



# *“Rating Review Process And Lessons Learned”*

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# Why are Credit Ratings Important to Investors?

- ◆ Credit ratings are a measure of an issuer's ability to repay its debt
- ◆ Investors will look to credit ratings to assist them in their decision to purchase a particular issuer's bonds
  - Even more essential now that most airport bond issues are uninsured
  - As bonds flow toward the retail investors, the ratings become more important



# Why are Credit Ratings Important to Issuers?

- Credit ratings can affect the pricing levels on bonds
- The interest rate differential on a bond issue with a high “A” rating vs. a low “A” rating could be 10-15 basis points. This differential could be even greater between an “A” rating and a “BBB” rating (25-30 basis points)

## Hypothetical Comparison on a \$50M 30-Year Financing with Level Annual Debt Service

	Baseline Interest Rate of 4%	+15 basis points	+30 basis points
Annual Debt Service	\$2.89M	\$2.94M	\$3.00M
<b>Annual Difference</b>	----	<b>+\$50K</b>	<b>+\$110K</b>
Total Debt Service	\$86.7M	\$88.2M	\$90.0M
<b>Total Difference</b>	-----	<b>+\$1.5M</b>	<b>\$3.3M</b>



# Rating Review Process – Annual Reviews

- ◆ The Initial contact may be from a rating analyst requesting certain information
- ◆ The issuer should determine the reason for the request
  - Is the request to update their database with the most recent operational and financial information?
  - Will the request lead to a formal credit review that would go to a rating committee and result in a rating outcome?
- ◆ If it is a credit review, we would recommend that, in addition to providing the requested information, the airport develop a presentation that provides a comprehensive credit profile



# Information to Provide in a Rating Presentation

## Airport Background

- Board composition
- Senior management experience
- Description of airport facilities

## Air Trade Area Information

- Air Trade Area composition
- Population
- Per Capita Income
- Business/Leisure Mix
- Various business sectors

## Operation Information

- Enplanement levels
- Airline market share
- Air service announcements
- Scheduled flight and seat data

## Financial Information

- Operating revenues and enplanements
- Non-airline revenue composition
- Liquidity levels
- Debt service coverage
- Cost per enplanement

## Capital Program

- List of projects
- Planned sources of funding
- Additional debt requirements



# Additional Information to Provide in a Rating Presentation for a Financing

## Information on the financing

- Purpose of the financing
- Sources and uses of bond proceeds
- Debt service schedule
- Payment source for new debt
- Aggregate debt service incorporating new debt

## Projections (for new money financings)

- Revenue and expense impacts of new projects
- Debt service coverage projections
- Cost per enplanement projections



# Key Management Factors That Have an Impact on Ratings

## ◆ Debt composition

- Fixed rate, variable rate, derivatives

## ◆ Debt service structure

- Escalating debt service
- Irregular spikes in debt service
- Major “back-loading” of debt

## ◆ Management of financial metrics

- Proactive attempt to keep your financial metrics strong
- Monitor rating agency publications of medians, criteria, and rating drivers
- Identify strengths and weaknesses



# Summary

- ◆ Annual review process should be taken serious
  - Communication is paramount
- ◆ Be proactive in the rating review process
- ◆ Maintain a solid debt and financial management strategy with an understanding of the various rating factors