MOODY'S
INVESTORS SERVICE

INDUSTRY OUTLOOK

U.S. Airport Sector Outlook

Trends are Stabilizing but Downside Risks Remain

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This Industry Outlook provides an in-depth discussion of credit rating(s) for U.S. Airport Sector Outlook and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Summary Rating Rationale

The Outlook for the U.S. Airport industry is negative. This Outlook expresses Moody's expectation for the fundamental credit conditions in the industry over the next 12 to 18 months.

While recent industry trends for U.S. airports have stabilized, we are maintaining our negative outlook because downside risks outweigh growth potential over the outlook period. Importantly, we do not expect the sector to stabilize until consistent positive enplanement growth has been achieved. Key factors- whose credit impact will depend on the shape of the U.S. and global economic recovery- include:

» Enplanement trends have stabilized, but growth has not yet returned and consistent growth does not appear imminent

» U.S. and global economic conditions have stabilized but economic recovery is expected to be slow and contains substantial risks

» Airport financial health remains resilient, but the compounded difficult conditions of 2008 and 2009 have reduced flexibility

» Moody's global airline outlook remains negative due to continuing pressure on yields and the potential for additional capacity cuts

» Downside risks include the impacts of increased oil prices, reduced demand due to security measures or medical epidemics

» Federal funding support remains uncertain

Moody's expects the credit impacts of these factors to depend on the shape of the U.S. and global economic recovery and does not expect the sector to stabilize until consistent positive enplanement growth is achieved.

Overview

Moody's believes U.S. airport credit remains in a tenuous position for the outlook period as solid growth is not expected to take hold soon and the majority of rated airports have lost varying degrees of financial flexibility in the downturn of the past 18 months. Strong enplanement declines in late 2008 and throughout 2009 pressured airport margins and required them to make use of financial flexibility by expending reserves, reducing capital plans, and trimming operating expenses. This flexibility gone, many U.S. airports will struggle to maintain their financial position without positive enplanement growth. As Figure 1 shows industry trends indicate an uncertain environment where stability has been achieved, but risks remain and steady improvement seems unlikely in the near term.

FIGURE 1

Key Airport Credit Trends

Credit Factor	Jan 2009	Jan 2010	Comments
Airport Financial Position	Y	Y	▪ Financial metrics and liquidity remain strong ▪ Airline agreements provide structural support at many airports ▪ Enplanement stagnation should limit revenue growth
Airline Seat Capacity	R	Y	▪ Domestic airline service expected to be flat or near flat ▪ Risk of further airline consolidation remains ▪ Economy does not support need for 2010 growth
Airline Financial Health	Y	Y	▪ Fuel prices have stabilized volatility ▪ Capacity reductions have brought better pricing power
Airfare Affordability	R	Y	▪ Fees and fare increases have moderated ▪ Total U.S. wealth and income has fallen
Federal Funding	G	Y	▪ FAA Reauthorization continues to be extended with funding at status quo, but with more competing programs ▪ PFC cap adjustment highly uncertain ▪ Stimulus benefits limited; AMT holiday greatest factor

G Favorable or Improvement Expected Y Flat Performance R Decline Expected

Source: Moody's Investors Service

Moody's maintains underlying ratings on 93 U.S. Airports (Appendix 1) and the stresses of 2008 and 2009 have led to 11 airports with negative outlooks and the downgrade of ratings at 6 airports. Moody's also placed one airport on positive outlook (Charlotte International Airport rated A1, positive outlook) and upgraded one airport (Charleston International Airport rated A1, stable outlook) based on their strong financial positions and resilience in the face of the economic downturn. Figure 2 provides a listing of Moody's 2009 credit changes in the U.S. airport sector.

FIGURE 2

2009 U.S. Airport Sector Ratings Changes

UPGRADES	POSITIVE OUTLOOK	RETURNED TO STABLE	NEGATIVE OUTLOOK	DOWNGRADES
Charleston (A1 from A2)	Charlotte	Metro. Washington (From Pos.)	Orlando	Sacramento (Sr Lien A2 from A1)
		Dallas-Fort Worth (From Pos.)	Puerto Rico Ports	Houston (Sub Lien A2 from A1)
		Indianapolis (From Pos.)	St. Louis	Ft. Lauderdale (A1 from Aa3)
		Nashville (From Neg.)	Tampa	Kent Co, MI (A3 from A2)
			Flint, MI	Manchester, NH (A3 from A2)
			San Jose	Oakland (Sr Lien A2 from A1)
			Cleveland	
			Pittsburgh	
			Albany, NY	
			Las Vegas	
			L.A. Ontario	

Source: Moody's Investors Service

The greatest impacts of the downturn were felt at airports that served the economies hardest hit by downturns in the housing market and/or the tourism industry, such as the Midwest, Florida, and California. Secondary hub airports also experienced strong enplanement declines that led to rating actions, particularly those located in hard hit economies. Airports that serve as one of an airline's primary hub locations fared well as airlines tended to pull capacity from routes with lower load factors in an attempt to gain economies of scale at their fortress hubs. Standalone PFC-backed bond ratings remain a concern for Moody's as they are more volatile due to a single revenue stream tied directly to enplanement levels and the inability to raise rates beyond the federally mandated cap of $4.50. The coverage margin in these financings have protected them from ratings impacts thus far, but continued enplanement declines could lead to ratings changes. Customer facility charge (CFC) backed bonds present a similar concern; however, most have the rate-raising ability to manage the current activity declines.

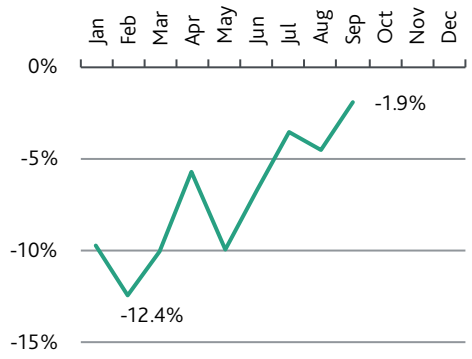
Key Trends and Rating Implications

Enplanement Trends Flattening with Little Potential for Growth

Moody's believes the large enplanement declines seen in late 2008 and 2009 are not likely to occur in 2010. Year-over-year enplanement levels moved toward stability in the third quarter of 2009 (Figure 3A) and Moody's believes fourth quarter results will show nearly flat growth for the fourth quarter. Moody's expects enplanement growth to remain near flat during 2010, with the potential for some slightly positive growth. The potential for positive growth springs from the high load factors in the third quarter of 2009 (Figure 3B) indicating that perhaps airline capacity reductions have bottomed out for the current economic conditions. Most major airlines have indicated that they expect seat capacity to be slightly negative for the first half of 2010 (Figure 5), but public statements generally indicate that they are waiting for more clarity on economic conditions before moving capacity strongly in any direction.

FIGURE 3A

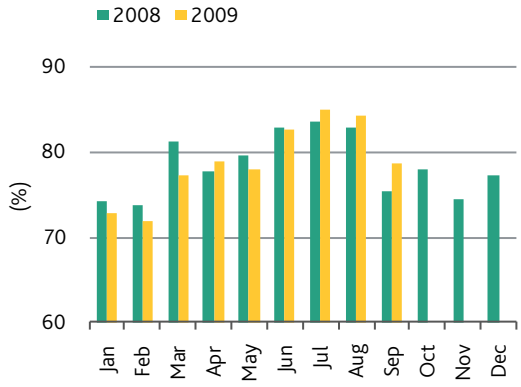
2008 v. 2009 Monthly U.S. Enplanement Growth



Source: Federal Aviation Administration

FIGURE 3B

2008 v. 2009 Monthly U.S. Load Factor



Source: Federal Aviation Administration

U.S. and global economic conditions have stabilized but economic recovery is expected to be slow and contains substantial risks

Deteriorating economic conditions in the U.S. and across the globe, figured prominently in our decision to change the rating outlook to negative in August 2008. Our assertion was that the credit impacts would depend on the length and depth of the downturn. Economic deterioration appears to have stopped and most economists believe global recovery has begun. The rating impact going forward will primarily depend on the shape and strength of the U.S. and global recovery. Moody's expects airport credit to stabilize if the recovery is stable and sustained, even if it is not a strong recovery. However, should the U.S. recovery stagnate or experience a second period of deterioration, Moody's would expect significant rating action across the sector. The fragile credit position of most rated airports in the sector is a key factor in maintaining the negative outlook.

Moody's Global Macro-Risk Scenarios 2010-2011

Moody's Global Risk Perspectives (available at www.moodys.com/gra) indicates that a sluggish recovery is the most likely global macro-economic scenario for the period 2010 and 2011. Moody's expects the global economy to return to trend growth rates with the hampering effects of persistent unemployment and budget deficits.

Recovery for advanced economies, such as the U.S., is expected to be fragile because of numerous headwinds. In addition the combination of lower activity levels and diminished growth trend is likely to have an important impact on credit. Moody's view is based on our analysis that most governments have opted for financial stability at the expense of economic vitality. The recovery is not homogenous across the globe and many economies, particularly in some developing nations, have seen a strong rebound. Still downside risks to the global economy remain and Moody's is focusing on three: governmental disorderly exit from high-stimulus policies leading to sharp changes in interest rates or currency alignments, financial institutions not rebuilding capital at sufficient speed to withstand economic and financial threats, and an unexpected decline in China's growth dynamic.

The effects of the economic downturn have been felt differently at airports across the globe. Similar to the U.S., the Canadian airport sector remains on negative outlook because, large enplanement declines are no longer occurring, but a return to sustained growth is by no means certain.[1] The Australian airport sector also briefly maintained a negative outlook from May 2009 to October 2009 due to concerns about traffic declines.[2] However, second half traffic results at some airports indicated that traffic declines would likely be less severe than expected and the outlook was revised to stable in October.[3] Recent enplanement data points to a return to solid growth at airports across Australia for 2010.[4] The European airport sector remains at a stable outlook as projections only indicated a 5-10% traffic decline across the sector for 2009 and, in fact, traffic declines appear to have outperformed that range.[5] The European airports also expect a measurable recovery in enplanement levels for 2010 within the range of -1.0% to 4.0%.

Airport financial health remains resilient, but the difficult conditions of 2008 and 2009 have reduced flexibility

Rated U.S. airports continue to maintain a solid financial position that has stabilized credit impacts during one of the largest enplanement downturns in history. Moody's FY 2008 U.S. Airport Medians[6] show how the majority of rated airports were able to improve their financial strength as the economic decline began. As the table below shows, debt service coverage remained steady and financial liquidity improved.

[1] Please see our October 2009 Sector Outlook entitled "Canadian Aviation Infrastructure Sector 2009-2010 Outlook Update: Outlook Still Negative as Return to Sustainable Growth Continues to be Elusive."

[2] Please see our May 2009 Sector Outlook entitled "Australian Airport Sector Outlook: 2009 Update."

[3] Please see our September 2009 Special Comment entitled "Sydney Traffic Growth Signals Optimism for Australian Airports"

[4] Please see our January 2010 Special Comment entitled "Australian Airports Taking Off."

[5] Please see our November 2009 Special Comment entitled "European Airport Passenger Volumes- 2009 Experience and Revised 2010 Forecast for Major European City Airports."

[6] Please see our November 2009 special comment entitled "U.S. Airport Medians for FY 2008."

FIGURE 4

Moody's U.S. Airport Sector Medians

	2006	2007	2008
Debt service coverage on GAAP basis	1.73	1.73	1.72
Debt service coverage on bond ordinance basis	1.93	1.83	1.85
Days Cash on Hand	391	378	455

Source: Moody's Investors Service

Moody's believes the stresses of late 2008 and 2009, have measurably narrowed these strengths. The enplanement declines and the corresponding loss of revenue faced by many rated U.S. airports have reduced their financial flexibility by reducing cash reserves and debt service coverage and increasing airline rates and charges. Many airports have also maintained their financial strength by reducing their capital plans or operating and maintenance expenses and now have no further room to make adjustments without impacting either their operations or finances.

While finances across the sector do not the same strength as they did in 2008, Moody's believes they are solid at the majority of rated airports. Continued stress or new challenges in the sector would likely have a credit impact for those positioned weakly, but the majority of rated airports still maintain the market position, rate-raising ability, and financial strength to manage through stagnant revenue conditions without a credit impact.

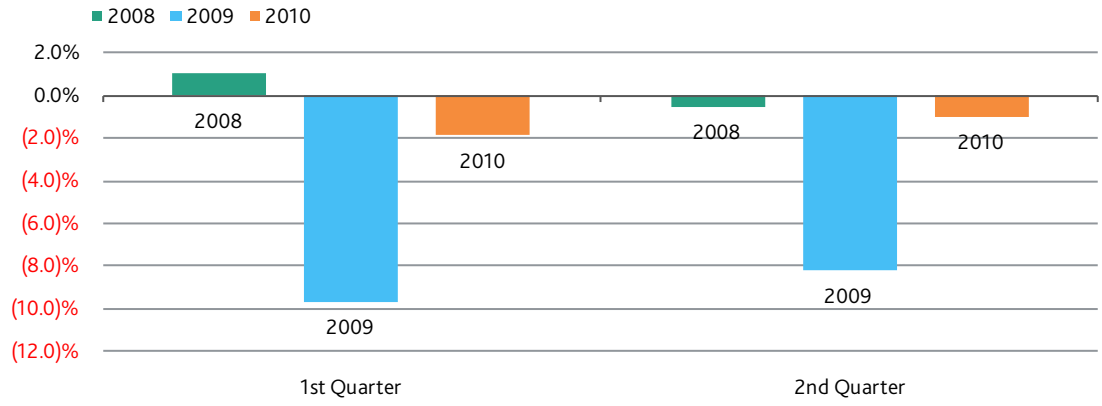
Moody's Global Airline outlook remains negative due to continuing pressure on yields and the potential for additional capacity cuts

Moody's is maintaining a negative outlook on the global airline sector primarily due to the expectation of continued low yields in the industry.[7] On the heels of major declines in most metrics for 2009, year-over-year metrics for 2010 will likely show improvement but the underlying industry fundamentals remain weak. Despite capacity pullbacks intended to provide higher pricing power, airfares declined in 2009 as economic conditions did not support higher price points. Business travel, a key component of airline yield due to its typically higher fares, remains very weak. High unemployment and restricted corporate spending should slow the return of business travel, similar to past recessions. So Moody's believes enplanement growth in 2010 will be limited, because airlines will continue to use capacity cuts to re-size operating costs.

[7] Please see our November 2009 Sector Outlook entitled "Global Airlines: Improvement in Yields Remains Elusive."

FIGURE 5

Year-Over-Year Change in Scheduled Seats



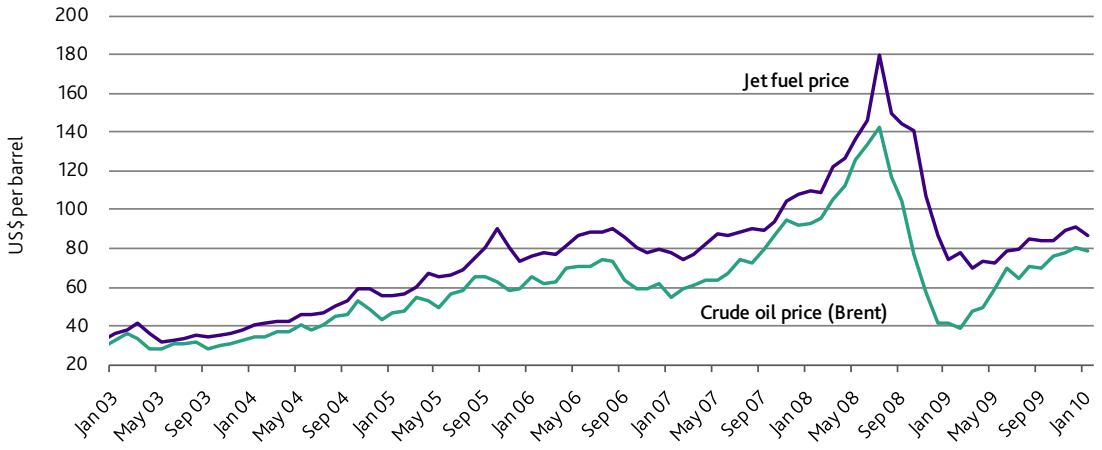
Source : Ricondo & Associates, Inc., calculated from OAG Data, January 2010

Downside risks include the impacts of increased oil prices and reduced demand due to security measures or medical epidemics

With jet fuel cost being a significant element of operating cost base, airlines face a constant risk of increasing oil price. Average jet fuel price marked at $86.8 per barrel as of January 15, 2010 an increase of 39.8% compared to the prior year, but still significantly lower than the 2008 summer level when the price peaked at $180 per barrel. While most airlines hedge their fuel cost to some degree, increasing volatility of the fuel price and the airlines' limited resources to invest in such an activity in the current climate make airlines more exposed to a potential oil price escalation risk. Continued price increases in 2010 may result in additional flight cuts as higher fuel costs render more routes unprofitable.

FIGURE 6

Jet Fuel and Crude Oil Price



Source: International Air Transport Association

Increasing security screenings in US airports have the potential to affect the demand for air travel. Since tightened screening requires the passengers to leave more time to check in and limits the amount of baggage being taken on board the aircraft air travel could become less favorable. Although most airports have adjusted to increasing security requirements since 2001, new developments could require some airports to increase capital spending to expand or improve current screening areas to improve customer service.

Major epidemics, such as H1N1 Influenza (Swine Flu) or Severe Acute Respiratory Syndrome (SARS), remain a potential negative factor for airports with significant international or leisure enplanements. Major enplanement impacts for recent outbreaks have been primarily localized and fairly short-lived, but a widespread or persistent outbreak of a disease could result in shifting travel patterns, particularly if it is severe enough for countries to issue travel guidance warnings or travel restrictions.

Future federal funding support remains uncertain

U.S. airports benefited to a moderate degree from the receipt of approximately $1.1 billion of discretionary Airport Improvement Program (AIP) grants under the America Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2009, the FAA has approved 351 airport projects, primarily for runways, taxiways and apron improvements ranging from $50,000 to $15 million in cost, under the economic stimulus package.

More importantly some airports experienced improved market access in 2009 from the temporary exemption of Alternative Minimum Tax (AMT) on the Private Activity Bonds they issue through 2010. This action provides some favorable debt refunding opportunities and has loosened credit markets by providing investors with an incentive to invest.

The House of Representatives passed the Federal Aviation Administration Reauthorization Act of 2009 (H.R.915) on May 21, 2009. The bill includes a status quo level of $16.2 billion Airport Improvement Program between FY 2009 and FY 2012 and an increase in the PFC cap from $4.50 to $7. Increase in PFC would be an important consideration for any airport that uses PFCs as part of its financing mix, particularly for debt instruments secured by PFCs, either alone or commingled with general airport revenues.

While the Senate Commerce Committee's aviation subcommittee has held two hearings on FAA reauthorization, no further action has been taken by the Senate yet. Given the current administration's primary focus on Health Care Reform and increased government spending for economic stimulus, the prospects for further development regarding the AIP funding and PFC cap adjustment remains uncertain in 2010. Moody's expects AIP funding to remain at current levels, but the many competing federal budget items do pose some risk for reduced funding.

Related Research

- 2009 U.S. Airport Sector Outlook, March 2009 (115281)
- Updated Airport Sector Outlook, August 2008 (110428)
- Canadian Aviation Infrastructure Sector 2009-2010 Outlook Update: Outlook Still Negative as Return to Sustainable Growth Continues to be Elusive, October 2009 (119984)
- Australian Airport Sector Outlook: 2009 Update, May 2009 (116041)
- Global Airlines: Improvement in Yields Remains Elusive, November 2009, (121473)

Special Comments:

- Australian Airports Taking Off, January 2010, (122611)
- A JAL Bankruptcy Would Have Negligible Impact on Global Airports, January 2010 (122510)
- Global Macro-Risk Scenarios 2010-2011: On the Hook for Some Time Yet, January 2010 (122431)
- U.S. Airport Medians for FY 2008, November 2009 (121063)
- FY2008 U.S. Airport Medians (Desktop Reference Card), November 2009 (121085)
- Sydney Traffic Growth Signals Optimism for Australian Airports, September 2009 (120138)
- European Airport Passenger Volumes- 2009 Experience and Revised 2010 Forecast for Major European City Airports, November 2009, (121243)
- Consolidation in the U.S. Airline Industry, April 2008 (108732)
- Managing Airport Credit Risks Amid Market Uncertainty, March 2008 (108156)

Appendix 1

STATE	AIRPORT	MOODY'S PUBLIC RATING
Alabama	Birmingham Airport	A2
	Huntsville Airport	A2
Alaska	Alaska International Airports System	
	Senior Lien	Aa3
	AIEDA Rental Car Facility Charge	A3
Arizona	Phoenix Sky-Harbor International Airport	
	Airport Revenue-Senior Lien	Aa3
	Car Rental Facility Charge Revenue	A3
	Tucson Airport Authority	
	Airport Revenue-Senior Lien	A1
	Airport Revenue-Subordinate Lien	A2
Arkansas	Little Rock International Airport	A2
California	Burbank-Glendale-Pasadena Airport Authority	Aa3
	Fresno Air Terminal	Baa1
	Long Beach Airport	A2
	Los Angeles International Airport	Aa3
	Subordinate Lien	A1
	Port of Oakland	A2
	Intermediate Lien	A3
	Ontario International Airport	A2
	Orange Co. John Wayne Airport	Aa3
	Sacramento County Airport	
	Airport Revenue-Senior Lien Revenue	A2
	Junior Lien PFC Revenue	A3
	San Diego County Regional Airport Authority	A1
	San Francisco International Airport	
	Airport Revenues	A1
	SFO Fuel Corp.	A3
	San Jose International Airport	A2
Colorado	Colorado Springs International Airport	A3
	Denver International Airport	
	Airport Revenue	A1
	Car Rental Facilities Revenues	
	Walker Field - Grand Junction	Baa3
Connecticut	Bradley International Airport	A2
DC	Metropolitan Washington Airports Authority	
	Airport System Revenue	Aa3
	Subordinate Lien Airport System Revenue	

Florida	Broward County Fort Lauderdale Airport	
	Airport Revenue	A1
	PFC Revenue	A2
	Greater Orlando Aviation Authority	
	Airport Facilities Revenue Bonds	Aa3
	Airport Facilities Subordinate Revenue Bonds	A1
	Hillsborough County Tampa International Airport	Aa3
	Jacksonville Airport Authority	A2
	Lee County Port Authority – Southwest Florida Int'l Airport	A2
	Miami International Airport	A2
	Palm Beach Airport	A2
	Pensacola Airport	A3
Georgia	Atlanta - Hartsfield Jackson International Airport	
	Airport revenue	A1
	PFC and Subordinate Lien	A2
	Car Rental Facility Charge Revenue	Baa1
	Augusta Regional Airport	Baa2
	Savannah International Airport	A1
Guam	A.B. Won Pat Guam International Airport	Baa2
Hawaii	State Department of Transportation Airport Division	A2
Idaho	Boise Air Terminal	
	Airport Revenue	A1
	Certificates of Participation	A1
Illinois	Bloomington Normal Airport Authority	
	Normal Airport - PFC Bonds	Baa3
	Chicago-O'Hare International Airport	
	Airport revenue-First lien	Aa3
	Airport revenue - Second lien	A1
	Airport revenue - Third lien	A1
	PFC Revenue	A1
	PFC - Subordinate Lien Revenue	A1
	Chicago-Midway Airport	
	Airport revenue	A2
	Airport revenue - Second lien	A3
Indiana	Indianapolis Airport Authority	A1
Iowa	Des Moines International Airport	A2
Kentucky	Kenton Co. Cincinnati International Airport	A3
	Louisville - Sandiford Field	A1
Louisiana	New Orleans Aviation Board	A3
Maine	Portland International Jetport	A3

Maryland	Maryland Transportation Authority	
	(Baltimore Washington International Airport)	
	Airport Parking Revenue	A2
	Car Rental Facility Charge Revenue	A3
Massachusetts	Massachusetts Port Authority - Boston Logan Airport	
	Port Authority Revenue	Aa3
	PFC Revenue	A2
	BOSFUEL Project	A2
Michigan	Bishop International Airport	A3
	Capital Regional Airport Authority	A3
	Detroit Metropolitan Wayne County Airport	
	Airport Revenue-Senior Lien	A2
	Airport Revenue-Junior Lien	A3
	Kent Co. International Airport	A3
Mississippi	Jackson Municipal Airport Authority	A3
Missouri	Kansas City International Airport	
	Airport Revenue-Senior Lien	A1
	Airport Revenue-Subordinate Lien	A2
	PFC Revenue	A3
	St. Louis Lambert Field	
	Airport Revenues	Baa1
	Lease Revenues	
Montana	Gallatin Airport	A3
	Missoula International Airport	
	Airport Revenue-Tax Supported	A1
	Airport Revenue-Limited Tax Supported	A2
	Airport Revenue-PFC Supported	A3
Nebraska	Omaha Airport	Aa3
Nevada	Las Vegas - McCarran International Airport	
	Airport Revenue-Senior Lien	Aa2
	Airport Revenue-Subordinate Lien	Aa3
	Airport Revenue-Subordinate Lien and PFC	Aa3
	Airport Revenue-Third Lien Jet Aviation Fuel Tax	A1
	Airport Revenue-Fourth Lien GOLT	Aa1
New Hampshire	Manchester Airport	A2
New Mexico	Albuquerque International Sunport	
	Senior lien	Aa3
	Subordinate lien	A1
New York	Albany County Airport	A3
	Port Authority of New York & New Jersey	
	Consolidated Bonds	Aa3
	Versatile Structure Obligations	A1

North Carolina	Charlotte International Airport	A1
	Piedmont Triad International Airport	A2
	Raleigh Durham Airport Authority	Aa3
Ohio	Cleveland International Airport	A3
	Columbus Municipal Airport	A2
Oklahoma	Oklahoma City Airport Trust	
	Senior Lien Lease Revenue and FAA lease	Aa1
	Airport Revenue-Junior Lien	A2
	Tulsa Airport Improvement Trust	A3
Oregon	Medford (Jackson County Airport Enterprise)	Baa1
	Redmond Airport	Baa3
Pennsylvania	Allegheny Co. - Pittsburgh International Airport	Baa1
	Philadelphia International Airport	
	Airport Revenue	A2
	Susquehanna Regional Airport Authority - Harrisburg	
	Airport Revenue-Senior Lien	Baa3
	Airport Revenue-Subordinate Lien	Ba1
Puerto Rico	Puerto Rico Ports Authority	Baa3
Rhode Island	Providence T.F. Green International Airport	
	Airport Revenue	A2
	Car Rental Facility Charge Revenue	Baa1
South Carolina	Charleston County International Airport	A1
	Greenville - Spartanburg Airport District	A2
	Richland Lexington Airport District - Columbia Airport	A3
Tennessee	Memphis Shelby County International Airport	A2
	Metropolitan Knoxville Airport Authority(Sevier Cnty PBA)	A3
	Metropolitan Nashville Airport Authority	A2
	Car Rental Facility Charge Revenue	Baa1
Texas	Corpus Christi	Baa1
	City of Dallas - Dallas Love Field	Baa2
	Dallas-Fort Worth International Airport	
	Airport Revenue	A1
	Car Rental Facility Charge Revenue	Baa1
	Airport Hotel Revenues	Baa3
	El Paso International Airport	A2
	Houston Airport System	
	System Revenue - Senior Lien	Aa3
	System Revenue - Subordinate lien	A2
	Special Facility Continental Airlines People Mover	A2
	Car Rental Facility Revenues	A2
	San Antonio International Airport	
	Senior Lien	A1
	PFC and Subordinate Lien	A2

Utah	Salt Lake City International Airport	A1
Vermont	Burlington International Airport	Baa1
Virginia	Capital Region Airport Commission	A2
	Norfolk Airport Authority	A3
Washington	Port of Seattle	
	Port Revenue	Aa2
	Limited Tax General Obligation	Aa1
	Intermediate Lien	Aa3
	Subordinate Lien	A1
	PFC Revenue	A2
	CFC Revenue	WR
	SEA-TAC FUEL Special Facility Project	A3
	Spokane International Airport	
	Airport Revenue	A1
	PFC Revenue	A2
Wisconsin	Milwaukee General Mitchell International Airport	A1

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