New Issue: MOODY'S ASSIGNS Aa3 RATING TO THE GREATER ORLANDO AVIATION AUTHORITY'S SERIES 2010A&B; OUTLOOK REMAINS NEGATIVE

Global Credit Research - 18 Mar 2010

ORLANDO INTERNATIONAL AIRPORT HAS A TOTAL OF $1.082 MILLION RATED DEBT OUTSTANDING

Airport
FL

Moody's Rating

ISSUE		RATING
Airport Facilities Revenue Bonds, Series 2010A		Aa3
Sale Amount	$82,110,000	
Expected Sale Date	04/08/10	
Rating Description	Revenue	
Airport Facilities Revenue Refunding Bonds, Series 2010B		Aa3
Sale Amount	$85,395,000	
Expected Sale Date	04/08/10	
Rating Description	Revenue	

Opinion

NEW YORK, Mar 18, 2010 -- Moody's Investors Service has assigned a Aa3 to the Greater Orlando Aviation Authority's (GOAA) $82.11 million of Series 2010A Airport Facilities Revenue Bonds and $85.395 million of Series 2010B Airport Facilities Refunding Revenue Bonds. At this time we are also affirming the Aa3 underlying rating on the authority's outstanding parity debt and the A1 rating on the rated outstanding subordinate revenue debt. The rating outlook for both liens remains negative based on uncertain conditions in the tourism industry and local economy, projected narrowing of debt service coverage, and uncertain enplanement growth expectations. The underlying rating is based on the authority's strong financial liquidity, diverse air carrier service, and strong historic enplanement levels due to the region's position as a key international tourist destination.

USE OF PROCEEDS: The 2010A bonds will be used to pay for the 2010 projects, which include $60 million bag system improvements for the North Terminal, replacement of four escalators, modifications to the Federal Inspection Station on Airside 1, and improvements to the central utility plant. The Series 2010B bonds will currently refund a portion of the Series 1999A bonds outstanding.

LEGAL SECURITY: The bonds are secured by the net revenues of the authority. The 2010A and B bonds are supported by pledged passenger facility charge (PFC) revenues at 125% of debt service requirements. GOAA's projections for paying debt service are based on collection of PFCs at the $4.50 level.

INTEREST RATE DERIVATIVES: The authority has one outstanding swap the terms of which require the authority to pay a fixed rate of 4.45% and receive a variable rate that exactly matches the variable rate GOAA pays on the Series 1997 Secondary Subordinate Revenue Bonds. The swap has double barrel termination provisions that would be triggered if both the insurer's rating falls below Aa3 and the GOAA rating falls below A3. The outstanding swap also allows for termination if MBIA's rating is below Aaa and it fails to pay claims in excess of $20 million and GOAA's rating falls below A3. Goldman Sachs Mitsui Marine Derivative Products, L.P. serves as the counterparty and the current market value of the swap is approximately $13.86 million in favor of the counterparty.

The swap is matched by a corresponding swap between the City of Gulf Breeze, FL (revenue rated A2) and JP Morgan that was entered into to match the $90.55 million loan from Gulf Breeze to GOAA. That instrument currently has a $17.1 million market value in favor of the city. If the GOAA swap were unwound, they would likely require Gulf Breeze to unwind its swap resulting in a net termination payment of $3.2 million in favor of GOAA.

STRENGTHS

* Service area is one of the premier tourism destinations in the country and its economy is becoming increasingly diverse

* Carrier base is highly diversified and serves a market with historically strong enplanement growth and low airline cost per enplanement

* Terminal modifications should allow the authority to delay large additional borrowing plans until current debt service requirements ease in 2014

* New hybrid airline agreement include extraordinary coverage provision that requires airlines pay any additional charges required for the airport to maintain the rate covenant

CHALLENGES

* Heavy reliance on somewhat economically sensitive discretionary traffic

* Below-average projected debt service coverage is the result of planned additional debt and a change from a residual to a hybrid rate-making methodology

* Terminal capacity constraints are a long-term customer service concern, but will not lead to significant additional debt until after 2014

RECENT DEVELOPMENTS

Enplanements have begun to recover at the airport. At the end of FY2009, enplanements had fallen 7.9%, after being down 12.7% in March. Positive growth returned for the first four months of FY2010 and the airport realized a 1.6% growth in traffic over the prior year. Moody's believes this indicates that traffic levels have stabilized. Though it is premature to expect steady positive growth due to industry and economic concerns, there are several indications that enplanements may continue to strengthen.

The airport is expecting substantial new service from many of its carriers following announcements from several that they will be serving new markets from Orlando. Some markets will see additional frequency, but there also is a substantial number of new routes planned, particularly to South American markets. International travel, which has increased 17.4% year-to-date in FY 2010, has helped to boost the return of enplanement growth and the planned growth of several airlines at the airport appears to be focused on South American markets.

Projections for debt service coverage are little changed from 2009. The airport still expects coverage to reach bottom in FY 2010 at 1.40x for the senior lien and 1.27x for all debt. The total debt coverage is somewhat below the airport's recent historical performance at the time of its rating upgrade in 2007. The senior lien coverage remains lower than historical levels, primarily due to the refunding of variable rate subordinate lien auction rate securities with senior lien debt in 2008. These coverages are anticipated to be reached with no substantial increase in cost per enplanement. The projections maintain cost per enplanement at $5.32 and below through the forecast period, already below the current Moody's U.S. airport median of $6.62. This gives the airport the ability to increase costs if necessary to meet coverage projections in the event forecasted enplanement levels are not achieved.

The projections are based on reasonable enplanement growth projections that include a 0.3% increase in enplanements during FY2010, a figure the airport is already above. Growth for the entire 2009 through 2016 forecast period is expected to average 2.3%, which the airport should be able to maintain, especially if there is any substantial rebound from the strong decline of FY 2009.

GOAA has eliminated most of its financing risk by terminating three swaps, removing all variable rate debt exposure, and cash funding its debt service reserve funds. The airport does have a bullet payment due in FY 2013, associated with its Series 2008C bonds, that will cause debt service to increase by $42 million in that year. Accumulated PFC funds, which currently stand at $13,695,000, will be used to pay the additional debt service required in this year, with the resulting effect being a substantial decrease in PFCs available for pay-as-you-go (pay-go) projects in FY2012. GOAA used $50 million in PFCs for pay-go in FY 2009 and has similar plans for 2010 and 2011. If the airport is unable to collect the projected amount of PFCs or curtail its pay-go spending in 2012, there will be a need to find an alternative funding source or to refinance the debt. In either case, a failure to prepare for this debt service spike could result in rating action.

Outlook

The negative outlook is based on Moody's expectation that enplanement growth will continue to decrease or stagnate

and will cause debt service coverage to fall near or below GOAA's projections of 1.40x senior lien and 1.25x total debt service coverages for the rating period.

What could change the rating--UP

GOAA is well positioned in its current rating category.

What could change the rating--DOWN

Continued enplanement declines or unexpected increases in debt associated with terminal expansion or the South Terminal project that bring debt service coverage below projections or sustain debt service coverage at current levels could put negative pressure on the rating.

KEY INDICATORS

Type of Airport: O&D

Rate Making MethodologyResidual

FY2009 Enplanements: 16,798,602

5-Year Enplanement CAGR 2004-2009: 2.0%

FY 2009 vs. FY 2008 Enplanement growth:-7.9%

% O&D vs. Connecting, FY 2009 (5 YR AVG): 95% (95%)

Largest Carrier by Enplanements (share): Southwest (22.7%)

Airline Cost per Enplaned Passenger, FY 2008 (5 YR AVG): $5.06 ($4.85)

Debt per Enplaned Passenger, FY 2008 (5 YR AVG): $70 ($72)

Bond Ordinance Debt Service Coverage, FY 2008 (5 YR AVG): 1.27x (1.35x)

Senior Lien only1.70x (2.17x)

Utilization Factor, FY 2009:8.4

RATED DEBT

Airport Facilities Revenue Bonds, Senior Lien, $1.072 billion, Aa3

Airport Facilities Revenue Bonds, Subordinate Lien, $10.3 million, A1

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The last rating action was on December 2, 2009 when the rating on the Series 2009C bonds was assigned and the parity bond ratings were affirmed.

The Greater Orlando Aviation Authority bond ratings were assigned by evaluating factors believed to be relevant to the credit profile of the issuer such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the nature of the dedicated revenue stream pledged to the bonds, vi) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) and the issuer's management and governance structure related to payment.

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