RATING ACTION COMMENTARY

Fitch Rates LAX Airport, CA's Sub Revenue Refunding Bonds 'AA-'; Outlook Stable

Fri 14 Mar, 2025 - 4:12 PM ET

Fitch Ratings - Chicago - 14 Mar 2025: Fitch Ratings has assigned a 'AA-' rating to the Department of Airports of the city of Los Angeles' (LAX) approximately $3.1 billion of subordinate revenue and refunding revenue bonds series 2025A, B, C, D, and E. The Rating Outlook is Stable.

Fitch has also affirmed the following Department of Airports of the City of Los Angeles' (LAX) bonds:

--Approximately $3.8 billion of senior revenue bonds at 'AA';

--Approximately $6.6 billion subordinate revenue bonds at 'AA-';

--Bank bonds corresponding to $500 million of authorized subordinate revenue CP notes subseries AI-A3, BI-B3 and CI-C3 at 'AA-';

--Payment obligations related to the approximately $1.2 billion LAX Integrated Express Solutions (LINXS) automated people mover (APM) Project senior lien revenue bonds at 'A'.

The Rating Outlook on all obligations is Stable.

RATING RATIONALE

The ratings reflect LAX's superior credit characteristics, including a strong underlying air trade service area, significant operational activity supported by a diverse mix of domestic and foreign-flag carriers, favorable rate agreements with airlines and very strong financial metrics. The airport continues to recover from the pandemic's operational impact. However, the airport's fiscal profile has been supported by ongoing revenue and cost initiatives, as well as LAX's sound liquidity position.

The scale of LAX's Next Airport Capital Program is significant at $15 billion through fiscal 2033, and additional borrowings will be required to provide portions of the funding. Airline costs will increase, however intermediate-term Fitch rating case leverage and coverage metrics remain strong and consistent with the 'AA' category (senior and subordinate liens).

The payment obligation rating reflects the security of availability payments (APs) from LAX to LINXS, as project revenue counterparty. These payments are made from the department's discretionary account, which is junior to all outstanding senior and subordinate lien revenue bonds, CP payments, and potential third lien debt, resulting in the two-notch differential.

KEY RATING DRIVERS

Revenue Risk - Volume - High Stronger

Large Gateway Airport: Extremely strong market economics reflect LAX's status as the nation's largest origination and destination (O&D) airport, as well as one of the largest U.S. international gateway airports. The airport benefits from a strong and well- developed diversity of domestic and foreign-flag air carriers. Passenger traffic and carrier expansion trends were particularly favorable pre-pandemic; however, recovery has lagged national trends and a complete recovery may still take a few years.

Fitch expects airline cost per enplanement (CPE) to continue escalating, given the Next Airport Capital Program. However, costs should remain competitive for an international gateway airport with modernized facilities and attractive yields.

Revenue Risk - Price - Stronger

Sound Rate Agreements: LAX's carrier rate agreements employ compensatory methodologies that extend through June 30, 2035 for signatory carriers, demonstrating their long-term commitment to serving the market. Enhancements to the current agreements, including a 1.40x minimum coverage test under an extraordinary coverage protection charge, inclusive of debt service and capital availability payments as well as revenue sharing credits, strengthen the pricing framework. The agreements continue to provide very strong financial metrics over time and financial flexibility during periods of volatility.

Infrastructure Dev. & Renewal - Midrange

Large-Scale Capital Program: The airport is well underway on an ambitious $15.1 billion existing capital program through fiscal 2026. The program is focused on terminal redevelopment and access improvements, as well as additional airfield and terminal projects. Bond funding is complete for the existing program and construction was 89% completed by the end of 2024. Recent complex projects have been delivered successfully, and the airport has entered into public-private partnerships for such projects as a new car rental center and automated people mover (APM) system.

In addition to the existing plan, LAX is beginning to procure elements of the Next Airport Capital Program, which it anticipates will be completed in or around 2033. The preliminary cost estimate for these projects is approximately $15 billion. The primary focus will be on multiple infrastructural maintenance and renewal works including airfield and roadway improvements Fitch's analysis assumes an additional $7.9 billion of future bond proceeds to fund the next program.

Debt Structure - 1 - Stronger; Debt Structure - 2 - Midrange

Conservative Capital Structure: All senior and subordinate long-term airport debt is fixed-rate and fully amortizing, minimizing the risk for fluctuations in debt interest costs. Future debt issues are expected to remain in this mode. Covenants for rates and additional borrowings are sufficient and mostly standard for the sector, and all of the debt service reserves are cash funded. The pandemic led to some restructuring of debt payments, resulting in short-term savings, but to higher costs in later years in anticipation of more normalized activity performance.

The availability payments for the APM and consolidated car rental center (ConRAC) projects are bifurcated for the operating and capital components and structured to support the debt financing through final maturity tied to the projects.

Financial Profile

LAX's superior franchise strength and sound rate agreements produce favorable financial metrics, which Fitch anticipates will continue. Total cashflow debt service coverage ratio (DSCR), treating PFCs as revenues rather than debt service offsets, was 2.2x in fiscal 2024. Even when including the additional debt for the Next Airport Capital Plan, total cashflow DSCR remains above 1.5x through 2034 in Fitch's rating case (FRC).

Liquidity is strong at roughly 470 days cash on hand and Fitch anticipates it will remain around 450 in the FRC. The strong cashflow generation and liquidity result in total leverage, measured by net debt-to-CFADS, around 8x in the near-term and falling back to 7x by fiscal 2029 in the FRC. CPE of around $28 for 2024 is expected to more than double by fiscal 2029 in the FRC due to the additional borrowings but will likely not have a material impact on traffic levels given strong market demand and airline yields.

PEER GROUP

Comparable Fitch-rated peers include Massachusetts-Boston (AA/Stable) and San Francisco (SFO; A+/Stable) airports. Both are either international gateway or large-hub facilities with similarly strong revenue risk profiles supported by large enplanement levels and competitive airline costs coupled with sound financial metrics. LAX has stronger coverage levels and lower leverage compared with SFO, whose additional CIP-related borrowings beyond 2025 keep leverage metrics relatively flat at 11x-12x. However, LAX's metrics are slightly weaker compared with Boston, which has a very low debt burden for a large hub airport enterprise, resulting in 3x leverage.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Material changes to the airport's current forecast for cost structure, cash reserve position, and/or additional indebtedness that leads to sustained Fitch rating case total leverage above 10x.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Due to the already high ratings, coupled with its large capital plan and associated borrowings, a positive rating action is not expected at this time.

TRANSACTION SUMMARY

The proposed transaction includes approximately $1.2 billion series 2025A, $177.1 million series 2025B, $171.0 million series 2025C, $942.3 million series 2025D, and $565.5 million series 2025E fixed rate subordinate lien revenue and refunding revenue bonds. The series 2025A-E bonds will fund approximately $2.1 billion of LAX's Next Airport Capital Program.

The series 2025A,B, and C bonds will also refund some or all of the series 2015 ABDE senior bonds, series 2015C subordinate bonds, and commercial paper notes. The series 2025D and E bonds is expected to refund some or all of the series 2009C and 2010C subordinate BABs, commercial paper notes, and the revolver.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍

Los Angeles International Airport (CA) [Airport]				
Los Angeles International Airport (CA) /Airport Revenues - First Lien/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
Los Angeles International Airport (CA) /Airport Revenues - Second Lien/2 LT	LT	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
Los Angeles International Airport (CA) [Airport - LINXS]				
Los Angeles International Airport (CA) /Airport Revenues - Payment Obligations/1 LT	LT	A Rating Outlook Stable	Affirmed	A Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

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APPLICABLE CRITERIA

Transportation Infrastructure Rating Criteria (pub. 07 Jan 2025) (including rating assumption sensitivity)

Infrastructure & Project Finance Rating Criteria (pub. 08 Jan 2025) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.4.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Los Angeles Department of Airports (CA)	EU Endorsed, UK Endorsed
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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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