



**Moody's Investors Service**

**Global Credit Research**

**New Issue**

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**New Issue:** Albany County Airport Authority, NY

**MOODY'S ASSIGNS A3 RATING TO ALBANY COUNTY AIRPORT AUTHORITY'S \$84.9 MILLION SERIES 2008A AIRPORT REVENUE BONDS; OUTLOOK IS STABLE**

**THE AUTHORITY HAS A TOTAL OF \$141.8 MILLION RATED DEBT OUTSTANDING**

Airport  
NY

**Moody's Rating**

ISSUE	RATING
2008A Airport Revenue Bonds	A3
<b>Sale Amount</b> \$84,900,000	
<b>Expected Sale Date</b> 02/01/08	
<b>Rating Description</b> Airport Revenue Bonds	

**Opinion**

NEW YORK, Jan 24, 2008 -- Moody's Investors Service has assigned an A3 underlying rating to Albany County Airport Authority's ("ACAA") \$84.9 million Airport Revenue Bonds, Series 2008A. The outlook is stable. At this time, Moody's is also affirming the A3 underlying rating on the authority's airport revenue bonds outstanding in the amount of \$141.8 million including the current offering.

**USE OF PROCEEDS:** The Series 2008A bond proceeds will refund and defease the 1997 Airport Revenue Bonds.

**LEGAL SECURITY:** The bonds are secured by net revenues of the Albany County Airport Authority.

**INTEREST RATE DERIVATIVES:** ACAA entered into a forward starting swaption contract in March 2005 based on a notional amount of \$84.9 million as a synthetic refunding of its \$80.8 million outstanding 1997 General Airport Revenue Bonds. The details of the swaption are below.

**STRENGTHS**

- \* Diverse carrier service with Southwest Airlines (senior unsecured rated Baa1) as the dominant carrier and five other major airlines who have served the airport since 1990
- \* Substantial revenues from non-airline sources including parking, concession, FBO, and leasing operations
- \* Local economy developing a position in nanotechnology, but employment is anchored in state and federal government entities

**CHALLENGES**

- \* Enplanements decreased a total of 7% over the past three years
- \* Low levels of financial liquidity provide limited protection to bondholders in the event of a substantial decline in income

\* High debt levels and relatively narrow margins limit financial flexibility

#### MARKET POSITION/COMPETITIVE STRATEGY: GOVERNMENT PRESENCE AND GROWTH OF SOUTHWEST AIRLINES KEEP ENPLANEMENTS LEVEL

Albany's enplanement activity continued to decline slightly in 2007 with a decrease of 0.5%. Enplanement growth by Southwest was 5.6% in 2007 and that airline now accounts for approximately 35% of enplanements. The continued growth of Southwest solidifies its position as the airport's dominant carrier. While Moody's sees the strong presence of Southwest as a positive rating factor, it could be reduced if the carrier's market share grows to the point that enplanement concentration is excessive.

The Albany Metropolitan area remains a solid stable economy with steady employment numbers due to government jobs at the federal, state, and local levels. Government employment accounts for over 24% of the entire Albany-Schenectady-Troy workforce, and though subject to changes in government budgeting, remains a stable employment source. Albany maintains its foothold in nanotechnology research, but the industry has yet to become a significant driver of the area economy.

#### FINANCIAL POSITION AND PERFORMANCE: SOLID FINANCES CONTINUE BUT LIQUIDITY REMAINS A CONCERN

Financial performance remained consistent in 2006 and 2007 in spite of reduced enplanements. Operating revenues increased 5% for the first nine months of 2007 due largely to increases in revenues from general aviation fixed-base operations (FBO). Operating expenses also increased by 11% primarily due to the cost of fixed-base operations. The growth of FBO and other revenues allowed the airport to reduce its reliance on commercial airline revenues to 28% of operating revenues. This change in revenue stems from the authority's purchase of the FBO in 2005 and has diversified the airport's revenue stream and helped moderate the cost per enplanement to \$7.78 in 2006 from \$9.16 in 2005. Debt service coverage also strengthened to 1.41x in 2006. ACAA's low levels of financial liquidity remain a key credit concern as the airport's 148 days cash on hand at the end of FY2006 was well below Moody's U.S. airport sector median of 374.

ACAA entered into a forward starting swaption contract in March 2005 based on a notional amount of \$84.9 million as a synthetic refunding of its \$80.8 million outstanding 1997 General Airport Revenue Bonds. The Authority will pay fixed interest payments at 4.56% to the counterparty, Deutsche Bank AG, which will pay floating rates at 70% LIBOR that is expected to roughly match ACAA's payments for the 2008A bonds. The swap primarily exposes the authority to limited basis and termination risk. Swap payments are on parity with senior lien debt service obligations, but termination payments would be subordinate to the outstanding senior lien debt and any junior lien obligations should the authority to issue any. Upon entering the swaption, the authority received an upfront payment of \$5.3 million, which was used to acquire land to expand remote parking capacity and the purchase the airport's fixed-base operations, from which the airport now receives annual revenues of approximately \$7.3 million.

#### CAPITAL PROGRAM: FEW CAPITAL NEEDS AND USE OF FEDERAL FUNDS WILL LIMIT CAPITAL EXPENDITURES

The authority's future capital plans remain limited. The construction of 20 new T-hangars and a small general aviation hangar will be completed by the early summer 2008 and will cost approximately \$2.5 million. Proceeds from the 2006B bonds and authority funds will fund the bulk of the cost. There is already a waiting list for renting these facilities, so management expects them to be filled upon completion. Minor improvements throughout the airport are also expected including rehabilitation of roads and drainage and a replacement of the roof on Concourse A. The major terminal project will be the construction of two new escalators to provide up and down access between floors on both sides of the terminal. Aside from the new T-hangars, all projects will be funded through the FAA's Airport Improvement Program entitlement funds, which will limit the authority's capital expenditures. ACAA does not intend to issue additional debt in the foreseeable future.

#### Outlook

The stable outlook is based on Moody's expectation that enplanement levels will remain at or near current levels and revenue will continue to adequately support debt service.

What could change the rating--UP

Rapid growth of the regional economy driving substantial enplanement growth that leads to greater financial liquidity and more robust debt service coverage could place positive pressure on the ratings.

What could change the rating--DOWN

Downward pressure on the ratings could come from reductions in major airline service leading to lower enplanements and narrower financial margins.

#### KEY INDICATORS

Type of Airport: O&D

Rate methodology: Hybrid

FY2006 Enplanements: 1,440,385

5-Year Enplanement CAGR 2001-2006: -0.5%

FY 2006 vs. FY 2001 Enplanement growth: -2.5%

FY 2007 vs. FY 2006 Enplanement growth: -0.5%

% O&D vs. Connecting, FY 2007 (5 YR AVG): 98% (96%)

Largest Carrier by Enplanements (share): Southwest (36%)

Airline Cost per Enplaned Passenger, FY 2006 (5 YR AVG): \$7.78 (\$8.37)

Debt per Enplaned Passenger, FY 2006 (5 YR AVG): \$95 (\$92)

Bond Ordinance Debt Service Coverage, FY 2006 (5 YR AVG): 1.41x (1.50x)

Utilization Factor, FY 2007 (5 YR AVG): 1.7 (1.7)

#### RATED DEBT

Series 1998B&C General Airport Revenue Bonds, \$20.5 million, A3

Series 2000B General Airport Revenue Bonds, \$12.7 million, A3

Series 2003A General Airport Revenue Bonds, \$6.9 million, A3

Series 2006A, B & C General Airport Revenue Bonds, \$20.1 million, A3

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