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Fitch: Airport Credit Profiles Stable as Capital Projects Move Ahead

Fitch Ratings-Chicago/Austin/New York-16 September 2022: US airports have committed to multi-year, billion-dollar capital improvement plans that will increase airport debt, but financial profiles should only be modestly affected due to cost recovery in airline operating agreements, Fitch Ratings says in its report U.S. Airport Capital Spending Ramps Up.

The 12 major large-hub airports' plans covered in the report, which include new terminals or terminal expansions, have strong airline support and are expected to continue uninterrupted, despite recession risks, as they are considered critical to address aging infrastructure and capacity constraints. The vast majority of these airports came to market in 2022 with new money issuances to support capital programs.

Airline use and lease agreements (AULAs) often include provisions to ensure collaboration between the airport and airlines, which provide for an airport's ability to recover costs. Airlines may be more willing to sign on for longer terms if they believe the capital investments will enhance the efficiency of operations.

Many airports will see airline cost per enplanement surge higher, in some cases to 2x or more above current charges. Federal funding will help cover a portion of project costs but to address the billion dollar needs of airport modernization and expansion, airport projects will still require a majority of debt financing. Some airports are able to use passenger facility charge (PFC) funds and PFC-pay go or other airport revenues to lower the need for borrowing and the burden on charges to the airlines to cover debt service.

Project cost escalation is a concern given inflationary pressures. This risk is typically addressed through pre-determined cost indexes in AULAs or budget contingencies. Longer-dated capital programs could introduce more cost risk but allow for shifting scheduling depending on modularity and rate of passenger growth. Fitch focuses on bids and percent under contract, relative to the total plan, to assess the remaining cost risk in an airport's capital improvement plans.

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