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INVESTORS SERVICE

CREDIT OPINION

8 November 2018



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Albany County Airport Authority, NY

Update following new \$22 million bond issuance

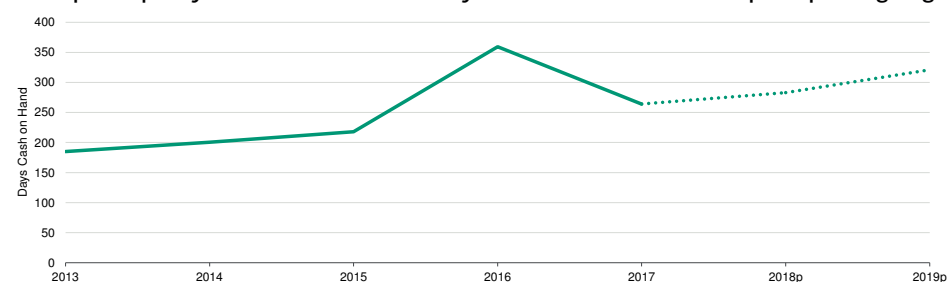
Summary

Albany County Airport Authority's (A3 stable) credit profile considers the fundamental strength of the relatively small New York State capital region service area economy, which is driven by government spending, a growing technology industry, and stable healthcare and educational sectors. The airport's near complete O&D composition with limited competition, relatively diverse carrier mix, and comparably low cost per enplanement (CPE) levels provide credit strength. The airport's below median liquidity and debt service coverage levels, in addition to enplanements that are still below pre-2008/09 recession levels despite national trends that far exceed pre-recession levels, weigh negatively. The credit profile also considers the moderately increased leverage profile associated with the authority's terminal modernization plan and other capital projects. The new parking garage in the capital plan presents negative risk as driving patterns change, however the authority has the ability to levy charges to TNCs or other users to recover debt service.

On November 1st, we assigned an A3 rating to the airport's new \$22 million issuance of Series 2018A-B bonds, which will be used to fund a portion of the authority's airport modernization plan and other capital projects. The components of the project include a new 1,000 unit, multi-level parking garage, parking access improvements, and terminal rehabilitation with passenger amenities.

Exhibit 1

We expect liquidity to increase if the authority meets their revenue and capital spending targets



Source: Moody's Investors Service, Issuer Financial Statements

Credit strengths

- » Service area economy is stabilized by government, healthcare and educational employment, with further support from a leading position in technology research
- » The authority is prohibited, by state law, from incurring more than \$285 million in debt

- » At \$6.57, significant CPE advantage compared with the A3-rated peer airport median of \$10.53

Credit challenges

- » 2017 liquidity, as measured by days cash on hand (DCOH), was 264 days, significantly below the A3-rated peer airport median of 713 days
- » Enplanement levels are still below pre-2008/09 recession levels
- » 2017 debt service coverage was 1.47x, below the A3-rated peer airport median of 1.83x

Rating outlook

The stable outlook is based on our expectation for moderate long-term enplanement growth around 1.0%, in conjunction with gradually improving net revenue debt service coverage and liquidity levels, as well as the airport's strategic location serving the New York state capital region that will support stable demand.

Factors that could lead to an upgrade

- » Sustained DSCR above 1.75x
- » Improved liquidity levels with DCOH consistently exceeding 300 days
- » Significant expansion in the regional economy producing sustainable service area population and enplanement growth

Factors that could lead to a downgrade

- » Sustained DSCR below 1.2x
- » Sustained enplanement level declines
- » Increase in leverage above \$100 debt per O&D enplanement

Key indicators

Exhibit 2

Key indicators

ALBANY COUNTY AIRPORT AUTHORITY, NY

	2013	2014	2015	2016	2017
Enplanement Annual Growth (%)	-2.4	2.5	4.3	8.4	0.7
Debt Outstanding (\$'000)	113,070	105,049	96,783	88,216	77,318
Debt to Operating Revenues (x)	2.4	2.2	2.0	2.2	1.5
Debt Per O&D Enplaned Passenger (\$)	85	76	67	55	47
Days Cash on Hand ('000)	185	200	218	359	264
Total Coverage By Net Revenues (x)	1.14	1.26	1.30	1.28	1.47

Source: Moody's Investors Service, Issuer Financial Statements

Profile

Albany County Airport Authority is a public benefit corporation established in 1993 and exists pursuant to the Albany County Airport Authority Act. The airport is defined by the FAA as a small air traffic hub, an airport which handles between 0.05 percent and 0.249 percent of the enplaned passengers by U.S. air carriers nationwide. The airport is owned by the County of Albany and is operated by the

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

authority under an airport lease agreement. The airport is approximately seven miles outside of downtown Albany, the capital of the State of New York. The airport currently serves 20 cities nonstop.

Detailed credit considerations

Revenue Generating Base: Stable service area and diversified revenue stream

Given the Albany metropolitan area employment base is grounded in government employment, which accounts for over 20% of the entire Albany-Schenectady-Troy work force, we anticipate the economic profile of the authority's service area will remain stable during the outlook period. While Albany's economy is strongly supported by state capital institutional employment, the metropolitan area has also experienced significant economic growth in the technology sector, with additional support from education and health care institutions. The stable economic base provided by governmental employment, coupled with technology related growth, has translated into lower than state average unemployment rates, with capital region unemployment of 3.7% in August 2018 versus 4.1% for the state. Employment volatility is also lower than the state and US national average, owing to the significant state government institutional employment.

The airport has a history of dedicated service from the major airline carriers, and effective January 1, 2016, the airport drafted a new airline agreement with Delta, Jetblue, Southwest, United, American and Cape Air, in addition to their respective affiliates. The renewal of the airline agreement through 2021 with incumbent carriers demonstrates commitment by airlines to the airport. Southwest, which began serving the airport in 2000, is the authority's dominant carrier and had a 40.0% market share in 2017. Southwest's 40.0% market share was followed by American at 21.6%, Delta at 15.8% and United at 15.0%. The carrier diversity makes the airport less susceptible to strategic changes of routes serviced by a single airline. The authority has taken steps towards maintaining and growing its revenue base, including entering long-term contracts averaging over six years with its car rental and restaurant concessions that provide minimum revenue guarantees of almost \$5 million.

The current airline agreement, which lasts for five years through December 2020 and includes an additional 5-year renewal term, establishes the methods used to determine airline rates and charges under a hybrid framework. The authority utilizes a residual framework for its airfield, and a compensatory framework for all other areas. The authority's ability to recover airline charges is supported by a contractual structure that allows for rates and charges to be adjusted if any monthly financial report shows annual revenues are 10% or more below projections. The agreement also provides for the suspension of airline revenue sharing, extraordinary coverage protection and capital charge coverage of 25% of debt service, which the airport has avoided using since 2010. We believe several features under the airline agreement adequately support the authority's ability to maintain current financial metrics.

The airport has a diverse revenue stream that includes operating revenues from parking, terminal revenues, airfield operations and concessions. The authority's revenue base is less reliant on airline revenues than larger airports, with airline revenues below 30% of total revenues for the last six fiscal years. Overall, small hub airports average 29% airline derived revenue, which is in-line with the authority's revenue generating profile. Non-airline revenue has ranged from 70% to 77% from 2013-17, and we anticipate the authority will maintain non-airline revenue within this range over the outlook period. The authority last adjusted parking rates in November 2015 to the minimum rate recommended by its consultant, leaving head room to raise rates once the new parking garage is completed and support additional non-airline revenue.

The authority collects \$2 per pick-up and drop-off from both Uber and Lyft, which is included in the authority's ground transportation revenues. The ability to charge fees to the transportation network companies, or any other user, is an important mitigant to the risk of building additional parking at a time when ground transportation technology is changing.

Operational and Financial Performance: Improved DSCR and CPE

We reckon the authority will maintain its stable financial position over the outlook period, which is predicated on continued management of operating expenses, coupled with moderate enplanement growth. The authority experienced 0.7% growth in enplanements in 2017, and at 1.418 million, reached the airport's highest enplanement level since 2007. We expect enplanements will increase around 2-3% in 2018 and average 1% annual growth over the longer-term, with enplanement improvements driven by new and additional service by existing and new entrant airlines, reflecting increasing demand as well as actions performed by the authority to attract new service.

The airport experienced total enplanement growth of nearly 14.0% over the past 4 years (0.7% in 2017, 8.4% in 2016, 4.3% in 2015 and 2.5% in 2014), partially recovering from a steady decline of a five-year compounded average rate of -2.5% from 2008 through 2013. In 2017, DSCR by net revenues improved to 1.47x, from 1.13x in 2013, and is now more closely in line with similarly rated A3 peers for this metric. The authority's debt service coverage requirements are aided by the use of passenger facility charges (PFCs) toward GARB debt service payments, and in 2017, the authority used \$3.6 million in PFCs toward debt service. The additional revenues from enplanement growth and PFCs, as well as cost containment measures, have enabled the airport to avoid using the capital charge mechanism since 2010.

Exhibit 3

Albany's 2017 liquidity and debt service coverage levels are below A3-rated peer airports in Norfolk and Birmingham; Albany's 2017 CPE, liquidity, enplanement, utilization, leverage and debt service coverage metrics are weaker than the A2-rated Virginia Capital Region Airport

Obligor Name	Albany County Airport Authority, NY	Norfolk Airport Authority, VA	Birmingham Airport Authority, AL	Capital Region Airport Commission, VA
Senior Lien Rating	A3	A3	A3	A2
Total Coverage By Net Revenues (x)	1.47	3.37	2.02	2.52
Days Cash on Hand	264	406	855	564
Total Enplanements ('000)	1,418	1,628	1,336	1,804
Utilization (x)	1.19	.89	.98	1.41
Debt Per O&D Enplaned Passenger (\$)	47.11	23.96	115.37	40.92
Airline Payments per Enplanement (x)	6.57	8.65	12.21	4.97
% Of PFCs Used To Pay Debt Service (x)	66.47	0.00	96.02	44.72

Source: Moody's Investors Service, Issuer Financial Statements

Airline cost per enplanement increased to \$6.57 in 2017 from \$6.00 in 2016, however the authority still maintains an airline cost advantage compared with the A3-rated peer airport median of \$10.53 in 2016. The authority expects CPE to remain relatively flat over the next several years. Besides terminal rents and airfield costs, the CPE covers a variety of services provided to airlines, including providing jet bridges, IT services, utilities, maintaining stations and restrooms and employee parking.

LIQUIDITY

Liquidity, as measured by days cash on hand, declined to 264 days in 2017 versus 359 days in FY 2016, which is still below the median for A3-rated peer airports of 713 days. This significantly lower level of liquidity, relative to the authority's peers, is partially mitigated by the authority's ability to impose a capital charge of up to 25% of its required debt service on its signatory airlines, as well as the extraordinary coverage protection provision that enables the authority to raise rates at any time during the year (never utilized). The revenue bonds benefit from a two-month O&M reserve and a standard three-pronged cash-funded debt service reserve fund.

Debt and Other Liabilities: Increasing, but manageable, leverage profile

Debt per O&D enplanement levels have improved to \$46.6 in 2017, down from \$90.0 in 2012. Albany's 2017 debt per O&D enplanement levels were below the A3 median of \$86.70. However, post-issuance we anticipate these levels will increase closer to \$70.0, before once again moderating, owing to principal amortization over time.

CAPITAL IMPROVEMENT PLAN (CIP)

The airport is currently undergoing a \$142.5 million airport CIP for the period 2015-2019 as amended in 2017. The plan includes runway and terminal improvements, parking development and purchases of major equipment and vehicles, with a large amount of flexibility built in. The amended plan consists of \$34.5 million for airfield projects, \$21.0 million for terminal improvements and expansion (and increase of \$7.0 million), \$75.0 million for landside development (an increase of \$15.0 million) and \$12 million for equipment and vehicles, with the largest expenditure being a new parking garage.

The \$22.0 million Series 2018A-B will be used to fund a portion of the authority's modernization plan and other capital projects. The components of the project include a new 1,000 unit, multi-level parking garage, parking access improvements, and terminal rehabilitation with passenger amenities. Approximately \$8,850,000 of the Series 2018 Bonds will be used to fund capital expenditures other than the Airport Modernization Project. In addition to the Series 2018 Bonds, which represent one source of funding for the Airport Modernization Project and other capital projects, the authority has secured federal and state funding. The State of New York

has agreed to provide \$22,131,900 under an Aviation Project Funding Agreement, which will be used along with \$14,150,000 of the Series 2018 proceeds, in addition to federal funds and authority funds to finance the remainder of the Airport Modernization Project.

DEBT STRUCTURE

The authority has a manageable debt service schedule, which will average roughly \$11 million annually from 2020 to 2026, before declining to roughly \$2 million annually until 2048. Reduced debt service requirements after 2026 gives the authority substantial financial flexibility to address future capital needs as they arise. The authority has not committed to an additional debt issuance in the short term. All debt is fixed rate.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

The authority's long-term defined benefit pension and health care liabilities are adequately funded and are not a major factor in our assessment of the authority's credit profile. Adjusted net pension liability in 2017 was about \$3.5 million. This has a nominal impact on the authority's financial metrics when added to 2017 total debt outstanding of \$77.3 million. We adjust the reported pension liabilities of entities that report under governmental accounting standards in order to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on plan assets. Under our adjustments, we value liabilities using a market-based discount rate for high quality taxable bonds. The difference between the airport's reported NPL and our ANPL primarily reflects the different discount rates of 7.5% for the reported NPL and 4.4% for the our ANPL.

Management and Governance

The authority's board is composed of seven members, with four members appointed by the majority leader of the Albany County Legislature, and three members by the Albany County Executive, all with approval of the Albany County Legislature. The authority's board members are appointed for a term of four years or until a successor is appointed, except that any person appointed to fill a vacancy is appointed to serve only the unexpired term.

Methodology

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published in October 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

The assigned rating aligns with the grid indicated rating of A3.

Exhibit 4

Publicly Managed Airports and Related Issuers Methodology Grid

Regional Position:		Regional	
Rate Making Framework:		Hybrid	
Factor	Subfactor	Score	Metric
1. Market Position	a) Size of Service Area (millions)	A	1.176 million
	b) Economic Strength and Diversity of Service Area	A	
	c) Competition for Travel	A	
2. Service Offering	a) Total Enplanements (millions)	Baa	1.418 million
	b) Stability of Traffic Performance	Baa	
	c) Stability of Costs	Aa	
	d) Carrier base (Primary Carrier as % of Total Enplanements)	A	40%
3. Leverage and Coverage	a) Debt Service Coverage by Net Revenues	A	1.47x
	b) Debt in USD per O&D Enplaned Passenger	Aa	\$47.11
		Metric	Notch
4. Liquidity	Days Cash on Hand	264 days	-1.0
5. Connecting Traffic	O&D Traffic		0
6. Potential for Increased Leverage			0
7. Debt Service Reserves			0.0
Scorecard Indicated Rating:		A3	

Source: Moody's Investors Service

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