S&P Global Ratings

JFK International Air Terminal LLC Downgraded To 'BBB' On COVID-19-Related Enplanement Decline; Outlook Negative

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- We lowered our rating to 'BBB' from 'BBB+' on the Port Authority of New York and New Jersey's (PANYNJ) senior secured series 6 and 8 special project bonds issued for JFK International Air Terminal LLC (JFKIAT), which operates Terminal 4. We removed the ratings from CreditWatch with negative implications and assigned a negative ratings outlook.
- The downgrade reflects an unprecedented drop in airport passenger volumes in 2020 due to the COVID-19 pandemic and our expectation of a prolonged period of reduced volumes due to a potential recession and an uncertain path of economic recovery. We currently expect a slow recovery in which passenger volumes might not recover to the 2019 level until the end of 2024. The unprecedented drop in enplanements and slow recovery leads to a significant drop in debt service coverage ratios (DSCRs) for JFKIAT in comparison to our previous forecast, although we expect them to remain above 1.0x (bottoming out this year at 1.24x as modelled by S&P and not as per the bond agreements) and with no draws on reserves.
- We could lower the rating if we conclude that DSCRs substantially deteriorate due to worsening forecast enplanements or if we conclude that JFKIAT will require significant draws on cash or reserve balances.

SAN FRANCISCO (S&P Global Ratings) June 3, 2020—S&P Global Ratings today took the rating actions listed above.

Terminal 4 is an operating project consisting of a multilevel passenger terminal building, including two airside-facing linear concourses and a landside-facing main terminal. JFKIAT's role was to design, construct, and operate the project pursuant to a lease and certain other contracts with PANYNJ. Initially financed with the series 6 bonds in 1997, the new air terminal replaced the prior international arrivals building. JFKIAT has overall operational and management responsibility for all of Terminal 4 through 2043 (one year past the final maturity of the existing debt).

Our rating action reflects our updated view of COVID-19's impact on passenger volumes and a significant decline in revenues with a slow recovery. The downgrade reflects the significant drop in passenger volumes for the airport and our expected volumes in 2020 and beyond due to COVID-19 and our expectation of a prolonged period of reduced volumes due to the potential recession underway and the uncertain path of recovery in air travel. We currently expect a slower recovery for passenger volumes, due to a combination of a weaker economy, lower demand, and the financially challenged airline industry. Furthermore, the decrease in volumes have hurt non-aeronautical revenues.

We have updated our base case financial forecast for JFKIAT to reflect our new S&P Global Ratings enplanement assumptions. We currently forecast annual passenger volumes for the project to be 57% lower than 2019 in 2020, 25% lower than 2019 in 2021, 15% lower than 2019 in 2022, and 10% lower than 2019 in 2023. We do not expect the volumes to recover to 2019 levels until 2024. Our revised downside case builds an additional COVID-19 stress of 10% on passenger volumes for 2020, 6% lower in 2021, and 5% lower in 2022 and 2023, on top of our base case stress.

Our current air traffic forecast results in a significant drop of our revenue forecast and a one-time DSCR minimum of 1.24x (as modelled by S&P and not as per the bond agreement definitions--we include subordinated debt service, exclude investment income, and deduct subordinated expenses from cash flows) in 2020 (minimum coverage prior to COVID-19 was 1.80x) and 1.42x in 2021--now the two weakest years in our forecast. This year and next are primarily at risk for cash or reserve draws, although we do not forecast any draws on debt service reserves under our current forecast. Recovery continues beyond 2024.

Liquidity balances contribute to the project's resilience. This projected cash flow coverage is mitigated by the project's significant unrestricted cash reserves and $192 million of restricted cash balances consisting of more-than-12-month debt service reserve accounts for each issue and other operational and maintenance (O&M) reserves. The project's liquidity balances combined provides an important cushion along with some margin above 1.0x debt service to reduce the risk that restricted account draws would be required under a further reduction of enplanements. This is an important factor in limiting the downgrade to one notch.

Based on our S&P Global Ratings revised quarterly enplanements, with a decline in enplanements of 92% in the second quarter, 70% in the third, and 50% in the fourth, we concluded there may be a slight reduction in unrestricted cash in the second or third quarter, returning to a surplus in the fourth. We calculate that a 50% decline in enplanements is above the project's break-even point to cover expenses and debt service, given the stability of the Delta lease payments.

The Delta Airlines anchor-tenant lease provides stability. Revenues under the anchor-tenant agreement with Delta Airlines (BB/Watch Neg/--) do not vary materially based on volumes and account for 40% of revenues under normal operating conditions. It is also the majority of revenues under current conditions.

We believe the long-term operational value of Delta's JFKIAT facilities in an airport-constrained region supports continued payment under the lease. We believe that Delta, which has received $5.4 billion in federal bailout funds is reasonably positioned despite the unprecedented disruption in air travel to continue making lease payments. The JFKIAT facilities are core to its operations in the New York-New Jersey market because it is the hub for Delta's international flights. It seems likely the facility would remain operational if the airline were to enter bankruptcy or to modestly reduce operations.

Environmental, social, and governance (ESG) credit factors for this credit rating change:

- Health and safety

The negative outlook reflects the possibility that enplanement volumes could further decline below our current forecast, lead to a downgrade.

We could also lower the ratings as a function three risks. If a recovery in air traffic takes longer than expected or we conclude that JFKIAT requires the use of a substantial portion of unrestricted cash balances to cover expenses and debt service, we may lower the rating by one notch. If unrestricted cash balances are distributed before conditions significantly improve, or if we conclude that debt service reserves will be drawn, we may lower the rating.

A disruption in Delta's anchor-tenant payments could also lead to a lower rating. If Delta stops making payments under the anchor-tenant agreement or is downgraded to the 'B' category', we would likely lower the rating by at least two notches. A renegotiated tenant agreement with Delta at a lower rate would also lead to a downgrade. However, we view it as unlikely that the anchor-tenant agreement will be renegotiated, at least given current conditions.

If we see an improvement in air traffic that exceeds our forecasts and determine the risk of further social distancing measures is remote, we could revise the rating outlook to stable. An upgrade is unlikely until we gain more clarity about future enplanement levels and see solid and sustainable improvement in DSCRs, which could be several years away.

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Corporates | Project Finance: Project Finance Operations Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Framework Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Transaction Structure Methodology, Sept. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Project Finance: Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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