FITCH AFFIRMS CITY OF PHILADELPHIA, PENNSYLVANIA'S AIRPORT REVENUE BONDS AT 'A'

Fitch Ratings-New York-07 November 2008: Effective Nov. 7, 2008, Fitch Ratings affirms the rating of 'A' to the City of Philadelphia, Pennsylvania's airport revenue bonds and airport revenue refunding bonds, consisting of:

--$34,780,000 series 1997A;
--$78,075,000 series 1998A;
--$377,820,000 series 1998B;
--$164,225,000 series 2001A;
--$36,315,000 series 2001B;
--$124,985,000 series 2005 A;
--$41,000,000 series 2005B;
--$178,600,000 series 2005C;
--$172,470,000 series 2007A;
--$79,415,000 series 2007B.

In addition, Fitch is withdrawing the rating on series 2007C.

The review was undertaken in connection with termination of the municipal bond insurance policy and a surety policy provided by MBIA Inc. issued with the original issuance of the series 2005C bonds. The delivery of a substitute liquidity facility in the form of a Letter of Credit (LOC) provided by TD Bank N.A. will provide credit enhancement and liquidity support for the series 2005C bonds and replace both the MBIA insurance policy and the liquidity facility provided by JP Morgan Chase Bank, N.A with the original issuance of the bonds pursuant to a Stand-by Bond Purchase Agreement (SBPA). In connection with the remarketing of the series 2005C bonds, TD Bank, N.A., will provide a direct-pay LOC to be held to the credit of the Parity Sinking Fund Reserve Account in accordance with the city's Ordinance and replace the initial surety bond issued by MBIA. The MBIA bond insurance policy and surety bond policy are expected to be terminated in early to mid December. The Rating Outlook is Stable.

The 'A' rating reflects the airport's critical role in providing air service to a stable and highly populous service area that generates a solid base of origination & destination traffic. The rating also incorporates the airport's sound base of passenger demand as U.S. Airways continues to establish the airport as an international gateway and Southwest Airlines steadily adds new markets.

Credit concerns center on the volatile state of the airline industry and potential impacts on service, an increasingly congested airfield which may necessitate a significant capital program to enhance runway capacity and efficiency in the near-to-medium term, the airport's exposure to U.S. Airways (64% of enplanements), and the significant portion of connecting traffic.

Through the end of fiscal 2007 the airport utilized a hybrid lease which, in combination with sound financial management, resulted in stable operating margins despite recent changes in the air service market. Revenues and expenses both increased at a 9% rate on average annually since fiscal 2002 to achieve a net revenue total of $86 million in fiscal 2007. The cost basis at the airport is moderate for an international gateway, equaling an estimated $8.51 in fiscal 2008 and is estimated to increase slightly to $9.02 in fiscal 2009.

In fiscal 2008 the airport implemented a new use lease agreement which will be in effect through fiscal 2011. The new lease broadens the revenue pledge by including all terminal and passenger revenues, which are pledged to bondholders before being shared with the airlines. 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 the net impact of cost centers such as parking and rental car concessions), or a 1.00x rate covenant when substantially all airport cost centers were included. The airport is also allowed to use rolling coverage account balances when calculating the rate covenant in both the prior and current lease agreement.

Fitch believes that the new lease modernizes the airport's rate setting structure and adds bondholder security by further diversifying the pledged revenue stream. The exclusion of passenger driven revenues such as automobile parking and rental car concessions from the rate-setting mechanism and from the legal bondholder pledge historically resulted in lower levels of liquidity and debt service coverage that would be expected from a comparably facility operating under a hybrid lease. In fiscal 2007 the airport generated 1.84x coverage under the first requirement and 1.01x coverage under the second requirement. The lower debt service coverage under the second test reflects the inclusion of both the airport's net operating expenses as well as all interdepartmental charges. The broader revenue stream under the new lease agreement provides for stronger debt service coverage, expected to be 1.85x under test two in fiscal 2008. Forecasted coverage levels through fiscal 2012 (including an additional $240 million of debt expected in 2010) are expected to be at or above 2.30x under test one and at or above 1.65x under test two.

The entry of Southwest Airlines to the airport in 2004 furthered a trend to a more diversified marketplace, with low-cost carriers Southwest, AirTran Airways and Frontier Airlines now representing 16% of total enplanements, compared to 2% in fiscal 2002, when AirTran Airways was the sole low cost carrier. However, the airport remains a U.S. Airways' stronghold, as that airline enplaned 64% of fiscal 2007 passengers. The significant portion of connecting traffic (35%) also represents a concern, as U.S. Airways could opt to route that traffic through other east coast airports such as Charlotte-Douglas International. Mitigating the potential shift in connecting traffic is the much stronger base for international service at Philadelphia, which serves as US Airways' largest international gateway.

In contrast to the ramp-up in enplanements seen in fiscal 2005, traffic grew at modest rates through fiscal 2008 due to a combination of US Airways service reductions and rising airfares. Total airport enplanements were relatively unchanged from fiscal 2007 to fiscal 2008, with total enplanements reaching 16.1 million in fiscal 2008, slightly up from 15.9 million in fiscal 2007. Through October 2008, the airport's average daily scheduled seats is down by 2.1% when compared with the same corresponding time span in 2007, resulting in a revision in the airport's enplanement forecast to zero growth in fiscal 2009. Over the longer term, the airport forecasts enplanements will grow by 1.8% on average annually through fiscal 2013.

The airport's current CIP calls for some additional debt through the 2013 forecast period. Management anticipates issuing approximately $240 million in fiscal 2010 which, in addition to the series 2007A and previously issued bonds, will fund approximately 55% of a $1 billion CIP from 2008-2013. Even with the additional series 2010 debt, the airport will still have a moderate debt burden of $73 per enplaned passenger. The 2008-2013 CIP emphasizes terminal upgrades and additions and also funds the lengthening of a runway. Other funding sources include passenger facility charge pay-go (18% of total sources), state and federal grants (24%) and airport reserves (3%). In addition to its CIP, the Federal Aviation Administration (FAA) is currently conducting and environmental impact study (EIS) regarding the airport's plans for the future redesign of the airfield. While the costs and timing of the capital plan are unknown at this time, based on the airport's current plan Fitch believes that such a significant capital program will likely result in the use of additional leverage within the next five to ten years. Yet preliminary future debt issuances appear manageable for the airport, as it maintains a front-loaded and essentially level debt service schedule on all its long-term debt.

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