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Summary:

Albany County Airport Authority, New York

Albany International Airport; Airport

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Summary:

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Credit Profile

Albany Cnty Arpt Auth, New York

Albany Intl Arpt, New York

Albany Cnty Arpt Auth (Albany Intl Arpt)

Unenhanced Rating

BBB+(SPUR)/Positive

Outlook Revised

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has revised its outlook on the Albany County Airport Authority, N.Y.'s airport revenue bonds, issued for Albany International Airport (ALB), to positive from stable. At the same time, Standard & Poor's has affirmed its 'BBB+' rating on the airport's bonds outstanding.

The positive outlook reflects our expectation, based on management-provided budgeted figures, that operations will support improved debt service coverage (DSC) levels commensurate with a higher rating. It also reflects our assessment of a small-hub, origin and destination airport with a declining debt burden, adequate liquidity, and limited capital needs.

More specifically, the rating reflects what we view as the following credit strengths:

- Management's demonstrated ability to maintain margins, despite activity levels;
- Little competition from surrounding airports; and
- Strong revenue diversity.

We believe offsetting credit weaknesses include the following:

- A below-average liquidity position for the rating;
- A moderate debt burden relative to that of small airports; and
- Fluctuating traffic trends that have historically declined, but are trending positive.

The authority manages two primary runways, a 290,000-square-foot terminal, and nearly 7,000 parking spaces. We believe ALB benefits from the passengers' strong origin and destination nature.

We consider Albany County's economy to be adequate. Projected per capita income is adequate at 107% of the nation. The county is located along the west bank of the Hudson River. Its largest employer is state government, with more than 51,400 employees. The health care industry, including insurance companies, employs more than 20,000. Private-sector growth has centered on nanotechnology. County unemployment, which continues to decline, has historically been below state and national levels and was 4.0% in 2015.

Based on estimated fiscal 2015 results, traffic at the airport was up 5.5% to 1.3 million enplanements, and airport management expects stronger results through fiscal 2016 with the addition of service by JetBlue, and added frequency on other carriers. Traffic had declined through the recession--from 2009-2011--before flattening and declining to a low of 1,215,000. Since then, improvements in the local and national economy and the absorption of route changes have stabilized traffic. Management anticipates achieving 1.4 million enplanements through fiscal 2016.

The airport has moderate concentration in air carrier diversity, in our opinion, with Southwest Airlines Co., the top passenger airline carrier, accounting for approximately 43% of total enplanements in 2015, followed by American Airlines (21%) and Delta (17.4%). Alternate airports with greater destination options are about three hours away in the New York City area.

The airport adopted a new five-year Airline Use and Lease Agreement effective Jan. 1, 2016 with the same air carriers that were signatories under the prior agreement: United, American Airlines, Southwest, Delta, JetBlue, and Cape Air. The agreement continues the hybrid rate-setting methodology, whereby landing fees are based on a cost center residual methodology and terminal rental rates on a compensatory methodology. Management anticipates that certain provisions such as the airlines' capital contribution requirement will benefit the airport's unrestricted cash position and help offset capital expenditures in the future. We view ALB as having average airline costs for the rating, although they are improving. The cost per enplanement was \$9 in fiscal 2014, but is expected to come down modestly to \$8 in 2016. This calculation includes revenues related to the airport's fixed base operations, which the airport owns; when excluded, cost per enplanement is about \$7, and is budgeted to decline to \$6.50.

ALB's pro forma debt totals \$88.2 million; the airport made its final payment on Albany County general obligation debt that is senior to its other debt in 2014. The airport's leverage has improved from levels we considered high; as ALB progresses in its capital plan, we expect leverage to decline further to levels we consider moderate-to-low. Budgeted 2016 debt per enplanement is \$63, below the 'A' median of \$77.

From 2010-2014, ALB maintained consistent DSC despite declining enplanements. Standard & Poor's-calculated DSC was adequate at 1.24x and 1.14x in fiscal years 2014 and 2013, respectively, which also reflects maximum annual DSC, and is in line with historical coverage levels. Indenture DSC was 1.36x in 2014, above the 1.25x indenture covenant minimum level. Estimated 2015 DSC is expected to improve to 1.45x, driven by higher non-airline revenues from parking rate adjustments and improved traffic trends. Our calculation estimates coverage to include all operating and non-operating revenue, including passenger facility charges (PFCs, which are pledged to series 2010 bonds) and improvement and interest subsidies, minus operating and maintenance expenses, divided by total debt service. The indenture, meanwhile, treats both pledged PFC revenue and interest subsidies as debt-service offsets. Since Sept. 1, 2009, the authority has collected a \$4.50 per enplaned passenger fee. In addition, ALB has extraordinary coverage protection such that it would operate as a purely residual airport if the rate-setting approach employed under the airline agreements proves insufficient for debt service.

The airport's unrestricted cash continues to improve from a low of 100 days' cash on hand in 2008. Based on audited financial statements, ALB's 2014 liquidity position improved slightly from 2013, to 189 days' cash on hand at \$16.8 million (unrestricted). This level is still below the median for the 'BBB' category of 315 days. Year-to-date unrestricted cash is continuing to improve, at \$18.1 million or 209 days' cash. The operating revenues driving the operations in

2014 are diverse, in our opinion, with 26% coming from airline revenues.

Outlook

The positive outlook reflects the possibility that we could raise the rating if the airport's financial margins materialize at or near budgeted levels.

Upside scenario

We could raise the rating if operations at the airport continue to support at least good liquidity and coverage levels, while maintaining a moderate debt burden.

Downside scenario

We could return the outlook to stable or lower the rating if lower demand or additional debt pressured financial margins to just adequate levels on a consistent basis.

Related Criteria And Research

Related Criteria

- Criteria: Airport Revenue Bonds In The U.S. And Canada, Nov. 15, 2013
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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