

# FITCH AFFIRMS ALBANY COUNTY AIRPORT AUTHORITY'S AIRPORT REVS AT 'A-'; OUTLOOK STABLE

Fitch Ratings-Chicago-19 September 2014:

Fitch Ratings has affirmed Albany County Airport Authority's \$110.3 million of outstanding airport revenue bonds at 'A-'. The Rating Outlook remains Stable.

The airport's rating reflects a small, predominantly origination/destination (O&D) market within a capital city. The enplanement base, which has demonstrated some weakness over the past decade, remains susceptible to persistent volatility and broader economic conditions while operations are predominantly supported by non-aviation revenue. The airport's cost per enplanement, leverage and liquidity are comparable for its peer group, but the airport may need to rely on its capital charge coverage provision in order to support its covenanted debt service coverage ratio in future years.

## KEY RATING DRIVERS

### **Revenue Risk - Volume: Weaker**

Albany International Airport (the airport) is the primary air service provider for the New York state capital region. The airport has experienced steady traffic declines since 2002, eroding 18%, with the exception of only one notable year. Enplanements declined 2.4% in fiscal year (FY) 2013 and have continued this weakness through year-to-date (YTD) 2014. Southwest Airlines maintains a stable, majority presence at the airport with 41% market share.

### **Revenue Risk - Price: Midrange**

The airline use and lease agreement (AUL), through December 2015, utilizes a hybrid rate-making methodology and provides strong cost recovery provisions. Airline cost per enplanement (CPE) levels are reasonable, near the high-\$7 range over the last five years. Fitch notes that CPE includes various services provided by the airport that would otherwise be a direct additional cost for carriers at other airports, thus slightly inflating the figure compared with peer airports. Airline ticket prices, for services to and from the airport, are among the highest in the country, suggesting that airlines are unlikely to be highly sensitive to moderate increases to CPE.

### **Infrastructure Renewal and Development: Stronger**

The airport is in the process of both winding down its final year in its current five-year capital improvement program (CIP) and drafting its next CIP. Currently, no additional debt is anticipated to fund projects to be identified in Fitch's new capital program. Airport facilities are generally in good condition.

### **Debt Structure: Stronger**

All outstanding bonds are fixed rate, fully amortizing. Debt service payments are flat-to-declining through maturity in 2035, supported by cash-funded reserve accounts.

Financial Metrics: The airport's debt service coverage was 1.26x in FY2013 and is forecasted to

remain at this level for the foreseeable future. Leverage is reasonable, just under 8x net debt to cash flow available for debt service (CFADS), and is supported by ample liquidity, equivalent to 326 days cash on hand (DCOH).

Peer Group: Amongst its northeast peers in the 'A-' rating category, such as Richmond (VA) and Hartford (CT), Albany displays higher leverage, lower debt service coverage and higher CPE. However, across the broader rating category, these metrics are still at a reasonable level.

## **RATING SENSITIVITIES**

Negative:

- Sustained, measurable contraction, or elevated volatility, in passenger traffic that pressure the airport's ability to generate non-aviation revenue;
- Material increases in either leverage or CPE levels as compared to peers;
- Persistent utilization of the full capital charge coverage provision in order to support debt service coverage.

Positive:

The airport's size and traffic profile, coupled with vulnerabilities to economic conditions, currently restrict the likelihood of a higher rating at this time.

## **SECURITY**

The bonds are secured by the net revenues 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.

## **CREDIT UPDATE**

Traffic has continued to decline over the past 18 months, registering a five-year compounded annual growth rate of -2.5% through FY2013. Higher air fares continue to pressure the airport's traffic levels. Fitch forecasts traffic levels to remain at this base in the near term.

The current airlines have historically maintained a stable presence at the airport and have not indicated any major services changes since Fitch's last review. However, JetBlue has announced plans to begin service at Albany in 2015, initially providing service to Orlando and Fort Lauderdale.

Operating revenue in FY2013 decreased 1.1%, to \$42.2 million, due to weakening concession and FBO operation revenues. Non-airline revenue, which represents 67% of operating revenue, decreased 1.5% in FY2013. Management has taken a number of actions to enhance non-airline revenues in recent years, including raising long-term parking rates and entering into new concession agreements that provided greater minimum annual guarantees.

Fitch foresees moderate stability in non-aviation revenue over the next couple years. Operating expense increased 2.8%, to \$31.6 million, in 2013.

The increase was due to higher utility costs, employee benefits and maintenance expenses. Given the expectation of flat growth going forward, continued expense management is necessary to

maintain the airport's weakening operating margin. In Fitch's Base Case, which assumes flat traffic growth and inflationary expense growth, CPE migrates to \$10 in FY2018 in order to maintain coverage above 1.25x. Fitch's Rating Case, which stresses enplanements through FY2015 with moderate recovery, results in nearly full utilization of the capital coverage charge provision, limited to a maximum of 25% of debt service. Although a CPE near \$10 may seem high for a small hub airport, Fitch believes that it would be reasonable given the high average fares charged by airlines serving the airport. In both cases leverage migrates toward 4x through FY2018.

Contact:

Casey Cathcart

Associate Director

+1-312-368-3214

Fitch Ratings, Inc.

70 West Madison Street