



Fitch Rates Albany County Airport Authority (New York) Revs 'A-'; Outlook Stable

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Fitch Ratings-New York-16 November 2007: Fitch Ratings assigns an 'A-' underlying rating with a Stable Outlook to the Albany County Airport Authority, New York's (the authority) approximately \$76 million airport revenue refunding bonds series 2007A (AMT) and \$6.1 taxable series 2007B bonds. The series 2007 bonds are secured by net revenues of Albany International Airport (the airport) and are scheduled for competitive sale on or around December 4th, with DEPFA First Albany Securities serving as financial advisor. Bond proceeds will be used to refund a portion of the authority's outstanding debt and pay the required amount to terminate the 2005 Swaption Agreement. The series 2007 will be issued on parity with the airport's outstanding airport revenue bonds, which are also affirmed at 'A-' rating with a Stable Outlook.

The authority's credit strengths include the airport's role as the primary airport in the New York state capital region and its stable financial margins. Credit concerns include the lack of strong economic growth in the airport's air service area and increasing competition from Stewart International Airport (Stewart) in Newburgh, NY, particularly with the Port Authority of New York and New Jersey planning extensive improvements to Stewart. The Stable outlook is based on the recent stabilization of enplanement activity and reductions in costs passed onto the airlines. However, based on the airport's cost structure and modest growth expectations, Fitch believes the credit profile of the authority could weaken should the airport pursue capital investments that result in additional borrowing.

Albany International Airport is located seven miles northwest of the central business district of Albany, New York and serves the population in eastern New York, western Massachusetts and southern Vermont. In total, the airport's primary service area has approximately 1.3 million residents, with an additional 1.7 million residents in the secondary air-trade area. While the area's per capital personal income and unemployment rates are better than the national averages, population growth has not kept pace with the nation, indicating both the highly developed nature of the Albany-area economy and also the lack of historical development in the upstate NY area. Fitch notes that significant recent private investment by large companies such as General Electric, IBM, and International SEMATECH, the world's largest computer chip makers, 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.

Enplanement growth at the airport has slowed in 2005 and 2006. The decline is due to a combination of down-sizing of aircraft by incumbent carriers, the liquidation of Independence Air, which held 4% of the airport's market in fiscal 2004, and the loss of Continental Airlines' regional partner CommutAir, which had provided regional connecting service and represented 6% of enplanements in fiscal 2004. However, in 2007 the airport has shown signs of stabilization, with enplanement levels only .5% down from 2006 levels. Given the stabilization of passenger activity levels, the airport predicts it will experience zero growth in 2008 and thereafter will grow by 1% annually through 2010, which would be sufficient to maintain current financial and operating margins. The airport enjoys a diverse mix of network and regional carriers and its marketplace has remained relatively unchanged since 2000, with Southwest currently accommodating 35% of the airport's enplaned passengers, followed by US Airways with 21%, United with 13%, Delta with 10%, and Continental and Northwest both holding 8% of total market share in 2007.

During fiscal year 2006, the airport's net operating revenues produced a 28% operating margin, somewhat down from the average margin of 33% over the prior three years. Rising costs in 2005 and 2006 reflect the authority's acquisition of the fixed base operator (FBO) at the airport and increased operating costs associated with the opening of expanded terminal and parking facilities. The acquisition gives the authority direct management of its FBO and is expected to improve service levels offered the general aviation community over time. Similarly, the addition of 400 surface parking spaces in 2005 and the opening of expanded terminal facilities should further diversify and increase the airport's non-airline revenue stream in the future. Debt service coverage in fiscal year (FY) 2006 equaled 1.35, slightly up from 1.31 times (x) in 2005, and in line with the authority's 1.25x rate covenant and comparable to prior years. Debt service coverage is expected to be 1.28x in 2007 and grow slightly throughout the remainder of the forecast period, reaching 1.35x in 2010. The mild increase in debt service coverage from 2007-2010 is primarily due to the defeasance of the Series 1997 bonds in 2008, and the savings the authority will gain from the current refunding transaction.

The airport's current 2005-2009 capital improvement program (CIP) calls for \$265 million in potential projects, with revenue bonds funding up to \$178 million or 67% of the plan. 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 actual levels of spending often well below budgeted levels. The airport's prior five year CIP's included similar budgeted levels of spending to that of the current CIP, while the actual amount of projects implemented was less than \$80 million in each five year period. 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.

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