STANDARD & POOR'S

PUBLIC FINANCE

Philadelphia, Pennsylvania
Philadelphia International Airport

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Credit Profile		
$45. mil airport revenue refunding bonds (Philadelphia International Airport) series 2009-A dated 04/07/2009 due 06/30/2009		
Long Term Rating	A+/Stable	New
Philadelphia, Pennsylvania		
Philadelphia International Airport, Pennsylvania		
Philadelphia (Philadelphia International Airport)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Philadelphia, Pennsylvania		
Philadelphia International Airport, Pennsylvania		
Philadelphia (Philadelphia International Airport)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A+' rating to Philadelphia, Pa.'s $45.6 million airport revenue refunding bonds series 2009A issued for Philadelphia International Airport. At the same time, Standard & Poor's affirmed its 'A+' rating on the airport's $1.3 billion airport revenue bonds outstanding. The outlook is stable.

The ratings reflect our assessment of the airport's relatively large origin and destination (O&D) market, strong competitive position, good historical enplanement trends, and a moderate cost structure and manageable debt burden. We believe offsetting this is a dependence on US Airways Inc. (B-/Negative/—) for more than 63% of enplaned passengers and expected near-term declines in enplanements due to the economic downturn. Our downside sensitivity analysis shows that the airport has the financial resources to absorb lower passenger levels, assuming US Airways remains largely committed to the market. However, if US Airways were to eliminate most of its service, we could lower our rating.

The 'A+' rating also reflects our view of the airport's:

- Large O&D market, which spans 11 counties across Pennsylvania, New Jersey, Delaware, and Maryland. It provides a good base for local air travel demand that in fiscal 2008 totaled an estimated 10.3 million O&D enplaned passengers, or approximately 64% of the 16.1 million total;
- Generally resilient air travel demand due to a strong competitive position as a result of limited competition from other major airports and growth in low-cost carrier service because of Southwest Airlines Co.'s (BBB+/Stable/—) expansion at the airport;
- Historically good enplanement trends, as evidenced by enplaned passengers increasing an estimated 1.3% in fiscal 2008, 1.8% in fiscal 2007, and 0.5% in fiscal 2006 after increases of 7.8% and 18.4% in fiscals 2004 and 2005, respectively; and
- Moderate cost structure and manageable debt burden—estimated to be $8.31 and $80 per enplaned passenger for fiscal 2008, respectively.

We believe offsetting credit weaknesses include the airport's:

- Debt burden potentially increasing significantly as a result of debt financing capacity enhancement projects if air travel demand continues to climb over the long term, placing pressure on coverage levels and its moderate cost structure;
- Relatively high carrier concentration—with US Airways and its affiliated commuter carriers representing about 63% of fiscal 2008 total enplanements, tempered by Southwest Airlines' increasing presence at the airport (12% of fiscal 2008 enplanements); and
- Moderate exposure to connecting passengers, which constituted about 36% of total enplanements in fiscal 2008.

In our view, the airport's near-term capital needs are manageable, including one bond issue that could occur in fiscal 2010 with a par amount of approximately $420 million in general airport revenue bonds (GARBs). The proceeds from the 2010 bond issue will help fund approximately $346 million in capital costs related to the expansion of Terminal F, a baggage system for Terminals B and C, eastside and westside taxiways, resurfacing of runway 9L-27R and navaids, an airport maintenance facility, infrastructure improvements, and land acquisition. The airport has approximately $1.3 billion in GARBs outstanding. Additional financing sources for the $492 million projects include $59 million in airport improvement program (AIP) grants, $25 million in pay-as-you-go passenger facility charge (PFC) revenues; $25 million in TSA grants, and $35 million from previous bond issues.

Beyond 2010 there is the potential for the airport's debt burden to significantly increase as result of debt financing a portion of the airport's multibillion-dollar airfield capacity enhancement program (CEP). The airport's draft copy of its Environmental Impact Statement (EIS) for the CEP presents three alternatives: the No-action Alternative, Alternative A, and Alternative B. The No-action Alternative introduces no new costs, while Alternatives A and B would introduce $5.2 billion (in 2005 or 2006 dollars) and $5.4 billion (in 2005 or 2006 dollars) in new costs, respectively. The No-action Alternative involves only periodic maintenance and minor enhancements needed to maintain safe operations at PHL. Alternative A includes five runways connected by a redesigned and more efficient taxiway system than the no-action alternative. A fifth runway would be constructed under Alternative A. Alternative B includes four runways connected by a redesigned and a more efficient taxiway system. Alternative B also includes eliminating airport's existing intersecting runway and the construction of one new runway, resulting in a very efficient runway configuration that will include four parallel runways.

If Alternative A is preferred, traffic forecasts are realized, demand warrants, and the Division of Aviation obtains needed approvals from city council and the airlines, the airport would need to issue approximately $4.9 billion in bonds to pay for approximately $3.7 billion escalated project costs related to capacity enhancement and master plan projects through fiscal 2020. However, since the timing of these projects depend on the outcome of the ongoing EIS process and their implementation schedule is dependent upon traffic levels, demand, financing capacity, city council approvals, and airline MII approvals it is difficult at this point in the process to provide a detailed schedule of bond issuances for the CEP and associated landside projects. Furthermore, if any of these conditions are not met, then the projects would be staggered and spread out over a longer time frame. After the airport receives the FAA's Record of Decision (ROD), which we currently expect in the spring of 2010, officials expect the design and permitting work to require an initial bond issuance of about $100 million within the next six years. The earliest this bond issuance would occur is in fiscal 2011. Under this scenario, the debt service for this initial bond issuance would not affect the rate base until fiscal 2013 or 2014, when the capitalized period ends. PFC revenues are planned to be used to pay a portion of debt service on any new bonds. The time and sizing of this first bond issue depend on the alternative selected and the implementation schedule.

Securing the bonds are net project revenues; amounts payable to the city under a qualified swap; and all amounts on deposit in, or credited to, certain aviation funds. Project revenues include all revenues from occupants and users of the airport system, which consists of the Philadelphia International Airport and the Northeast Philadelphia Airport. Net project revenues are net of net operating and maintenance expenses. Net operating and maintenance expenses are operating and maintenance expenses net of interdepartmental charges, which are subordinate to debt service. A portion of PFCs are pledged to pay debt service for only the airport's series 2001A and 1998B bonds.

Since July 1, 2007 (the beginning of fiscal 2008), revenues and costs related to the outside terminal area and overseas terminal are included as part of project revenues, which we expect will boost coverage levels while also allowing the airport to maintain higher liquidity levels. As a result of these changes, we expect the airport's financial profile to improve from fiscals 2009-2013 (the forecast period). Before July 1, 2007, the airport's airport revenue bonds were secured by net project revenues that excluded revenues from the overseas terminal and the outside terminal area. We view the changes to the GARB ordinance and new airline agreement by airport management favorably because they provide improved coverage and make additional funds available for debt service. However, revisions to subsequent airline agreements or future amendments to the general ordinance that would detract from these enhancements would be a credit concern.

As a result of steadily increasing air travel demand, the airport has produced stable financial results on a consistent basis. From fiscals 2004-2007, total fixed charge coverage (Standard & Poor's-calculated) has been maintained close to 1x and 1.23x for fiscal 2008. Excluding interdepartmental charges (which are subordinate to debt service), coverage ranges from 1.6x-1.7x for fiscals 2004-2007 and 2.3x for fiscal 2008. All coverage calculations include the portion of PFC revenues on which the city has pledged to pay debt service on bonds issued to finance PFC-eligible projects.

The airport's cost structure has also maintained what we view as moderate cost structure and manageable debt load for a large hub. From fiscals 2004-2007, the airport's cost per enplanement averaged less than $8.00. For fiscal 2008, the airport's cost structure is about $8.31 and budgeted for fiscal 2009 at $9.50 per enplaned passenger. Its debt per enplanement is a manageable $81. The airport has maintained an unrestricted cash position that has provided 195 days' cash on hand, on average, for fiscals 2004-2008.

As a result of the airport including revenues from the outside terminal area (OTA) and overseas terminal as part of project revenues and taking steps to ensure higher levels of liquidity, its financial profile improved in fiscal 2008 and we expect it to continue improving from fiscals 2009-2013 (the forecast period). These changes took effect July 1, 2007 (the beginning of fiscal 2008). Net OTA revenues are forecast to gradually increase to about $24.4 million in fiscal 2013 from about the $11.4 million in fiscal 2008. The combination of including revenues and costs allocated to the airport's OTA and changes under the new airline lease agreement will allow the airport to accumulate funds available for debt service, which are forecast to rise to $73.4 million in fiscal 2013 from $61.4 million in fiscal 2009. These funds alone are projected to cover estimated annual debt 0.56x-0.66x during the forecast period. Based on forecasts, we expect total fixed charge coverage (Standard & Poor's-calculated) to range from 1.13x-1.16x; including the estimated combined balance of funds available for debt service, coverage is no lower than 1.72x. Excluding interdepartmental charges (which are subordinate to debt service), coverage ranges from 1.91x-2.06x; and including the estimated combined balance of funds available for debt service, coverage is no lower than 2.47x.

The cost structure is forecast to steadily increase to more than $12 per passenger in fiscals 2013 from about $9.50 in 2009. The airport's debt structure is also expected to increase but remain manageable. Based on 16.1 million enplanements for fiscal 2008, debt per enplanement is approximately $81 per passenger, and $106 if the airport were to issue approximately $420 million in additional bonds today.

The airport has experienced generally good air travel demand historically. The combination of the airport's large O&D market, US Airways' continued commitment to operate a major hub at the airport, limited competition from other airports, and the expansion of Southwest have contributed to the airport's recent strong growth in enplanements. In fiscals 2004 and 2005, enplanements increased 7.8% and 18.4%, respectively, resulting in enplanement levels surpassing pre-September 2001 highs in fiscal 2004. The strong growth in passengers in fiscals 2004 and 2005 is mainly attributable to Southwest initiating service at the airport in 2004. Since fiscal 2006, enplanements levels have continued to climb more slowly, increasing 0.5% in fiscal 2006, 1.8% in fiscal 2007, and an estimated 1.3% in fiscal 2008. However, as a result of capacity reductions due to record high jet fuel prices this past summer and a weak economy, air travel demand has softened. For the six months ended Dec. 31, 2008, enplanements dropped 2.6% relative to the same period the prior year. From fiscals 2008-2013, enplanements are forecast to be flat with an average annual growth rate of 0.4%. In fiscal 2009, enplanements are forecast to decline 3.4% based on six months year to date performance and industry guidance regarding reductions in seat capacity. In particular, US Airways stated that for calendar year 2009, it expects systemwide mainline capacity to decline 4%-6% and US Airways Express capacity to fall 5%. For January-March 2009, airport capacity was down 6% on both US Airways and US Airways express. In 2010, enplanements are forecast to decline another 1.9% before growth resumes at 2.5%-2.6% per year from 2011-2013.

A stress test was also done; it assumes a 30% reduction in total enplaned passengers to 10.8 million in fiscal 2010 as a result of US Airways drastically reducing connecting service effective July 2009. From fiscals 2011-2013, the test assumes enplanements will rebound, increasing 9.3%, 6.8%, and 3.2% in fiscals 2011, 2012, and 2013, respectively, as a result of replacement service from other airlines and enhanced local air travel demand from low-fare airlines. Cost per enplaned passenger increases to $13.64 in fiscal 2010 from $9.50 in fiscal 2009 under this stress test. Indenture coverage under this sensitivity drops to a low of 2.48x, or about 1.11x based on our calculation excluding revenues carried forward from the previous year or other available fund balances. Our downside sensitivity analysis shows that the airport has the financial resources to absorb lower passenger levels, assuming US Airways remains largely committed to the market. However, if the airline were to eliminate most of its service, we could lower the rating on the airport bonds, absent assurances that other airlines would quickly replace most of US Airways' routes.

The airport benefits from the lack of nearby competing facilities—no major airport exists within a one-hour drive of the airport. Baltimore/Washington International Airport (102 miles to the southwest) and Newark Liberty International Airport (106 miles to the northeast) are Philadelphia International Airport's primary competitors. Since 2004, when Southwest initiated service in Philadelphia, the airport's competitive position has improved. As a result of the airline's presence, average airport airfares have decreased, stimulating air travel demand within its market. For fiscal 2005, the first full year of Southwest's service, originating passenger numbers increased 24%, while average domestic airfares decreased 19%. Since fiscal 2005, the number of originating passengers at Philadelphia has exceeded that at Baltimore.

We have assigned the airport a Standard & Poor's Debt Derivative Profile (DDP) score of '1' on a scale of '1' to '4', with '1' representing the lowest risk. The overall DDP score of '1' indicates that the swaps are a minimal risk. The DDP score incorporates one floating-to-fixed-rate swaption that was exercised by JPMorgan Chase Bank, N.A. (AA/Negative/A-1+) June 15, 2005. The swap has a notional amount of $178.6 million and synthetically fixes 100% of the airport's series 2005C bonds. With this issue, the airport will be refunding variable-rate debt outstanding and its only variable-rate debt will be the series 2005C, resulting in a net variable-rate percentage of 0%

Outlook

The stable outlook reflects our expectation that the airport's large O&D market and improved competitive position will continue to experience generally good enplanement trends in the long term, allowing it to maintain a good financial profile. The outlook also reflects our expectation of management prudently managing airport's ensuing capital planning pressures, while maintaining good coverage levels and a moderate cost structure. Although the airport can withstand some declines in passenger levels, significant passenger declines could result in a downgrade if the airport's liquidity position or DSC levels are significantly affected.

Issuer

The City of Philadelphia operates the Philadelphia International Airport and the Northeast Philadelphia Airport, a small general aviation airport. Together they comprise the airport system, which the Division of Aviation of the city's Department of Commerce operates.

Legal Provisions

We still consider the legal provisions relatively weak, even though the definition of project revenues has changed to include revenues and expenses related to the airport's outside terminal area and overseas terminal, effective July 1, 2007 (fiscal 2008). Aspects of the legal provisions Standard & Poor's considers relatively weak are a rate covenant and projected additional bonds test that incorporate unlimited rolling tests, allowing the airport flexibility to comply with rate covenants or incur additional debt, despite producing low coverage based on pledged operating revenues net of all fixed charges.

The airport system's net project revenues secure the bonds. Project revenues are net of net operating and maintenance expenses. Revenue from the outside terminal area (which is mostly automobile parking revenues) and from the overseas terminal were included as part of project revenues effective July 1, 2007, pursuant to amendments made to the seventh supplemental ordinance to the amended and restated general airport revenue bond ordinance. We view this enhancement to pledged project revenues because it increases the diversity of revenues that secure the airport's bonds. A portion of PFCs is also pledged to pay debt service related to the airport's series 2001A and 1998B bonds. Net operating and maintenance expenses are net of interdepartmental charges, which are subordinate to debt service.

The bonds are also secured by a sinking fund reserve account with a reserve requirement equal to the lesser of maximum annual debt service or the maximum amount permitted by the Internal Revenue Code of 1986.

The priorities for applying project revenues and other amounts on deposit in the aviation operating fund are as follows:

- Payment of operating expenses net of interdepartmental charges;
- Deposit to the sinking fund to pay the debt service for the airport's revenue bonds;
- Restoration of any deficiency in the debt service reserve account;
- Restoration of any deficiency in the renewal fund and payment of any amounts due under exchange agreements;
- Payment of any swap termination amounts;
- Payment of debt service on any subordinate obligations;
- Payment of debt service on general obligation (GO) bonds;
- Payment of interdepartmental charges; and
- Payment of debt service on nonself-sustaining GO bonds.

Under the general ordinance, the city may use any remaining balance for any airport system purpose. Under the airline agreement, beginning in fiscal 2008, any remaining balance is to be applied as follows:

- The amount required to maintain a balance in the bond redemption and improvement account, which equals at least 15% of debt service requirements in fiscal 2009, 20% in fiscal 2010, and 25% thereafter (the bond redemption and improvement account balance as of July 1, 2008, was $18.5 million);
- The amount required to maintain a balance in the operations and maintenance account, which equals 10% of operating expenses (the operations and maintenance account balance, as of July 1, 2008, was $16.5 million); and
- Fifty percent of net revenues from the OTA cost center exceeding $7.0 million, to be credited in the annual calculation of signatory airline landing fees, which is identified as the airline revenue allocation.

The city is to deposit any remaining funds to the airport discretionary account and may be used them for any airport system purpose.

We view the changes airport management has made to the general airport revenue bond ordinance and new airline agreement favorably because they provide improved coverage and additional funds available for debt service. We would view revisions to subsequent airline agreements that would detract from these enhancements negatively.

The rate covenant allows unlimited rolling coverage. Rates and charges can be set so that any amounts from the previous year can be carried forward and counted together with amounts for debt service (which includes net project revenues, pledged PFCs, carryover amounts, and other available funds) in the current fiscal year. This coverage must at least equal the greater of one of the two summed amounts:

- Net operating expenses plus 1.50x senior lien debt service plus any amounts required for the reserve account plus any amounts required for the renewal fund; or

- All operating expenses plus all debt service requirements (excluding GO bonds and not self-sustaining GO bonds issued for improvements to the outside terminal area and the overseas terminal, unless revenues from these areas are pledged in a supplemental ordinance) plus any amounts paid into the reserve account plus any amounts paid into the renewal fund plus all amounts required under exchange agreements.

Because the rate covenant imposes no limit on carryover amounts and fund balance amounts that officials can use to satisfy the rate covenant, it allows the airport the flexibility to comply with rate covenants, while producing low coverage based on pledged operating revenues net of all fixed charges.

The airport may issue additional parity debt as long as it meets historical and projected tests. The historical test requires that pledged amounts available for debt service (including carryover amounts, pledged PFCs, and other available funds) from either the immediately preceding fiscal year of the city or any period of 12 full consecutive months during the 18-month period preceding the delivery of the consultants' reports satisfies the rate covenant. The projected test requires that the amount available for debt service for each of the five fiscal years immediately after the bonds' issue comply with the rate covenant. In the event that the consultant is professionally unable to provide an opinion for a period exceeding three fiscal years, the projected test requires the amount available for debt service for each of the three fiscal years immediately following the bonds' issue to comply with the rate covenant. Because the additional bonds test imposes no limit on how much carryover funds or fund balances officials can use to satisfy the rate covenant, it allows the airport the flexibility to incur additional debt while producing low coverage based on pledged operating revenues net of all fixed charges.

Airline Use Agreement

The current airline agreement, which took effect July 1, 2007 and extends through fiscal 2011, provides discretionary cash flow and reserves, and a streamlined majority-in-interest (MII) approval process. The agreement also allows the airport to manage its gates on a common-use or preferential-use basis. Like the previous agreement, the current one employs a fully residual rate-setting methodology. The airline lease agreements allow the airport to accumulate funds available for debt service, which are forecast to increase to $73.4 million in fiscal 2013 from $61.4 million in fiscal 2009. These funds alone are projected to cover estimated annual debt 0.56x-0.66x during the forecast period.

Under the airline agreement, signatory airlines approve capital expenditures unless an MII specifically disapproved them. For projects affecting terminal area rentals, fees, and charges, MII is more than 50% of the passengers enplaned at the airport during the preceding calendar year. For projects affecting airfield area fees and charges, MII is more than 50% of landed weight at the airport in the same period. In each case, the number of signatory airlines must be no less than two, which together account for more than 50% of enplaned passengers or landed weight, depending on whether the capital project is related to the landside or airside. MII approval obligates the signatory airlines to pay rentals, fees, and charges as required to enable the city to comply with the rate covenant.

Under the previous airline agreement, the airport leased most gates to airlines for their exclusive use. Under the current agreement, to improve use, airport management has prudently decided to lease all gates on a preferential-use basis or common-use basis. By changing this, the airport can better accommodate the proposed operations of an airline by using another airline's preferential-use premises if it cannot accommodate the proposed operations on a common-use basis, assuming the requesting airline's use does not disrupt other airlines' operations. Furthermore, the airport may reallocate a portion of any signatory airline's leased premises if such signatory airline does not maintain a minimum use requirement, which ranges between 4.25 departures per gate per day for a signatory airline leasing only one gate to 5.00 departures per gate per day for signatory airlines leasing four or more gates.

Air Service Area Economy

The airport serves a broad geographic area that spans four states, including Pennsylvania, New Jersey, Delaware, and Maryland. The primary service region of the airport is made up of 11 counties, consisting primarily of the Philadelphia-Camden-Wilmington metropolitan statistical area. The 11 counties include Bucks, Chester, Delaware, Montgomery, and Philadelphia counties in Pennsylvania; Burlington, Camden, Gloucester, and Salem counties in New Jersey; Cecil County in Maryland; and New Castle County in Delaware. The surrounding primary service area is the secondary service, defined by the availability of airline service at other airports.

The airport's 11-county service region had an estimated population of approximately 5.8 million in 2007. Since 1980, the rate of population increase in the region has been lower than that of the nation as a whole. Although population growth has been relatively flat, the airport system benefits from serving a region with a per capita personal income that has been historically higher than the national average. Estimated per capita personal income in the airport service region for 2007 was approximately $38,200, which is 18% higher than the U.S. average. Despite the economic downturn, the region's long-term growth prospects are good because of a relatively diverse economic base. Prospects are good for the metropolitan area's core of knowledge-based industries, which include health services, pharmaceuticals, education, and biotechnology, chiefly due to a highly educated work force drawn from suburban areas.

We believe the airport's service region is highly diversified, with an emphasis on health care services, pharmaceutical manufacturing, aerospace manufacturing, education services, and transportation services. This diversity historically has buffered the region during economic downturns. In 2007 the top eight industries based on the highest share of total nonfarm employment in the region included education and health services (18.7% of region's total nonfarm employment), followed by wholesale and retail trade (15.5%); professional and business services (15.3%); public administration (12.5%); leisure and hospitality services (7.9%); financial activities (7.8%); and manufacturing (7.8%).

As of June 2008, leading private employers in the airport's service region include University of Pennsylvania and Health System (34,900), Thomas Jefferson University and Health System (32,800 employees), the Catholic Archdiocese (15,400), Comcast (12,800), Temple University and Health System (12,600), Merck (12,500), Catholic Health East (11,800), the Supervalue grocery store chain (11,400), Lockheed Martin (11,000), Christiana Care Health System (10,800), Wal-Mart Stores Inc. (10,400), Bank of America (10,100), and United Parcel Service of America Inc. (UPS; 9,900).

Fortune 1000 corporations headquartered in the region involved in wholesale and retail trade include Airgas Inc., AmerisourceBergen Corp., Charming Shoppes Inc., IKON Office Solutions Inc., and Jones Apparel Group Inc. FedEx Corp. and UPS operate major distribution facilities in the region. The region has 10 shopping malls of more than 1 million square feet each.

Important manufacturing facilities for several Fortune 500 corporations are located in the region including, Boeing Co., Campbell Soup Co., Crown Holdings Inc., E. I. du Pont de Nemours and Co., General Electric Co., Lockheed Martin, Rohm & Haas Co., and Sunoco. Many of the world's largest biotechnology, chemical, and pharmaceutical companies have a presence in the region, including AstraZeneca PLC, Centocor, Cephalon Inc., DuPont, GlaxoSmithKline PLC, Johnson & Johnson, Merck & Co. Inc., Rohm & Hass, and Wyeth. Gamesa Corp., a relatively new manufacturer to the region, is a Spanish wind energy company that opened its U.S. headquarters in Philadelphia in 2005.

As the first major city in America, Philadelphia is rich with American history. Independence Hall, the Liberty Bell Center, and other attractions in the Historic District draw visitors from all parts of the nation and the world. The 160,000-square-foot National Constitution Center, an addition to Independence Mall, opened in 2003, and attracts nearly one million visitors a year. The Liberty Bell Center, which is one of the final elements of the redevelopment of Independence National Historical Park, also opened in 2003. The park, which includes the Liberty Bell Pavilion, Independence Hall, and Old City Hall, attracted more than 8 million visitors in 2007.

Noteworthy projects that we expect to spur economic growth include expanding health car facilities, the Philadelphia Convention Center, and two new casinos. More specifically, in west Philadelphia, the Children's Hospital of Philadelphia is in the midst of one of the largest health care expansion projects in the U.S. The project began in 2000, is scheduled for completion in 2010, and will double the size of the main campus by adding 1.2 million square feet of operating rooms, laboratories, diagnostic, and support space. The convention center received funding from the state in January 2006 to begin a 1.0 million square-foot expansion, bringing the total number of square feet in the Center to approximately 2.4 million. The state has approved two casinos for development in Philadelphia on the Delaware River waterfront. The casinos are estimated to generate more than 3,000 construction jobs in the first phase of development.

Airport Description

The Federal Aviation Administration (FAA) classifies the Philadelphia International Airport as a large air traffic hub. According to the Airport Council International, the airport ranked 17th among U.S. airports in passenger traffic for 2007, serving approximately 32.2 million total passengers. Northeast Philadelphia Airport currently has no scheduled commercial service and has historically operated at a loss.

Philadelphia International Airport occupies approximately 2,300 acres and is about eight miles from Center City, Philadelphia's downtown area. The airport currently has four runways, including two parallel runways (9R-27L and 9L-27R) that stretch 10,500 feet and 9,500 feet; a 6500-foot-long crosswind runway (17-35); and a 5,000-foot-long commuter runway (8-26). FAA recently established the airport's airfield capacity, incorporating both the Runway 17-35's recent extension and the FAA's airspace redesign initiative, at 643,000 annual aircraft operations. In 2008, the airport handled 499,281 aircraft operations, ranking it 10th busiest in the U.S. for 2007 in operation terms. The passenger terminal complex, which consists of seven terminal units, provides a total of approximately 2.4 million square feet of passenger handling facilities, 120 gates, 21 of which are international access.

All food, beverage, and retail concessions in the terminal buildings are managed and operated under an agreement between the city and Marketplace Redwood L.P. The agreement extends through 2013 and covers approximately 115,000 square feet of public food, beverage, and retail concession space in the passenger terminals. Revenues the city receives from Marketplace Redwood consist of a minimum annual guarantee plus a graduated profit-sharing amount. The guarantee is calculated on the basis of the number of enplaned passengers in terminals A-East through E and is as high as 71 cents for each enplaned passenger past 11 million. The profit-sharing amount is calculated for food, beverage, duty-free, and retail gross sales as a percentage according to a graduated scale. In fiscal 2008, the city received $15.2 million, of which $6.5 million was the minimum annual guarantee and $8.7 million was from profit sharing.

Beginning in fiscal 2008, parking revenues and other revenues generated by or allocable to the OTA cost center are included in project revenues. Before then, such revenues were excluded from project revenues. OTA revenues consist of net parking revenues, certain rental car revenues, certain ground transportation revenues, and revenues from a 420-room Marriott hotel. The OTA is north of the terminal complex and is a 50-acre site that accommodates the airport's parking garages, the Marriott hotel, rental car storage and maintenance sites, commercial ground transportation, and other facilities.

The Philadelphia Parking Authority is responsible for airport parking under the provisions of a contract and lease agreement that extends to 2030. With the completion of new parking garages for Terminal A West and Terminals E and F in 2003, the airport now has approximately 18,000 onsite parking spaces in garages and surface lots, including 11,750 spaces across five multistory garages and surface lots and a 6,250-space remote surface lot. In addition, private operators provide about 17,000 offsite parking spots. In June 2008, the Division of Aviation and the Philadelphia Parking Authority finished expanding the employee parking lot, providing 1,400 more spaces. The Division of Aviation and the parking authority intend to convert airport property for parking to provide approximately 800 additional public spaces in fiscal 2009. The city received $33.6 million in net parking revenues for fiscal 2008. Net parking revenues are gross parking revenues (after a 15% city tax) less direct operating expenses, allocated authority administrative expenses, and debt service on the authority's bonds for airport parking facilities. The revenues were forecast assuming that parking demand will increase from fiscal 2008 levels in proportion to forecast increases in originating passengers. Parking rates were most recently adjusted August 2008. Short-term rates are $3 for the first half-hour and $2 per half-hour thereafter to a maximum of $38 per day; garage rates are $3 for the first half-hour and $2 per half-hour thereafter to a maximum of $20 per day; economy rates are $11 per day. No further rate increases were assumed during the forecast period.

Seven car rental companies (Avis, Budget, Dollar, Enterprise, Hertz, National, and Alamo) serve the airport. They operate under the terms of a city commercial ground transportation regulation that requires companies to pay a concession fee of 10% of gross revenues plus ground rent for their facilities. Concession fees from Avis, Budget, Dollar, Hertz, and National go to the terminal building cost center, while concession fees from Alamo and Enterprise go to the OTA cost center. The ground rent from all seven rental car companies, as provided for in leases expiring in 2009, is allocated to the OTA cost center. In fiscal 2008, rental car revenues allocated to the terminal building cost center and the OTA cost center totaled approximately $16.8 million and $3.4 million, respectively.

The airport serves as an East Coast international gateway and regional hub for UPS Air Cargo, which accounts for most of the airport's cargo activity. UPS Air Cargo occupies a 210-acre site at the south side of the airport, on which the company operates its East Coast package handling and sorting hub from a 670,000-square-foot building. All-cargo airlines serving the airport accounted for approximately 11.4% of total landed weight in fiscal 2008.

General and business aviation facilities are on a 30-acre area on the airport's east side. Atlantic Aviation provides commercial fixed-based operator services. Approximately 20 general aviation aircraft are based at the airport. Approximately 22,576 general aviation operations (landings and takeoffs) occurred in 2008.

The Northeast Philadelphia Airport provides for general aviation, air taxi, corporate, and occasional military use. The airport is located on a 1,150-acre site about 13 road miles northeast of Center City, Philadelphia. Approximately 215 aircraft are based at the airport, which has two runways, one 7,000 feet long and the other 5,000 feet. The airport handles approximately 110,000 general aviation operations annually.

Good Air Travel Demand

Philadelphia International Airport has enjoyed relatively strong air travel demand historically. More specifically, from fiscal 1996, when US Airways first began its buildup of the airport as a major connecting hub, to 2008 enplanements at the airport grew an average of 4.7% annually, outpacing the 2.1% national average. As of April 2009, the airlines serving the airport provided nonstop scheduled flights from the airport to 88 domestic and 31 international cities. Also, there were 534 scheduled daily domestic departures and 49 daily international departures, with 60% of the domestic seats and 81% of the international seats provided on flights of US Airways and US Airways Express.

The combination of the airport's large O&D market, US Airways' continued commitment to the airport, limited competition from other airports, and the expansion of Southwest Airlines have contributed to the airport's recent strong enplanement growth. In fiscals 2004 and 2005, enplanements increased 7.8% and 18.4%, respectively, resulting in levels surpassing pre-September 2001 historical highs in fiscal 2004. The strong growth is mainly attributable to Southwest initiating service at the airport in 2004. Since fiscal 2006 enplanements levels have continued to climb, but at slower rates, increasing 0.5% in fiscal 2006, 1.8% in fiscal 2007, and 1.3% in fiscal 2008. The lower enplanement growth rates since fiscal 2005 reflect cutbacks in capacity, particularly by US Airways, and increased airfares. However, as a result of capacity reductions by airlines due to record high jet fuel prices this past summer and a weak economy, officials expect air travel demand to soften. For the six months to Dec. 31, 2008, enplanements dropped 2.6% relative to the same period the previous year.

Until fiscal 2004, the number of connecting passengers increased at a higher rate than the number of originating passengers as a result of the development of the airport as a US Airways hub. Since 2004, when Southwest Airlines initiated service in Philadelphia, the airport's growth in O&D passengers has been strong and its competitive position has improved. As a result of Southwest Airlines presence, average airfares at Philadelphia International Airport have decreased, causing an increase in air travel demand due, in part, to capturing some business from Baltimore-Washington International Airport. The strong growth in O&D passengers is attributable to a combination of lower average airfares at the airport, Southwest and US Airways' added service, and limited competition from other airports. For fiscal 2005, the first full year of Southwest service, originating passenger numbers increased 24% (see chart 1) as average domestic airfares decreased 19%. Since fiscal 2005, the number of originating passengers at Philadelphia has exceeded the number of originating passengers at Baltimore.

Chart 1

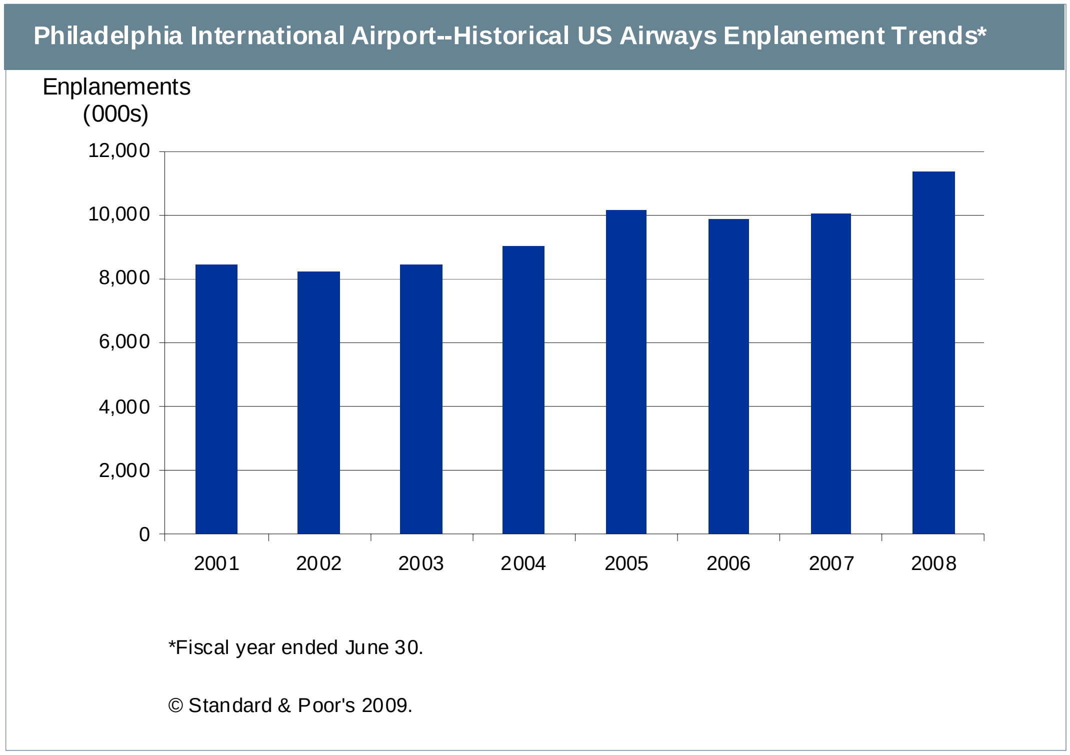
From fiscals 2008-2013, enplanements are forecast to be flat, with an average annual growth rate of 0.4%. In fiscal 2009, enplanements are forecast to decline 3.4% based on six months year to date performance and industry guidance regarding reductions in seat capacity. In particular, US Airways stated that for calendar year 2009, they expect system wide mainline capacity to decline 4%-6% and US Airways Express capacity to drop 5%. For January through March 2009, capacity at the airport was down 6% on both US Airways and US Airways express. In 2010, enplanements are forecast to decline another 1.9% before growth resumes at 2.5%-2.6% per year from 2011-2013.

US Airways

US Airways, along with US Airways Express, still remains the airport's dominant passenger carrier, despite Southwest Airlines' expansion. From fiscals 2004-2008, US Airways and US Airways Express' share of total enplaned passengers has gradually declined to approximately 63.0% from 69.2%. In fiscal 2008, US Airways and its affiliates accounted for 10.1 million enplaned passengers at the airport (see chart 2), of which 4.3 million were originating (42% of airport's total originating passengers) and 5.8 million were connecting (95% of airport's total connecting passengers). In 2008, about 36% of total enplaned passengers were connecting passengers. Despite US Airways' financial challenges in the past few years, it has demonstrated a strong commitment to the airport by maintaining its hub operations. Philadelphia serves as US Airways' primary northeast connecting hub and the airline's international gateway airport. In fiscal 2008, US Airways and US Airways Express accounted for about

82% of the airport's 2.1 million international enplanements and 60% of the airport's 14.0 million domestic enplanements.

Chart 2



US Airways has reported losses since fourth-quarter 2007 (ended Dec. 31), due primarily to rising fuel prices that peaked in July 2008 at $147 a barrel. Although fuel prices have since abated substantially, they remain high by historical standards and Standard & Poor's expects them to remain volatile. Like other airlines, the company has announced plans to reduce capacity—a decline of 5%-7% in the fourth quarter 4%-6% in 2009 for its mainline (non-regional) operations. It is also pursuing various revenue-generating initiatives, such as fees for all checked bags, seat assignments, and beverages, which the company estimates could result in $400 million-$500 million in annual incremental revenue. Still, US Airways will also face challenges related to a U.S. economy that is in recession, and which will likely result in softer demand. For January through March 2009, airport capacity was down 6% on both US Airways and US Airways express, which is consistent with announced systemwide capacity reductions.

We expect the company to report a 2008 loss approaching $900 million (excluding special charges), but to return to a modest profit in 2009, based on lower fuel prices and the full-year benefit of fees initiated in the latter half of 2008. As such, the company's credit ratios will weaken significantly for 2008 and recover somewhat in 2009, with EBITDA interest coverage around zero in 2008, compared with just under 2x in 2007; and minimal funds from operations to debt compared with 12%. However, we expect EBITDA interest coverage and funds from operations to debt to increase to around 1x and the mid-single-digit percent area, respectively, next year.

Since August 2008, the company has achieved success in several liquidity raising initiatives. On Aug. 19, 2008, it sold $179 million of equity. In October, it announced that it had raised approximately $950 million of financing and near-term liquidity commitments. On Oct. 20, it closed on $800 million of these transactions, with $400 million of proceeds prepaying its $1.6 billion term loan. This resulted in a reduction in its required minimum unrestricted cash balance to $850 million from $1.25 billion. Even with our expectations of a significant loss, the company will have a substantial cushion of about $700 million above the minimum cash requirement for the next several quarters.

US Airways Group is the seventh largest U.S. airline as measured by revenue passenger miles and available seat miles. On Sept. 27, 2005, America West Holdings, parent of America West Airlines Inc., completed a merger into a wholly owned subsidiary of US Airways Group, with US Airways Group becoming the new holding company for both airlines. The merger occurred on the day US Airways emerged from its second Chapter 11 bankruptcy reorganization. The two airlines combined into one operating certificate about two years later, Sept. 26, 2007. The merger resulted in a much broader route network—America West had focused primarily in the southwest while US Airways had focused on the eastern half of the U.S. Combined, they operate out of primary hubs at Charlotte, Phoenix, and Philadelphia, and secondary hubs at Las Vegas, New York (LaGuardia Airport), Washington D.C. (Reagan Airport), and Boston to cities in the U.S., Canada, the Caribbean, Latin America, and Europe.

Southwest Airlines

Since 2004, when Southwest began service at Philadelphia, fare competition at the airport has resulted in reduced average airfares and increased air travel, both by passengers who otherwise would have used competing airports and by those who would not have traveled by air. In fiscal 2001, average airfares at the airport were 51% higher than those at Baltimore; in fiscal 2008, they were 17% higher. Since fiscal 2005, the number of originating passengers at Philadelphia has exceeded the number of originating passengers at Baltimore. In fiscal 2008, Southwest Airlines flights handled approximately 12% of the airport’s total enplanements and 18% of total originating passengers. Southwest has the second largest share of the market, behind US Airways and US Airways Express.

Competitive Position

The airport benefits from the lack of nearby competing facilities—no major airport exists within a one-hour drive. Baltimore/Washington International Airport (102 miles to the southwest) and Newark Liberty International Airport (106 miles to the northeast) are the airport’s primary competitors. The competitors define the boundaries of the airport’s primary service region. Both airports offer comparable levels of service. Baltimore, a Southwest Airlines hub, is particularly competitive. Competing connecting hub airports located near Philadelphia include Newark Liberty (Continental Airlines) and Washington Dulles (United Airlines). Airports in Allentown, Pa.; Harrisburg, Pa.; Atlantic City, N.J.; and Trenton, N.J. do not pose any significant threat to Philadelphia, since each has limited capacity.

Capital Improvement Program

The airport's near-term capital needs are manageable, which includes one bond issues that could occur in fiscal 2010 with a par amount of approximately $420 million in GARBs (see table 1). This issue's proceeds will help fund approximately $346 million in capital costs related to the expansion of Terminal F, a baggage system for Terminals B and C, eastside and westside taxiways, resurfacing of runway 9L-27R and navaids, an airport maintenance facility, infrastructure improvements, and land acquisition. The airport has approximately $1.3 billion in GARBs outstanding. Additional financing sources for the $492 million projects include $59 million in AIP grants, $25 million in pay-as-you-go PFC revenues, $25 million in Transportation Security Administration grants, and $35 million from previous bond issues.

Table 1

Philadelphia International Airport—The 2010 Project

Project elements ($000s)	*Total project costs*	*Series 2010 bonds*	*% funded from 2010 bonds*
Terminal F expansion	113,900	103,900	91
Terminal B-C baggage system	170,000	95,000	56
Runway 9L-27R resurfacing and navigational aids	35,000	18,850	54
Airport maintenance facility	19,000	19,000	100
Eastside taxiways	43,000	10,750	25
Westside taxiways	17,000	4,250	25
Infrastructure improvement program	24,500	24,500	100
Property acquisition	70,000	70,000	100
Total 2010 project	492,400	346,250	70

Beyond 2010 there is the potential for the airport's debt burden to significantly increase as result of debt-financing a portion of its CEP. The airport's draft copy of their EIS for the CEP presents three alternatives: the No-action Alternative, Alternative A, and Alternative B. The No-action Alternative introduces no new costs, while Alternatives A and B would introduce $5.2 billion (in 2005 or 2006 dollars) and $5.4 billion (in 2005 or 2006 dollars) in new costs, respectively. The No-action Alternative involves only periodic maintenance and minor enhancements needed to maintain safe operations at the airport. Alternative A includes five runways connected by a redesigned and more efficient taxiway system than the No-action Alternative. A fifth runway would be constructed under Alternative A. Alternative B includes four runways connected by a redesigned and more efficient taxiway system. It also includes eliminating airport's existing intersecting runway and constructing one new runway, resulting in a very efficient runway configuration that will include 4 parallel runways. If officials choose Alternative A, traffic forecasts are realized, demand warrants, and the Division of Aviation obtains needed approvals from city council and the airlines, the airport would need to issue approximately $4.9 billion in bonds to pay for approximately $3.7 billion escalated project costs related to capacity enhancement and master plan projects through fiscal 2020. But the timing of these projects depend on the outcome of the ongoing EIS process and their implementation schedule depends on traffic levels, demand, financing capacity, council approvals, and airline MII approvals; so it is difficult to provide a detailed schedule of bond issuances for the CEP and associated landside projects. Furthermore, if any of these conditions are not met, the projects would be staggered over a longer time frame. After the airport receives the FAA's ROD, which is currently expected in the spring of 2010, officials expect the design and permitting work to require an initial bond issuance in the $100 million range within the next 5-6 years. The earliest this would occur is in fiscal 2011. Under this scenario, the debt service for this initial bond issuance would not affect the rate base until fiscal 2013 or 2014, when the capitalized period ends. Officials plan on using PFC revenues to pay a portion of debt service on any new bonds. The time and sizing of this first bond issue depends on the alternative selected and the implementation schedule.

Finances

As a result of steadily increasing air travel demand, the airport has produced stable financial results consistently. From fiscals 2004-2007, total fixed charge coverage (Standard & Poor's-calculated) has stayed close to 1x and 1.23x for fiscal 2008 (see table 2). Excluding interdepartmental charges (which are subordinate to debt service), coverage ranges from 1.6x-1.7x for fiscals 2004-2007 and 2.3x for fiscal 2008. The airport's cost structure has also maintained a moderate cost structure and manageable debt load for a large hub. From fiscals 2004-2007, the airport's cost per enplanement averaged less than $8. For fiscal 2008, its cost structure is about $8.31 and budgeted for fiscal 2009 at $9.50 per enplaned passenger. The airport's debt per enplanement is a manageable $81. It has maintained an unrestricted cash position that has provided 195 days' cash on hand, on average, for fiscals 2004-2008.

As a result of the airport deciding to include OTA revenues and overseas terminal as part of project revenues and taking steps to ensure higher levels of liquidity, the airport's financial profile improved in fiscal 2008 over previous years and we expect that to continue from fiscals 2009-2013 (the forecast period). These changes took effect July 1, 2007 (the beginning of fiscal 2008). Net OTA revenues are forecast to gradually increase to about $24.4 million in fiscal 2013 from about the $11.4 million in fiscal 2008. The combination of including revenues and costs allocated to the airport's OTA and changes under the new airline lease agreement will allow the airport to accumulate funds available for debt service, which are forecast to rise to $73.4 million in fiscal 2013 from $61.4 million in fiscal 2009. These funds alone are projected to cover estimated annual debt 0.56x-0.66x during the forecast period. Based on forecasts, total fixed charge coverage (Standard & Poor's-calculated) should range from 1.13x-1.16x during the forecast period; including the estimated combined balance of funds available for debt service, coverage is no lower than 1.72x. Excluding interdepartmental charges (which are subordinate to debt service) coverage ranges from 1.91x-2.06x; including the estimated combined balance of funds available for debt service, coverage is no lower than 2.47x.

The cost structure is forecast to steadily increase to more than $12 in fiscals 2013 from about $9.50 in 2009 (see table 3). We also expect the airport's debt structure to increase but remain manageable. Based on 16.1 million enplanements for fiscal 2008, debt per enplanement is approximately $81 and $106 if the airport was to issue approximately $420 million in additional bonds today.

Table 2

Philadelphia International Airport—Historical Financial And Operational Statistics (cont.'d)					
	—Fiscal year ending June 30—				
($000s)	2008	2007	2006	2005	2004
Demand and market ratios					
Fiscal year enplanements (000s)	16,053	15,852	15,575	15,491	13,089
Year-over-year change (%)	1.3	1.8	0.5	18.4	7.8
O&D enplanements (%)	63.9	63.1	63.5	63.1	60.4
US Airways enplanements market share (%)	63.0	63.4	63.5	65.8	69.2
Cost per enplaned passenger ($)	8.31	6.15	6.64	7.44	9.09
Passenger airline revenue to total operating revenue (%)*	54.0	40.7	44.6	53.2	59.5
Debt service coverage					
Project revenues	250,544	211,259	200,787	189,032	183,307
PFCs pledged to GARB debt service	32,926	32,921	32,592	32,908	32,777
Funds available for indenture debt service coverage	326,053	254,421	233,379	221,940	216,084
Standard & Poor's adjustment: Deduct excess revenue carried forward from previous year	-6,997	22,106	9,959	(92)	17,768
Standard & Poor's adjustment: Deduct other amounts available for debt service	42,583	10,241	0	0	18,688
Funds available for debt service coverage per Standard & Poor's adjustments	290,467	222,074	223,420	222,032	217,004
Operating expenses net of interdepartmental charges	99,820	87,073	77,152	75,254	71,863
Interdepartmental charges	89,136	70,670	57,860	57,555	52,218
All operating expenses	188,956	157,743	135,012	132,809	124,081
Net available for Standard & Poor's debt service coverage—1.5x test¶	190,647	135,001	146,268	146,778	145,141
Net available for Standard & Poor's debt service coverage—1.0x test§	101,511	64,331	88,408	89,223	92,923
Annual GARB debt service	84,388	85,565	88,126	88,081	89,653
Annual GO debt service	N/A	N/A	N/A	1,051	1,051
Indenture debt service coverage—1.5x test (x)	2.68	1.96	1.77	1.67	1.61
Standard & Poor's debt service GARB coverage (x)—1.5x test	2.26	1.58	1.66	1.67	1.62
Indenture debt service coverage—1.0x test (x)	1.62	1.13	1.12	1.00	1.01
Standard & Poor's debt service GARB coverage—1.00x test (x)	1.20	0.75	1.00	1.00	1.02
Debt ratios					
GARB debt outstanding	1,302,800	1,161,410	1,191,210	1,101,720	1,092,888
GARB debt per enplaned passenger ($)	81.16	73.51	76.48	71.12	83.50
GARB debt per O&D enplaned passenger ($)	127.00	115.03	120.44	112.71	138.24
Liquidity ratios					
Unrestricted cash and investments from audit	103,053	86,833	94,912	89,937	71,171
Days' unrestricted cash on hand	204.62	176.83	219.20	219.18	187.14
Unrestricted cash and investments to GARB debt (%)	7.9	7.5	8.0	8.2	6.5

*Passenger airline revenue to total operating revenue is slightly overstated because total operating revenues include net automobile parking revenues. ¶1.5x test excludes interdepartmental charges. §1.0x test includes interdepartmental charges. O&D—Origination and destination. N/A—Not applicable.

Table 3

Philadelphia International Airport—Projected Financial And Operational Statistics

	—Fiscal year ending June 30—					
($000s)	***2008***	***2009b***	***2010f***	***2011f***	***2012f***	***2013f***
Demand and market ratios						
Fiscal year enplanements (000s)	16,052	15,500	15,200	15,600	16,000	16,400
Year-over-year change (%)	1.3	(3.4)	1.9	2.6	2.6	2.5
O&D enplanements (%)	63.9	63.9	63.8	64.1	64.4	64.6
Cost per enplaned passenger ($)	8.31	9.50	10.15	10.85	11.22	12.46
Debt service coverage						
Project revenues	250,544	273,122	285,035	306,138	321,680	355,517
PFCs pledged to GARB debt service	32,926	32,926	33,095	33,043	33,048	33,060
Other amounts available for debt service	42,583	61,413	65,052	68,387	70,594	73,359
Funds available for indenture debt service coverage	326,053	367,461	383,182	407,568	425,322	461,936
Standard & Poor's adjustment: Deduct excess revenue carried forward from previous year	(6,997)	3,305	4,631	5,900	6,009	6,613
Standard & Poor's adjustment: Deduct other amounts available for debt service	42,583	61,413	65,052	68,387	70,594	73,359
Funds available for debt service coverage per Standard & Poor's adjustments	290,467	302,743	313,499	333,281	348,719	381,964
Operating expenses net of interdepartmental charges	98,820	108,855	114,334	122,122	128,036	132,824
Interdepartmental charges	89,135	85,603	85,679	89,711	93,939	97,785
All operating expenses	187,955	194,458	200,013	211,833	221,975	230,609
Net available for Standard & Poor's debt service coverage—1.5x test*	191,647	193,888	199,165	211,159	220,683	249,140
Net available for Standard & Poor's debt service coverage—1.0x test¶	102,512	108,285	113,486	121,448	126,744	151,355
Annual GARB debt service §	84,388	94,329	98,317	107,331	111,528	130,574
Indenture debt service coverage—1.5x test (x)	2.68	2.73	23.73	2.66	2.67	2.52
Standard & Poor's debt service GARB coverage—1.5x test (x)	2.27	2.06	2.03	1.97	1.98	1.91
Indenture debt service coverage—1.0x test (x)	1.62	1.83	1.86	1.82	1.82	1.77
Standard & Poor's debt service GARB coverage—1.0x test (x)	1.21	1.15	1.15	1.13	1.14	1.16

*1.50x test excludes interdepartmental charges. ¶1.00x test includes interdepartmental charges. §Includes debt service for planned 2009 bond issue. b-Budget. f-Forecast.

Debt Derivative Profile: '1'

We have assigned the airport a Standard & Poor's DDP score of '1' on a scale of '1' to '4', with '1' representing the lowest risk. The overall DDP score of '1' indicates that the swaps are a minimal risk. It also reflects strong collateralization requirements; the swaps' high economic viability; very good management practices and procedures that formal swap management policies support; and a moderate degree of termination risk and collateral risk due to relatively wide rating trigger spreads, despite the long maturity of the swaps. The DDP score incorporates one floating-to-fixed-rate swaption that JPMorgan exercised June 15, 2005.

The airport's floating-to-fixed-rate swaption relates to $178.6 million of the airport's series 2005C first-lien GARBs, which the airport entered into with JPMorgan. The airport received an option premium of about $6.5 million from JPMorgan in April 2002, when it entered into the swaption. JPMorgan exercised its option to put the airport into a swap for the 1995A GARBs, which were subsequently refunded with the series 2005C bonds when they became callable on or around June 15, 2005.

Under the swap's terms, the airport pays multiple synthetic fixed rates (starting at 6.466% and decreasing over the life of the swap to 1.654%), while JPMorgan pays a floating rate equal to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index. From June 15, 2007, through June 14, 2025, JPMorgan has the option to terminate the swap if the daily weighted average of the SIFMA index exceeds 7% for 180 days before the exercise date. JPMorgan exercising its termination option, however, has limited downside risk due to its high interest-rate barrier. Net swap payments and termination payments are each on parity with the airport's first-lien GARBs. With this issue, the airport will be refunding variable-rate debt outstanding and the airport's only variable rate debt will be the series 2005C resulting in the airport having a net variable-rate percentage of 0%

Contacts

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Ratings Detail (As Of 17-Mar-2009)		
Philadelphia, Pennsylvania		
Philadelphia International Airport, Pennsylvania		
Philadelphia (Philadelphia International Airport)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Philadelphia (Philadelphia Intl Arpt)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Philadelphia (Philadelphia Intl Arpt) VRDB ser 2005B		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AA-/A-1+/Watch Dev	Downgraded
Philadelphia (Philadelphia Intl Arpt) VRDB ser 2005C		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Philadelphia Auth for Industrial Development, Pennsylvania		
Philadelphia International Airport, Pennsylvania		
Philadelphia Auth for Indl Dev (Philadelphia Arpt Sys)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Philadelphia Auth for Indl Dev (Philadelphia Arpt Sys) (MIRROR BONDS)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed