

FITCH AFFIRMS ALBANY COUNTY AIRPORT AUTHORITY, NY'S REVENUE BONDS AT 'A-'; OUTLOOK STABLE

Fitch Ratings-New York-05 August 2016: Fitch Ratings has affirmed Albany County Airport Authority's (ACAA) outstanding \$95 million airport revenue bonds at 'A-'. The Rating Outlook is Stable.

ACAA's 'A-' rating reflects a small O&D traffic base within New York State's capital city with minimal competition and elevated historical traffic volatility, though strong traffic recovery has been evidenced over the last few years. The rating further reflects the airport's adequate cost recovery mechanisms via a hybrid airline use and lease agreement (AUL), passenger facility charges (PFCs), and growing yet modest non-airline revenue streams. Current and projected financial performance is considered commensurate with the current rating level, with comparatively narrow coverage and liquidity levels partially offset by favorable debt metrics. A small \$10 - \$15 million debt issuance is planned over the next few years to finance a parking garage expansion, which Fitch does not expect to weaken ACAA's fiscal position.

KEY RATING DRIVERS

Revenue Risk - Volume: Weaker

Capital Region Airport, Recovering Traffic Base: The airport serves a small O&D traffic base of approximately 1.3 million enplanements within New York State's stable capital region, with minimal competition. While the airport experienced elevated historical volatility with a peak-to-trough of roughly 24%, traffic recovery has been strong over the past few years, with ALB benefitting from a notable amount of added seat capacity by carriers. Southwest Airline's ('BBB+/' Stable Outlook) majority market share of 43% poses some concern, though service reduction risk is partially mitigated by the Southwest's historical stable presence at the airport.

Revenue Risk - Price: Midrange

Adequate Cost Recovery: The airport utilizes a hybrid AUL, which alongside PFCs, provides for adequate recovery of operating expenses and debt service costs. While non-airline revenue growth has been persistent through traffic downturns, cost recovery via both airline revenues and non-airline revenues has only provided for narrow coverage of debt service costs once operating expenses are considered. Fitch views ACAA's reasonable cost per enplanement (CPE) of roughly \$7 favourably, as these levels should provide for retainage of air service as well as some rate-making flexibility.

Infrastructure Renewal & Development: Stronger

Modest Capital Program: Fitch considers Albany's five-year capital plan modest at approximately \$120M, mostly consisting of marginal improvements to the airport's landside, airfield, and terminal. The capital plan benefits from being mostly cash-funded, and the facility is generally considered to be in good condition. Some timing uncertainty exists in regards to construction of a parking garage expansion which will likely necessitate a small debt issuance of \$10 - \$15 within the next few years, though Fitch does not consider the potential issuance a material credit concern.

Debt Structure: Stronger

Conservative Debt Structure: The airport's debt structure is conservative, comprising all senior, fixed-rate and fully amortizing debt. ACAA benefits from strong structural features, with a cash-funded debt service reserve fund of nearly \$12 million alongside an adequate rate covenant of 1.25x. Favorably, leverage has continued to decline over the years, though additional projected

debt as a result of the airport's parking garage expansion could result in more modest deleveraging in the near term.

Narrow Coverage, Low Leverage: Fitch-calculated debt service coverage ratios (PFCs as revenues) for the airport are considered somewhat narrow for a small hub airport, at 1.3x in fiscal 2015 (ended December 31st) and forecasted to remain within the 1.3x - 1.4x range through 2020. Additionally, the airport's liquidity position is comparatively lower than small hub peers, at 205 days cash on hand (DCOH) in comparison to a median of 422 DCOH, respectively. However, narrow coverage and liquidity metrics are somewhat offset by favorable debt metrics, with leverage at roughly 4x in 2015, expected to remain within the 2x - 3x range over the next few years.

Peer Analysis: Albany's peers include other north-eastern U.S. airports with modest enplanement bases, such as Rhode Island ('BBB+'/Stable Outlook) and Hartford (CT) ('A'/Stable Outlook). Hartford benefits from a larger enplanement base, higher coverage levels and lower debt metrics in comparison to Albany, while Rhode Island's lower rating is largely explained by higher debt metrics, higher CPE, and weaker traffic performance.

RATING SENSITIVITIES

Negative: Sustained deterioration in passenger traffic which pressures the airport's ability to generate non-aviation revenue;

Negative: Material increases in debt which lead to elevated leverage levels or uncompetitive CPE levels in comparison to peers;

Positive: Continued traffic growth which lends to sustained improvement in financial strength could warrant positive rating movement.

SUMMARY OF CREDIT

Traffic continued on an upward trajectory in fiscal 2015 and fiscal 2016 for the six months through June, at 5.5% and 10.4%, respectively, outpacing Fitch's base case expectations. Recent growth can be attributed to JetBlue ('BB-'/Stable Outlook), American Airlines ('BB-'/Stable Outlook), and Southwest Airlines providing additional service to the airport, with JetBlue serving as a new carrier as of December 2015 with year-round flights to Orlando, FL and Ft. Lauderdale, FL. Favorably, seat capacity is expected to be up roughly 12.4% in fiscal 2016 based on known schedules. Thus, Fitch deems fiscal 2016 enplanement growth of roughly 8% reasonable and has assumed such in its base and rating case.

Fiscal 2015 financial performance was generally in line with expectations, with total revenues slightly underperforming projections as a result of declines in fixed base operator (FBO) revenues due to lower fuel prices, though margin was maintained via commensurate declines in FBO operating expenses. Fitch-calculated DSCR was slightly lower than projected at 1.30x versus 1.48x, respectively, while leverage was slightly higher at 3.99x than projected at 3.61x. Lower DSCR and higher leverage was mostly attributed to \$1 million less in PFCs being applied towards debt service than was expected. However, Fitch expects 2016 financial performance to be favorable as a result of robust traffic growth, with DSCR increasing by over 10 bps, CPE declining roughly 40 cents, and leverage decreasing by approximately 85 bps.

ACAA's modest \$120 million five-year capital plan has remained substantially the same as last year's plan, focusing primarily on improvements to the airport's landside, airfield, and terminal with mostly internal cash and grant funding. The airport plans to issue a small amount of debt over the next few years, whose amount and timing is dependent on the receipt (or lack thereof) of a \$40 million grant from New York State's Upstate Airport Economic Development Competition. Should

ACAA receive the grant, the airport plans to downsize the nominal amount of new money debt to \$10 million, complete the issuance in 2017, and potentially refund the Series 2003 - 2006 revenue bonds at the same time. In the event the airport is not awarded the grant, management could still refund the Series 2003 - 2006 bonds over the near-term, but would likely increase the nominal amount of new money debt to \$15 million and postpone the issuance until roughly 2019. Fitch has included the postponed debt issuance scenario within its financial analysis for conservatism. In either event, Fitch does not expect that the airport's fiscal position will be affected adversely given the ACAA's notable drop-off in debt service in fiscal 2019 alongside additional revenues which would likely be generated by means of expanding its parking garage.

Fitch's base case assumes modest enplanement growth of 0.5% which drives overall non-airline revenue growth at a slightly higher average rate of 1.1%. Costs are grown above inflation at roughly 2.5%, while airline revenues (after airline credits) decline in 2019 and 2020, reflecting a decrease in debt service costs being passed through to airlines. The rating case assumes a moderate near-term shock followed by recovery and larger cost increases. Senior DSCRs (including PFCs as revenues) average 1.41x and 1.35x in the base and rating case, respectively. CPE declines to the \$5 range in both the base and rating case, while leverage fluctuates between 2-3x in the base case and 3-4x in the rating case. Metrics are considered commensurate with the 'A-' rating for a small hub airport, in line with relevant criteria.

SECURITY

The bonds are secured by the net revenue generated by the airport. PFCs are excluded from the definition of revenue but may be pledged as revenue pursuant to the master bond resolution in order to either pay debt service or reduce debt service requirements.

Contact:

Primary Analyst
Seth Lehman
Senior Director
+1-212-908-0755
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Emma Griffith
Director
+1-212-908-9124

Committee Chairperson
Scott Zuchorski
Senior Director
+1-212-908-0659

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com; Hannah James, New York, Tel: + 1 646 582 4947, Email: hannah.james@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Rating Criteria for Airports (pub. 25 Feb 2016)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=877676

Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=882594

Related Research

Fitch Analytical Comparative Tool - U.S. Airports

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=876822

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001