

Outlook

Moody's Global Infrastructure Finance

March 2009

2009 U.S. Airport Sector Outlook

Negative Industry Trends Drive Short-Term Outlook; Stability in Long-Term Trends and Financial Structure

The Outlook for the U.S. Airport industry is negative. This Outlook expresses Moody's expectation for the fundamental credit conditions in the industry over the next 12 to 18 months.

Table of Contents:

Short Term Positive Factors	3
Short Term Negative Factors	5
Long Term Credit Outlook Stabilized By Air Travel Demand	8
Long Term Stabilizing Factors	8
Long Term Negative Factors	10
Moody's Related Research	13
Appendix 1: Moody's U.S. Airport Ratings	14

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Moody's believes negative industry trends will continue to prevail throughout 2009 and these will place downward pressure on U.S. airport credit ratings. (See Figure 1) As a result, Moody's has maintained a negative outlook on this sector since August 2008. However, the overall creditworthiness of the 91 U.S. airports with underlying ratings from Moody's remains strong, which will mitigate the impact of these negative trends and minimize downward rating changes across the sector. Still, U.S. airports will need to continue to carefully manage operating, financing, and capital expenses during these challenging times in order to ensure credit stability.

Stabilizing factors incorporated in our outlook include:

- Airports financially well-positioned through strong metrics
- Debt needs reduced by lower demand for capital projects and potential economic stimulus grants

Negative factors incorporated in our outlook include:

- Poor economic conditions soften air travel demand
- Airline capacity cuts reduce available seats and price competition
- Airports face increased budgetary pressure



2009 U.S. Airport Sector Outlook

The outlook beyond 2009 is likely to return to stable as the demand for air travel and relatively low air fares will be the primary factors supporting enplanement levels at most rated airports.

Stabilizing factors through 2011 include:

- Resilient demand for domestic and international air travel as an important component of government and business activity, tourism, and other personal travel in the U.S.
- Airline lease agreements provide some service stability, and the trend toward compensatory rate-making structures provide airports better control over facility use and revenue generation
- Long-term federal funding expected to stabilize after passage of the Federal Aviation Administration (FAA) reauthorization act
- Some additional airline competition from the Open Skies agreement between the U.S. and the European Union (E.U.)

Negative factors over the same period are likely to include:

- Long-term implications of credit market issues and stagnant economic conditions
- Capacity constraints in the National Airspace System (NAS) may restrict passenger growth and will continue to affect capital planning
- Airline financial weakness may result in failure or consolidation of airlines, reducing competition and service
- Potential for sustained increases in energy and environmental compliance costs, possibly including more restrictive or costly carbon emissions controls for the airline industry in the U.S.














The potential for privatization of some U.S. airports remains a possibility with uncertain credit impacts. The privatization of **Midway International Airport (City of Chicago Midway Airport Enterprise rated A2)**, will likely be finalized in 2009. There does not appear to be a strong consensus for a widespread shift to full privatization of airports, though Moody's notes that funding shortfalls may lead some communities to consider monetization of their assets and this could include airports.

Exposure to macroeconomic risks

In December 2008, Moody's updated its Global Macroeconomic Risk Scenarios. The central macro-economic scenario contemplates a period of painful economic convalescence as the global economy faces stagnation, characterized by minimal or moderate contraction in 2009 followed by below potential growth in 2010. This central scenario would likely translate into a period of stagnation in the U.S. airport industry with industry-wide enplanement levels struggling to achieve positive growth. With annual enplanement growth staying near zero, U.S. airports will see operating revenue growth stagnate as well. Constrained credit markets could jeopardize the viability of multiple major air carriers and result in the failure or restructuring of one or more. Airports will need to carefully manage operating expenditures in order to maintain income, financial liquidity, and debt service coverage at or near current levels. Capital planning will need to be adjusted to be more appropriate lower expected growth and to better correspond to expected income levels.

2009 U.S. Airport Sector Outlook

Figure 1: Key Airport Credit Trends

Credit Factor	Jan 2008	Jan 2009	Causes
Airport Financial Position			<ul style="list-style-type: none"> Financial metrics and liquidity remain strong Airline agreements provide structural support at many airports Enplanement declines could limit revenue growth
Airline Seat Capacity			<ul style="list-style-type: none"> Domestic airline service reduction
Airline Financial Health			<ul style="list-style-type: none"> Fuel price volatility; improved from July 2008 Limited ability to pass costs on to consumers through fares
Airfare Affordability			<ul style="list-style-type: none"> Additional fees for amenities and luggage increasing Effect is amplified as economic conditions and inflation reduce consumer purchasing power
Federal Funding			<ul style="list-style-type: none"> FAA Reauthorization continues to be extended with funding at status quo Long term bill not expected before late 2009 Stimulus funding will accelerate some projects
 Improvement Expected  Flat or Near Flat Performance  Decline expected			

Short Term Positive Factors

Airports Financially Well-Positioned Through Strong Financial Metrics

Short term credit strength in the U.S. airport sector resides primarily in the financial strength achieved during the solid growth years of 2003 through 2007. Airports that were able to develop robust operating margins and build substantial financial liquidity as the airlines expanded in recent years are well positioned with the financial flexibility to manage the current contraction in airline service. Moody's U.S. airport ratings incorporate the potential for normal enplanement volatility, similar to that which most airports are currently experiencing, though those airports that are experiencing above average enplanement declines may fall outside of this normal range. The debt service coverage margins and liquidity expected at certain rating levels during normal growth periods allow for a moderate declines in airport activity and operating revenue without resulting in rating action. The traffic declines experienced by most rated U.S. airports in late 2008 falls within this interval.

Moody's expects traffic level declines at most rated U.S. airports to stabilize during 2009 relative to 2008, though some additional contraction should cause overall enplanement growth to be slightly negative over the entire year. To the extent that enplanement growth remains only slightly negative, Moody's does not expect widespread negative rating impacts.

Based on our FY 2007 U.S. Airport Medians published in November 2008, U.S. airports generally maintained their strong financial metrics through 2007. Key income metrics, such as debt service coverage (median: 1.74 times), continued to indicate ample ability to manage debt service requirements. Key liquidity metrics, such as days cash on hand (median: 382), demonstrated solid financial flexibility. While Moody's believes these metrics have likely narrowed during 2008, we also expect the majority of rated airports have kept the metrics within an acceptable range relative to Moody's U.S. Airport Medians.¹ Airports with residual rate-making

¹ Please see our "U.S. Airport Medians for FY2007" report dated November 2008

2009 U.S. Airport Sector Outlook

methodologies have a distinct advantage in their ability to manage debt service requirements as their airlines are contractually obligated to pay all airport costs, including debt service, on a pro rata basis. As a result, residual airports at a given rating level tend to operate with narrower coverage and lower liquidity.

Enplanement declines have the most dramatic effect on the creditworthiness of debt backed solely by a pledge of Passenger Facility Charge (PFC) revenues because this debt is supported only by a single revenue source. Further the PFC rate is currently capped by the FAA at \$4.50, and airports have no independent rate-raising ability, hence they are dependant on enplanement levels to ensure income can meet debt service requirements. Moody's rates only nine of these instruments, and each has been structured to withstand a high level of enplanement loss and still meet debt service coverage requirements. Moody's also rates six debt instruments supported solely by a pledge of airport rental car customer facility charges (CFCs). These transactions are similarly tied to a single revenue source, which is highly correlated with enplanement levels. Rates are typically set by the airport board, though may be capped by government ordinance or a contract with the rental car companies, which could hinder timely debt service payment if activity levels declined significantly. All of these instruments tend to be rated lower than the airport's general revenue bonds and currently all have a stable outlook.

Debt Needs Reduced by Lower Demand for Capital Projects and Potential Additional Economic Stimulus Grants

Lower passenger and aircraft operation counts have taken the pressure off of capital expansion at many rated airports. Capacity constraints, which remained a chief concern through 2007, are no longer being tested by strong growth rates. Instead uncertainty over future growth, as shown in Figure 2 has greatly reduced the demand for many capital projects. Some rated airports have capital plans that are not impacted by lower growth, but many may need to adjust capital plans to delay or remove projects altogether. As a result, airports may have reduced requirements for debt-financed projects, which should prevent those airports from incurring new debt and provide them with additional financial flexibility during this period of uncertain revenue levels. This should also help minimize the impact enplanement declines have on airline cost per enplanement (Moody's FY07 U.S. Airport median \$6.24).

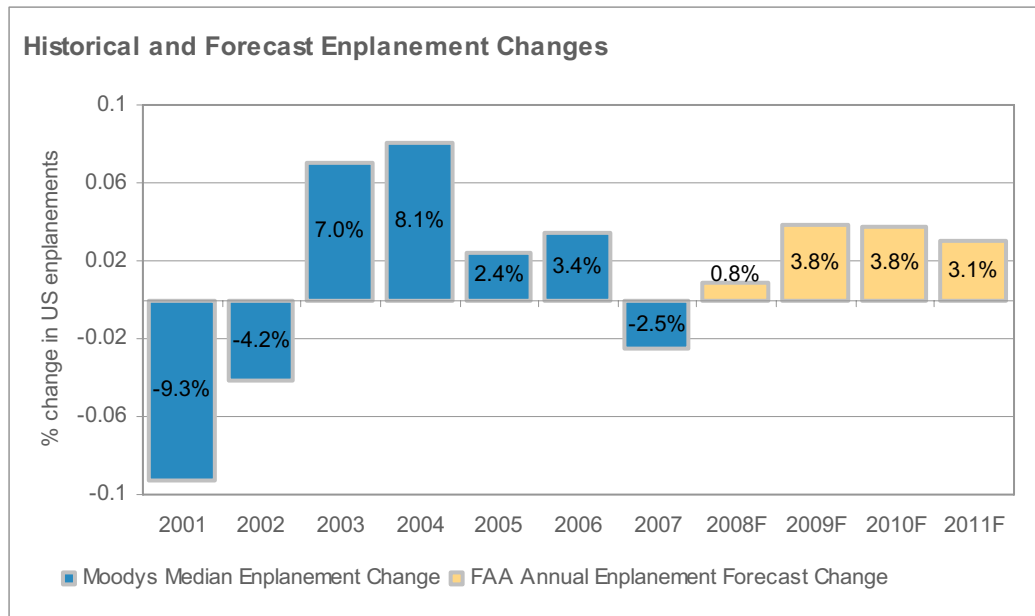
Moody's believes capital planning will continue through the current industry cycle as airport project lead times tend to be long and airports will need to be prepared to manage future growth. Credit stability requires an airport to balance facility development that supports growth with financing that remains affordable during periods of stagnant or declining revenue. Moody's believes this balance should be based on realistic assumptions for traffic and revenue growth in both the short- and long-run. Our review of capital planning also considers the prioritization of capital projects based on necessity and the length of the project's planning horizon.

Finally, Moody's considers the risks of various debt financing structures that may jeopardize the financial strength and liquidity of the airport through high exposure to market risk, variable interest rate risk, principal acceleration risk, as well as collateral posting and termination payment risk.

Moody's expects the recent passage of federal stimulus legislation to be a modest credit positive for airports. The receipt of \$1.1 billion of discretionary Airport Improvement Program (AIP) grants will likely accelerate the timeline of projects that would have been funded by future AIP grants. In some cases, this capital funding may replace future planned bond issues, or it may fund planned projects that had been slowed or scaled back due to economic conditions. The bill does not require airports to provide the standard match for normal AIP funds, typically 5% to 25% of the project cost. Airports will also benefit from \$1 billion of additional security spending for the Transportation Safety Administration, to make the processing of passengers and baggage more efficient. Additionally, airports are expected to benefit from the temporary exemption of Private Activity Bonds (PABs) from the Alternative Minimum Tax because airports frequently use PABs for projects which support private airlines. As a result, Moody's expects stronger taxable borrowing levels for the remainder of 2009.

2009 U.S. Airport Sector Outlook

Figure 2



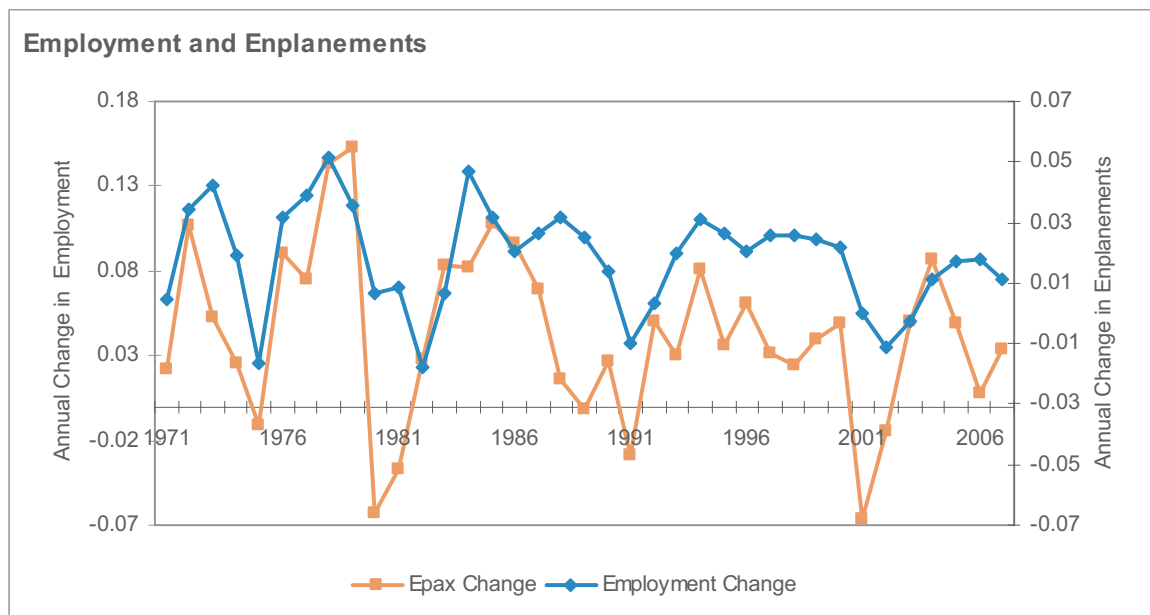
Source: Moody's, FAA

Short Term Negative Factors

Poor Economic Conditions Soften Air Travel Demand

Moody's expects enplanement growth rates to continue their significant decline at all or most rated airports as the recessionary economy slows down passenger demand. Airline passenger demand has historically been sensitive to major changes in the U.S. economy and the past year has been no exception as shown in Figure 3. Moody's expects air travel demand to remain strained until economic conditions improve.

Figure 3



Source: US DOT, US BLS

2009 U.S. Airport Sector Outlook

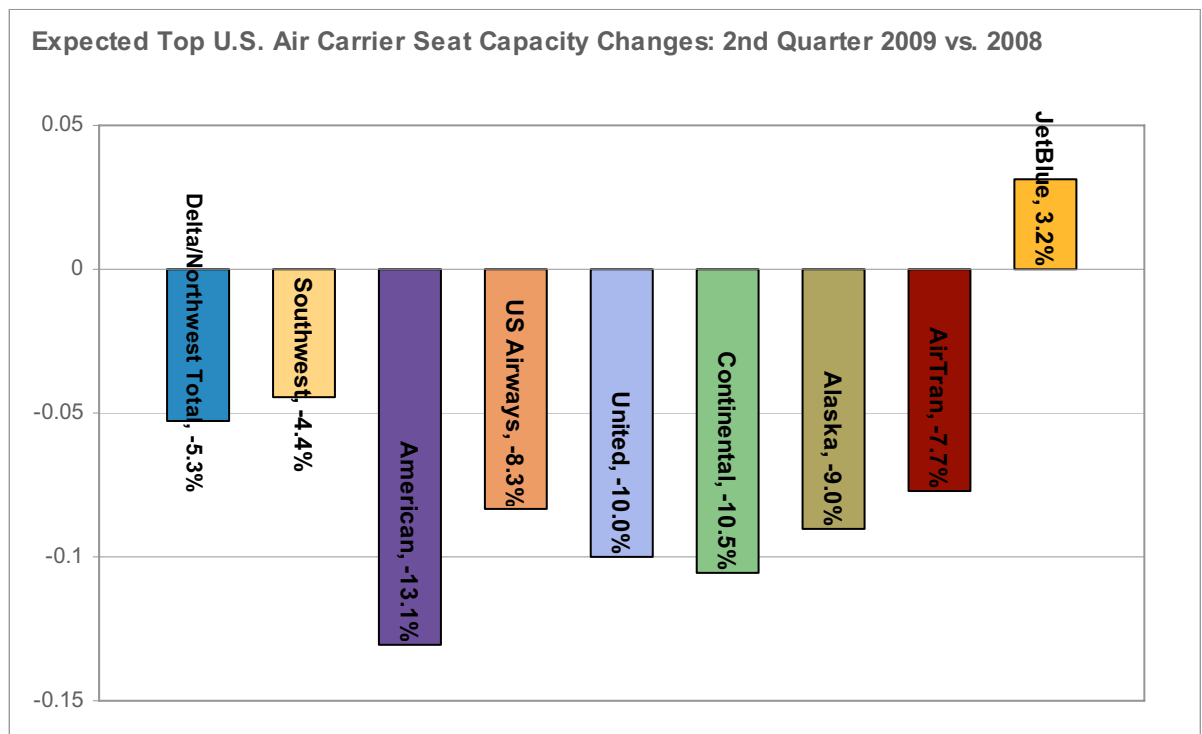
Downward pressure on more discretionary travel began in 2007 as U.S. economic growth decelerated and worsened as jet fuel prices spiked from the beginning of 2008 to August, pressuring airlines to increase airfares and fees. The increasing severity of the U.S. recession also placed downward pressure on enplanements as business travel slackened and many organizations curtailed travel budgets.

Growth in international traffic enabled several of international gateway airports to sustain positive enplanement growth through the first half of 2008 due to the depreciation of the U.S. dollar against major currencies. With the economic recession spreading to other developed countries, and sharp dollar appreciation as a result, this effect diminished in the second half of 2008. It is unlikely that international passenger growth is sustainable in the short term, given that travel to the U.S. has become significantly more expensive and economic conditions continue to deteriorate in most developed countries.

Airline Capacity Cuts Reduce Available Seats and Price Competition

Rapid jet fuel price escalation in early 2008 led all major U.S. airlines to reduce their overall system capacity. Many routes became unprofitable as fuel prices soared and price competition did not allow airlines to increase fares to maintain already slim operating margins. As a result, airlines chose to reduce seat capacity by canceling routes, reducing frequencies, or using smaller aircraft. (See Figure 4)

Figure 4



Source: Jacobs Consultancy

Jet fuel prices receded significantly mid-year providing airlines some relief, but this recovery coincided with a sharpened decline in U.S. economic conditions. As a result airlines have not reinstated capacity and Moody's does not expect them to in 2009. Moody's expects economic conditions will need to stabilize and probably demonstrate positive growth before airline capacity begins to increase. Capacity growth may also be muted by the merger of Delta Airlines (long term corporate family rated B2, stable outlook) and Northwest Airlines (backed senior secured bank credit facility rated B1, stable) as we expect the combined airline will likely reduce capacity on overlapping routes. Credit market conditions also hamper airline expansion potential in the near term as limited capital availability will restrict the ability of airlines to fund any planned growth.

2009 U.S. Airport Sector Outlook

Financial market disruptions have increased budgetary pressure on some airports

Financial market turmoil and the credit downgrades of many financial institutions have added to the concerns facing airports, particularly those exposed to variable rate debt structures, debt service reserve fund sureties, and swaps. These challenges include:

- Costs for issuing fixed-rate bonds have increased and many issuers are paying 6%-7% rates for new debt
- Rates on variable rate bonds have spiked, in some cases to over 10% before settling back to lower rates
- Exposure to higher than budgeted interest rates results from mismatch of swap rates (based on % of LIBOR) and bond rates
- Failed remarketing of demand obligations and commercial paper can lead to rapid repayment terms on "bank bonds" and put new liquidity pressure on some enterprises
- General access to capital markets is more limited for lower-rated issuers as many insurers have lower ratings and bank capital for letters of credit (LOCs) is constrained
- Sureties may no longer meet requirements for fulfilling debt service reserve fund requirements and may need to be replaced with cash

We believe most rated airports can absorb short-term disruptions in the debt markets given their ability to reduce the rate of operating and capital spending. Airports tend to maintain adequate levels of unrestricted liquidity and also have the ability to pass along increased costs through independent rate-setting.

Failed remarketings present the most immediate risk for airports with exposure to variable rate debt (see Moody's January 2008 report entitled "Bank Liquidity Support and Variable Rate Financings Can Impact Underlying Long-Term Credit Ratings"), as many liquidity facilities require fairly short-term repayment of bonds in the event unremarketed bonds (i.e.: bank bonds) remain outstanding for more than 90 or 180 days following a tender. Most airports recognize these risks and are working to refund or restructure debt that is not successfully remarketing, although the reduced availability of liquidity such as LOCs and standby bond purchase agreements (SBPAs) has complicated these efforts. Most have already addressed these issues. Some airports have opted to convert their underperforming variable rate debt to fixed rate – which often includes funding termination payments on

State of U.S. Airline Industry

Please see our December 2008 special comment "Global Airline Industry: Six Month Industry Update"

Moody's outlook for the global airline industry remains negative, reflecting our expectation that reduced but still-volatile fuel costs and weaker demand arising from a global economic slowdown will continue to drive significant cash burn and losses for many airlines. In addition, weak credit markets will reduce the ability of the airlines to fund their scheduled aircraft deliveries, continue meaningful fuel hedging programs and meet near-term debt maturities.

The decline of fuel prices from historic highs is offering some cost relief for carriers. Nonetheless, although most airlines have meaningfully reduced their fuel hedges, they could be exposed if fuel prices increase before the hedge positions are reinstated. U.S. airlines have responded to a weaker demand environment by aggressively reducing capacity. The capacity reductions, which started to take hold in the fourth quarter, will allow airlines to pass an increasing portion of their incremental costs to passengers through increased fares or ancillary fees while mitigating the adverse impact on load factors.

However, these incremental revenues are unlikely to meaningfully offset high operating costs. Although tighter capacity will drive some incremental revenue gain, demand for air travel is the critical factor. With major global economies contracting, companies and consumers are limiting discretionary expenses. That headwind will limit airlines' ability to use their capacity-reduction programs to obtain incremental revenues adequate to offset higher expenses.

The ratings of some U.S. airlines could come under further pressure in the near term if they are unable to control costs, particularly fuel and labor. Ratings of nearly all U.S. airlines were downgraded and many outlooks were changed to negative from stable during the first half of 2008 — sometimes in multiple rating actions — reflecting primarily the deterioration of liquidity due to weaker passenger demand and high fuel costs.

Please see our December 2008 Global Airline Industry: Six-Month Industry Update for more information.

2009 U.S. Airport Sector Outlook

associated interest rate swap agreements as well as higher interest rates than budgeted or assumed in the original plan of finance.

Many airports are required by bond indentures to replace debt service reserve fund sureties provided by insurers whose ratings have deteriorated, and this can quickly deplete liquidity. Although some airports do not have this requirement, Moody's views bonds supported by a debt service reserve funded with a surety from a lower rated insurer as materially weaker than those funded with cash or a surety from a Aaa-rated insurer. This weakened reserve position could have a meaningful impact on an airport's bond rating.

It is unclear when variable rate markets will fully return to normal, but there are signs that higher-rated issuers are already gaining good market access at low rates for their short-term borrowings. We expect improved market access to return, but financing costs for airports are likely to remain higher than in recent years.

Federal Funding Levels Remain Uncertain

Airports have historically enjoyed stable levels of federal funding through both the FAA's Airport Improvement Program grant program and the PFC program. FAA reauthorization proposals from the previous congress indicated this would continue, but a long-term FAA reauthorization bill failed to pass the Senate during 2008, and instead the FAA and its funding sources were temporarily extended to March 31, 2009. The direction of the new congress and new presidential administration bring some uncertainty, though Moody's does not expect these changes to fundamentally shift the outlook for federal funds. Former Republican Illinois congressman Ray LaHood has been confirmed as the Secretary of Transportation, but as of this writing no appointment has been made for the key post of FAA Administrator.

The House passed an extension to the current bill that extends funding through September 30th, but the Senate has not yet taken action. The House Transportation and Infrastructure Committee has also begun work on a new multi-year reauthorization bill. The bill may include an increase in the PFC cap from \$4.50 to \$7, and is expected to contain additional funding for smaller airport programs. An increase in PFCs would be important for any airport that uses PFCs as part of its financing mix, particularly for debt instruments secured by PFCs, either alone or commingled with general airport revenues. Increases in the PFC cap have been contentious in the Senate in previous attempts to pass a multi-year reauthorization bill, so an increase is by no means certain.

Long Term Credit Outlook Stabilized By Air Travel Demand

Long Term Stabilizing Factors

Resilient demand for domestic and international air travel as an important component of government and business activity, tourism, and other personal travel in the U.S.

Demand for air travel in the U. S. has become an increasingly essential component of the nation's economy and personal travel. The increasing importance for companies and industries to access national and international markets has fueled a growing need for business travel. The historical decline of airfares due to airline de-regulation, increasing competition, and the emergence of low cost carriers has spurred strong growth in air travel usage by the leisure traveler. Expectations of robust air service and reasonable fares facilitated mobility across the country as the population has become more dispersed due to relocations for better employment, lower cost of living, or retirement. For all of these reasons, air travel has become a near essential transportation mode, and Moody's expects demand will remain strong so long as national wealth levels remain sound and air fares remain relatively low.

Airline lease agreements provide some service stability, and trend toward compensatory rate-making structures is giving airports better control over facility use and revenue generation

2009 U.S. Airport Sector Outlook

Airline use and lease agreements are likely to continue to provide airports with stable levels of cost-sharing for budgeting and capital planning purposes. In the vast majority of cases, airlines honor their commitments to these leases even under Chapter 11 bankruptcy protection. Although airports remain exposed to costs from airline failures, these costs are often recoverable through the airport's rates and charges. Airports with residual rate-making methodology are insulated from airline failures as signatory airlines have a joint-and-several contractual obligation to pay pro rata for all operating costs. Compensatory or hybrid-rate making airports do not have the contractual protections of residual airports, but have been successful in recovering costs through increased fees and concession revenues.

Moody's has noted that use and lease agreements have been trending toward compensatory or hybrid rate-making and shorter (3-10 year) durations. We generally view shorter agreements more favorably as they allow for periodic structural changes in an evolving industry with a fluid landscape of air carriers. While the move away from the cost-sharing protections of residual agreements does bring some risk to airports, Moody's believes there are a number of positive effects.

Moody's does not consider one rate-making methodology (residual vs. compensatory/hybrid) to be stronger than the other, but we do recognize each has strengths and weaknesses. Residual agreements protect airports from unmanageable revenue decreases in periods of low traffic, but they also prevent airports from developing substantial financial reserves. Under compensatory agreements, airports face the risk of managing costs during periods of low demand, but this risk is mitigated to a large degree at airports with significant airline competition and a sound demand for origin & destination traffic. While these types of markets may see service reductions, the underlying demand will tend to warrant service increases from other carriers or new entrants. Connecting traffic declines due to the failure or restructuring of an airline would not likely be regained and remains at risk. With these additional risks comes greater control of airport facilities and the revenues they generate. Airports with compensatory agreements have the incentive to increase revenue because more of it remains with the airport, and the ability to increase revenue because they have greater control over facility use and capital planning.

Long-term federal funding expected to stabilize after passage of the FAA's reauthorization act

Airports have historically enjoyed stable levels of federal funding through both the FAA's AIP grant program and the PFC program. Appropriations for the AIP program have risen steadily with declines only in a handful of years. Since 2001, appropriations have increased strongly. Moody's does not expect any significant declines in funding in the coming years as commercial aviation capacity and security remain important concerns nationwide. Proposals that have circulated Congress during each of the recent extensions to the current funding Act seem to indicate that the FAA reauthorization bill, once passed, will authorize stable levels of AIP funds for the next few years. Likewise, the expected legislation is likely to raise the maximum PFC or at least maintain the current level. This is an important consideration for any airport that uses PFCs as part of its financing mix, particularly for debt instruments secured by PFCs, either alone or commingled with general airport revenues.

Some additional airline competition from the Open Skies agreement between the U.S. and the European Union

Open Skies legislation, approved in March 2007, was implemented in March 2008 and over the long term is likely to encourage European airlines to compete more aggressively with U.S. airlines for transatlantic traffic, where margins are expected to remain higher than on domestic routes in the near term. Industry and economic trends overshadowed the impacts of this development in 2008, but the long term impacts are likely to be positive for passengers as new entrants seek to access alternative routes and incumbent airlines compete for those routes by lowering fares. Open Skies is also likely to encourage European airlines to explore mergers as a means of competing more effectively and maintaining profit margins and industry capacity would likely be rationalized as a result.

Although Open Skies is likely to increase transatlantic traffic in the short term, the enactment of the legislation is unlikely to have a major competitive impact on U.S. airlines. Some additional service can be expected, but

2009 U.S. Airport Sector Outlook

growth will be slow as establishing service at a new airport involves a significant capital outlay, which airlines may defer until industry conditions improve.

Long Term Negative Factors

Long-term implications of credit market issues and stagnant economic conditions

Beyond near-term disruptions to capital markets and liquidity, we believe financing costs to airports will remain higher than in recent years. Through 2009 and 2010 we expect interest rates on all types of debt instruments will likely be higher than the historic lows of the last few years. Until 2008, airports had been able to take advantage of very inexpensive financing through the use of bond insurers, auction-rate securities, open credit markets and historically low interest rates. Moody's believes airports now face a different financing environment with limited availability of bond insurance, constricted variable-rate financing alternatives, fewer and weaker lending institutions, and higher overall interest costs.

As a result, airport management must address many difficult operating and capital investment decisions, including revisiting budget assumptions and making reductions when and where appropriate. Debt strategies and structures may have to be reviewed as well, and the difficult choice of borrowing or spending reserves on capital is further complicated when access to the market for either fixed or floating rate bonds may remain strained for a period of time. Many infrastructure issuers also will have to carefully assess competitive pressures in deciding whether it may make strategic sense to proceed with capital plans. In some cases, it will be necessary to delay or slow capital spending plans to conserve balance sheet strength and limit additional leverage in order to offset usage and revenue declines.

Capacity constraints in the NAS may restrict passenger growth and will continue to affect capital planning

Flight delays due to limited airspace system capacity reached their peak in 2007, but diminished in 2008 as high fuel prices and poor economic conditions greatly reduced air traffic levels. In the long term, Moody's expects capacity-related flight delays to remain a key issue at the federal level and the methods used to resolve them could have far-reaching impacts on airport credit.

Privatization: Moving Forward at Midway

The FAA's pilot program for airport privatization, initiated in 1997, gained renewed attention in September 2006 as the City of Chicago submitted a preliminary application to receive one of the five available exemptions for its **Midway International Airport** (rated A2). Midway would be the single large-hub airport allowed in the FAA's set of five exemptions.

The process toward airport privatization advanced in 2008 as the city received bids and selected Midway Investment and Development Corp. to operate the airport under a 99-year lease. This corporation consists of a team that includes Vancouver Airport Services Ltd., Citigroup, and John Hancock Insurance Company. Under the proposed concession agreement the city will receive an initial payment of \$2.5 billion for the right to lease the airport. The lease agreement has been approved by the City of Chicago, but is pending final approval from the FAA. Moody's expects this transaction to be finalized in first half of 2009.

Thus far there have been no additional indications of interest in privatization by U.S. commercial service airports. The privatization of public assets in general and of airports in particular, remains a point of discussion in some areas as a means to alleviate local government funding problems. Moody's does not expect new developments in the privatization of commercial service airports during 2009; however, changes to the levels of federal funding or the FAA's pilot program in the expected reauthorization act could influence the demand for future airport privatizations.

2009 U.S. Airport Sector Outlook

The impact from future commercial airline delays due to limited system capacity will depend on how the situation is managed. Demand management techniques that impose caps on airport operations have the potential to constrict passenger growth by reducing supply. However, if airspace capacity additions are continuously filled with new traffic, endemic delays may also constrict passenger growth through reduced demand. While capacity constraints challenge the creditworthiness of airports in a number of ways, they overall tend to have positive effects.

The key credit challenge for airports in managing capacity growth is the risk of escalating debt levels to finance additional capacity, which can weaken the credit rating of an airport when combined with volatile airline revenues. While revenue debt has increased in recent years as measured by Moody's U.S. airport medians, Moody's expects borrowing to slow somewhat in the near-term until enplanement growth returns in a substantial way. Still, demand for air travel remains strong and capital will be needed to add parking, terminal, gate, and airfield capacity. There also are a number of airports that will require new revenue-supported debt for large capital programs in various stages of construction and planning, including: ***State of Hawaii Airports System, Atlanta's Hartsfield-Jackson International Airport, Metropolitan Washington Airport Authority's Reagan National and Dulles International Airports, Oakland International Airport, Chicago's O'Hare International, Miami International and San Francisco International.***

While special facilities debt financing has not been strong in recent years, airports continue to increase their use of PFC financing. Almost all large and medium hub airports charge a PFC and most have received approval from the FAA to collect the maximum \$4.50 charge. Moody's expects many airports to rapidly increase their PFC level should the FAA increase the cap in the new reauthorization act, which would likely translate into additional PFC debt financing for capital projects. Moody's also expects growing use of Customer Facility Charges (CFC) to finance portions of rental car facilities due to the strong demand most airports have seen in rental car concessions.

Airline financial weakness may result in failure or consolidation of airlines, reducing competition and service

Numerous airline failures or consolidations would bring a number of challenges to U.S. airports, as the growth of airline capacity has been an important component of positive airport credit trends in recent years. The impact of the Delta-Northwest consolidation will likely be isolated to some of the airports served by those carriers, but additional consolidation could result in a sector-wide reduction of service offerings and seat capacity beyond what has already occurred. Growing airline competition in recent years created a low-fare environment that energized demand in many markets. That competition also forced carriers to seek profitable routes in markets that had historically been lightly serviced. The result has been lower fares and expanded service options for the consumer, but slimmer financial margins for the airlines.

Reducing capacity and eliminating competition on redundant routes would be an important component in the success of any airline consolidation. Moody's would expect secondary hubs and smaller market airports to be most at risk for service reductions if one or more of their airlines were consolidated. The concern would be particularly pointed at any airport served by both airlines in the merger, especially if those airlines both have high market share. These airports could expect a substantial reduction of air service and air carrier competition, leading to higher airfares, reduced passenger levels, and greater challenges in maintaining revenues.

Potential for sustained increases in energy and environmental compliance costs, possibly including more restrictive or costly carbon emissions controls for the airline industry in the U.S.

Airlines face the constant risk of increasing oil prices because fuel accounts for such a large portion of their operating costs. A number of economic factors drove fuel prices up substantially in recent years before the sharp price decline in mid-2008. Given the low current price of oil, price escalation remains a risk. Airlines have struggled to pass on increasing fuel costs through air fares further narrowing their slim financial margins and sparking capacity reductions in 2008. The potential for continued price increases may result in additional flight cuts as higher fuel costs render more routes unprofitable.

2009 U.S. Airport Sector Outlook

The aviation industry has largely escaped the headlines in the growing national awareness of the environmental impact caused by burning fossil fuels. While attention has focused on the need to reduce emissions from millions of automobiles and large, seagoing container ships, aviation has benefited from its relatively small consumption of fossil fuels (the industry produces 3.5% of emissions that contribute to global warming according to the United Nation's Intergovernmental Panel on Climate Change), and its constant attention to reducing fuel consumption through engine and airframe design in order to minimize fuel costs. The growth of commercial aviation in recent years has greatly increased the number of aircraft flights and has given the industry more exposure to a greater span of the population. These trends, when coupled with new urgency and weight of environmental concerns, are awakening concerns about the aviation's environmental impacts.

The concern is not widespread in the U.S. at present, but the European Union (EU) is implementing a plan to encourage emissions reductions by airlines that operate in the EU. Beginning in 2012, all airlines that operate in EU nations will be required to participate in a carbon emissions cap-and-trade system, which will require airlines to pay for carbon credits used above their cap. The need to continue to service key European routes will likely make airlines one of the first U.S. industries to operate under such a system.

Although the political climate in the U.S. does not appear close to imposing such restrictions, the FAA has begun to address the problem through a partnership called the Commercial Aviation Alternative Fuels Initiative. Moody's believes that there is a long-term potential for regulation of carbon emissions through domestic cap-and-trade or other systems that may limit the future growth of aviation traffic and could have a significant financial impact across the aviation industry, including U.S. airports.

2009 U.S. Airport Sector Outlook

Moody's Related Research

Industry Outlooks

- Canadian Aviation Infrastructure-2009 Outlook, January 2009
- 2008 U.S. Airport Sector Outlook: Six Month Update, August 2008 (110428)
- 2008 U.S. Airport Sector Outlook, February 2008 (107412)
- Global Airline Industry: Six Month Industry Update, December 2008 (112951)

Special Comments

- Consolidation in the U.S. Airline Industry, April 2008 (108732)
- U.S. Airport Medians for FY 2007, November 2008 (112361)
- Managing Airport Credit Risks Amid Market Uncertainty, March 2008 (108156)
- Capacity Constraints at U.S. Airports Highlight Need For Revenue Diversity & Strong Management To Meet Credit Challenges, November 2007 (105957)
- Delta and Northwest Could Have Negative Impacts on U.S. Airport Credit, April 2008 (108519)
- Clean Slate: Delta and Northwest Emerge from Bankruptcy, July 2007 (103846)
- Credit Implications of Delta and Northwest Bankruptcy Filings, September 2005 (94354)
- Potential Consolidation among U.S. Airlines, December 2006 (101232)

2009 U.S. Airport Sector Outlook

Appendix 1: Moody's U.S. Airport Ratings

State	Airport	Moody's Public Rating
Alabama	Birmingham Airport	A2
	Huntsville Airport	A2
Alaska	Alaska International Airports System	
	Senior Lien	Aa3
	AIEDA Rental Car Facility Charge	A3
Arizona	Phoenix Sky-Harbor International Airport	
	Senior Lien	Aa3
	Rental Car Facility Charge	A3
	Tucson Airport Authority	
	Senior Lien	A1
	Subordinate Lien	A2
Arkansas	Little Rock International Airport	A2
California	Burbank-Glendale-Pasadena Airport Authority	Aa3
	Fresno Air Terminal	Baa1
	Long Beach Airport	A2
	Los Angeles International Airport	Aa3
	Subordinate Lien	A1
	Port of Oakland	A1
	Intermediate Lien	A2
	Ontario International Airport	A2
	Orange Co. John Wayne Airport	Aa3
	Sacramento County Airport	
	Senior Lien Revenue	A1
	Junior Lien PFC Revenue	A2
	San Diego County Regional Airport Authority	A1
	San Francisco International Airport	
Airport Revenues	A1	
SFO Fuel Corp.	A3	
San Jose International Airport	A2	
Colorado	Colorado Springs International Airport	A3
	Denver International Airport	
	Airport Revenues	A1
	Walker Field - Grand Junction	Baa3
Connecticut	Bradley International Airport	A2
DC	Metropolitan Washington Airports Authority	
	Airport System Revenue	Aa3
Florida	Broward County Fort Lauderdale Airport	
	Airport Revenues	Aa3
	PFC Revenues	A1
	Greater Orlando Aviation Authority	
	Airport Facilities Revenue Bonds	Aa3
	Airport Facilities Subordinate Revenue Bonds	A1
	Hillsborough County Tampa International Airport	Aa3
	Jacksonville Airport Authority	A2
Lee County Port Authority - Southwest Florida Int'l Airport	A2	
Miami International Airport	A2	

2009 U.S. Airport Sector Outlook

State	Airport	Moody's Public Rating
	Palm Beach Airport	A2
	Pensacola Airport	A3
Georgia	Atlanta - Hartsfield Jackson International Airport	
	Airport revenue	A1
	Passenger Facility Charge and Subordinate Lien	A2
	CFC revenues	Baa1
	Augusta Regional Airport	Baa2
	Savannah International Airport	A1
Guam	A.B. Won Pat Guam International Airport	Baa2
Hawaii	State Department of Transportation Airport Division	A2
Idaho	Boise Air Terminal	
	Airport Revenue	A1
	Certificates of Participation	A1
Illinois	Bloomington Normal Airport Authority	
	Normal Airport - PFC Bonds	Baa3
	Chicago-O'Hare International Airport	
	Airport revenue (closed)	Aa3
	Airport revenue - Second lien (closed)	A1
	Airport revenue - Third lien	A1
	Passenger Facility Charge Revenue (closed)	A1
	Passenger Facility Charge - Subordinate Lien Revenue	A1
	Chicago-Midway Airport	
	Airport revenue	A2
	Airport revenue - Second lien	A3
Indiana	Indianapolis Airport Authority	A1
Iowa	Des Moines International Airport	A2
Kentucky	Kenton Co. Cincinnati International Airport	A3
	Louisville - Sandiford Field	A1
Louisiana	New Orleans Aviation Authority	A3
Maine	Portland International Jetport	A3
Maryland	Maryland Transportation Authority	
	(Baltimore Washington International Airport)	
	Airport Parking Revenue	A2
	Consolidated Rental Car Facility	A3
Massachusetts	Massachusetts Port Authority - Boston Logan Airport	
	Port Authority Revenue	Aa3
	Passenger Facility Charge Revenue	A2
	BOSFUEL Project	A2
Michigan	Bishop International Airport	A3
	Capital Regional Airport Authority	A3
	Detroit Metropolitan Wayne County Airport	
	Senior Lien Revenue	A2
	Junior Lien Revenue	A3
	Kent Co. International Airport	A2

2009 U.S. Airport Sector Outlook

State	Airport	Moody's Public Rating
Mississippi	Jackson Municipal Airport Authority	A3
Missouri	Kansas City International Airport	
	Airport Revenue (Senior Lien)	A1
	Airport Revenue (Subordinate Lien)	A2
	Passenger Facility Charge Revenue (Stand Alone)	A3
	St. Louis Lambert Field	
	Airport Revenues	Baa1
Montana	Missoula International Airport	
	Airport Revenue (Tax Supported)	A1
	Airport Revenue (Limited Tax Supported)	A2
	Airport Revenue (PFC Supported)	A3
Nebraska	Omaha Airport	Aa3
Nevada	Las Vegas - McCarran International Airport	
	Senior Lien Airport Revenues	Aa2
	Subordinate Lien Revenue	Aa3
	Subordinate Lien PFC additional pledge	Aa3
	Third Lien Jet Aviation Fuel Tax	A1
	Fourth Lien GOLT	Aa1
New Hampshire	Manchester Airport	A2
New Mexico	Albuquerque International Sunport	
	Senior lien	Aa3
	Subordinate lien	A1
New York	Albany County Airport	A3
	Port Authority of New York & New Jersey	
	Consolidated Bonds	Aa3
	Versatile Structure Obligations	A1
North Carolina	Charlotte International Airport	A1
	Piedmont Triad International Airport	A2
	Raleigh Durham Airport Authority	Aa3
Ohio	Cleveland International Airport	A3
	Columbus Municipal Airport	A2
Oklahoma	Oklahoma City Airport Trust	
	Senior Lien Lease Revenue (FAA lease)	Aa1
	Junior Lien Revenue	A2
	Tulsa Airport Improvement Trust	A3
Oregon	Medford (Jackson County Airport Enterprise)	Baa1
Pennsylvania	Allegheny Co. - Pittsburgh International Airport	Baa1
	Philadelphia International Airport	
	Airport Revenues	A2
	Susquehanna Regional Airport Authority - Harrisburg	
	Senior Lien Airport Revenues	Baa3
	Subordinate Lien Revenue	Ba1
Puerto Rico	Puerto Rico Ports Authority	Baa3

2009 U.S. Airport Sector Outlook

State	Airport	Moody's Public Rating
Rhode Island	Providence T.F. Green International Airport	
	Airport Revenues	A2
	CFC Revenues	Baa1
South Carolina	Charleston County International Airport	A2
	Greenville - Spartanburg Airport District	A2
	Richland Lexington Airport District - Columbia Airport	A3
Tennessee	Memphis Shelby County International Airport	A2
	Metropolitan Knoxville Airport Authority(Sevier County)	A3
	Metropolitan Nashville Airport Authority	A2
Texas	Corpus Christi	Baa1
	City of Dallas - Dallas Love Field	Baa2
	Dallas-Fort Worth International Airport	
	Airport Revenue	A1
	Rental Car Facility Charge	Baa1
	Airport Hotel Revenues	Baa3
	El Paso International Airport	A2
	Houston Airport System	
	System Revenue - Senior Lien	A1
	System Revenue - Subordinate lien	A1
	Special Facility Continental Airlines People Mover	A2
	Car Rental Facility Revenues	A2
	San Antonio International Airport	
Senior Lien	A1	
Passenger Facility Charge and Subordinate Lien	A2	
Utah	Salt Lake City International Airport	A1
Vermont	Burlington International Airport	Baa1
Virginia	Capital Region Airport Commission	A2
	Norfolk Airport Authority	A3
Washington	Port of Seattle	
	Port Revenue	Aa2
	Limited Tax General Obligation	Aa1
	Intermediate Lien	Aa3
	Subordinate Lien	A1
	PFC Revenue	A2
	SEA-TAC FUEL Special Facility Project	A3
	Spokane International Airport	
Airport Revenue	A1	
PFC Revenue	A2	
Wisconsin	Milwaukee General Mitchell International Airport	A1

2009 U.S. Airport Sector Outlook

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