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CREDIT OPINION
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Update

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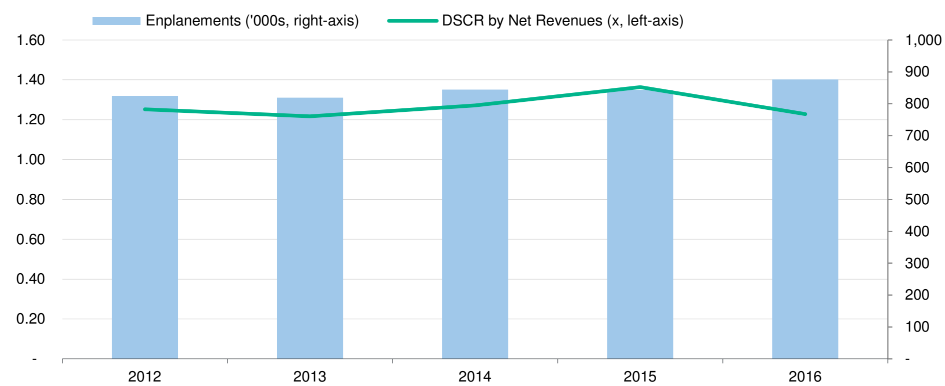
Portland (City of) ME Airport Enterprise

Update: Moody's Maintains Baa1 rating on Portland (ME) Airport Enterprise; outlook stable

Summary

The Baa1 rating reflects the stable economic profile of the jetport's service area, while reflecting the jetport's competition with nearby Boston-Logan International. The jetport benefits from strong airline diversity including multiple low-cost carriers, with the largest carrier accounting for only 28% of enplanements. The Baa1 rating further incorporates the jetport's high leverage, as measured by debt per origin & destination (O&D) enplanement, and narrow debt service coverage ratios (DSCRs), reflecting costs incurred for the recently completed terminal expansion program. Going forward, the jetport has limited and largely demand-driven capital requirements as a result of the recent terminal expansion, with minimal expected debt funding through fiscal 2022, which will enable the jetport to delever during this period.

Exhibit 1
Steady enplanements have supported stable, although narrow, DSCRs



Source: Audited financials and Moody's Investors Service

Rating Outlook

The stable outlook reflects the expectation of continued enplanement growth, sustained by recent capacity additions and additional service, which will support stability in airline cost per enplanement, liquidity and coverage ratios near current levels.

Credit Strengths

» Stable service area that is the primary economic driver for the state

» Strong airline diversity that includes legacy and low-cost carriers, with the primary carrier accounting for only 28% of enplanements

» Higher enplanement stability than other small hub airports in the region due to the jetport's role as primary airport for central and northern Maine, which is subject to less competition from Boston-Logan International

» Terminal expansion project was completed early and on-budget, allowing the jetport to benefit from increased efficiencies

» Five-year capital plan remains limited in scope, which will support incremental debt reduction going forward

Credit Challenges

» Competition from nearby Boston-Logan International Airport, which has absorbed majority of the region's enplanement growth

» High leverage as a result of the 2011 expansion and renovation of the jetport's terminal

» DSCR is narrow as a result of the high debt level

Factors that Could Lead to an Upgrade

» Continued and sustainable period of enplanement growth stemming from a greater demand for local air service

» Substantial revenue growth resulting in sustained DSCR by net revenue above 1.75x and liquidity above 600 days cash on hand

Factors that Could Lead to a Downgrade

» Sustained decline or lower-than-projected growth in enplanements that negatively impacts revenues and PFC collection

» Consistently lower than 1.20x DSCR by net revenues

» Deteriorating competitive position coupled with loss of airline diversity

Key Indicators

Exhibit 2
Key Indicators for Portland (City of) ME Airport Enterprise

	2012	2013	2014	2015	2016
Enplanements ('000s)	825	820	844	844	876
Enplanement Annual Growth (%)	-2.9	-0.7	3.0	-0.1	3.9
Debt Outstanding ($'000)	127,295	123,465	121,600	119,985	118,320
Debt to Operating Revenues (x)	6.00	5.53	5.35	4.99	4.81
Debt Per O&D Enplaned Passenger ($)	142.62	133.13	126.83	125.47	118.08
Days Cash on Hand ('000)	157	300	350	462	504
Debt Service Coverage By Net Revenues (x)	1.25	1.22	1.27	1.36	1.23

Source: Audited financials and Moody's Investors Service

Recent Developments

The jetport continues to experience solid enplanement growth, which will continue in fiscal 2018. For fiscal 2017, enplanements at the jetport increased 3.7% to 907,240. Airlines continued the trend of upgauging flights at the jetport, increasing capacity and supporting enplanement growth. Through July 2017, enplanements are up 5.2% for the calendar year, showing that growth at the jetport is accelerating. Elite Airways commenced twice weekly service to Halifax in July and Delta commenced daily service to John F. Kennedy airport in New York City. Due to continuing capacity additions and new service from the airlines, the jetport will continue to experience positive enplanement growth through fiscal 2018 and will outperform the conservative budget of 895,000 enplanements, which will have a favorable impact on airline cost per enplanement.

Detailed Credit Considerations

Revenue Generating Base

A steady underlying economic service area will support continued enplanement gains at the jetport. The air trade area consists of the cities of Portland and South Portland, as well as a seven-county area, which is the primary economic region for the state of Maine. The area's industry profile includes a diverse group of businesses, particularly focused in education and health services, representing 20% of total employment. Population growth is below-average at 0.4% annually since 2011, but is supported by positive in-migration to the area. Portland has comparatively low unemployment at 2.4% as of April 2017 versus 4.4% at the national level, despite a recent in-migration surge from job seekers. Employment growth has been largely in high-wage jobs, including medical and financial positions. Additionally, employers are increasing wages to attract qualified workers, due to the already very low unemployment rate. Gains in employment will bolster other sectors, including construction and healthcare, which will also grow at an above-average pace due to the increase in retiree population in the area. Recent mild winters have made the area more attractive to both retirees and young professionals, which are the two age groups that are driving the in-migration trends. These strong migration trends, along with gains in the local economy will support continuing growth in demand for air service in the region.

The jetport operates in a highly competitive market and will continue to have a minority of passenger traffic as the region continues to favor the nearby large, international hub at Boston-Logan International (BOS). The jetport faces substantial competition from nearby Boston-Logan International and, to a lesser degree, Manchester-Boston Regional Airport, both of which are in a reasonable driving distance from southern Maine. BOS, which is a hub for JetBlue and offers an array of carriers and routes, including many low-cost, ultra low-cost, and international carriers. Enplanements at Logan increased at 7.9% in 2016 compared to an increase of 3.9% at the jetport and 0.7% at Manchester, indicating that the large-hub airport in the Boston region continues to absorb majority of the enplanement growth.

The jetport benefits from a high level of airline diversity, which is unusual for small-hub airports, and the diversity will continue to improve due to the growing presence of new entrants. American Airlines is the jetport's primary carrier, however, it only accounts for 28.6% of enplanements, as the jetport has a diverse array of carriers, including all three legacy carriers and both low-cost carriers, JetBlue Airways and Southwest Airlines along with a small regional carrier. Airline diversity has been increasing, due to the recent entrance by Southwest, which first started operating at the jetport in fiscal 2013 and now accounts for 14.9% of enplanements. Continuing growth from non-primary carriers including Southwest will support the jetport's air service remaining highly diversified.

In 2016, the jetport executed a new airline agreement with all of the carriers that operate at the jetport and extends until June 30, 2021. The new agreement is substantially similar to the prior contract with the addition of a new signatory class, which applies to smaller carriers with maximum gross landed weight of 12 million pounds. The additional class allows for local and regional carriers to have some of the benefits of being a signatory airline while not having to meet the same minimum requirements as larger carriers. The agreement remains a compensatory rate making methodology with a provision for majority-in-interest approval for capital improvements similar to the prior agreement. Additionally, the agreement includes an extraordinary coverage provision offering some additional rate recovery to meet the rate covenant on Series 2010 debt service, allowing the jetport to adjust rental and landing fee rates when estimated costs vary by 30% or more, ensuring a 1.25 times coverage of debt service and required deposits. In the event such extraordinary payments are made, the jetport must repay the airlines when uncommitted funds become available. All of the airlines, with the exception of Elite Airways, executed the new agreement, while Elite continues to operate as a non-signatory airline.

Operational and Financial Performance

Increasing activity at the jetport will support stable financial metrics and the jetport will continue to outperform management's conservative budget. In fiscal 2016, net revenue DSCR decreased modestly to 1.23x compared to 1.36x in fiscal 2015, however it remains near historical levels, which have averaged 1.27x since fiscal 2012. The drop was the result of an increase in operating expenses due to the inclusion of $824,000 of non-capital AIP expenditures. Bond ordinance DSCR declined as well to 1.41x from 1.62x. For fiscal 2017, based on preliminary, unaudited results bond ordinance DSCR will be 3.83x. The significant increase is the result of the 2016 refunding, as the new Series 2016 bonds did not have a principal payment in fiscal 2017, and only required $241,837 of debt service payments. Debt service will return to a level close to historical levels in fiscal 2018, with $4.1 million of scheduled debt service. As a result, the fiscal 2018 budget indicates the DSCR will return to 1.64x, a level near the historical average. However, due to the conservative budgeting practices of the jetport, along with continuing strong enplanement growth, the jetport will outperform the fiscal 2018 budget, with a bond ordinance DSCR of around 1.70x.

Since the terminal expansion project was completed, the jetport's cost per enplanement (CPE) has remained very stable at about $8, and will continue to remain near current levels. For fiscal 2016, CPE was $7.99 which represents a compound annual increase of 4.0% per year since fiscal 2013. The modest increase is the result of the level annual debt service schedule and adequate cost control by management. Preliminary, unaudited result show CPE for fiscal 2017 to be $8.11, below the budgeted figure of $8.44. The lower CPE comes as a result of higher than budgeted enplanements. The jetport budgeted a CPE of $8.35 for fiscal 2018. However, this figure is based on the enplanement budget of 895,000, which the jetport will outperform due to continuing enplanement growth. As a result, CPE will outperform the jetport's budget, and will remain near flat compared to fiscal 2017. CPE at the jetport is the lowest in the Boston region, with nearby Manchester-Boston Regional at $12.09 and Boston-Logan International at $13.45, favorably differentiating the jetport as a low-cost option for carriers. CPE will continue to remain stable, which will support the jetport's market position in the highly competitive Greater Boston region.

LIQUIDITY

Liquidity at the jetport has increased significantly over the past five years and will continue to grow due to the jetport's compensatory airline agreement and minimal capital funding from cash flows. In fiscal 2016, the jetport increased liquidity to 504 days cash on hand, compared to 462 days cash on hand in fiscal 2015. The increase is the result of positive cash flow and the limited capital needs of the jetport. Liquidity will continue to build, as the jetport anticipates using only approximately $1 million of cash flow per year on capital projects. Management expects to maintain an unrestricted cash balance of approximately $20 million, which is sufficient to cover 365 days of operating and maintenance expenses and to fund annual AIP entitlement projects.

Debt and Other Liabilities

While leverage remains high, the jetport will continue to delever due to amortizing debt and no plans for additional borrowing. As of fiscal 2016, the jetport had $118.3 million of debt outstanding, which translates to $118.08 debt per O&D enplaned passenger. This amount of leverage is high compared to other similarly rated small-hub airports and is the result of debt funding for the terminal expansion project, which was completed in 2013. However, the jetport has a modernized terminal and leverage has decreased annually since fiscal 2012, when it peaked at $142.62, due to amortizing debt and continued enplanement increases. No new borrowing and modest passenger growth will allow the jetport continue to delever over the next few years.

DEBT STRUCTURE

The jetport had $118.3 million of revenue bonds outstanding as of the end of fiscal year 2016. After the refunding in fiscal 2017, the jetport had $115.9 million of debt outstanding across three series. The bonds are all fixed rate and amortizing.

Debt service following the refunding will be $8.4 million in fiscal 2018, and will rise annually between 0.3-0.5% per year to $9.0 million in fiscal 2033, after which it will step down 22% in fiscal 2034 to $7.0 million along with another step-down of 23% in 2039 to $5.5 million. There is a final large payment at maturity in 2040 of $11.9 million.

CAPITAL IMPROVEMENT PLAN

Due the terminal renovation and expansion project, which was completed in 2013, the jetport's capital requirements remain modest and the capital plan will not materially impact the jetport's financial position. The plan, which extends from 2017 through 2022, includes $59.5 million of capital projects. The largest source of funding will be AIP grants, which the jetport expects will provide $28.2 million of funding, which accounts for 47.3% of total program costs. The jetport only anticipates providing $8.5 million of funding, or an average of approximately $1.4 million per year. The current plan does anticipate two projects, a new FIS facility and an expansion of the baggage claim, which the jetport anticipates will be funded with PFC pledged debt. However, the projects that would be funded by the additional debt are demand-based, and the additional bonds would only be issued if the PFC rate at the jetport is increased above the current $4.50 per enplanement. Should the jetport pursue these projects, the additional issuance will be relatively modest at only $18.8 million of debt anticipated by the jetport, and will have a minimal impact on the jetport's financial position given the schedule amortization of $7.6 million of debt outstanding by time of issuance, which the jetport expects will be in fiscal 2019, and the payment of the new debt service from sources outside of the airline rate base. Overall, the jetport will maintain its current financial position and benefit from modest capital requirements due to the recently completed terminal expansion project.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

For fiscal 2016, our adjusted net pension liability for the jetport was $3.2 million compared to a reported liability of $1.6 million. This unfunded pension liability is not a key credit consideration for the jetport as it is less than 3% of total debt outstanding. We adjust the reported pension liabilities of entities that report under governmental accounting standards, to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on plan assets. Under our adjustments, we value liabilities using a market based discount rate for high quality taxable bonds, a proxy for the risk of pension benefits.

Management and Governance

The jetport is owned and operated by the city (Portland (City of) ME, Aa1 stable) and is managed by its airport director who is appointed by the city manager. The city manager is appointed by majority vote of the city council, is the administrative head of the city and is responsible to the city council for the administration of all departments. The airport director has sole responsibility for hiring all personnel necessary to operate the jetport.

Methodology Scorecard Factors

OTHER CONSIDERATIONS: MAPPING TO THE GRID

Note: The grid is a reference tool that can be used to approximate credit profiles in the airport sector in most cases. However, the grid is a summary that does not include every rating consideration. Please see the Publicly Managed Airports and Related Issuers methodology report for more information about the limitations inherent to grids.

The actual rating of Baa1 is one notch above the Baa2 grid indicated rating. The actual rating considers the strong level of airline diversity that the jetport has, which is uncommon for a small hub. This limits potential downside enplanement trends as indicated by the minimal enplanement declines during the recent recession. The actual rating further expects that leverage will continue to decline as a result of amortizing debt and all future borrowing can be deferred if uneconomical.

Exhibit 3

Scorecard for Portland (City of) ME Airport Enterprise under the Publicly Managed Airports and Related Issuers Methodology

Regional Position:	Regional		
Rate Making Framework:	Compensatory		
Factor	**Subfactor**	**Score**	**Metric**
1. Market Position	a) Size of Service Area (millions)	Baa	0.64 M
	b) Economic Strength and Diversity of Service Area	Baa	
	c) Competition for Travel	Baa	
2. Service Offering	a) Total Enplanements (millions)	Baa	0.88 M
	b) Stability of Traffic Performance	Baa	
	c) Stability of Costs	A	
	d) Carrier base	Aa	28.61%
3. Leverage and Coverage	a)Debt Service Coverage by Net Revenues	Baa	1.23x
	b)Debt in USD per O&D Enplaned Passenger	Ba	$118.08
Notching Factors		**Notch**	**Metric**
4. Liquidity	Days Cash on Hand		504
5. Connecting Traffic	O&D Traffic		100.00%
6. Potential for Increased Leverage			
7. Debt Service Reserves			
Scorecard Indicated Rating:		**Baa2**	

Source: Moody's Investors Service

Legal Security

The bonds are secured by a senior lien on net revenues of the jetport. The bonds are additionally secured by a three-pronged debt service reserve funded at the lesser of i) maximum annual debt service (MADS); ii) 10% of the stated principal; or iii) 125% of average annual debt service. The reserve fund is cash funded. Other indenture-required reserves include an M&O reserve sized at three months of operating expenditures and a renewal and replacement reserve sized at the jetport's discretion. The rate covenant requires that net revenues provide a minimum 125% coverage of debt service. The additional bonds test requires that net revenues for 12 of the prior 18 months meet either 125% of maximum annual debt service, including new debt, or that projected net revenues will satisfy the rate covenant for five years after debt issuance or three years after project completion.

Use of Proceeds

Not applicable.

Obligor Profile

Portland International Jetport is Maine's largest airport by number of passengers serving most of the major domestic airlines and over 1.6 million passengers a year. The jetport is located in Cumberland County, approximately five miles west of downtown Portland with direct access to US Interstate 95. The jetport facilities include two runways, one 7,200 feet long and a 5,150 foot crosswind runway, both 150 feet wide; a 292,000 square-foot passenger terminal building with three levels; 11 loading gates; 9,000 square yards of air cargo apron and two cargo sort buildings; 3 baggage claim carousels; 2,162 space parking garage and approximately 300,000 of leasable square feet.

Methodology

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published in November 2015. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

RATINGS

PORTLAND (CITY OF) ME AIRPORT ENTERPRISE	
General Airport Revenue Bonds	Baa1
Outlook	Stable

Source: Moody's Investors Service

REPORT NUMBER 1092004

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