MOODY'S INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS A3 RATING TO ALBANY COUNTY AIRPORT'S SERIES 2010 REFUNDING BONDS. OUTLOOK IS NEGATIVE.

Global Credit Research - 13 Jul 2010

ALBANY COUNTY AIRPORT HAS APPROXIMATELY $136 MILLION OUTSTANDING

Airport
NY

Moody's Rating

ISSUE		UNDERLYING RATING	RATING
Refunding Bonds, Series 2010A		NA	A3
Sale Amount	$102,620,000		
Expected Sale Date	07/15/10		
Rating Description	Revenue		
Refunding Bonds, Series 2010B		A3	A3
Sale Amount	$4,130,000		
Expected Sale Date	07/15/10		
Rating Description	Revenue		

Opinion

NEW YORK, Jul 13, 2010 -- Moody's has assigned an A3 rating to Albany County Airport Authority's Series 2010 Revenue Refunding Bonds. The outlook is negative. The A3 rating is based on the fundamental strength of the capital region service area and the growing technology sector The negative outlook is influenced by a declining enplanement trend in addition to budgetary difficulties at the region's largest employer, the State of New York (Aa2, Stable).

LEGAL SECURITY:

* Net revenues

* Passenger facility charges (PFCs) are used as a direct off-set to debt service on 2008 bonds and the airport has pledged $4.1 million annually to be irrevocably deposited for the payment of the Series 2010 bonds through 2013.

INTEREST RATE DERIVATIVES: Along with the 2010 refunding, the airport will be terminating a floating to fixed swap agreement associated with the 2008A bonds. After the refunding, the airport will no longer have outstanding interest rate derivatives.

STRENGTHS

* Airport is prohibited by state law from incurring more than $285 million in debt

* There is no additional debt needed or planned

* Strong and diverse carrier service with Southwest as the dominant carrier, as well as four other major airlines that have served the airport since 1990

* Substantial revenues from non-airline sources including parking, concession, FBO, and leasing operations

* Local economy developing strong position in nanotechnology and research while transitioning away from declining manufacturing industries

CHALLENGES

* Enplanements declined -4.5% for fiscal year 2009

* Airport invoked the capital charge mechanism in the Airline Agreement for both 2008 and 2009.

* The largest employer in the region, the State of New York, is currently experiencing budgetary difficulties that may result in layoffs, potentially stressing the underlying fundamental employment picture

* High cost per enplanement and low levels of unrestricted cash relative to other A3 rated airports

MARKET POSITION/COMPETITIVE STRATEGY: GROWTH EXPECTED IN LONG TERM, BUT THREATENED BY FISCAL DIFFICULTIES AT STATE OF NEW YORK

The Albany Metropolitan area continues to enjoy a solid stable economy with fairly steady employment numbers grounded in government jobs at the federal, state, and local levels. Government employment accounts for over 20% of the entire Albany-Schenectady-Troy workforce. In the near term, the financial stress and the failure to reach a budget at the State level threaten this stable employment dynamic. Also, if and when a budget is agreed upon, to the extent that the budget includes layoffs, the fundamental strength of the Albany area employment picture could change for the worse. An opposing trend, but one which is much smaller in magnitude is the growing presence of Albany as a leader in nanotechnology research. Centered at the State University of New York Albany, the $435 million Institute for Nanoelectronics Discovery and Exploration is expected to spur continued investment and job growth in this industry. In addition, in July, the construction process was initiated on a $4.2 billion microchip fabrication foundry in Malta, NY. Albany's position as a leader in these budding technologies puts it on track to transition to a modern growth economy and helps set it apart from other manufacturing based cities in the region.

AIRPORT HAS DIVERSE CARRIER BASE AND SOLID LOW COST CONCENTRATION

The airport has a history of dedicated service from the major airline carriers. Five of the six major carriers at the airport have maintained a continuous presence since 1990. Southwest Airlines (Senior Unsecured, Baa3, Stable), the sixth major, arrived in 2000 and has been the dominant carrier since 2002. Although Southwest enjoys a growing market share that reached 38.8% in 2009, four other airlines hold shares between 8% and 20% in a market served by 23 carriers. In the current difficult airline industry environment, the carrier diversity makes the airport less susceptible to the failure of a single airline. Carrier interest in serving the airport remains strong despite the relatively high airline cost per enplanement of $8.80. The airport has received notification of intent to renew the airline agreement expiring this year for an additional five year term.

Albany International has experienced a steady decline in its enplanement levels in recent years and is expecting a slight decline in enplanements for the ongoing fiscal year. Year to date enplanements are down -6.8%, which is below expected levels and well below the national trend that was +0.9% through March. The airport experienced solid growth in the late 1990s following a terminal modernization program and realized a 23% traffic jump upon Southwest's arrival in 2000. Post-September 11th, passenger levels contracted greater than the national average but rallied to 12.5% growth in 2004. As mentioned above, layoffs at the state level would increase unemployment, and would more than likely result in reduced enplanements. A major drop in enplanements would result in downward ratings pressure.

FINANCIAL POSITION & PERFORMANCE: SOLID FINANCES TEMPERED BY HIGH COSTS

Cost per enplanement decreased] to $8.80 in 2009 from $8.91 in 2008. Landing fees, one of the components of cost per enplanement had been budgeted at $1.89 in 2008, but after the year-end audit, were adjusted upward to $2.71, a 43% increase. Also, in order to reach the required 1.25x coverage level on all airport debt, the airport authority had to invoke the Capital Charge Clause for 2008, which affected in the Airline Operating Agreement in the amount of $80,000 in 2008. The airport has invoked the capital charge mechanism again in 2009. The use of the Capital Charge mechanism in 2008 and 2009 was a primary driver for the change in outlook to negative.

The airport has a diverse revenue base that includes substantial operating revenues from parking, terminal revenues, airfield operations and concessions. These high revenues support substantially higher than average operating revenue per passenger at $32.04 but are offset by high operating expenditures. Although these flows balance to a net income on par with their peers, airlines are faced with an $8.80 cost per enplanement that is considerably higher than its peer airports' average at $5.50. Moody's note that cost per enplanement is influenced higher at Albany because the airport provides airlines will all terminal services, including jet bridges.

Albany's high debt position stems from the terminal modernization project of the late 1990s. Albany's debt ratio and debt per enplaned passenger are both significantly above airports in the same rating category. The debt ratio was 35.4 and the debt per enplanement was $104 for fiscal year 2009. This debt position is aided greatly by PFCs and by associated leases from the FAA and the State of New York. Also, the airport recently received permission from the FAA to increase PFCs to $4.50 from $3.00, and will be able to apply PFCs to a greater extent than before. The airport posted comparatively narrow debt service coverage of 1.25x in fiscal year 2009, which was reached with the aid of the Capital Charge mechanism. The airport has taken steps to increase debt service coverage such as decreasing expenses and applying to have PFC revenues be applicable to a greater amount of debt.

CAPITAL PROGRAM: NO MAJOR DEBT ISSUANCE EXPECTED

At the current time, the Authority has no major debt issuances planned, and has excess terminal capacity to manage the marginal growth that is expected in the near term. There are minor repairs planned, such as the resealing of the terminal roof liner and the resealing of the parking garage. With the 2010 refunding, the authority has fairly level debt service at approximately $9 to $10 million (after the application of PFCs to debt service) through roughly 2026. Moody's will focus on the ability of the airport to maintain or increase net revenues and to therefore increase levels of liquidity and of debt service coverage going forward.

Outlook

The negative outlook is based on the deteriorated financial position of the region's largest employer, New York State, and the declining enplanement trend since 2006.

What could change the rating--UP

The rating would be pressured upward if the regional economy were to drive substantial enplanement growth that led to higher net revenues and more robust debt service coverage.

What could change the rating--DOWN

The rating would be pressured downward if enplanement levels decline greater than the airport's expectation of -3.8%, if the Capital Charge mechanism is required to meet the rate covenant for FY 2010, if liquidity weakens, or if the State of New York announces large scale layoffs.

KEY INDICATORS

Type of Airport: O&D

Rate-making methodology: Hybrid

FY 2009 Enplanements: 1.32M

5-Year Enplanement CAGR 2005-2009: -3.3%

FY 2009 vs FY 2008 Enplanement growth: -4.5%

FYTD2010 vs FYTD2009 Enplanement growth: -6.8%

% O&D vs. Connecting, 2009 (5 YR AVG): 98% (98%)

Largest Carrier by Enplanements, FY 2009 (share): Southwest (38.8%)

Airline Cost per Enplaned Passenger, FY 2009 (5 YR AVG): $8.80 ($8.46)

Debt per Enplaned Passenger, FY 2009 (5 YR AVG): $104 ($105.2)

Bond Ordinance Debt Service Coverage, FY 2009 (5 YR AVG): 1.25x (1.32x)

Days Cash on Hand, FY 2009: 155

Utilization Factor, 2009: 1.09

RATED DEBT

Series 1998-B&C General Airport Revenue Bonds, $18.7 million, A3; negative outlook

Series 2000-B General Airport Revenue Bonds, $12.1 million, A3; negative outlook

Series 2003-A General Airport Revenue Bonds, $6.2 million, A3; negative outlook

Series 2006-A&B General Airport Revenue Bonds, $13.3 million, A3; negative outlook

Series 2006-C General Airport Revenue Bonds, $6.1 million, A3; negative outlook

Series 2010-A General Airport Revenue Bonds, $102.62 million, A3; negative outlook

Series 2010-B General Airport Revenue Bonds, $4.13 million, A3; negative outlook

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The ratings for the Albany County Airport Authority's (NY) Airport Revenue Bonds were assigned by evaluating factors we believe are relevant to the credit profile of the Albany County Airport Authority (the Company), such as (i) the business risk and competitive position of the Company versus others within its industry, (ii) the capital structure and financial risk of the Company, (iii) the projected performance of the Company over the near to intermediate term, and (iv) management's track record and tolerance for risk. These attributes were compared against other issuers both within and outside of the Company's core industry and the Company's ratings are believed to be comparable to those of other issuers of similar credit risk.

The last rating action for Albany County Airport Authority was on September 22, 2009 , when the rating outlook was changed to negative.

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