Rating Update: **Philadelphia (City of) PA Airport Enterprise**

MOODY'S AFFIRMS A2 RATING FOR REMARKETED CITY OF PHILADELPHIA AIRPORT REVENUE REFUNDING BONDS, SERIES 2005C; OUTLOOK REMAINS STABLE

$1.3 BILLION RATED AIRPORT REVENUE BONDS ARE OUTSTANDING

Philadelphia (City of) PA Airport Enterprise
Airport
PA

Opinion

NEW YORK, Nov 3, 2008 -- Moody's Investors Service has affirmed the underlying A2 rating to the $178.6 million of Remarketed City of Philadelphia's Airport Revenue Refunding Bonds Series 2005C. The remarketed variable rate bonds will be supported by a direct pay letter of credit from TD Bank, N.A. (Senior Unsecured Rating Aa2, Stable Outlook). The bonds had originally been issued with MBIA insurance and a Standby Bond Purchase Agreement from JPMorgan Chase & Co (Aa2, Negative Outlook).

We are also affirming the A2 rating on the city's approximately $1.3 billion in outstanding airport revenue bonds; the outlook is stable. The rating and outlook are based on continued, sustainable growth in enplanements since the April 2004 commencement of service by Southwest Airlines (Baa1, Negative Outlook), as well as the new airline use and lease agreement which provides for greater gate control by the airport and the inclusion of outside terminal area revenues, including parking, hotel and some car rental revenues, in the revenue pledge. The rating also considers the airport's reliance on US Airways (Caa1, Negative Outlook).

USE OF PROCEEDS: Remarketing of Series 2005C bonds

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 fixed to variable rate interest rate swap associated with the 2005 Series C bonds. The swap will remain after the remarketing. Termination option by the counterparty is limited to unlikely events, 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.

STRENGTHS

* Entry of low cost carrier Southwest Airlines has generated sustained enplanement growth.

* Very large and stable, albeit slow-growing, service area of 5.8 million with above-average wealth measures

* New airline use and lease agreement provides for better airport gate control; gates converted from exclusive use to common or preferential-use

*Increasing non-airline revenues. Outside Terminal Area revenues are now pledged revenues

*Experienced airport management team

CHALLENGES

* High concentration of US Airways enplanements; US Airways share of total have decreased from nearly 70% in 2003 to 62% in 2008

* Large long term capital improvement plan including re-alignment of runways is estimated in excess of $4 billion; near term capital plan is minimal through 2010

* Interdepartmental charges to City of Philadelphia (Baa1, Stable Outlook) have grown rapidly, driven by pension, police, and fire costs.

* Competition from nearby airports in the New York and Baltimore metropolitan areas

MARKET POSITION/COMPETITIVE STRATEGY: LARGE AND DIVERSE SERVICE AREA; ARRIVAL OF SOUTHWEST HAS SPURRED ENPLANEMENT GROWTH

Philadelphia International Airport (PHL) is the 16th largest airport in the country and serves a large origination and destination (O&D) base of nearly 6 million people. Enplanements have increased dramatically since the commencement of service by Southwest Airlines in April 2004, which now provides 11.6% of enplanements at the airport. Increased competition among airlines has reduced fares and increased demand at PHL. In fiscal year 2005, the first full year of Southwest service, originating passengers increased 24% and domestic airfares reportedly decreased by 19%. The airport's 5-year compounded annual growth rate (2004 to 2008) was a strong 5.9%; however, growth appears to be moderating, with growth from 2005 to 2008 averaging about 1.3%. The airport's consultant forecasts include average annual increases in enplanements between 2007 and 2013 of 1.8%.

O&D passengers have been steady at 65% of the total over the past three years. In Moody's opinion, this sizeable O&D base makes PHL less vulnerable over the long term to changes in connecting activity by US Airways. Major competing airports are Baltimore-Washington International Airport (BWI) to the south and Newark to the north. Compared to PHL, BWI has tended to have lower domestic airfares while Newark is typically more expensive. Southwest's increasing presence at PHL has enhanced its competitive position and in Moody's opinion, the decreased air fares have broadened PHL's geographical base. The utilization ratio, measuring flights per service area population has grown from 1.3 to 1.8 since 2004.

While the increased competition is clearly a positive credit factor, in Moody's opinion the airport still must manage the risk posed by its reliance on US Airways, which emerged from bankruptcy in 2005 after its merger with America West. The carrier comprised 62% of total enplanements in fiscal 2008, down from nearly 70% in 2003. Although increased competition has eroded US Airways market share of both total and O&D enplanements, the airline remains dominant. The airport is US Airways primary northeastern hub and US Airways traffic at PHL has been more stable than at Pittsburgh. Finally, US Airways provides the majority of the Airport's international service, which has also experienced growth, reaching 13% of total enplanements in 2007.

During 2007, the airport entered into a new airline use and lease agreement, effective through June 30, 2011. The new agreement reflects the experienced management team's goals for improving facility utilization and enhancing airport finances. The agreement provides the airport with greater flexibility to manage the airport facilities, including greater gate control. All of the gates have been converted to either common use or preferential use gates and there are no longer gates exclusively controlled by the airlines. Nonetheless, in Moody's opinion the airport remains exposed to transition risk, should US Airways dramatically decrease operations or liquidate.

FINANCIAL POSITION AND PERFORMANCE: DEBT SERVICE COVERAGE REMAINS STRONG

Debt service coverage is expected to improve, in part due to a change in the revenues pledged to bondholders. The seventh supplemental bond ordinance now includes revenues from the outside terminal area cost center in the revenue pledge as well as certain fund balances. The revenues include parking, hotel and some car rental revenues. Debt service coverage was 1.13 times (x) in 2007 on a bond ordinance basis, which includes interdepartmental charges to the city as expenses.

The airport has an adequate liquidity position, with 2007 days cash on hand at 193, which is low relative to the Moody's median of 225 for other A2 rated airports. The balances in the O&M account, which is expected to grow to $20 million by 2011 and the bond redemption and improvement account along with discretionary account funds provide additional bondholder security.

The airport's 2007 airline costs per enplaned passenger were $6.15 in 2007, slightly higher than Moody's median of $6.01 for all rated airports, but well below Philadelphia's peer group of large hub airports median cost of $7.25. Debt per enplaned passenger was $69.38 and debt per O&D passenger was nearly $107, both well below peer medians.

CAPITAL PROGRAM: CURRENT PLAN IS VERY MANAGEABLE; LONGER TERM CAPACITY CONSTRAINTS WILL REQUIRE SIGNIFICANT CAPITAL INVESTMENT

The airport issued $172M in new money bonds in 2007 to fund several improvements which are now underway, including Terminal A gate reconfiguration, Terminal F expansion design, terminal B-C baggage system design, infrastructure improvements and land acquisition. Additionally, the airport is using passenger facility charges (currently $4.50 per passenger) to fund a portion of it capital needs. The airport plans about $250 million in debt-funded capital for its 2010 projects, which include the Terminal F expansion and renovation, B-C baggage system construction, new taxiways and pavement resurfacing projects, some of which still require airline approval. The 2010 projects were recently deferred from 2009.

Longer termed reduce delays and meet long-term capacity, the airport is studying several approaches to reconfigure its runways, each of which is expected to cost in excess of $4 billion. Environmental approval has yet to be attained, and any plan will likely require significant mitigation. The airport does not expect implementation of this significant, multi-year project to begin before fiscal 2011. Moody's notes the capacity constraints facing the airport and the substantial capital that will be needed to implement the long term plan will introduce additional risk.

Outlook

Moody's outlook is stable, based on the expectation that competition among airlines for the sizeable O&D base will continue to result in long-term stability for the airport as it faces the challenge of concentration in its dominant carrier, US Airways.

What could change the rating - UP:

Continued and sustained growth in enplanements combined with stability of US Airways and the implementation of a capital improvement program that results in manageable airline costs could put positive pressure on the credit rating.

What could change the rating - DOWN:

A significant decrease in enplanements at PHL and the significant capital investment required to address capacity constraints could put negative pressure on the rating.

KEY INDICATORS

Type of Airport: Hub

Rate-making methodology: residual

FY 2008 Enplanements: 16,052,973

5-Year Enplanement CAGR 2003-2008: 5.8%

FY 2008 vs. FY 2000 Enplanement growth: 34%

FY 2008 vs. FY 2007 Enplanement growth: 1.3%

% O&D vs. Connecting, FY 2007 (5 YR AVG): 63% (63%)

Largest Carrier by Enplanements, FY 2008 (share): US Airways (62%)

Airline Cost per Enplaned Passenger, FY 2007 (5 YR AVG): $6.15 ($7.52)

Debt per Enplaned Passenger, FY 2007 (5 YR AVG): $69.38 ($76.17)

Bond Ordinance Debt Service Coverage, FY 2007 (5 YR AVG): 1.13x (1.06x)

Utilization Factor, FY 2007 (5 YR AVG): 1.8 (1.6)

RATED DEBT (000):

Total: $1,331,000,000

1997A, $38,775,000

1998A, $83,835,000

1998B, $308,500,000

2001A, $168,660,000

2001B, $37,140,000

2005A, $124,985,000

2005B, $41,000,000

2005C, $182,700,000

2007A, $172,470,000

2007B, $82,915,000

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