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Fitch: US Airport Infrastructure Grants Help Offset Rising Capital Costs

Fitch Ratings-Austin/New York-07 March 2023: The recent round of Federal Aviation Administration (FAA) grant awards to US airports under the 2021 Bipartisan Infrastructure Law (BIL) is supportive of airports' ability to address needed infrastructure expansion or improvement costs, given the capital-intensive nature of airports and higher revised budgets as airports move ahead with capital projects, Fitch Ratings says. US airport traffic has essentially recovered to pre-pandemic levels, contributing to strong airport financial profiles, although the size and scale of needed capital investments remains a significant ongoing budget pressure and is a key factor in our analysis.

We expect that airports' cost per enplanement and debt levels will continue to rise at major market airports undertaking capital projects, as federal funding will only defray only a portion of the total costs. Fitch believes airport cashflow and liquidity profiles will remain solid in 2023 and following years, given the broad political and financial support for airport improvements, and stronger airline industry positioning due to positive travel trends.

In late February, grants were awarded to 99 commercial airports, with funds to be used for terminal facility projects geared to expansion, modernization, security, and sustainability targets. While federal programs have existed for decades to infuse funds for airport infrastructure needs, grants under the BIL may help lessen the impact of industry pressures from rising capital budgets, exacerbated by the combination of elevated inflation and higher borrowing costs. Further, the magnitude and duration of capital plans, particularly at the large-hub facilities, are resulting in airports seeking solutions to avoid passing through all capital costs via airline fees.

The BIL provides almost $970 million of federal grants per year over five years through the competitive Airport Terminal Program (ATP) for airport terminal improvement and access projects and air traffic control tower updates, demonstrating continued strong government support for the industry even though COVID risks have diminished. However, this amount only represents a small proportion of the estimated infrastructure needs across US airports. A 2021 survey from Airports Council International-North America indicates a backlog of projects well in excess of $100 billion over the succeeding five-year period.

FY23 grants were spread across non-hub, small, medium and large hub airports, with Chicago O'Hare (A+/Stable) receiving one of the largest award amounts of $50 million for its Terminal C rehabilitation, which has a total budget of $136.3 million and is part of the airport's larger $12 billion, 10-year capital plan. The smaller Key West airport (A-/Stable) was awarded $13.3 million for a new concourse with seven added gates. The BIL grant and separate federal and state grants cover around 65% of the total project cost of $113.4 million. Smaller airports generally benefit more from grant awards relative to their larger peers as their debt capacity for project funding is constrained by their limited enplanement bases.

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