

Summary:

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

Primary Credit Analyst:

Geoffrey Buswick, Boston (1) 617-530-8311; geoffrey_buswick@standardandpoors.com

Secondary Contact:

Adam Torres, New York (1) 212-438-2481; adam_torres@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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

Credit Profile

Albany Cnty Arprt Auth, New York

Albany Intl Arprt, New York

Albany Cnty Arprt Auth (Albany International Airport)

Long Term Rating BBB+/Stable Affirmed

Albany Cnty Arprt Auth (Albany Intl Arprt)

Unenhanced Rating BBB+(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has affirmed its 'BBB+' rating on Albany County Airport Authority, N.Y.'s airport revenue bonds, issued for Albany International Airport (ALB). 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.

The rating reflects our opinion of the following credit weaknesses:

- Seven consecutive year of declining enplanements, equal to a 21.5% drop from 2004;
- A high debt burden, which should be stable and then decline due to a 2010 refunding issue; and
- A below-average liquidity position for the rating.

We believe offsetting credit strengths include the following:

- Strong revenue diversity;
- Ability to maintain margins, despite activity levels;
- Little competition from surrounding airports; and
- No additional debt plans in the five-year capital improvement plan.

The authority manages two primary runways, a 290,000 square foot terminal and nearly 7,000 parking spaces. ALB benefits from a strong origin and destination nature of the passengers. The regional economy centers on Albany County (AA/Stable), which benefits from the New York State Capitol and ancillary government support businesses, as well as an expanding and diversifying nanotechnology sector. County unemployment was 7.2% in July 2011, compared with the state's 8.0% and the nation's 9.1%. Although the local economy is stronger than that of the nation, enplanements at the airport through August 2011 reflect a continued decline. Full-year projections based on the August year-to-date numbers would be 1.22 million enplanements--a 3.3% decline from 2010. Management forecasts what we consider to be a modest trend of 0%-1% annual growth in 2012 and 2013, stopping a seven-year decline. In the past decade, enplanements are down 17.2%. They have fallen 21.5% from the 2004 peak of 1.56

million.

ALB has moderate concentration in air carrier diversity, in our opinion, with Southwest Airlines Co.--the top passenger airline carrier--accounting for approximately 40.5% of total enplanements, followed by US Airways Inc. (20.1%), and Delta Air Lines Inc. (15.9%) in 2010. Passenger alternate airports with greater destination options are about three hours away in the New York City area. Additional air service development efforts are underway in Albany, as the authority was awarded a \$750,000 grant to be combined with more than \$500,000 local business raised for the purpose.

The authority has five-year use and lease agreements with United Air Lines Inc., US Airways, Southwest, Delta, and Cape Air through Dec, 31, 2015. These agreements use a hybrid rate-setting methodology, whereby landing fees are based on a cost center residual methodology and terminal rental rates are based on a compensatory methodology. We view ALB as having average airline costs for the rating, although they are improving; the cost per enplanement was \$7.82 in fiscal 2010, down from \$8.80 in 2009 and \$8.91 in 2008.

The airport had about \$139 million in total debt outstanding as of Dec. 31, 2010, including \$2.4 million of Albany County general obligation (GO) debt that is senior to all other debt. We forecast that the debt burden will decline to \$132.4 million by Dec. 31, 2011. In July 2010, management issued \$109.9 million in refunding bonds, resulting in all debt outstanding being fixed-rate. Along with the county GO debt, the authority's debt structure at fiscal year end 2010 was \$132.6 million in general airport revenue bonds and \$4.0 million of New York State Environmental Facilities Corp. debt; the New York State Water Pollution Control Revolving Fund subsidizes 50% of the latter.

Standard & Poor's calculated debt service coverage (DSC) was 1.17x in fiscal 2010, in line with recent coverage levels. Our DSC calculation does not include a \$429 thousand Transportation Security Administration reimbursement to the airport that management includes in the indenture coverage. Indenture DSC was 1.27x, an increase following two years at the indenture rate covenant minimum level. Our calculation includes all revenue, including passenger facility charges (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. Since Sept. 1, 2009, the authority has collected a fee of \$4.50 per enplaned passenger.

Management budgets indenture DSC at 1.26x for 2011, and expects coverage to increase in 2012 to 1.29x. Meanwhile, our coverage calculations range similar to the airport's recent history, from 1.16x-1.20x, with the low in 2011. Overall, we consider the forecast to be reasonable. In addition, ALB has what we believe to be 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.

Based on audited financial statements, the authority's 2010 liquidity position showed a slight improvement to 145 days' cash at \$11.9 million unrestricted. This level is still less than half the median for the 'BBB' category of 361 days (for more information, see "2011 U.S. Airport Medians Report: Larger Facilities Continue To Come Out On Top, But All Feel The Recession's Effects," published Feb. 28, 2011, on RatingsDirect on the Global Credit Portal). Through August 2011, management expects fiscal year-end unrestricted cash to remain about the same. In addition to the unrestricted cash, the airport had \$12.1 million in debt service reserve funds. The operating revenues driving the operations are diverse, in our view, with 27% coming from ground transportation, 20% from the fixed base operators, and 15% from both the airfield and concessions.

The authority adopted a \$139 million capital plan for the five-year period covering 2010-2014. Through the program's first two years, management has completed only airport improvement program-funded projects, but has about \$8 million in capital project funds on hand to move necessary projects. Typically, the authority's five-year plans include all possible projects, many of which are not fully realized. This is likely to be the case for the current plan, as enplanement levels are well below facility capacity. Of note, both in the original adoption and in the current state, the plan calls for no additional debt.

Outlook

The stable outlook reflects our expectation that demand will stabilize and ALB's financial performance will remain adequate in the next two years. We could lower the rating if enplanements are significantly lower than forecast or if financial margins and liquidity erode. An upgrade could occur should the airport experience a strong improvement in financial performance.

Related Criteria And Research

USPF Criteria: Airport Revenue Bonds, June 13, 2007

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.