

Summary:

Albany County Airport Authority, New York Albany International Airport; Airport

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Credit Profile		
US\$106.75 mil arpt rev rfdg bnds (Albany Intl Arpt) ser 2010 due 12/15/2026		
<i>Long Term Rating</i>	BBB+/Stable	New
Albany Cnty Arpt Auth, New York		
Albany Intl Arpt, New York		
Albany Cnty Arpt Auth (Albany Intl Arpt)		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Albany Cnty Arpt Auth (Albany Intl Arpt)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'BBB+' long-term rating to Albany County Airport Authority, N.Y.'s series 2010 airport revenue refunding bonds, issued for Albany International Airport. At the same time, Standard & Poor's has affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on the authority's airport revenue bonds outstanding. The outlook is stable. The rating reflects our assessment of a small-hub, origin and destination airport with what we consider to be a high debt burden.

In our opinion, the rating reflects the following credit weaknesses:

- Steadily declining enplanement trends during the past five years, with an overall change to 1.32 million in fiscal 2009 (year ended Dec. 31) from 1.55 million in 2005, and projected to fall 3.8% in 2010; and
- A high debt burden, with about \$104 of airport revenue bond debt per enplanement in 2009, which is more than double the mean value for small-hub airports, and projected to increase to about \$110 following this issue, incorporating the 2010 enplanement decline; and
- A below-average liquidity position for the rating category, with \$11.6 million in unrestricted cash as of Dec. 31, 2009, representing about 140 days' cash, or 9% of debt outstanding.

We believe offsetting credit strengths include the following:

- Revenue diversity, with 2009 passenger-airline revenues accounting for 34% of total operating revenues, similar to recent historical shares;
- Little competition from surrounding airports; and
- No additional debt plans.

The airport had about \$140 million in total debt outstanding as of Dec. 31, 2009), including \$3.4 million of Albany County general obligation (GO) debt that is senior to all other debt. Management is issuing the 2010 bonds to refund certain airport revenue bond debt, including variable-rate debt, which would result in all debt outstanding

being fixed rate. We also expect the airport to fund a swap termination payment associated with its variable-rate debt with bond proceeds. Post-refunding and certain payments, we expect the authority's debt to remain about \$140 million, including \$2.7 million of GO debt. Airport revenue debt also includes about \$4.6 million of New York State Environmental Facilities Corp. debt, which the New York State Water Pollution Control Revolving Fund subsidizes at 50% of interest payments.

A first lien on net airport revenue secures revenue bonds. Transfers from the development fund to the revenue fund are also pledged, as well as improvement charges (per-space charges to the rental car companies operating in the airport's garage). Passenger facility charges (PFCs) are not included in the indenture's definition of revenue but can be pledged to offset debt service for PFC-eligible bonds. A cash-funded debt service reserve also secures the bonds. A rate covenant requires that net revenue equal 1.25x annual debt service, and also includes transfers from the development fund in the revenue calculation. The additional bonds test requires that projected net revenue, including transfers to the revenue fund from the development fund, provide 1.25x coverage of existing and proposed debt service for three years. Alternatively, the authority can use a one-year historical test, which also includes the proposed debt. Finally, as part of its airline use and lease agreement, the authority benefits from extraordinary coverage protection in the event pledged revenues fall below 1.25x.

Debt service coverage (DSC) was 1.19x in fiscal 2009, no lower than this level during the past five years, and ranging up to 1.22x (Standard & Poor's-calculated). Indenture debt service coverage was 1.25x, a decrease from a five-year high of 1.41x, occurring in 2006. Our calculation includes all operating and non-operating revenue, including PFCs (pledged to series 1997 bonds), improvement, and interest subsidies, less operating and maintenance expenses, divided by total debt service. The indenture, meanwhile, treats both pledged PFC revenue and interest subsidies as debt-service offsets.

A forecast in conjunction with this issue projects a further 3.8% decrease in enplanements in 2010, unchanged in 2011, then returning to what we consider modest 1% annual growth in 2012 and 2013. Indenture DSC is estimated at 1.28x for 2010, reflecting a lower debt service requirement following refunding. Thereafter, coverage increases steadily to 1.38x in 2013. Meanwhile, our coverage calculations range similar to the airport's recent history, 1.19x–1.23x, including 1.21x in 2010. Overall we consider the forecast to be reasonable. In addition, the airport has extraordinary coverage protection such that it would operate as a purely residual airport if the rate-setting approach employed under the airline agreements proves insufficient for debt service.

The authority has just begun a \$139 million 2010–2014 capital plan. Typically, the authority's five-year plans include all possible projects to be undertaken during the period, many of which are not fully realized. This is likely to be the case for the current plan, as airport enplanement levels are well below facility capacity. Notably, the plan calls for no additional debt.

The airport has moderate air carrier diversity, in our opinion, with Southwest Airlines Co.--the top passenger airline carrier--accounting for approximately 39% of total enplanements, followed by US Airways Inc. (20%), and United Air Lines Inc. (14%).

We believe a relatively stable base of air travel demand level provides an additional credit benefit. The stable base is a result of the airport's strong origin and destination nature. It is centered on Albany County (AA/Stable), which benefits from a stable government-sector presence and an expanding and diversifying economy focused on nanotechnology.

Outlook

The stable outlook reflects our expectation that air travel demand at the airport will stabilize and its financial performance will remain adequate over the next two years. We could lower the rating if enplanements are significantly lower from forecast or if financial margins and liquidity erode. It is unlikely that we will raise the rating in the next two years, unless the airport experiences a strong improvement in financial performance as a result of strong sustainable growth in air travel demand or management adopts policies that consistently yield financial margins and liquidity levels that are higher than historical levels.

Related Criteria And Research

USPF Criteria: Airport Revenue Bonds, June 13, 2007

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