



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 \$79.2 MILLION SERIES 2007 AIRPORT REVENUE BONDS; OUTLOOK IS STABLE

THE AUTHORITY HAS A TOTAL OF \$139.4 MILLION RATED DEBT OUTSTANDING

Airport
NY

Moody's Rating

| ISSUE | RATING |
|--------------------------------------|---------------|
| Airport Revenue Bonds, Series 2007 A | A3 |
| Sale Amount | \$73,700,000 |
| Expected Sale Date | 11/15/07 |
| Rating Description | Revenue |
| | |
| Airport Revenue Bonds, Series 2007 B | A3 |
| Sale Amount | \$7,900,000 |
| Expected Sale Date | 11/15/07 |
| Rating Description | Revenue |

Moody's Outlook Stable

Opinion

NEW YORK, Nov 19, 2007 -- Moody's Investors Service has assigned an A3 underlying rating to Albany County Airport Authority's ("ACAA") \$81.6 million Airport Revenue Bonds, Series 2007A&B. 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 2007 A bond proceeds will refund and defease the 1997 Airport Revenue Bonds and provide funds for the payment required to terminate the 2005 swaption, and the Series 2007 B bond proceeds will provide funds for the payment required to terminate the 2005 swaption. The 2007 bonds are being issued as 19-year bonds and will extend the maturities associated with the 1997 bonds, which were issued as 27 year bonds, by three years. The decrease in debt service realized by extending the maturities will be used primarily to reduce airline rates and charges and will be applied evenly over the life of the bonds.

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

INTEREST RATE DERIVATIVES: The Authority 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 swaption is discussed in more detail below. The swaption is being terminated in conjunction with this bond issuance, which will constitute a fixed-rate refunding of the 1997 bonds.

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 have fallen over the past two years and are down 0.2% in 2007 year-to-date
- * 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 has leveled in 2007 with a decline of 0.2% year to date. Enplanement growth by Southwest was 5% for the first nine months of 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.

The authority expects to issue the 2007A fixed-rate refunding bonds in order to refund the 1997 bonds. The authority decided to terminate the forward starting swaption contract it entered into with Deutsche Bank A.G. in March 2005 that was intended to advance refund the 1997 bonds. The decision to issue fixed-rate bonds instead of the variable rate bonds provides the authority lower net present value savings, but is a conservative decision to avoid exposing the ACAA to the risks associated with swaption contracts. Upon entering the swaption, the authority received an upfront payment of \$5.3 million and will pay a termination payment of approximately \$7 million depending on market conditions, which will be funded by the 2007B bonds.

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 account for 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: 1,448,000

5-Year Enplanement CAGR 2001-2006: -0.9%

FY 2006 vs. FY 2001 Enplanement growth: -4.6%

FY 2006 vs. FY 2005 Enplanement growth: -6.6%

FY 2007 YTD vs. FY 2006 YTD Enplanement growth: -0.2%

% O&D vs. Connecting, FY 2006 (5 YR AVG): 98% (94%)

Largest Carrier by Enplanements (share): Southwest (34%)

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 2006 (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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