Port of Portland, Oregon
Portland International Airport; Airport

Primary Credit Analyst:
Mary Ellen E Wriedt, San Francisco (1) 415-371-5027; maryellen.wriedt@standardandpoors.com

Secondary Contact:
Robert L Hannay, CFA, San Francisco (1) 415-371-5038; robert.hannay@standardandpoors.com

Table Of Contents

Rationale
Outlook
Bond Ordinance Provisions
Airport Description
Airport Finances
Related Criteria And Research
Port of Portland, Oregon
Portland International Airport; Airport

Credit Profile

<table>
<thead>
<tr>
<th>Port of Portland, Oregon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portland Intl Arpt, Oregon</td>
</tr>
<tr>
<td>Port of Portland (Portland International Airport)</td>
</tr>
<tr>
<td>Long Term Rating</td>
</tr>
</tbody>
</table>

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' long-term rating on the Port of Portland, Ore.'s general airport revenue bonds (GARBs), issued for the Portland International Airport (the airport or PDX). In addition, Standard & Poor's affirmed its 'A' rating on the airport's passenger facility charge (PFC) bonds. The outlook on all ratings is stable.

Although the airport serves mostly short- to medium-haul markets, it exhibits many fundamental strengths of larger hubs, in our view: a strong, primarily origination and destination (O&D) market, the absence of competing facilities, and solid historical debt service coverage (DSC).

The ratings on the GARBs and the PFC bonds reflect our view of the following strengths:

- The predominantly O&D nature of passenger traffic and the airport's dominant market position in the region;
- The airport's strong to very strong liquidity position;
- The diversity of passenger airline carriers serving the airport; and
- The demonstrated strong management of operations, finances, capital projects, and administration of the PFC program.

In our view, these credit strengths are partially offset by a significant but, in our opinion, manageable capital program of $667 million over the next five years.

The GARBs are secured by a senior lien on the net revenues of the airport only (no pledge of the port's other revenues), and the PFC bonds are secured by PFC revenues only. The airport collects the maximum $4.50 PFC. The airport currently has approximately $154 million in PFC bonds outstanding, including a direct purchase agreement with Wells Fargo. In addition, the airport currently has approximately $432 million in airport revenue bonds outstanding. The airport has entered into six swaps with a current notional value of $166 million.

Passenger traffic growth at PDX has been good in recent years, in our view, but exhibited some softness in fiscal years 2009 and 2010 due to the economic recession. While enplanements peaked at 7.4 million in fiscal 2008, with the nationwide recession and the escalation in fuel costs, enplanements decreased by 10.7% in fiscal 2009 and an additional 2.7% in fiscal 2010 to a total of 6.5 million. Fiscal 2011 enplanements, however, increased by 4.2%, which we consider solid, to a total of 6.8 million. Fiscal 2012 continued to show growth, with enplanements increasing 2.9% to a total of 6.9 million. Enplanements grew a strong 5.6% in fiscal 2013 to 7.4 million, just below the peak.
enplanement level in fiscal 2008. Management is projecting enplanement growth of 5.8% in fiscal 2014, based on announced service, to the highest level in the airport's history.

The port is a municipal corporation and a legal subdivision of the state that operates maritime, aviation, and industrial development properties. The airport is located on 3,200 acres on the southern edge of the Columbia River, 12 miles northeast of downtown Portland. The airport is ranked as a medium hub by the Federal Aviation Administration (FAA). Seattle-Tacoma International Airport is the closest major airport facility (170 miles to the north) and does not provide a viable alternative for air access to the Portland region.

**Outlook**

The stable outlook reflects our anticipation that financial metrics will meet or exceed management's projections, that airline cost per enplanement will be manageable, that the liquidity position will remain at least strong, and that limited additional debt will be needed to fund the capital improvement program (CIP). We would consider a significant decrease in traffic demand that puts pressure on these metrics as a credit risk. We do not expect to raise the ratings during the next two years.

**Bond Ordinance Provisions**

The GARBs are secured by the net revenues of PDX. The pledged revenues for the GARBs do not include other nonairport activities, such as maritime operations, under the port's control. Overall, the legal structure of the airport enterprise is favorable, in our opinion. While bond provisions regarding the flow of funds and debt service reserve levels are typical, we believe the airport has a strong additional bonds test of 1.30x, which may be calculated on either historical or projected net revenues. Under the bond ordinance, the airport has covenanted to impose rates and charges equal to 1.30x debt service; it also requires annual payment of DSC from the airlines rather than the industry's standard rolling coverage. While PFCs are legally defined as revenues, federal law restricts their use to specific, approved projects, and the airport does not use these revenues in the calculation of rates and charges.

Technically, the airport's GARBs were issued on a subordinate-lien basis; however, there is no other debt with a prior claim on airport revenues, and the port has covenanted not to incur any obligations other than operations and maintenance (O&M) expenses superior to the lien on the outstanding bonds.

The PFC bonds are secured solely by PFC revenues and PFC revenue interest earnings. The airport may pledge additional revenues to the bonds though currently no additional revenues are pledged.

The PFC is a $4.50 charge levied by the port on each "PFC-eligible" enplaned passenger, which is collected and remitted monthly by airlines serving the facility -- subject to an administrative fee of 11 cents on each PFC retained by the airline. By federal statute, there are certain classes of passengers that cannot be charged a PFC, including travelers using frequent-flier tickets. On a one-way flight, a passenger may be charged a PFC only at the first two airports where PFCs are collected. On a round-trip flight, a passenger may be charged a PFC only at the first two enplaning PFC-collecting airports on the outbound leg and the last two enplaning PFC-collecting airports on the inbound leg. In
recent years, between 90% and 92% of enplaned passengers at PDX paid a PFC. The airport's PFC application no. 12 was approved in February 2013.

The airport deposits PFC revenues as collected to the PFC fund, and applies the fund in the following order: to pay debt service on the PFC bonds, to make any required deposits to the reserve account, to make any subordinate-lien obligation payments, to make any required deposits to a subordinate-lien reserve account, and to deposit to the PFC Capital Account to be used for approved projects or any other use authorized under federal PFC regulations.

Under the PFC bond ordinance, the port must, at all times, comply with a first-lien sufficiency covenant. Under this covenant, the following calculation must exceed 1.05x at all times:

PFC Authority:

- Less: costs paid to date on PFC pay-as-you-go improvements
- Less: pay-as-you-go contractual commitments
- Less: debt service paid to date on PFC bonds
- Less: projected aggregate subordinate-lien debt service
- Plus: any funds on deposit in the subordinate-lien obligations account or reserve and any additional pledged revenues.
- Divided by: projected aggregate first-lien debt service, less funds on deposit in the first-lien debt service account and first-lien reserve fund.

The airport may issue additional first-lien PFC bonds if an aviation consultant certifies that the first-lien sufficiency covenant will be met after the issuance, and projected pledged revenues for the five years after issuance provide at least 1.50x maximum annual debt service.

**Airport Description**

The airport is located on 3,200 acres on the southern edge of the Columbia River, 12 miles northeast of downtown Portland. The closest major airport facility is Seattle-Tacoma International Airport (170 miles to the north), which does not provide a viable alternative for air access to the Portland region. The only other commercial service airports in the state are smaller airports at least 100 highway miles away. The airport has two parallel east/west runways and one northeast/southwest crosswind runway. The passenger terminal includes five attached concourses.

The airport was the 32nd busiest airport in the U.S. in 2012, in terms of total passengers, according to Airport Council International - North America. The airport is designated as a medium-hub airport by the FAA, and it is the busiest medium hub nationwide. Portland has a solid market position, in our opinion. Historically, Portland experienced steady growth in passenger traffic. From fiscal years 1990 to 2000, passenger traffic at Portland increased at an average annual rate of 8.3%. The airport experienced high growth between fiscal years 1993 and 1997, with an average increase of 13.3% per year, stemming from the addition of Southwest Airlines to the airport in fiscal 1994. However, between fiscal years 2000 and 2002, the number of enplanements decreased, due in part to the effects of Sept. 11, 2001; the national economic downturn, which affected the Portland region; and the withdrawal of international service by Delta in 2001. During this period, the number of enplaned passengers decreased by 1.7% in fiscal 2001 and 10.8%
in fiscal 2002 to 6.0 million passengers.

From fiscal 2002 through fiscal 2008, enplanements steadily increased (including 6.6% growth in fiscal 2005 alone) at a compounded annual growth rate of 3.5%. New service at the airport and the presence of low-cost carriers contributed to the growth. In fiscal 2008 enplanements reached their historical high of 7.4 million, a 4.3% increase over the previous record of 7.1 million in fiscal 2007. Due to the effects of the national economic recession and increased oil prices on airline capacity, enplanements decreased by 10.7% in fiscal 2009 to 6.7 million and by an additional 2.7% in fiscal 2010 to 6.5 million.

In fiscal 2011 enplanements began to recover, growing by 4.2% to a total of 6.8 million, and in fiscal 2012 increased by 2.9% to a total of 6.9 million. In fiscal 2013 the airport experienced strong growth of 5.6% to 7.4 million, just below the historical peak in traffic in fiscal 2008. Management projects that enplanements will grow by 5.8% in fiscal 2014 to a new peak. From fiscal 2015 through fiscal 2019, management projects annual growth of 2.3%. The growth is based on historical trends in aviation activity at the airport, airline announcements, and local socioeconomic and demographic factors.

The airport is an O&D facility, with 83% of passenger traffic initiating or concluding travel at the airport. Most of that traffic is domestic. The O&D market base mitigates some risks regarding air carrier hubbing decisions, in our view, but travel demand is susceptible to fluctuations in the local economy. As of fiscal 2013, scheduled passenger service was provided by 12 airlines, in addition to scheduled cargo service. While there is some concentration in Alaska Airlines, overall the air carrier diversity is good, in our view, with the top five airlines carrying 86.6% of the passengers in fiscal 2013: Alaska (38.4%), Southwest (18.5%), United (14.8%), Delta (11.0%), and US Air (3.9%).

**Airport Finances**

PFC revenues collected by the airport have provided, in our view, strong DSC, ranging from a high of 5.6x in fiscal 2000 to a low of 2.1x in fiscal 2012. PFC revenues jumped 19.2% in fiscal 2002 after the PFC charged to passengers increased to $4.50 from $3.00. Since that time, growth in PFC revenues has followed enplanement growth. In fiscal 2009, PFC revenues earned totaled approximately $26 million, providing 2.5x DSC on the PFC bonds, and DSC remained at 2.5x for fiscal years 2010 and 2011. PFC DSC for fiscal 2012 was 2.05x, and DSC for fiscal 2013 was 2.12x. Forecast coverage through fiscal 2016 is expected to be approximately 2.13x.

Airport operating revenues have fluctuated with passenger traffic during the last few years, with fiscal 2013 revenues totaling $187 million, up 3% from fiscal 2012. O&M expenses totaled $101 million. Net revenues have provided good historical DSC, in our view, at 1.9x in fiscal 2013. Management took steps to mitigate the financial impact of the decrease in traffic in fiscal years 2009 and 2010, including lowering operating expenses and raising certain revenues. DSC is forecast by management conservatively to remain at 1.8x through the forecast period. These projections are in line with management's previous forecasts. We consider the historical DSC levels at the airport to be good, particularly as the calculation does not include rolling coverage.

The airport's liquidity for fiscal 2013 was very strong, in our opinion, at $255 million, or 923 days' cash on hand, representing 56% of GARBs outstanding. This figure includes the airport's and the port's unrestricted cash and
investments divided by airport operating expenses per day. Liquidity has been consistently high, in our opinion, and was 756 days in fiscal 2009, 883 days in fiscal 2010, 1,061 days in fiscal 2011, and 885 days in fiscal 2012.

Management has worked effectively to lower the cost per enplanement. In fiscal 2013 cost per enplanement was $10.33, and management projects cost per enplanement at $10.11 in fiscal 2014 and $10.13 in fiscal 2015. Prior to this, airline cost per enplanement at PDX had been relatively high, in our opinion, at $11.88 in fiscal 2009 and $12.02 in fiscal 2010.

The airline agreement is effective July 1, 2010, through June 30, 2015. The agreement has a hybrid rate-making model, with residual rate-making for the airline cost center covering O&M expense plus 1.3x annual funded DSC and compensatory rate-making in the nonairline cost centers. The agreement has a majority-in-interest disapproval process for airline cost center projects, and includes a provision for revenue-sharing, with the airlines subject to achieving certain port cost center coverage minimums. A permanent rate ordinance for nonsignatory airlines was also adopted.

The five-year CIP totals $667 million, which we consider significant but manageable. We understand that management plans to issue approximately $273 million in additional GARBs within the next five years. The additional debt has been incorporated into management's financial forecast discussed above. Management may potentially implement a short-term financing vehicle to manage capital cash flow needs as well.

Related Criteria And Research

Related Criteria

- General Criteria: Airport Revenue Bonds In The U.S. And Canada, Nov. 15, 2013
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Criteria: Joint Support Criteria Update, April 22, 2009

Ratings Detail (As Of November 21, 2013)

<table>
<thead>
<tr>
<th>Port of Portland, Oregon</th>
<th>Long Term Rating</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portland Intl Arpt, Oregon</td>
<td>A/Stable</td>
<td>Affirmed</td>
</tr>
</tbody>
</table>
Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P’s public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.