MOODY'S

Rating_Action: Moody's assigns Aa3 to Los Angeles Dept. of Apts.-Los Angeles International Airport Enterprise's (CA) 2023A and 2023B subordinate bonds; outlook is stable

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New York, March 16, 2023 -- Moody's Investors Service has assigned a Aa3 to Los Angeles Department of Airports-Los Angeles International Airport Enterprise's (CA) (LAX) $255.465 million Subordinate Refunding Revenue Bonds, 2023 Series A (Private Activity/AMT) (Green Bonds) and $48.72 million Subordinate Refunding Revenue Bonds, 2023 Series B (Governmental Purpose/Non-AMT). The department has $4.1 billion of outstanding senior lien bonds rated Aa2 and $6.5 billion of outstanding parity subordinate lien bonds rated Aa3. The outlook is stable.

RATINGS RATIONALE

The ratings reflect the airport's strong market position that historically provides strong demand for airport terminal rentals that in turn supports a favorable rate making structure that provides for robust operating margins and debt service coverage ratios. Total DSCR has historically been above 2.0x and will remain above 1.5x if the airport's assumptions of enplanement recovery and future debt issuance are met. The airport's projections assume full recovery of passengers by 2025. The ratings are also supported by strong liquidity, with unrestricted and discretionary cash balances equal to 828 days cash on hand as of June 30, 2022 and three letters of credit totaling $500 million. The airport's airline diversity, with no airline representing more than 22% of enplanements in fiscal 2022, also supports strong credit quality. The airport's rate agreement that includes the ability to charge airlines as necessary to achieve 1.40x debt service coverage ratio on all senior and subordinate debt service and capital availability payments is also a credit strength.

The ratings face increasing negative pressure from the department's plan to advance a very large $15 billion capital expansion plan after the conclusion of the current $12.1 billion plan. Key projects in the next plan include a new terminal and concourses which the department plans to have open by the 2028 Olympic Games to take place in Los Angeles. The proposed plan remains subject to design and contracting and the existing budget includes conservative assumptions to reflect rising airport construction costs. Some projects are demand based and could be scaled back if recovery from the pandemic stalls. The current ratings consider the flexibility around the timing and costs of the new program. Implementation of the program at expected costs would lead to debt outstanding, inclusive of the obligation to make availability payment on the automated people mover and consolidated rental car facility projects, to nearly $23 billion and adjusted debt per O&D enplanement above $650.

The Aa2 senior lien rating reflects the senior lien on net revenues and very strong DSCR that will remain above 2.75x if the airport's conservative forecast is met. Currently, senior lien debt accounts for about 38% of outstanding obligations. The Aa3 rating on the subordinate lien debt reflects the second claim on airport revenue and relatively weaker total DSCR that will remain above or at 1.50x if the airport's forecast is met. Both forecasts include the full financing of the next capital plan.

RATING OUTLOOK

The stable outlook reflects recovering traffic at the airport given increases in business and international travel that will support revenue recovery. The stable outlook also reflects that the true cost and timing of the airport's large next capital plan will not be known within the outlook period. The outlook could turn negative if further design and contracting of the planned facilities leads to likely debt issuance in excess of the current plan of finance.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

-Given the high leverage and construction risk at the airport as well as the inherent operational risks in the airport industry, positive rating pressure is unlikely at this rating level

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

-Slower than expected recovery from COVID or significant changes to the number of airlines serving the airport

-Leverage, as measured by adjusted debt per O&D enplanement and inclusive of the obligations for availability payments above $600, which would happen if the current projection for the next capital plan is financed as currently projected

-Net revenue DSCR below 2.5x on senior lien bonds and total DSCR below 1.5x on all obligations, including availability payments on sustained basis

LEGAL SECURITY

The senior lien bonds are secured by a pledge of net pledged revenues generated at LAX and the subordinate lien bonds are secured by a pledge of net pledged revenues subordinate to the claim of the senior bondholders. The senior lien bonds have an additional bonds test (ABT) that requires historic net revenues plus rolling coverage equal 125% of maximum annual debt service (MADS), or that the senior rate covenant has been met and will be met, including additional bonds, to the later of five years after issuance or three years beyond the use of capitalized interest. Subordinate bonds have an ABT that is similar to the seniors but with a subordinate net revenues threshold of 115% on subordinate debt.

The debt service reserve fund is fully funded with cash to meet the requirement of the lesser of MADS, 10% of par outstanding, or 125% average annual debt service.

USE OF PROCEEDS

Proceeds of the Series 2023A bonds will be used to refund commercial paper that was issued to advance portions of the capital plan and to refund remaining Senior Lien Series 2013A bonds. Proceeds of the Series 2023B bonds will be used to refund remaining balances on Series 2013B subordinate lien bonds. Proceeds of both bonds will be used to fund deposits to the subordinate reserve fund and pay costs of issuance.

PROFILE

Los Angeles World Airports (LAWA) owns and operates Van Nuys Airport and owns and leases property at Palmdale in addition to LAX. Only the revenues derived from the facilities at LAX are included in the security pledge for this bond issue.

LAX is located approximately 15 miles from downtown Los Angeles on the western boundary of the city and occupies approximately 3,800 acres. The central terminal complex features a decentralized design with nine individual terminals constructed on two levels lining a U-shaped two-level roadway. LAX currently has a total of 158 gates in the central terminal along with 9 remote hard stand positions. The existing airfield consists of four parallel east-west runways configured in two pairs. Approximately 15,311 public parking spaces are available at LAX in parking lots owned by LAWA. Cargo facilities at LAX provide approximately 2.2 million square feet of building space in 26 buildings on 166 acres of land devoted exclusively to cargo.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Airports and Related Issuers published in February 2023 and available at https://ratings.moodys.com/api/rmc-documents/398689. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Earl Heffintrayer
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
Plaza Of The Americas
600 North Pearl St. Suite 2165
Dallas 75201
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Kurt Krummenacker
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653
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