

Airports
U.S.
New Issue

Albany County Airport Authority (New York)

Albany International Airport

Rating History

Rating	Action	Outlook/ Watch	Date
A-	Affirmed	Stable	7/9/10
A-	Affirmed	Stable	1/25/08
A-	Affirmed	Stable	11/16/07
A-	Affirmed	Stable	11/13/06
A-	Affirmed	Stable	5/22/06
A-	Affirmed	Stable	5/9/03
A-	Affirmed	Stable	10/24/01
A-	Upgrade	N.A.	7/24/01
BBB+	Affirmed	N.A.	12/7/00
BBB+	Assigned	N.A.	10/30/98

N.A. – Not applicable.

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Related Research

Applicable Criteria

- [Rating Criteria for Infrastructure and Project Finance, Sept. 29, 2009](#)
- [Airports Rating Criteria Handbook for General Airport Revenue, PFC and Letter of Intent Bonds, March 12, 2007](#)

Ratings

Class	Amount (\$ Mil.)	Final Maturity	Rating ^a	Note Type	Outlook
2010A and 2010B Refunding Revenue Bonds	106.7 ^a	12/15/26	A-	N.A.	Stable
Airport Revenue and Refunding Bonds, Series 1998, 2000, 2003, 2006, and 2008 ^b	136.7	12/15/35	A-	N.A.	Stable
Total Issuance	136.7				

^aRefunding issuance, includes 1998B, 2000B, and 2008A bonds. ^b1998B, 2000B, and 2008A bonds to be fully or partially refunded by the issuance of the 2010A and 2010B refunding bonds. N.A. – Not applicable. Note: Amounts based on information provided by the issuer as of June 30, 2010.

Rating Rationale

The 'A-' rating reflects the Albany International Airport's (Albany, the airport) role as the primary airport in the New York state capital region, and the stable presence of Southwest Airlines (Southwest) as the airport's major carrier with 39% of enplanements. The rating also reflects the more stable nature of the Albany County Airport Authority's (the Authority) capital structure following the 2010 refunding issue, which will reduce the Authority's variable-rate exposure from more than 50% of outstanding debt to 0%. Additionally, the rating acknowledges the Authority's manageable capital improvement program (CIP) with no additional borrowing envisaged in the near term, and the Authority's maintenance of its operating margins through the recent economic downturn.

Offsetting credit concerns reflected in the rating include the continued enplanement declines and carrier service reductions at the airport over the past five years, with enplanements falling at a compound annual rate of 3.3% per year since 2004. Additionally, the airport's cost per enplanement (CPE) was higher in 2008 and 2009 than in the two previous years, and could rise further should operating expenses increase in the future. Debt service coverage levels that are at or marginally above minimum rate covenant requirements are also a credit concern. Fitch believes that the airport's current debt restructuring provides greater stability to debt interest costs going forward. However, it also recognizes the inefficiency of utilization of hedged variable-rated debt in the prior capital structure. There will be a slight increase in the average life of the airport's debt due to the refunding, coupled with a \$13 million termination payment, which elevates the airport's aggregate debt burden. Finally, the rating reflects the historical lack of strong economic growth in the airport's air service area.

Key Rating Drivers

- **Airline service levels:** The airport has seen enplanement declines since 2004, with reduction of service by legacy carriers, and varying levels of service from other carriers. Given these declines predated the global recession, if there is underlying softness in the Authority's catchment area, this may lead to continued depressed

travel trends. Should service levels continue to decline, revenues will also be reduced and the rating may be pressured.

- **Cost structure:** While the airport's cost per enplanement (CPE) has been relatively stable over the past decade, at \$8.80 it is higher than CPEs seen at airports with comparable service markets. In 2009, the airport's management demonstrated its ability to implement cost reductions to offset enplanement and revenue declines. However, the airport's CPE could rise if operating expenses increase in the future. Based on the airport's cost structure and modest growth expectations, Fitch believes the credit profile of the Authority could weaken should CPEs continue to climb, operating expenses return to historical levels of growth, or should the airport pursue capital investments that result in additional borrowing.

Project Summary Table

Project Summary Data	Financial Summary Data
Project Type — Airport	Rated Debt Terms — The airport has approximately \$141 million outstanding in airport system revenue and refunding bonds and EFC bonds, fixed and variable rate. Final maturity 2035. The airport also has \$3.4 million in county reimbursements for certain airport-related debt that the county financed prior to transferring the airport to the authority.
Project Location — Albany, NY	Amortization Profile — MADS in 2015, then steps down from 2019 onwards.
Status — Operation	Security — Pledge of and lien on net revenues of the Authority.
Revenue Basis — Cost Recovery — Airline and Non-Airline Sources	Rate Covenant — Net revenues equal to at least 1.25x debt service.
Applicable Regulation — U.S. and New York Law	Reserves — Funded with bond proceeds equal to the least of 10% of the bond proceeds, MADS, or 1.25x of average annual debt service. The airport has \$14.2 million in debt service reserves that are cash-funded and invested in highly liquid collateralized demand deposit accounts.
Operator — AvPorts	Additional Bonds — The Authority has a \$285 million statutory debt cap. In order to issue additional bonds, CFO must determine no event of default exists, and the airport consultant must verify that, based on latest available financials, net revenues equaled at least 1.25x MADS on all outstanding and proposed bonds; or that the Authority's net revenues for the three years following the fiscal year in which the Authority intends to issue debt will be sufficiently equal the greater of 1.25x debt service coverage on all bonds outstanding, or 1.0x charges or obligations to be payable from net revenues.

Project Profile and Analysis

Overview

Albany International Airport is located on 1,156 acres in Colonie, NY, seven miles from Albany's central business district and accessible via U.S. Interstate 87, 88, and 90 highways. It is classified as small hub airport (FAA classification of airports handling between 0.05% and 0.249% of nationally enplaned passengers). Based on the latest FAA data available, in 2008 the airport ranked 78th in total enplanements.

The airfield is comprised of two intersecting runways. The primary runway is 8,500 feet, while the second runway is 7,200 feet (expanded in 2006). The terminal consists of three levels, and began operations in June 1998 (replaced original 1959 facility, and incorporated the renovated 1979 terminal). The terminal is 290,000 sf with 17 gates and

21 aircraft parking positions. Recent interior renovations include new wall treatments and carpeting. The airport has 6,379 public parking spaces, including a five-level parking garage with 2,312 spaces (307 used by rental car companies). There are 537 additional spaces set aside for volunteers, flight crews, and employees. The overall garage is in excellent condition.

Airport facilities also include a 50,500-sf air cargo facility, general aviation facilities (40 T-hangars and additional tie-down parking spaces), fixed-based operations (FBO) and fuel farm, and the New York State Police hangar.

Other similar airports that are located 100 miles–200 miles away include Stewart International in Newburgh, NY (92 driving miles from Albany; five cities served nonstop as of June 2010); Bradley International in Hartford, CT (107 driving miles from Albany; 26 cities served); Syracuse Hancock International in Syracuse, NY (143 driving miles from Albany; 14 cities served); and Greater Binghamton Airport in Johnson City, NY (149 driving miles from Albany; three cities served).

The Albany area enjoys a higher than average per capita personal income (\$40,909 for Albany versus \$39,582 nationally), and unemployment rates have remained low despite the recent downturn (6.5% in Albany versus 8.4% for New York and 9.9% nationally). Population growth has not kept pace with the nation (1.9% population growth from 2000 to 2008, compared with 3.0% for the state and 7.7% for the nation), indicating the highly developed nature of the Albany-area economy. However, this is an improvement over the previous 10-year period.

Fitch further notes that significant recent private investment by large companies, such as International SEMATECH, General Electric, and IBM, and the opening of GlobalFoundries' (formerly AMD) new semiconductor manufacturing facility in the area, will help in developing a high technology corridor and may have a positive effect on the region's economy and the airport's future enplanement base.

Sponsors and Legal Structure

The airport was owned and operated by the city of Albany until 1960, when it was transferred to Albany County. The state of New York created the Authority in 1993 as a body corporate and politic constituting a public benefit corporation in order to promote the strengthening and improvement of the airport and to facilitate the financing and construction of various capital projects, including terminal improvements. Albany County and the Authority entered into a permanent lease agreement in December 1995 (effective May 16, 1996) for the transfer of the sponsorship of the airport from the county to the Authority. Under this 40-year lease agreement, the county leases the airport to the Authority, including all lands, buildings, improvements, structures, easements, and rights of access.

The Authority is composed of seven members. Four members are appointed by the majority leader of the Albany County Legislature, and three members by the Albany County Executive; all appointments are subject to the approval of county legislature. The Authority members are appointed for a term of four years or until a successor is appointed, although any person appointed to fill a vacancy is appointed to serve only the unexpired term.

The Authority has engaged the services of AFCO AvPorts Management LLC, (doing business as [dba] AvPorts) to manage the daily operations of the airport and Go Albany, Inc. (dba Million Air) to manage the daily operations of the FBO. AvPorts handles complete airport management at several comparable airports in the Northeast, including Atlantic City, Stewart International, Teterboro, Tweed-New Haven, and Westchester County.

Obsolescence and Economic Life Risk

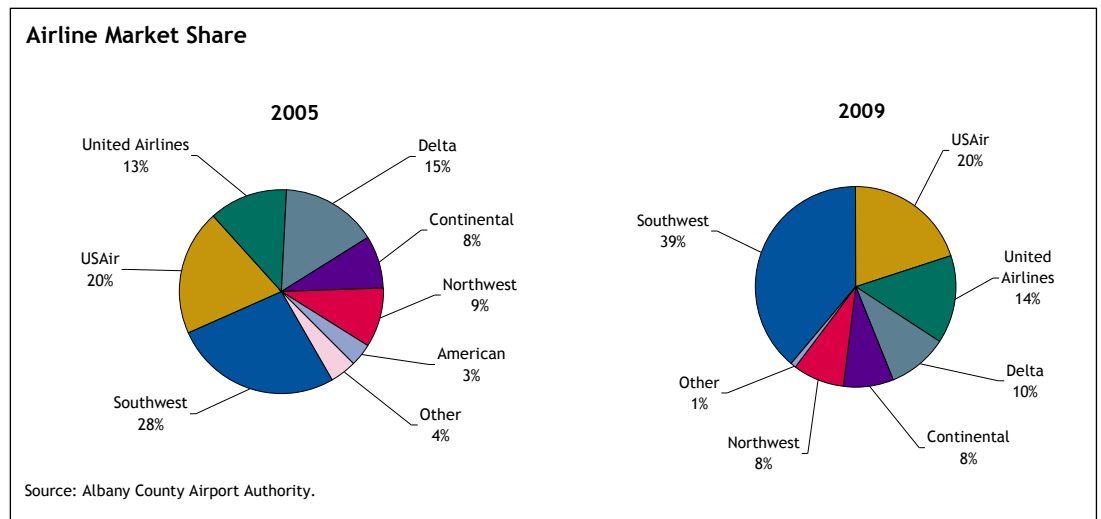
The facilities are in good condition. The airfield has recently been expanded in 2006, and the terminal facilities and parking garage have been redeveloped/expanded in 1998–2000. The Pavement Index for runways, taxiways, and aprons is maintained in “good” condition or better. An Airport Improvement Program (AIP) grant project will bid in July 2010 for \$2.2 million to repave areas needing attention. In addition, a 2010 condition review of the parking garage found no salt penetration in concrete for the 10-year-old garage as a result of aggressive maintenance program. A project to reseal decks, replace expansion joints, and repair some concrete surfaces is scheduled for bidding in July 2010.

Industry Risk

The Authority derives a substantial portion of its operating revenues from fees generated by the airlines, and, as a result, the financial strength and stability of the airlines using airport facilities influence the level of aviation activity and thus airport revenues. Given that the financial results of the airline industry periodically have been subject to volatility and accumulation of substantial losses, and that recent events have had a significant, negative impact on airline industry profitability, exposure to the airline industry causes some credit concern.

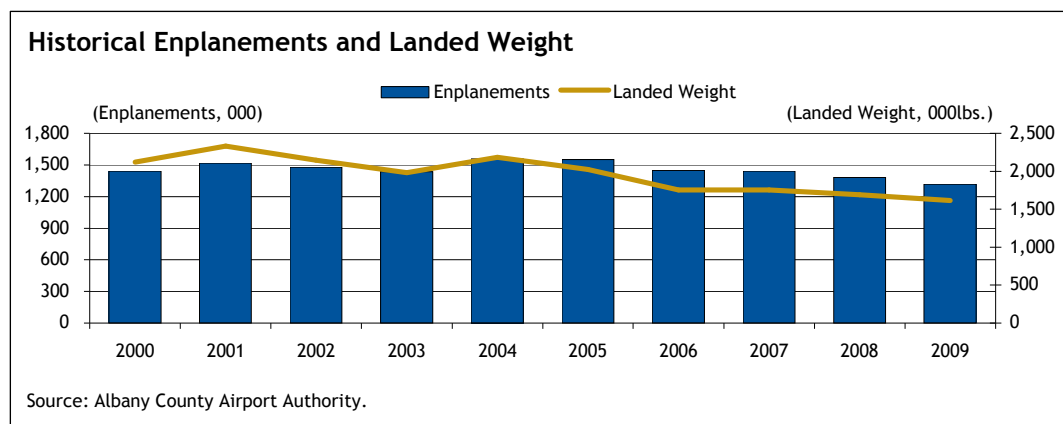
Volume Performance

As of June 2010, Albany Airport is served by seven airlines and their regional partners, serving 25 nonstop destinations with a total of 71 daily departures. This compares with eight airlines serving 20 destinations and 65 daily departures in January 2008. Principal carriers include Southwest, US Airways, United Airlines, Delta Air Lines, and Continental Airlines.



Regular scheduled daily passenger flights departing from Albany decreased to 72 in December 2009 from 77 in December 2008, after an increase from 71 in December 2007. The changes in aircraft size by most of the airlines from full size jets to regional jets (RJs) and/or turboprops have decreased the number of available seats. Seats decreased 4.0% in 2009 as compared with 2008, and have declined at a compound annual rate of 5.9% since 2004.

In fiscal 2009, enplanements and landed weight were down 4.5% and 4.6%, respectively, following declines of 4.2% and 3.6% in 2008. Since 2004, enplanements and landed weight have declined at compound annual rates of 3.3% and 5.9%, respectively. Furthermore, the first five months of fiscal 2010 indicated an enplanement decline of 6.3%, compared with the same period in 2009.



Revenue

Operating revenues for fiscal 2009 totaled \$42.3 million, a decrease of 7.5% from fiscal 2008. The Authority's revenues are derived primarily from airline rates and charges for the use of the airport's facilities in the form of landing fees, terminal rentals, apron fees, and loading bridge charges received from airlines using the airport; concession fees from vendors serving the passengers including food, retail, and rental cars; public parking fees including surface and garage parking; and FBO activities from general aviation activities.

Concessions — Although enplanements have declined in recent years, concession revenues in 2009 exceed both 2008 and 2007 due to new concession agreements with all rental car companies and the major food and beverage concessionaire (HMS Host) effective Jan. 1, 2009. These new 10-year agreements provide better terms to the Authority, increased minimum annual guarantees, and provide for \$3.2 million in new investment in the concession facilities by the major food and beverage concessionaires.

Parking — The airport directly manages all on-airport parking operations, which at Dec. 31, 2009 consisted of 353 short-term garage/surface parking spaces, 1,907 long-term garage parking spaces, 1,117 long-term-surface spaces, and 2,783 remote shuttle served parking spaces. The Authority last adjusted its parking rates in November 2008, resulting in an increase in parking revenue per enplanement to \$8.04 in 2009, compared with \$7.70 in 2007 and \$7.89 in 2008. However, cars parked/total parking revenues decreased 8.8%/2.6% in 2009 and 8.1%/1.9% in 2008, respectively, compared with the previous year.

Grants — During 2009, the Authority received a \$6.7 million grant under the American Recovery and Reinvestment Act (ARRA) and a \$1.7 million Law Enforcement Officer (LEO) grant. The ARRA grant is being used to fund the relocation of a local community water tower, which is being reported as a flow through grant. The ARRA grant will cover pass through grant spending in 2009 and 2010. The LEO grant is payable monthly through Sept. 30, 2012 and is reported as non-operating income. Fitch notes that grants and PFCs are not counted as revenues under the bond resolution.

Passenger facility charge (PFC) — The airport PFC fee was increased from \$3 per enplaned passenger to the \$4.50 per enplaned passenger effective Sept. 1, 2009 and resulted in an increase of PFC collections in the last four months of 2009. The increased

PFC collection rate should have a greater impact on 2010 and future financial results as it will be in force for the full year.

Operations/Maintenance Risk

Expenses — After absorbing increased costs associated with its acquisition of the airport FBO and the opening of expanded terminal and parking facilities, the Authority managed costs down to a 7% annual growth rate in 2007 and 2008. In fiscal 2009, operating expenses dropped 14% by \$4.6 million as a result of a decline in the purchase price of fuel sold at the FBO, cost-saving measures, and employee reductions. This compares with a 7.5% drop in operating revenues in fiscal 2009. During fiscal 2009, the airport's net operating revenues produced a 30% operating margin, above the five-year average margin of 26% and in line with the 10-year average of 29%.

CPE — The airline CPE at Albany has increased from \$7.67 in 2007, to \$8.91 in 2008, then decreased to \$8.80 in 2009. Airline landing fees account for approximately 30% of the CPE in the 2010 budget. Under its use and lease agreement, the Authority has the ability to adjust airline rates and charges at any time throughout the year to ensure adherence to all financial covenants in its bond resolutions, namely "extraordinary coverage protection," if necessary. The Authority can also impose a "capital charge coverage" equal to 25% of its required debt service. This provides for net revenues to be no less than 125% of annual debt service. The Authority has exercised the capital charge provision in 2008 and 2009, equal to 1% and 5% of debt service in each year, respectively, to meet its debt service coverage requirement. However, it has never imposed the extraordinary coverage protection provision. Fitch notes that the Authority's CPE cost includes various services provided by the Authority that otherwise would be a direct additional cost for carriers at other airports, thus slightly inflating the figure compared with other peer airports.

Capital Expenditures

The airport's current 2010–2014 CIP calls for \$139 million in potential projects, with \$85 million eligible for grant funding, and revenue bonds potentially funding up to 30%. The airport's terminal and airfield infrastructure is estimated to be adequate for enplanement levels through the forecast period and, thus, the timing of certain projects will depend on both enplanement targets and on the Authority's ability to secure additional state or federal funds. As the Authority may only implement projects included in its five-year CIP, which under its authorizing statute may only be revised at five-year intervals, the plans tend to be comprehensive and highly discretionary in nature with

Albany Capital Plan — 2010–2014

(\$000)

	Amount	% of Total
Uses — Approved Projects		
Airfield	51,050	36.6
Terminal	14,000	10.1
Landside	64,250	46.1
Major Equipment	10,000	7.2
Total	139,300	—
Sources — Projected Funding Sources		
Federal Funds	81,050	58.2
State Funds	1,900	1.4
Debt Issuances	42,000	30.2
Authority Funds	14,350	10.3
Total	139,300	—

Source: Albany County Airport Authority.

actual levels of spending often well below budgeted levels. Fitch notes that only 25% of projects in the airport's prior five-year CIP, which was nearly double the size of the current plan, were ultimately completed.

The largest capital project currently in progress is the relocation of two water towers in the town of Latham water district to remove a runway obstruction at a total estimated cost of \$11 million. This project was 97.5% grant funded when it started in 2008 and the airport received a \$6.7 million FAA ARRA grant in 2009, which is expected to cover 100% of the costs of finishing this project.

While Fitch does not expect additional borrowing by the Authority in the near future, Fitch believes the credit profile of the Authority could weaken should the airport pursue capital investments that result in additional borrowing.

Financial Profile and Analysis

Debt Structure

Debt Characteristics

As of Dec. 31, 2009, Albany County Airport Authority had \$141.31 million in general airport revenue bonds (GARBs) outstanding (includes \$4.4 million unamortized swaption loan), plus \$3.4 million in obligations to the county for airport-related borrowing from the period prior to the current lease. Of this, \$78 million of series 2008 bonds were variable-rate bonds with an associated swap with a negative fair value of approximately \$13 million. Prior to refunding, the debt profile is as follows:

Authority Revenue Bonds/Debt Obligations

(\$000)

	Original Issue	Outstanding at 12/31/09	% of Original Remaining
1998 GARB Series B and C	30,695	17,570	57.2
1999 NYS EFC	7,895	4,452	56.4
2000 GARB Series B	14,500	12,105	83.5
2003 GARB Series A	8,885	5,945	66.9
2004 NYS EFC	388	175	45.1
Unamortized Swaption Loan	5,330	4,416	82.9
2006 GARB Series A and B	14,230	12,850	90.3
2006 GARB Series C	6,330	6,075	96.0
2008 Refunding Series A	83,200	77,720	93.4
Total Authority Debt Obligations	171,454	141,308	82.4
County of Albany General Obligation Bonds	21,100	3,418	16.2
Total Debt Obligations	192,554	144,727	75.2

GARB – General airport revenue bonds. NYS – New York state. EFC – Environmental Facilities Corporation.
Source: Albany County Airport Authority.

The Authority's MADS occurs in 2015, then steps down from 2019 onwards. Proceeds from the series 2010A and 2010B refunding bonds are anticipated to refund the series 2008A variable-rate bonds with fixed-rate bonds; to pay the associated swap termination payment, estimated at \$13 million; to refund series 1998B and 2000B fixed-rate bonds for savings; and to pay associated insurance premium (if economically beneficial). Fitch notes that the refunding will stabilize the airport's capital structure going forward by reducing its variable-rate exposure from more than 50% to 0%. However, the slight increase in the average life of the airport's debt and the payment of a \$13 million termination payment serve to elevate the airport's aggregate debt burden. Should the airport pursue capital investments that result in additional borrowing, negative rating pressure may result.

Structural Features

Security — The bonds are payable from and secured by a lien on net revenues derived by the Authority in connection with the airport, as well as certain bond funds and reserves. PFCs are excluded from the definition of “revenue,” but can be pledged as revenue pursuant to the master bond resolution. PFCs can also be irrevocably pledged to pay debt service and to reduce debt service requirements. For the 2010 series refunding bonds, the Authority will covenant in the 11th supplemental resolution to apply the lesser of a.) the total amount of PFC revenues collected and remitted to the Authority, and b.) the amount of PFC revenues as shown in the report of the airport consultant to debt service on the series 2010 bonds.

Rate covenant — The Authority covenants to charge rates sufficient such that net revenues are equal to at least 1.25x annual debt service requirements.

Additional bonds — The Authority has a \$285 million statutory debt cap. In order to issue additional bonds, the airport’s CFO must determine no event of default exists, and the airport consultant must verify that, based on latest available financials, net revenues equaled at least 1.25x MADS on all outstanding and proposed bonds; or that the Authority’s net revenues for the three years following the fiscal year in which the Authority intends to issue debt will be sufficiently equal the greater of 1.25x debt service coverage on all bonds outstanding, or 1.0x charges or obligations to be payable from net revenues.

Debt service reserve — The Authority’s debt service reserve fund is funded with bond proceeds equal to the least of 10% of the bond proceeds, maximum annual debt service, or 1.25x of average annual debt service. The airport has \$14.2 million in debt service reserves that are cash-funded and invested in highly liquid collateralized demand deposit accounts.

Fitch Base and Stress Case Assumptions

In evaluating the creditworthiness of the Authority, Fitch considered a variety of scenarios, including a forecast developed by the Authority and their airport consultant, and also a Fitch stress case.

The Authority’s base case predicts that the airport will experience an enplanement decline of 3.8% in 2010, it will experience no growth in 2011, and thereafter will grow by 1% annually through 2013. Non-airline revenues per enplanement are assumed to grow at 2.0% annually. Operating and maintenance expenses are forecast to decline 1.4% in 2010, increase by 3.0% in 2011 and 4.0% in 2012 and 2013, for a CAGR of 2.4% across the forecast period. Under this scenario, no additional borrowing is assumed, though debt service is expected to be lower due to higher assumed use of PFC revenues, with \$4.1 million to be committed for the 2010 bonds and \$1.2 million to be used for existing debt service.

In the Fitch stress case, enplanements for 2010 are assumed to drop in line with year-to-date declines of 6.3%; 2011 and thereafter assumes the same growth trends as the base case, with 0% growth for 2011, and 1% growth in 2012 and beyond. Revenues are assumed to drop in 2010 by 2.9%, same as the base case; however, for 2011 to 2013, recovery is assumed to be slower than in the base case, with revenues mirror enplanements. Expenses grow at the last five years average rate, and the same debt structure as base case is assumed.

Cash Flow and Financial Ratio Analysis

The Authority’s forecast shows enplanements and net revenues declining at CAGRs of 0.5% and 1.0%, respectively, through 2013. Under this scenario, the CPE is forecast to be

in the \$8–\$9 range, dropping towards the end of the forecast period. Debt service coverages average 1.3x, with the lowest coverage occurring in 2010 and rising thereafter.

Fitch's scenario projects a less robust return to growth, with enplanements and net revenues declining at CAGRs of 1.1% and 5.0%, respectively, through 2013. Under this scenario, the CPE is forecast to be in the \$9 range. The resulting debt service coverage ratios are lower at 1.1x–1.2x. To achieve 1.25x coverage, a total of \$3.3 million is needed over the forecast period to either enhance revenues or be reduced from costs. Should such declines in enplanements be realized or should cost escalations outpace revenues, margins and coverage may be reduced to levels inconsistent with an 'A–' category credit.

Financial Summary — Albany County Airport Authority

(\$000, Fiscal Year-End Dec. 31)

	2004	2005	2006	2007	2008	2009
Balance Sheet						
Cash and Short-Term Investments	6,569	7,405	11,543	12,506	9,254	11,611
Restricted Current Assets	22,672	22,304	37,230	28,408	28,560	29,107
Current Liabilities	12,374	14,507	17,019	16,326	14,944	15,166
PP&E, Net	236,829	234,279	238,760	251,297	253,000	247,587
County Debt Outstanding	8,560	7,519	6,528	5,544	4,580	3,622
GARBs	130,949	131,855	148,072	143,175	137,254	131,480
NYS EFC	8,101	7,516	6,920	6,311	5,695	4,434
Long-Term Debt Outstanding	147,610	146,890	161,520	155,030	147,529	139,536
Operating Statement and Coverage						
Revenues						
Airfield	8,394	7,606	5,882	5,597	6,828	7,303
Terminal	7,236	8,826	7,407	7,575	7,690	6,513
Concessions	4,576	5,125	5,269	5,687	5,480	6,044
Ground Transport	10,233	10,972	10,885	11,340	11,123	10,818
Other	3,653	3,341	3,366	3,618	4,361	3,992
Fixed-Base Operations	—	1,638	7,307	8,818	10,193	7,580
Total Operating Revenues	34,092	37,508	40,117	42,635	45,675	42,251
Other Revenues	652	1,066	1,470	1,673	874	523
Total Revenues	34,744	38,574	41,587	44,307	46,550	42,774
Operating Expenses	(22,593)	(27,138)	(29,878)	(31,975)	(34,231)	(29,625)
Albany County Debt Service	(1,516)	(1,408)	(1,311)	(1,264)	(1,202)	(1,156)
Total Expenses	(24,109)	(28,546)	(31,189)	(33,238)	(35,433)	(30,782)
Net Revenues	10,635	10,028	10,398	11,069	11,116	11,992
Debt Service						
GARB	10,865	10,983	11,006	12,152	12,306	12,554
Net NYS EFC	761	750	751	756	754	765
PFC Offset	(3,877)	(4,106)	(4,407)	(4,238)	(4,167)	(3,726)
Total Net Debt Service Payments	7,748	7,627	7,349	8,670	8,893	9,593
DSCR — Indenture (x)	1.37	1.31	1.41	1.28	1.25	1.25

GARBS – General airport revenue bonds. NYS – New York state. EFC – Environmental Facilities Corporation. PFC – Passenger facility charge.

Source: Albany County Airport Authority.

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