support additional construction

Prior to the 2024 bonds, the airport system had no debt outstanding. In 2017, the board opted to defease the series 2008 bonds and redeem 2005 bonds, leaving only WA Community Economic Revitalization Board (CERB) loans as long-term debt by 2021. Both loans were extinguished in 2021, freeing up debt capacity at the airport system ahead of its current capital program.

In addition to the 2024 bonds, the board is considering another sizable issuance in 2026. Though the board has not yet committed to the projects associated with the 2026 bonds, we incorporated the proposed debt into our calculations. Potential 2026 projects include a central hall, allowing for easier travel between concourses. Additionally, it would consolidate the currently discrete A/B and C TSA checkpoints and baggage claim areas. The final decision regarding the 2026 bonds may hinge on the outcome of a longer-term airline agreement and continued growth in enplanements, as the CIP is meant to support recent growth in the Spokane region.

Modular CIP structure allows the board to pause between projects

Management emphasized that the CIP is structured such that no project is reliant on another, meaning they can delay between projects and still have a functioning product. Given the board's focus on the financial health of the system, they may pause in the face of a significant cost increase or economic downturn. We believe this is supportive of our expectation that the system will maintain a strong financial risk profile through the outlook period, as the board has a

clear willingness to adapt to a changing economic environment.

Spokane Airport Authority, Washington--financial and operating data

	Consultant forecast		--Fiscal year ended Dec. 31--					Medians for 'A' category rated airports
	2029	2026	2023	2022	2021	2020	2019	2022
Financial performance								
Total operating revenue (\$000s)	104,304	72,950	52,790	49,214	40,134	31,094	44,541	112,148
Plus: interest income (\$000s)	1,809	1,076	3,444	1,858	1,759	1,225	1,133	MNR
Plus: other committed recurring revenue sources (\$000s)	8,274	2,422	--	--	--	--	--	MNR
Less: total O&M expenses and like transfers out, if any, net of noncash expenses	54,093	45,151	32,230	31,424	23,326	27,231	30,781	76,065
Numerator for S&P Global Ratings' coverage calculation (\$000s)	60,294	31,297	24,004	19,648	18,567	5,088	14,893	MNR
Total debt service (\$000s)	25,540	6,585	3,815	N.A.	N.A.	4,132	4,588	43,184
Denominator for S&P Global Ratings' coverage calculation (\$000s)	25,540	6,585	3,815	N.A.	N.A.	4,132	4,588	MNR
S&P Global Ratings-calculated coverage (x)	2.36	4.75	6.29	N.M.	N.M.	1.23	3.25	1.58
Debt and liabilities								
Debt (\$000s)	501,215	508,965	3,815	--	--	4,132	4,588	512,043
EBIDA (\$000s)	50,211	27,799	20,560	17,790	16,808	3,863	13,760	MNR
S&P Global Ratings-calculated net revenue (\$000s)	60,294	31,297	24,004	19,648	18,567	5,088	14,893	50,189
Debt to net revenue (x)	8.3	16.3	0.2	N.M.	N.M.	0.8	0.3	7.7
Debt to EBIDA (x)	10.0	18.3	0.2	N.M.	N.M.	1.1	0.3	MNR
Liquidity and financial flexibility								
Unrestricted cash and investments (\$000s)	95,092	61,653	61,913	58,422	45,970	35,213	22,720	118,959
Available liquidity, net of contingent liabilities (\$000s)	95,092	61,653	61,913	58,422	53,170	42,413	22,720	MNR
Unrestricted days' cash on hand	641.6	498.4	701.2	678.6	832.0	568.5	269.4	MNR
Available liquidity to debt (%)	18.97	12.11	1,622.9	N.M.	N.M.	1,026.5	495.2	MNR
Unrestricted days' cash on hand (excluding credit facilities)	641.6	498.4	701.2	678.6	719.3	472.0	269.4	627.0
Available liquidity to debt (%) (excluding credit facilities)	19.0	12.1	1,622.9	N.M.	N.M.	852.2	495.2	28.0
Operating metrics - airport								
Rate-setting methodology	N.A.	N.A.	Hybrid	Hybrid	Hybrid	Hybrid	Hybrid	MNR
Total EPAX (000s)	2,356	2,221	2,068	1,965	1,643	962	2,023	4,624
Origin and destination EPAX (%)	98.5	98.5	98.5	98.3	98.4	98.4	98.2	95.0
Primary passenger airline carrier name	N.A.	N.A.	Alaska Air	Alaska Air	Alaska Air	Alaska Air	Alaska Air	MNR
Primary airline EPAX market share (%), including regional affiliates	N.A.	N.A.	31.7	32.7	33.1	34.7	34.9	36.0

Spokane Airport Authority, Washington--financial and operating data (cont.)

	Consultant forecast		--Fiscal year ended Dec. 31--					Medians for 'A' category rated airports
	2029	2026	2023	2022	2021	2020	2019	2022
Passenger airline revenue (\$000s)	41,704	19,604	12,425	11,766	11,338	10,453	12,556	MNR
Debt per EPAX (\$)	212.74	229.16	1.84	0.00	0.00	4.30	2.27	117.00
Airline cost per EPAX (\$)	17.70	8.83	6.01	5.99	6.90	10.87	6.21	9.03
Annual PFC revenue (\$000s)	8,963	8,440	7,872	7,602	6,542	3,619	8,065	MNR
PFC rate (\$)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	MNR

O&M--Operations and maintenance. EBIDA = Total operating revenue - total O&M expenses excl. noncash expenses. EPAX--Enplanements. PFC--Passenger facility charge. CFC--Customer facility charge. MADS--Maximum annual debt service. S&P Global Ratings-calculated net revenue = (Total operating revenue + other recurring nonoperating revenue committed to debt service) - total O&M expenses excl. noncash expenses. Available liquidity = unrestricted cash and investments + total contingent liquidity resources - contingent liabilities. Examples of total contingent liquidity resources include working capital line of credit and other available cash reserves not already included in unrestricted cash and investments. See Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions criteria for more S&P Global Ratings definitions and calculations. N/A--Not applicable. N.A.--Not available. MNR--Median not reported. N.M.--Not Meaningful.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- U.S. Transportation Infrastructure 2024 Activity Estimates Indicate A Return To Pre-Pandemic Levels And Growth, With Transit Ridership Still Recovering, March 21, 2024
- U.S. Not-For-Profit Transportation Infrastructure 2023 Medians: Demand And Revenue Growth Improved Financial Medians To Post-Pandemic Highs, Sept. 25, 2024

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