



Fitch Rates Greater Orlando Aviation Auth, Florida's \$82.1MM Revs & \$85.395MM

Rfdg Revs 'AA-' Ratings

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Fitch Ratings-New York-22 March 2010: Fitch Ratings assigns an 'AA-' rating to the Greater Orlando Aviation Authority (the authority), Florida's approximately \$82.11 million in airport facilities revenue bonds, series 2010A and \$85.395 million airport facilities refunding revenue bonds, series 2010B.

The bonds are scheduled for negotiated sale during the week of March 30, 2010. Proceeds of the bonds will be used to finance all or a portion of the costs of the 2010 projects included in the airport's capital plan, to pay capitalized interest on the 2010A bonds, and to make deposits associated with the 2010 issuance to the reserve account.

Fitch also affirms the authority's existing debt ratings as follows:

--Approximately \$1,067.37 million of outstanding senior lien debt at 'AA-';
--\$10.3 million of subordinate lien debt series 2002A at 'A+'.

The Rating Outlook for all of the bonds is Stable.

The ratings reflect the airport's high level of origination and destination (O&D) traffic; a well-diversified mix of carriers including a strong presence of low cost carriers; sound financial operations with diverse sources of operating revenues and the benefit of a recently enacted hybrid rate-setting airline use agreement; a flexible capital program with modest future borrowing requirements of \$150 million, reflecting a \$36 million decrease in expected future borrowings for a capital program which is otherwise largely unchanged since last review; and a competitive airline cost structure. Debt service coverage of senior debt is projected to remain largely stable over the forecast period through fiscal 2016, ranging from 1.40 times (x) to 1.74x, reflecting the impact of prior refinancings of subordinate obligations to the senior lien level as well as use of a more accelerated debt amortization schedule on certain debt that is expected to be covered by passenger facility charges (PFCs). Rating risks are centered on the tourism and leisure component of the air trade service area representing a meaningful component of the overall demand for travel at the airport.

The Stable Rating Outlook is based on Fitch's expectation that airport traffic operations will continue to stabilize over the next one to two years and that the authority will maintain its current strong financial and rate-setting flexibility. Fitch also expects the five-year capital plan will require only modest additional debt in the near term.

While the airport's market base is structurally sound and expanding, the tourism and leisure component of the Orlando area economy has experienced recent weakness, contributing to a 7.9% reduction in passenger traffic levels during fiscal 2009. For the first four months of fiscal 2010, enplanements have increased 1.6% year over, indicating a slight recovery from previous declines. Prior to fiscal 2009, Orlando has been one of the strongest growth markets in the U.S. in terms of enplanements. Fitch's rating considers the tourism and discretionary nature of the air trade area that may result in periods of enplanement fluctuations. It is important to note that a steady rebound in passenger growth may necessitate construction of a second terminal facility. The authority has indicated that this investment would be warranted once annual passenger traffic reaches 50 million. Given the recent slowdown in airport operations, the future terminal project is not planned to require financing or begin construction until after the current capital planning period ends in 2016.

Orlando International currently ranks as the nation's 11th busiest airport, having served 16.8 million enplaned passengers in fiscal 2009. While enplanements have scaled back by 7.9% when compared to the peak traffic figures of 2008 (18.2 million), the average annual increase since 2002 still remains a healthy 4.1% rate. Historically, O&D traffic represents the bulk of the airport's enplanements at approximately 95%. Demand at local tourist destinations strongly influences the O&D component and helps make the airport rank among the largest in terms of O&D traffic. As a result the airport attracts a diverse mix of carriers, led by Southwest Airlines which accounted for 22.7% of total enplanements in 2009. Airtran ranked as the second largest carrier for the year with 12.5% of total enplanements, followed by Delta Air Lines (Delta) with 11.2% (or 16.1% when combined with Northwest Airlines). Thus the airport is more reliant on the underlying market than the operations of any one particular airline for the generation of passenger demand. The airport continues to attract new service, with Allegiant signing the airport's use and lease agreement and moving 50% of its Orlando service to the airport from nearby Orlando-Sanford International Airport. Based on service additions during the second half of 2009 and first quarter of 2010, covering both domestic and international markets, as well as new service additions expected through the

second quarter of calendar 2010, airlines are committed to the Orlando market despite broader route rationalization.

For the forecast period through fiscal 2016, the airport is projecting senior coverage levels to remain at or below 1.70x with total coverage to stay between 1.27x to 1.63x. The lower projected coverage levels associated with the senior debt are a reflection of prior variable rate subordinate airport debt refinancings into the senior lien level as well as the planned increase in annual debt requirements over the next five years that will primarily be covered from passenger facility charges. The bond resolution limits the annual transfer of PFCs into the airport revenue fund to 1.25x of the PFC-eligible debt service paid in the same fiscal year, thus deflating the coverage ratio.

Currently, the authority maintains strong flexibility with over \$300 million of unrestricted fund balances, or 613 days cash on hand, and a comparatively low signatory cost per enplaned passenger (CPE) level of \$4.51 based on fiscal 2009 figures (\$5.51 for all enplanements). Both the cash reserves and the CPE levels have been well managed over the past five years and through the downturn, with the airport generating significant revenues from non-airline sources including concessions and PFCs. Airlines contribute a relatively low 25% to 30% of total operating revenues while PFC collections are expected to exceed \$60 million per year. Despite the expectation of a slow rebound over the next several years, the airport does not anticipate signatory CPE levels rising above the \$6 level. Maintaining low airline costs is an important credit consideration given the large discretionary component of passenger traffic and the high degree of low-cost carrier serving in the Orlando market.

The airport's use and lease agreement, updated in October 2008, extends until 2013 and utilizes a compensatory rate-setting methodology for terminal space and residual methodology for landing fees. The agreement, which provides greater airport control of gates, a higher airport share of annual net surplus revenues, and allows for up to \$1 billion of projected capital improvements without necessitating additional majority-in-interest airline approval, provides a basis for the airport's consistently sound financial operations. In fiscal 2009, audited results for net revenues indicate a healthy 1.47x coverage of senior debt but a somewhat narrower 1.33x coverage level of total debt obligations. These results were based on modest reductions in operating revenues that were sufficiently offset by successful cost reductions efforts. Fitch views management's ability to prudently revise its operating budget through the recent downturn as an important consideration for rating maintenance.

The airport's 2009-2013 capital improvement program (CIP) totals an estimated \$640 million, nearly one-third lower than the \$1 billion CIP developed in 2008 and slightly lower than the plan reviewed by Fitch in November 2009, with a reduced debt component in favor of pay-go PFCs and airport funds. The CIP reduction reflects the flexibility to manage capital costs and the ability to defer discretionary projects during more challenging economic times. The authority anticipates utilizing approximately \$65 million in revenue bonds and \$83 million in PFC funded debt to finance the CIP, with the remainder of the program funded through federal and state grants, PFCs on a pay-go basis, and authority resources.

The application of the following criteria was used to derive the rating of the above referenced bonds:

- 'Rating Criteria for Infrastructure and Project Finance', dated Sept. 29, 2009;
- 'Airports Rating Criteria Handbook for General Airport Revenue, PFC and Letter of Intent Bonds' dated March 12, 2007.

All are available on the Fitch web site at 'www.fitchratings.com' under the headers Global Infrastructure & Project Finance >> Rating Criteria and U.S. Public Finance >> Rating Criteria.

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