



Fitch Affirms Albany Airport Revs & Rfdg Revs at 'A-'; Revises Outlook to Negative from Stable

Ratings
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Fitch Ratings-New York-29 June 2011: Fitch Ratings affirms its 'A-' rating of Albany County Airport Authority's (the airport, the authority) outstanding \$136.6 million of airport revenue and refunding bonds. The Outlook is revised to Negative from Stable.

RATING RATIONALE:

--The Negative Outlook reflects the airport's ongoing decline in enplanements, which have decreased year over year since 2004. Enplanement levels decreased by 4.1% and 4.5% in 2010 and 2009, respectively. The first five months of 2011 have indicated further decreases in enplanements of 3.5%, with May showing a slight recovery of 2.7%. The lower traffic levels are attributable to air carriers reducing capacity through downsizing aircraft, as well as leakage to nearby competing airports due to more competitive airfares. While seating capacity has been reduced through the downturn, load factors have been relatively unchanged, signaling a potential softness in demand. Additionally, the service area is experiencing slow growth in population, growing 2.0% from 2000 to 2009, a marked contrast from the nation at 8.8%. However, the presence of the airport's dominant carrier, Southwest, has provided some stability to the market, growing from 28% market share in 2005 to 41% in 2010. A prolonged period of enplanement declines could lead an increase in rates and charges, negatively impacting the airport's competitive position.

--The airport is the primary airport in the New York State capital region and serves a primarily O&D passenger base, with 1.3 million enplanements in 2010. The service area is stable with an unemployment rate below state and national averages. However, population growth in the region has been relatively slow over the past decade, growing 2.0% from 2000 to 2009. Meaningful competitive pressure exists from nearby airports due to Albany's comparatively higher airfares. The airport has moderate carrier concentration, with Southwest Airlines and US Airways representing 41% and 20% of market share respectively. Existing service may be difficult to replace in the event an air carrier chooses to reduce capacity or discontinue service.

--The airport has a hybrid use and lease agreement which was extended to 2015. Cost per enplanement is moderate, ranging from \$7.70 to \$9 in recent years, and in response to declining enplanement levels, the airport has actively managed operating expenses over the past two years.

--The airport is relatively highly leveraged given its risk profile, with debt per enplanement of \$108 in 2010 and net debt to CFADS of 10.2 times (x).

--The airport's capital improvement plan (CIP) is manageable and heavily grant funded. The airport is in good physical condition, and no additional debt issuance is expected in the near term.

What Could Trigger a Downgrade:

--Continued declines in enplanement levels may impact the airport's competitive profile as CPE rises. Should enplanements decline below the one million level, the traffic profile may no longer be consistent with the current rating category.

--Management's ability to continue to actively control its expense profile and maintain healthy financial margins will be important to maintaining financial flexibility and credit quality going forward, particularly if enplanement levels continue to see downward pressure.

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.

CREDIT SUMMARY:

The airport is operating under a hybrid use and lease agreement which was extended in 2010 for an additional five years. Operating revenues decreased by 3.1% in 2010 due to lower landing fees to air carriers. The revenue decline is also attributed to decreases in non-airline revenues, which are closely linked to enplanement levels. CPE decreased to \$7.82 in

2010 from \$8.80 in 2009, as a result of defeasement of EFC debt, a full year of PFC collections at the \$4.50 level, and various revenue enhancements at the airport. The CPE is expected to return to \$8.52 based on the operating budget for 2011, largely due to decreases in enplanement levels and limited increases in certain expense items.

Fitch views favorably management's considerable efforts in recent years to contain operating expenses. Expenses were limited to a 0.9% growth in 2010 and while expenses were reduced by 13.5% in 2009. However, prior to the recession, expense growth was somewhat higher at 7 - 10%; a return to historic levels would be cause for concern. Strategic management of operating expenses will be necessary given the declining trend in enplanements to avoid additional cost being passed to air carriers.

Fitch does not expect meaningful recovery in the near term in enplanements due to current market conditions and fuel prices which may limit airline's willingness to expand services. Under Fitch's base case scenario which assumes flat growth in enplanements along with historic operating expense growth, CPE is expected to rise to \$9 range in 2011 increasing to \$11 by 2015. Enplanement levels at the airport are also subjected to decisions of air carriers operating at the airport. Should a carrier choose to significantly reduce service or discontinue service at the airport CPE may increase to levels which may no longer be competitive amongst nearby airports. Fitch's stress scenario indicates that a one-time 15% decrease in enplanements may cause the airport's CPE may increase to \$14.

The airport has a relatively high debt burden, with debt per enplanement at \$108 and 10.2x net debt to CFADS. However, the airport's capital improvement program is manageable with no expected bonding in the near term and a majority of projects funded by grants. The current 2010-2014 capital improvement program totals \$139 million in potential projects. The CIP size represents the maximum amount possible for capital spending 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. Capital projects undertaken in 2010 included the obstruction removal of two municipal water tanks from runway, rehabilitation of taxiway, parking garage preservation project, and major renovations of terminal concessions.

Contact:

Primary Analyst
Emma Griffith
Director
+1-212-908-9124
One State Street Plaza
New York, NY 10004

Secondary Analyst
Tanya Langman
Associate Director
+1-212-908-0716

Committee Chairperson
Mike McDermott
Managing Director
+1-212-908-0605

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Rating Criteria for Infrastructure and Project Finance' (Aug. 16, 2010);
--'Rating Criteria for Airports' (Nov. 29, 2010).

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