



New Issue: MOODY'S ASSIGNS A2 RATING TO CITY OF PHILADELPHIA AIRPORT REVENUE BONDS SERIES 2010A AND AIRPORT REVENUE REFUNDING BONDS SERIES 2010B,C, & D; OUTLOOK IS STABLE

Global Credit Research - 14 Oct 2010

A2 RATING APPLIES TO \$1.5 BILLION IN AIRPORT REVENUE BOND DEBT

Airport
PA

Moody's Rating

ISSUE	RATING
Airport Revenue Bonds, Series 2010A (Non-AMT)	A2
Sale Amount	\$285,585,000
Expected Sale Date	10/13/10
Rating Description	Revenue
Airport Revenue Bonds, Series 2010B (Non-AMT)	A2
Sale Amount	\$25,010,000
Expected Sale Date	10/13/10
Rating Description	Revenue
Airport Revenue Refunding Bonds, Series 2010C (AMT)	A2
Sale Amount	\$55,450,000
Expected Sale Date	10/13/10
Rating Description	Revenue
Airport Revenue Refunding Bonds, Series 2010D (AMT)	A2
Sale Amount	\$270,905,000
Expected Sale Date	10/13/10
Rating Description	Revenue

Opinion

NEW YORK, Oct 14, 2010 -- Moody's assigns an A2 rating to the City of Philadelphia's \$285.6 million Airport Revenue Bonds Series 2010A (Non-AMT), \$25 million Airport Revenue Refunding Bonds Series 2010B (Non-AMT), \$55.5 million Airport Revenue Refunding Bonds Series 2010C (AMT), \$270.9 million Airport Revenue Refunding Bonds Series 2010D (AMT). At this time Moody's also affirms the A2 rating on the city's \$1.2 billion parity airport revenue debt outstanding, pre-refunding. The outlook is stable.

RATINGS RATIONALE

The A2 rating is based on the strength of the very large and stable though slow growing service area with above average socioeconomic indicators, a stable long term history of enplanements with significant exposure and concentration in US Airways (rated Caa1/Stable), satisfactory financial performance with some improvement on bond ordinance debt service coverage given the recent inclusion of other revenue sources available for use towards debt service coverage calculations. The rating also incorporates manageable debt plans at this time with the potential for significant increases in debt leverage given long term capital plans.

USE OF PROCEEDS: The proceeds of Series 2010A will be used to fund Terminal F expansion, terminal improvements, Terminal B-C expansion design, eastside and westside taxiways, runway 9L-27R resurfacing and navigation aids, airport maintenance and utilities facilities, and the infrastructure improvement program. Proceeds of the Series 2010B-D Bonds will refund the city's Airport Revenue Refunding Bonds Series 1997A, 1998A, and a portion of 1998B for net present value savings on refunded principal and no extension to current maturities.

LEGAL SECURITY: Net airport revenues; rate covenant requires 1.5 times senior lien debt service coverage by net revenues, excluding interdepartmental charges or 1.0 times debt service coverage for all debt, net of interdepartmental charges. The additional bonds test requires the 1.5 times rate covenant to be met for the current fiscal year and five fiscal years after the issuance of the

bonds. A debt service reserve is provided and sized at the lesser of maximum annual debt service or the maximum permitted by the IRS. Other reserves are also pledged, including a renewal fund, a bond redemption and improvement account (debt service coverage account), and an O&M reserve account.

INTEREST RATE DERIVATIVES: The airport entered a variable to fixed rate interest rate swap associated with the 2005 Series C bonds. The termination option by the counterparty is limited to unlikely events in Moody's opinion, such as a downgrade of the airport's debt rating below Baa3. Under the airport's bond ordinance payments relating to debt service on the swaps are on parity with the payments for the associated bonds; termination payments are subordinate. The swap counterparty is JPMorgan Chase & Co. The current market value of the swap is \$37.2 million in favor of the counterparty.

Strengths:

- * Very large and stable, though slow-growing, service area of 5.9 million with above average wealth measures
- * Enplanement levels have remained historically stable and have weathered better compared to peers through the economic recession
- * Increasing non-airline revenues including Outside Terminal Area (OTA) revenues which are now pledged revenues, has improved debt service coverage levels over the past two years

Challenges:

- * High concentration of US Airways enplanements; US Airways share of total have decreased from nearly 70% in 2003 to a still high 64% in 2009
- * Large long term capital improvement plan including re-alignment of runways is estimated in excess of \$5 billion
- * Competition from nearby airports in the New York and Baltimore metropolitan area

RECENT DEVELOPMENTS:

Philadelphia Airport enplanements declined 4.3% in fiscal year 2009 comparing favorably to peer airports which saw on average a -6% decline nationwide. Enplanement declines abated somewhat in fiscal year 2010 almost leveling off with a minimal -1.1% decline compared to 2009. The entrance and expansion of Southwest Airlines in recent years has helped to offset the impact of the national recession on enplanements. Enplanement levels are projected to level off in fiscal year 2011 and return to growth in fiscal year 2012. The level of growth coming off of a very low base year in 2010 is somewhat optimistic with an average annual increase of 2.5% from 2010 through 2015.

The airline use and lease agreement currently in place will expire June 30, 2011 and airport management expects to begin negotiations later this fall for a new agreement. The airport's ability to negotiate favorable terms and continue a positive operating relationship with the airlines will be an important consideration to future ratings.

Airport debt service coverage levels on a bond ordinance basis have improved in the last two years, primarily due to a change in the definition of what revenues are available for debt service. Since fiscal year 2008 bond ordinance debt service coverage allows for the inclusion of outside terminal area revenues to be used in debt service coverage calculations, which averaged 1.31x over the last five years. Debt service coverage on a bond ordinance basis reached 1.62x and 1.68x in 2008 and 2009, respectively and includes interdepartmental charges from the city General Fund on the expenditure side and various reserves as a revenue source. Debt service coverage on a net revenue basis as calculated by Moody's dropped to a low 1.02x in 2009 from 1.22x reflecting a sizable \$10 million increase in debt service expenditures and a decline in interest earnings. Overall airport liquidity which was 224 days of cash in fiscal year 2009, though slightly higher than the 193 days in fiscal year 2007, still falls below the national median of 375 days for residual airports. The airport's ability to improve these financial metrics, particularly net revenue debt service coverage and internal liquidity will be important factors in future rating reviews.

The airport's projected debt service coverage including the current bond issue and a projected bond offering in 2011 is expected to average 1.57x on a bond ordinance basis from 2010 through 2015. The forecast assumes a 2.5% average annual growth rate with enplanements reaching 17.2 million in 2015. Cost per enplaned passengers which have historically trended slightly above national medians are projected to reach \$12.96 through the end of the forecast period. The forecast cost per enplaned passenger compares reasonably with peer airport CPE projections through the same time period.

The current new money offering significantly completes the airport's current capital plan leaving the airport with a manageable debt profile in the near to medium term. Longer term capital needs however, are significant with an estimated cost in excess of \$5 billion. These long term capital needs are addressed in a capital enhancement program that includes a third parallel east-west runway, extension of two existing runways, enlarging the existing terminal complex, relocating several off airport facilities, developing a centralized ground transportation center and constructing an automated people mover for transport of passengers between terminals and parking facilities which would also interface with the existing SEPTA rail line. This longer term capital enhancement plan would include the issuance of bonds and the total period of phased construction is projected to take 13 years from 2013 through 2025. The impact of the longer term capital enhancement program and its overall affordability will be an important consideration in future rating reviews.

OUTLOOK: The outlook is stable given the expectation that the airport will continue to manage at acceptable financial and debt ratio levels and that enplanement levels will also keep in line with historic levels.

What could change the rating - UP

The rating could be pressured upward should enplanement levels continue to grow and should debt service coverage levels continue to grow and liquidity levels exceed national median levels.

What could change the rating - DOWN

The rating could be pressured downward should enplanements significantly decline, if financial metrics including debt service coverage and liquidity levels fall below projections or national medians, if the airport has difficulty renewing airport use and lease agreements or if the magnitude of future capital needs pressure debt affordability.

KEY CHARACTERISTICS:

Type of Airport: Hub

Rate-making methodology: Residual

FY 2009 Enplanements: 15,362,743

FY 2010 Enplanements: 15,193,741

5-Year Enplanement CAGR 2005-2010: -1.6%

FY 2010 vs. FY 2000 Enplanement growth: 27%

FY 2009 vs. FY 2010 Enplanement growth: -1.1%

% O&D vs. Connecting, FY 2009 (5 YR AVG): 57.4% (61.9%)

Largest Carrier by Enplanements, FY 2009 (share): US Airways (64%)

Airline Cost per Enplaned Passenger, FY 2009 (5 YR AVG): \$9.68 (\$7.64)

Debt per Enplaned Passenger, FY 2009 (5 YR AVG): \$135 (\$118)

Bond Ordinance Debt Service Coverage, after Interdepartmental Charges FY 2009 (5 YR AVG): 1.68x (1.31x)

Days Cash on Hand 2009 (5 YR AVG): 224 (220)

Utilization, FY 2009: 1.48x

RATED DEBT (Post-refunding):

Airport Revenue Bonds Series 2010A: \$285.6 million

Airport Revenue Refunding Bonds Series 2010B: \$25 million

Airport Revenue Refunding Bonds Series 2010C: \$55.5 million

Airport Revenue Refunding Bonds Series 2010D: \$270.9 million

Airport Revenue Refunding Bonds Series 2009A: \$45.7 million

Airport Revenue Refunding Bonds Series 2007B: \$73.3 million

Airport Revenue Bonds Series 2007A: \$172.5 million

Airport Revenue Bonds Series 2005A: \$120.2 million

Airport Revenue Refunding Bonds Series 2005C: \$168.6 million (variable rate)

Airport Revenue Bonds Series 2001B: \$34.6 million

Airport Revenue Bonds series 2001A: \$159.6 million

Airport Revenue Bonds Series 1998B: \$366.6 million

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The bond ratings were assigned by evaluating factors believed to be relevant to the credit profile of the issuer such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the nature of the dedicated revenue stream pledged to the bonds, vi) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) and the issuer's management and governance structure related to payment.

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