

**Rating Update: MOODY'S MAINTAINS A3/NEGATIVE RATING ON ALBANY COUNTY'S
OUTSTANDING REVENUE AND REVENUE REFUNDING BONDS**

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ALBANY COUNTY AIRPORT AUTHORITY, NY
Airports
NY

Opinion

NEW YORK, December 13, 2011 --Moody's maintains an A3/negative rating on Albany County Airport Authority's (the "airport" or "Authority") outstanding \$129.9 million of Revenue and Revenue Refunding Bonds. The negative outlook reflects the continued decline in enplanement levels and limited financial flexibility as well as budgetary difficulties at the region's largest employer, the State of New York (Aa2/stable). The A3 rating is based on the fundamental strength of the capital region service area and the growing technology sector as well as the Authority's focused actions in stabilizing its revenue base over the medium term and the expectation that the airport will continue to meet its financial obligations despite anticipated flat enplanement growth.

LEGAL SECURITY:

- * Net revenues
- * Passenger facility charges (PFCs) are used as a direct off-set to debt service on the refunded Series 2008 Bonds and the airport has pledged approximately \$4 million annually to be irrevocably deposited for the payment of the Series 2010 bonds through 2013. Additional amounts may be applied based upon PFC availability and approved eligibility.
- * Debt Service Reserve Funds as lesser of (i) maximum annual debt service, (ii) 10% of IPO, or (iii) 125% of average annual debt service.

INTEREST RATE DERIVATIVES: None

STRENGTHS

- * Airport is prohibited by state law from incurring more than \$285 million in debt
- * There is limited additional debt needed or planned in the medium term
- * 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 non-airline related revenues including concession fees, fixed base operations, and parking comprise approximately 70% of total \$41.9 million in FY 2010 revenues
- * Local economy continues to develop position in nanotechnology and research, while transitioning away from declining manufacturing industries

CHALLENGES

- * Enplanements have been declining over the past 2006-2010 five-year period at a CAGR of -3.3%, with a -2.2% expected decline for FY 2011 YTD, partially mitigated by management's proactive steps to maintain revenue stability and contain costs.
- * High cost per enplanement, lower liquidity, lower debt service coverage, and higher debt per enplanement relative to other A3 rated airports
- * Higher average fares than most competing airports in the Northeast result in leakage to New York airports
- * Airport invoked the capital charge mechanism in the Airline Agreement for both 2008 and 2009, managed to avoid accessing the capital charge in FY 2010 due to PFC hike and cost cutting measures
- * The largest employer in the region, the State of New York, continues to experience budgetary pressures having proposed a reduction in local government aid, which could translate into additional borrowing needs for the Authority in the medium term.

MARKET POSITION/COMPETITIVE STRATEGY: CONTINUED NEGATIVE ENPLANEMENT TREND, AND SLOWER GROWTH FORESEEN IN THE SERVICE AREA

The Albany Metropolitan area has a solid and 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. However, Moody's recently downgraded Albany County from Aa2 to Aa3 on account of a weakened financial position due to the uncertainty surrounding state aid and minimal expected private sector job growth, compounded by potential government layoffs, leaving Albany at risk for a second recession which would negatively impact enplanement growth at the airport. Weak population growth trends, with some negative net migration, are also a long-term concern reflecting lower enplanement growth potential. A counterbalancing 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 Institute for Nanoelectronics Discovery and Exploration, is expected to spur continued investment and job growth in this industry. Globalfoundries' semiconductor manufacturing facilities opening in 2012, is expected to create 6,400 direct and indirect jobs in the region. Albany's position in these budding technologies will help it to transition to a modern growth economy and will help set it apart from other

manufacturing based cities in the region. The stable economy and growing nanotechnology growth have translated into lower unemployment rates in the capital region, of 7.3% in August 2011, versus the 9.1% national average, and 8.2% for the state.

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. In 2010, the airport extended its current airline agreement with Delta, Southwest, United, US Airways, Cape Air, their respective affiliates and two cargo airlines, effective January 1, 2011, for five more years to December 2015. 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, currently at 40%, four other airlines hold shares between 8% and 20% in a market served by 21 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 \$7.82 as of FY 2010.

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. However, it has experienced a steady decline in its enplanement levels in recent years, with a five-year compounded average decline rate of -3.3% , with an anticipated 2.7% decline for FY 2011. The sustained drop in enplanements without a period of stabilization foreseen in the near future has contributed to a decline in financial flexibility at the airport.

FINANCIAL POSITION & PERFORMANCE: FLAT GROWTH ANTICIPATED, FOCUS ON MAINTAINING REVENUE BASE AND COST CONTAINMENT

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 \$32.39 but are offset by high operating expenditures of \$23.6 versus the \$16.4 median. Although these flows balance to a net income on par with their peers, airlines are faced with costs per enplanement that are considerably higher than peer airports'. Cost per enplanement declined from the previous \$8.8 in 2009, but it is projected to increase back to \$8.53 for FY 2011. Moody's notes that cost per enplanement is influenced higher at Albany because the airport provides airlines with all terminal services, including jet bridges. Airlines have cut capacity at the airport since 2005, resulting in 16% higher domestic fares versus its peer group, at an average domestic fare of \$175 in 2010. The airport captures 52.8% of the traffic generated in its service area, as higher fares increase leakage to surrounding airports.

Albany's high debt position stems from the terminal modernization project of the late 1990s. Both the debt ratio of 37.7% and debt per enplanement of \$95.08 for fiscal year 2010 are higher than the median ratios for airports in the A3 category. This debt position is aided greatly by PFCs and by associated leases from the FAA and the State of New York. Also, in September 2009, the airport received permission from the FAA to increase PFCs to \$4.50 from \$3.00, in addition to being permitted to apply PFCs to a greater extent than before. The airport posted comparatively narrow debt service coverage (DSCR) of 1.27x in fiscal year 2010, just above their minimum DSCR of 1.25x. The additional revenues from the full year of higher PFCs in 2010, as well as cost containment measures undertaken by the airport, enabled it to not access the capital charge as previously budgeted. The airport does not anticipate accessing the capital charge in 2011, and the 2011 DSCR is projected at 1.27x on a bond ordinance basis, and 1.16x per Moody's calculations.

The Authority has taken steps towards focusing on maintaining and growing its revenue base, as well as maintaining costs, some of which have already come to fruition while others may derive results starting in mid to late 2012. Cost containment has included some personnel reduction, as well as reductions in borrowing costs associated with the refunding of the Series 2008 notes in July 2010, and terminating an associated floating to fixed swap agreement. The Authority was also able to reduce the debt service reserve fund by over \$2 million. On the revenue side, the airport has long-term contracts averaging over 6 years with its car rental and restaurant concessions, accounting for annual minimum revenue guarantees of almost \$5 million, and was successful in its application for the Small Community Air Service Development Program, receiving a matching \$750k grant to be applied as revenue guarantees to be offered as incentives to start-routes. The airport is in conversations with a couple of major airlines in order to include a significant start-up route to Houston which would enable linkage to other Texas based markets. If successful, the \$1 million in associated revenue should serve to more than net out the approximate \$800 thousand revenue loss from rental terminal space give backs by the expiration of separate agreements with Northwest Airlines and Continental in December 2010, due to their respective mergers with Delta and United.

In spite of these actions, DSCR will continue to be pressured even if the airport were to experience flat to low levels of enplanement growth in the medium term. These ratios had been comfortably above the 1.3x level in the past. Management has projected debt service coverage ratios for 2012 and 2013 at 1.27 and 1.29, assuming enplanement stabilization in 2012, and a 1% growth in 2013. Debt service coverage ratios are projected to subsequently increase to 1.3x in 2014 and 2015 with continued 1% enplanement growth and additional PFCs available to be applied to debt service coverage. These ratios are below the median for A3 rated airports of 1.56x. Moody's projections show debt service coverage ratios remaining in the 1.15-1.18x range over the same period.

The Authority's financial flexibility has become limited as a result of 6 to 7 years of continuous enplanement declines, evidenced by its need to access the Capital Charge in 2008 and 2009 in order to meet the required 1.25x debt service coverage level on all airport debt, and current and projected lower debt service coverage ratios. Days cash on hand metrics have averaged 145 days in the past few years, which is below the median of 500 days. This significantly lower level of liquidity is partially mitigated by the Authority's ability to impose a Capital Charge of up to 25% of its required debt service on its signatory airlines, as well as the Extraordinary Coverage Protection enabling the Authority to raise rates at any time during the year (never utilized). The outstanding revenue bonds benefit from a two-month O&M reserve of \$7.5 million as of June 30, 2011 and a standard three-pronged debt service reserve fund.

FLEXIBILITY WITHIN CAPITAL PROGRAM, WITH NO DEBT ISSUANCE EXPECTED

The Authority's capital improvement plan is estimated at \$139.3 million over the 2010-2014 period, almost 60% of which is eligible for state and federal grant funding. The Authority expects to fund the remainder of the program with funds from operations. The airport currently has excess terminal capacity to manage any marginal growth expected in the medium term, therefore its capital improvement program has some flexibility and may not all be undertaken within the five-year period. The plan is based on an economic best case scenario, and includes runway improvements, taxiways renovations, terminal retrofits, expansion to parking areas, among other things. With the 2010 refunding, the authority has fairly level annual debt service requirements of approximately \$9 to \$10 million net of PFCs (approximately \$5 million per year) through roughly 2026, excluding any additional indebtedness. The Authority does not anticipate any reduction in state grants, as the New York State DoT only accounts for 2.5% matching of the required funding, with federal grants accounting for 95% of the total. Given the Authority's current limited financial flexibility, additional indebtedness and/or a reduction in grant funding may further exert pressure on coverage ratios and liquidity. Moody's will remain focused on the airport's ability to stabilize and or increase net revenues in order to maintain adequate liquidity levels and

debt service coverage going forward.

Outlook

The negative outlook is based on the Authority's continued declines in enplanement levels and observable negative impact on its financial flexibility, as well as budgetary pressures facing the region's largest employer, the State of New York

What could change the rating--UP

The rating could be pressured upward by improvements in the regional economy driving substantial enplanement growth that results in sustainable higher net revenues and more robust debt service coverage and significantly improved liquidity.

What could change the rating--DOWN

The rating could be pressured downward if enplanement levels continue to decline at higher than the airport's expectation of flat growth rates, if liquidity weakens, DSCR declines further, or if debt per enplanement levels increase beyond current levels per Moody's calculation.

KEY INDICATORS

Type of Airport: O&D (small hub)

Rate-making methodology: Hybrid

FY 2010 Enplanements: 1.26M

5-Year Enplanement CAGR 2006-2010: -3.3%

FY 2010 vs FY 2009 Enplanement growth: -4.1%

FY 2011 Projected Enplanement growth: -2.7%

% O&D vs. Connecting, 2010 (5 YR AVG): 98% (98%)

Largest Carrier by Enplanements, FY 2010 (share): Southwest (40.5%)

Airline Cost per Enplaned Passenger, FY 2010 (5 YR AVG): \$7.80 (\$8.21)

Debt per Enplaned/O&D Passenger, FY 2010 (5 YR AVG): \$93.19/95.09 (\$96.08/98.77)

Bond Ordinance Debt Service Coverage, FY 2010 (5 YR AVG): 1.27x (1.29x)

FY 2010 Days Cash on Hand (5 YR AVG): 145 (124)

Utilization Factor, 2010 (5 YR Avg) : 1.45 (1.58)

RATED DEBT

Series 2003-A General Airport Revenue Bonds, \$5.1 million, A3; negative outlook

Series 2006-A&B General Airport Revenue Bonds, \$12.4 million, A3; negative outlook

Series 2006-C General Airport Revenue Bonds, \$5.8 million, A3; negative outlook

Series 2010-A General Airport Revenue Bonds, \$94.8 million, A3; negative outlook

Series 2010-B General Airport Revenue Bonds, \$3.0 million, A3; negative outlook

The principal methodology used in this rating was Airports with Unregulated Rate Setting published in July 2011. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

The last rating action for Albany County Airport Authority was on July 13, 2010, when an A3 rating with a negative outlook was assigned.

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