New Issue: Philadelphia (City of) PA Airport Enterprise

MOODY'S ASSIGNS A2 RATING TO CITY OF PHILADELPHIA AIRPORT REVENUE REFUNDING BONDS, SERIES 2009A; OUTLOOK IS STABLE

$1.3 BILLION RATED AIRPORT REVENUE BONDS ARE OUTSTANDING

Airport
PA

Moody's Rating

ISSUE	RATING
Airport Revenue Refunding Bonds, Series 2009A	A2

Sale Amount	$45,595,000
Expected Sale Date	03/27/09
Rating Description	Revenue Refunding

Opinion

NEW YORK, Mar 16, 2009 -- Moody's Investors Service has assigned an A2 rating to the $45.6 million of City of Philadelphia's Airport Revenue Refunding Bonds Series 2009A. We are also affirming the A2 rating on the city's $1.3 billion in outstanding airport revenue bonds; the outlook is stable. The rating and outlook are based on continued, sustainable enplanement levels and manageable expected capital requirements. The rating also considers the airport's reliance on US Airways (long term corporate family rated Caa1, negative outlook) for 63% of enplanements.

USE OF PROCEEDS: The Series 2009A bonds will refund the approximately $41 million of outstanding Series 2005B bonds, fund a deposit into the Parity Sinking Fund Reserve Account that supports the bonds, and pay the costs of issuance.

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 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 $31.6 million in favor of the counterparty.

STRENGTHS

* Enplanement levels have remained historically stable and improved markedly with the entry of Southwest Airlines (senior unsecured rated Baa1, Negative Outlook) in 2004

* Increasing non-airline revenues including Outside Terminal Area (OTA) revenues which are now pledged revenues, which has improved debt service coverage

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

CHALLENGES

* High concentration of US Airways enplanements; US Airways share of total have decreased from nearly

70% in 2003 to 63% in 2008 but remains high

* Large long term capital improvement plan including re-alignment of runways is estimated in excess of $4 billion; near term projects will require approximately $420 million in additional bonds

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

RECENT DEVELOPMENTS

Enplanement levels have demonstrated some stability during the current airline industry volatility. FY2008 enplanements increased 1.3% over FY 2007 and have only declined 2.6% in the first half of FY 2009. The airport expects to see only a 6.4% decrease in available seats from its main carrier US Airways in April 2009 compared to April 2008. The growth of Southwest Airlines at the airport in recent years has made it an important second carrier at the airport and its market share of enplanements increased to 18.3% in FY2008. Southwest increased seats slightly in each of the first three months of calendar year 2009 compared to 2008, which Moody's believes is an indicator that it intends to continue to pursue market share growth.

Results for FY 2008 demonstrate the airport's solid financial footing. FY2008 was the first year the airport's OTA revenues, which consist primarily of parking, ground transportation, and hotel concession revenue, were included in the rate covenant substantially increasing debt service coverage from 1.12 times to 1.68 times. The airline cost per enplanement increased to $8.31 from $6.15, due primarily to increased airline rental charges under the new airline use and lease agreement that went into effect at the start of the fiscal year. The airport projects cost per enplanement to rise to $12.46 by 2013 with the increases coming mainly from airport debt service requirements. Moody's notes that the FY2008 cost per enplanement exceeds the Moody's U.S. airport median of $6.24 and if this figure grows higher than projections it could reduce the airport's competitive position relative to nearby Baltimore-Washington and Newark Airports.

The airport plans about $420 million in debt-funded capital for its current and upcoming 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 due to redefinition of project scope and the financial health of the airline industry.

The airport has completed its extension of Runway 17-35, which cost approximately $70 million, though $45 million was funded through federal and state. The extension is expected to provide additional airfield capacity and reduce annual flight delays by 8%. Also complete is the connector between concourses D and E, which will allow the airport to reconfigure its terminal space particularly in the ticketing and security areas providing improved flow for customers. The entire project totals $300 million and is fully funded to include the addition of 23 additional ticket counters, an in-line explosive detection baggage system, 3 new gates and 2 new baggage conveyors. Management has successfully managed the recent challenges in its capital financing and we expect it will continue to take positive action to ensure success in the current environment.

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 and greater diversification of revenue sources could put positive pressure on the credit rating.

What could change the rating - DOWN:

A significant decrease in enplanements and higher than expected debt 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 2008 (5 YR AVG): 64% (63%)

Largest Carrier by Enplanements, FY 2008 (share): US Airways (63%)

Airline Cost per Enplaned Passenger, FY 2008 (5 YR AVG): $8.31 ($7.53)

Debt per Enplaned Passenger, FY 2007 (5 YR AVG): $78 ($74)

Bond Ordinance Debt Service Coverage, FY 2008 (5 YR AVG): 1.62x (1.18x) - after interdepartmental charges

Utilization Factor, FY 2008: 2.6

RATED DEBT:

Airport Revenue Bonds Series 1997A $34.8M

Airport Revenue Bonds Series 1998A&B $455.9M

Airport Revenue Bonds Series 2001A&B $200.5M

Airport Revenue Bonds Series 2005A $125M

Airport Revenue Bonds Series 2005C $178.6M (variable rate)

Airport Revenue Bonds Series 2007A&B $251.9M

ISSUER CONTACTS:

Ed Anastasi, Deputy Director of Aviation,

(215) 937-5414

Analysts

Kurt Krummenacker
Analyst
Public Finance Group
Moody's Investors Service

Baye B. Larsen
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

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