



Fitch Rates Philadelphia (PA) Airport Series 2010 A-D Revenue Bonds 'A'; Affirms

Outstanding Ratings
05 Oct 2010 5:48 PM (EDT)

Fitch Ratings-New York-05 October 2010: Fitch Ratings assigns an 'A' underlying rating to the following city of Philadelphia, Pennsylvania bonds:

- \$285,585,000 airport revenue bonds series 2010A (Non-AMT);
- \$25,010,000 airport revenue refunding bonds series 2010B (Non-AMT);
- \$55,450,000 airport revenue refunding bonds series 2010C (AMT);
- \$270,905,000 airport revenue refunding bonds series 2010D (AMT).

Fitch has also affirmed its 'A' rating on the airport's \$1.233 billion outstanding airport revenue bonds.

The Rating Outlook is Stable.

The 'A' rating reflects Philadelphia International Airport's (the airport) role in providing air service to a stable and highly populous service area that generates a solid base of origination & destination (O&D) traffic, accounting for 57% of total traffic in fiscal 2010. The rating also incorporates the airport's stable financial profile, moderate but increasing debt levels, and a competitive cost per enplaned passenger (CPE) for an airport that serves as both a domestic hub and growing international gateway for US Airways.

Credit concerns center on the airport's near-term capital plan which calls for significant future debt issuances to enhance runway capacity and efficiency in the near-to-medium term; the airport's relatively high exposure to its primary carrier US Airways (currently rated 'CCC' by Fitch) with a dominant market share of over 60%; significant dependence on connecting traffic (approximately 6.5 million annually and 43% of total traffic); and the potential risks to the airport's strategic importance to serve as an international gateway facility in light of airline consolidations and mergers among other leading domestic carriers. Although the airport has historically maintained a moderate level of debt per enplaned passenger, this level is expected to increase in the near-to medium term as financial leverage associated with the Capital Enhancement Program (CEP) comes on line. This higher level of leverage may pressure the airport's finances should forecasted traffic levels fail to materialize and non-airline revenues under perform. However, Fitch recognizes that the airport can defer components of its longer-term capital plan should traffic or airline performance decline, and airline Majority-In-Interest (MII) approvals are required.

Key Rating Drivers:

--Management's ability to carefully pace future planned debt issuances in support of the airport's large CEP will affect the rating going forward. Annual debt service obligations are expected to climb to approximately \$146 million in fiscal 2015 from the current \$96 million in fiscal 2009 including the issuance of the planned Series 2011 bonds. Due to the CEP's size and complexity, avoiding overleveraging and financial erosion will be an important consideration in the airport's rating and outlook. Should the airport move forward with its borrowing plans in the face of declining financial performance or stagnate traffic trends, negative rating pressure action may occur.

Security:

The bonds are secured by net project revenues of the Philadelphia International Airport.

Credit Summary:

Traffic has been largely stable during the recent recession, indicative of the airport's strategic role as a primary hub in the US Airway's route system. In fiscal 2009, traffic at the airport declined by approximately 4% is estimated down by approximately 1% in fiscal 2010, reflecting the relative stabilization to slight increase in capacity being offered during the later part of 2010. US Airways, together with its regional airline affiliates operating as US Airways Express, enplaned approximately 64% of the airport's total passenger base in fiscal 2009. As traffic demand has generally improved, US Airways has substantially increased its international service offerings, particularly transatlantic service during the summer months. In July 2010, the number of international seats schedule for international service was approximately 12% higher than offered in April 2010. However, Fitch views cautiously the significant increase in international destinations being served at the airport, given the mature presence of international service offerings at other established competing airports, such as Metropolitan Washington Airports Authority and Newark International Airport. Going forward, the airport's base case assumes moderate enplanement growth of 2.5% per annum beginning in fiscal 2011 through fiscal 2015.

The airport's financial profile has been healthy through the economic recession. Under the terms of the prior lease, the airport was required to set airline rates to ensure that airport revenues were sufficient to meet the required rate covenant of 1.50 times (x) (when excluding interdepartmental charges), or a 1.00x rate covenant when including interdepartmental charges. In fiscal 2008, the airport

implemented a new use lease agreement which will remain in effect through fiscal 2011. The lease broadened the revenue pledge by including all terminal and passenger revenues, which are pledged to bondholders before being shared with the airlines.

In fiscal 2009, operating revenues continued to grow reflecting the expansion of the terminal infrastructure and the inclusion of Outside Terminal Area (OTA) revenues available for debt service. In FY 2009, the airport reported debt service coverage of 2.61x and 1.68x, respectively. In FY 2010, coverage is expected to remain strong but will decline to 2.38x and 1.47x, respectively, reflecting the softening of some non-airline revenue cash flows and the generally flat traffic trends. Similarly, the airport's CPE has been inline with previous forecasts ranging from \$6.15 in fiscal 2007 to \$9.73 in fiscal 2010. With the addition of the initial elements of the airport's CEP and additional terminal infrastructure, the airport's forecasts indicate CPE will increase to the \$12-\$13 range by 2016 - which is still competitive for an international gateway and hub airport. Under a stress scenario in which connecting traffic is decreased by approximately 30% in fiscal 2012, the airport's CPE climbs to as high as the \$16 dollar range. While this represents a 40% increase over previous levels, management has indicated that carriers are on-board with the increase as there has been no conflict receiving MII approval from carriers. In addition, Fitch believes the CPE is still competitive relative to peer airports with the additional leverage.

The airport's long-term capital enhancement program is sizable and requires the issuance of additional bonds. The current CEP is estimated at a total of \$5.35 billion for a total period of phased construction from fiscal 2013 through fiscal 2025. Through 2015, including the current series 2010 issue, the airport intends to issue an additional \$165 million in fiscal 2011 to fund property acquisitions to accommodate airside expansion while also concentrating on terminal upgrades and additions and airfield improvements. Aside from the \$165 million bond issuance planned in fiscal 2011 and possible Terminal B-C improvements, the design of which will be funded with the current bond issuance, the airport does not expect any additional debt financing that would be included in the rate base through fiscal 2015.

Capital projects recently completed at the airport include the completion of the 17-35 Runway extension, the completion of the first phase of the Terminal D/E connector featuring a new 14-lane security checkpoint equipped with advanced screening technology and 10 new food and retail shops and the expansion of Concourse E- which added seven gates, a 500-seat hold-room area, restrooms, and a new food court.

Primary Analyst:

Vanessa E. Roy
Associate Director
Fitch, Inc.
+1-212-908-0508
One State Street Plaza
New York, NY 10004

Secondary Analyst

Emma W. Griffith
Director
+1-212-908-1124

Committee Chairperson

Seth Lehman
Senior Director
+1-212-908-0755

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Rating Criteria for Infrastructure and Project Finance', dated Aug. 13, 2010;
--'Airports Rating Criteria Handbook for General Airport Revenue, PFC and Letter of Intent Bonds', dated March 12, 2007.

Applicable Criteria and Related Research:

Airports Rating Criteria Handbook for General Airport Revenue, PFC and Letter of Intent Bonds
Rating Criteria for Infrastructure and Project Finance

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM](http://FITCHRATINGS.COM) /UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY,

CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

Copyright © 2010 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries.