STANDARD & POOR'S

RatingsDirect®

May 6, 2009

Summary:

Denver International Airport, Colorado; Airport; Joint Criteria

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Summary:

Denver International Airport, Colorado; Airport; Joint Criteria

Credit Profile		
Denver City & Cnty, Colorado		
Denver Intl Arpt, Colorado		
Denver City & Cnty (Denver Intl Arpt) ser 2008A		
Long Term Rating	A+/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) (FSA)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation, Colorado		
Denver Intl Arpt, Colorado		
Denver City & Cnty Dept of Aviation (Denver Intl Arpt)		
Long Term Rating	A+/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A+' long-term rating and 'A+' underlying rating (SPUR) on Denver City and County Department of Aviation, Colo.'s airport system revenue bonds, issued on behalf of the Denver International Airport (DIA). The rating is based on the demonstrated commitment of United Air Lines (B-) to continue using DIA as a major hub. The rating also incorporates our view of the strength and resiliency of airline travel demand in a solid service region.

More specifically, in our opinion, the rating reflects the following credit strengths:

- Strong growth in enplanements to a historical high of 25.7 million in 2008, a 2.8% increase over 2007, though traffic levels have decreased so far in 2009;
- A strategic location for the east-west flow of domestic traffic and no major competing facilities within 500 miles;
- Excellent airfield efficiency and significant capacity for future growth, with six runways and more than 50 square miles of land; and
- A proactive, capable management team that has successfully responded to challenging operating environments.

We believe these strengths are offset by the following credit weaknesses:

- Additional debt needs likely in the intermediate term as the airport finances $607 million in planned projects between 2009 and 2011;
- The inherent vulnerability of high air-carrier concentration in United Air Lines and its affiliates, which accounted for 48% of market share in 2008;
- A high degree of connecting traffic (45% of the total in 2007), which in our view can exhibit more elastic demand characteristics than origin and destination (O&D) traffic; and

- A relatively higher cost structure at an estimated $10.59 airline cost per enplaned passenger in 2008 and an above-average debt load at $160 in debt per enplanement in 2008 (including the airport's $100 million in outstanding commercial paper).

The bonds are secured by a first lien on the airport system's net revenues. The department has $4.0 billion in outstanding senior-lien revenue bonds and $100 million in outstanding subordinate-lien commercial paper. Currently, 61% of DIA's outstanding bonds are fixed rate with no associated swap, 7% are fixed rate with an associated basis swap, 21% are synthetically fixed, 9% are in term mode with the first term rate period ending date occurring May 15, 2010, and 2% are unhedged variable rate. As of Dec. 31, 2008, the department had $420 million in unrestricted cash and investments, as presented in its unaudited financials. This includes a $7 million unrealized gain and $67.1 million from DIA's coverage account, which is not legally restricted. Excluding these funds from the total, DIA had about $346 million in cash and investments on hand. This represents a good 338 days' funds on hand, or about 8.6% of total outstanding senior-lien debt.

The airport has entered into 21 interest-rate swaps between 1998 and 2009 with various financial institutions, with a current combined notional amount of about $1.8 billion. DIA's counterparty exposure is spread over a relatively large number of financial institutions, with no counterparty representing more than 25% of total exposure. Standard & Poor's has assigned the swap portfolio an overall Debt Derivative Profile score of '1.5' on a four-point scale, where '1' represents the lowest risk. The overall score of '1.5' reflects our view that the issuer's swap portfolio represents a neutral credit risk at this time. The current market value of DIA's swap portfolio is negative $210 million, meaning that if all swaps were terminated today, the airport would owe $210 million to its counterparties.

Operating revenues have shown consistent growth during the past several years, with revenues in 2008 totaling $542 million, representing a 2.2% increase over 2007. Operating expenses have also increased during this period: Expenses in 2008, at $374 million, represent a 28.6% increase from 2007. This substantial increase in expenses is attributed, in part, to the reclassification of certain costs from capital expenses to operating expenses, some of which are non-recurring. According to management, this higher level of maintenance cost is expected through 2010.

Senior-lien debt service coverage (DSC), as calculated according to the indenture, was solid at 1.77x in 2008, allowing rolling coverage and a passenger facility charge (PFC) revenue offset to debt service. This is down slightly from DSC of 1.80x in 2007 and 1.88x in 2006. Currently, the airport commits $3.00 of its full $4.50 PFC to debt service. On a cash-flow basis, if rolling coverage is excluded and PFC revenues committed to debt service are included as revenues (rather than as an offset to debt service), coverage was good at 1.39x, down slightly from 1.43x in 2007 and 1.48x in 2006. According to management, DSC is currently expected to be about 1.72x in 2009, as calculated according to the indenture.

Since 2002, enplanements have increased at a compound annual rate of 6.2% to a record total of 25.7 million in 2008. O&D traffic represented 55% of these enplanements, with connecting traffic representing 45%. In 2008, United Air Lines and Frontier Airlines represented the largest market share at the airport, accounting for 48.2% and 25.5% of total enplanements, respectively. Since April 2008, Frontier Airlines has been operating under Chapter 11 bankruptcy protection. In August 2008, DIA and Frontier reached an agreement regarding Frontier's operating lease at the airport. Under an amended agreement, Frontier has reduced its number of gates on concourse A to 17 from 22 and has released the use of a portion of its administrative space at the airport. Frontier's assumption of the amended lease is a positive credit factor, in our opinion, as it reduces some uncertainty surrounding the airport's second-largest carrier by enplanements.

Both United Air Lines and Frontier are reducing capacity at DIA, though these reductions have been partially offset by additional service provided by Southwest Airlines. Southwest began service at DIA on Jan. 3, 2006, and has substantially increased its presence at the airport over the last three years. Southwest's enplanements represented 3.3% of total enplanements in 2006, 5.3% in 2007, and 9.3% in 2008. Southwest's growth at the airport has been a key driver in the continued increase in traffic at DIA through the end of 2008, and has also worked to diversify the airport's carrier mix.

In our opinion, capacity cuts from Frontier, United, and other airlines at DIA, coupled with the effects of the current recession, will likely create challenges at DIA during the near term, despite Southwest's growth. Traffic for the first two months of 2009 is down 5.3% from the same period in 2008, and scheduled seat capacity at DIA for the first 9 months of 2009 is down about 3.4% compared with 2008. The airport's management has developed stress case scenarios and strategies to prepare for the possibility of a substantial downturn in traffic at DIA, given current economic conditions. In our opinion, this is a positive credit factor, as it shows management's preparedness should conditions worsen. Currently, DIA has fared better than most large hub airports in terms of capacity cuts and actual traffic volume. But given the current economic environment and the airport's reliance on connecting passengers for a large proportion of its traffic, the demand outlook could change over a short period of time.

The airport's current capital improvement program includes $616.7 million in project costs between 2009 and 2011, a portion of which will likely be financed with additional revenue bonds. Management is planning to issue about $150 million in revenue bonds this summer to pay for 2009 project expenses. Airline cost per enplanement is expected to go up in future years as the airport continues to fund its capital improvement program. Cost per enplanement was about $10.59 in 2008 and is projected to increase to about $11.61 in 2009.

Outlook

The stable outlook is based on our expectation that United Air Lines will continue to operate a major hub at DIA, that cash flow debt service coverage will remain good, and that the airport will maintain a good liquidity position. The airport's ability to prudently implement its capital plan during the current challenging airline industry environment will remain an important rating factor.

Related Research

- USPF Criteria: "Airport Revenue Bonds," June 13, 2007
- USPF Criteria: "Debt Derivative Profile Scores," March 27, 2006
- USPF Criteria: "Municipal Swaps," June 27, 2007

Ratings Detail (As Of May 6, 2009)		
Denver City & Cnty Dept of Aviation, Colorado		
Denver Intl Arpt, Colorado		
Denver City & Cnty Dept of Aviation (Denver Intl Arpt)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty, Colorado		
Denver Intl Arpt, Colorado		
Denver City & Cnty (Denver Intl Arpt) arpt sys rev bnds (Amt) ser 2008C2		

Ratings Detail (As Of May 6, 2009) **(cont.)**		
Long Term Rating	AAA/A-1/Stable	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) arpt sys rev bnds (Amt) ser 2008 C1		
Long Term Rating	AAA/A-1/Stable	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) ser 2008B		
Long Term Rating	AAA/A-1+/Watch Neg	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) Aiport System rev bnds (Denver Intl Arpt) (Amt) ser 2008C3 due 11/15/2025		
Long Term Rating	AAA/A-1/Stable	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation, Colorado		
Denver Intl Arpt, Colorado		
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) arpt rev bnds ser 1991A dtd 04/01/91 due 2025		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) arpt sys rev bnds ser 1985 dtd 11/01/85 due 08/01/2011 (cusip #249181GE2)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) arpt sys rev bnds (AMT) (Denver Intl Arpt) ser 2007A dtd 08/29/2007 due 11/15/2023-2024 2026-20		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) arpt sys (wrap of insured) (SYNCORA GTY) (ASSURED GTY - SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) arpt (MBIA) (ASSURED GTY - SEC MKT) (wrap of insured) (MBIA of Illinois)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) (wrap of insured) (FGIC & FSA) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) arpt		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) arpt sys		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) VRDB ser 2007G1		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1/Stable	Downgraded
Denver City & Cnty (Denver Intl Arpt) VRDB ser 2007G2		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1/Stable	Downgraded

Ratings Detail (As Of May 6, 2009) **(cont.)**
Many issues are enhanced by bond insurance.

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