FITCH RATES DENVER INTERNATIONAL AIRPORT, COLORADO'S $232MM REVS 'A+'; OUTLOOK STABLE

Fitch Ratings-New York-23 September 2009: Fitch Ratings assigns an 'A+' rating to approximately $232 million City and County of Denver, Colorado's (the city) series 2009A and series 2009B airport system revenue bonds for the Denver International Airport (the airport). The series 2009A bonds will be issued as tax exempt bonds and the series 2009B bonds may be issued under the taxable Build America Bonds - Direct Payment program. The expected federal interest subsidies for the Build America Bonds would be applied as a direct offset to the series 2009B debt service payments. Following the sale of the series 2009A and 2009B bonds, the city also plans to issue approximately $100 million of variable-rate demand obligations, series 2009C bonds, supported by a direct pay letter of credit with JPMorgan Chase. Fitch expects to rate the proposed series 2009C bonds prior to the closing of such bonds. Fitch also affirms the 'A+' rating on the city's approximately $4.1 billion in outstanding airport system revenue bonds. All airport system revenue bonds are payable from the net revenues of the airport system. The Rating Outlook on all bonds is Stable.

The 'A+' rating reflects the large and diverse economy of the Denver Metropolitan Area, the favorable balance and resiliency of the airport's origination and destination (O&D) and connecting passenger traffic, the airport's favorable geographic location that positions Denver advantageously for ongoing domestic hubbing activity, the growing presence of low-cost carriers that continues to moderate United Airlines' (UAL; Issuer Default Rating 'CCC' by Fitch) large market share, and suitable rate setting provisions under use and lease agreements that consistently produce sound financial results. Credit concerns include the already high and still increasing debt levels coupled with the potential upward trend in airline costs associated with the implementation of the current multi-year capital program. Fitch also notes that the weakening credit quality of the city's anchor carrier, UAL, and the recent bankruptcy developments of Frontier do introduce some near-term risks to the ability to maintain its overall positive air service trends. Additionally, despite successful restructurings of certain variable-rate debt and interest rate swaps throughout 2008, the airport still retains nearly $1.3 billion of variable-rate obligations, which exposes the airport to volatility amongst the swap counterparties and liquidity providers, as well as stabilization of debt interest costs.

The airport serves not only as the primary commercial airport for the Denver metropolitan area, but for the entire eastern Rocky Mountain area in general, providing natural regional connecting traffic to complement the national hubbing operation of UAL. Overall, the scheduled carriers provide non-stop service to a relatively large 130 domestic and international destinations. The airport served a record 25.6 million enplaned passengers in 2008 with year-to-date results through July 2009 down only a modest 3.6% below the prior year. Originating passengers accounted for approximately 56% of total enplanements, representing an adequate local component of overall traffic for a major connecting hub facility.

UAL remains the airport's largest carrier, although its aggregate share of enplaned passengers declined to slightly under 47% for the current year versus 59% in 2004. While UAL's dominance continues to diminish, the airline still represents the largest contributor to airline-based operating revenues, thus its scheduling decisions could significantly influence the overall financial operations of the airport. To date, UAL's service reductions at the airport (approximately 7% as compared to 2008 levels) have not been as severe as UAL's overall system cutback in operations.

Denver-based Frontier has steadily increased its share of passengers at the airport to over 25% in 2008 up from 16.7% in 2004 and serves to offset the dominance of UAL. At present, Frontier still operates under bankruptcy protection but has recently agreed to be purchased by Republic Holdings. Frontier had previously assumed its lease at the airport and is expected to emerge from bankruptcy in late 2009. While Frontier is expected to retain its large presence at the airport the level of service and business strategy may be subject to changes following the closing of the

Republic acquisition. Year-to-date figures through July indicate that Frontier has reduced the airport's seating capacity and passenger traffic by nearly 9% from last year.

The airport's third largest carrier, Southwest Airlines, also continues to aggressively grow its market share at the airport. After resuming service at the airport in January 2006 following a 20-year hiatus, Southwest now provides almost 14% of total enplanements based on first half 2009 traffic figures. Fitch expects Southwest to largely maintain its current service level at the airport although capacity reductions are a possibility given the current challenges in the aviation sector.

The airport system's use and lease agreements utilize a strong compensatory methodology for setting fees and charges in the terminals and residual methodology at the airfield facilities, which together have resulted in sound financial operations during years of traffic expansion. The rate setting structure has allowed the airport to build sound debt service coverage levels on all debt in excess of 1.60 times (x) while similarly providing annual credits to the signatory carrier charges of up to $40 million per year. However, Fitch notes that approximately 50% of total operating revenues are derived from airline payments, a level generally above average for a large-hub airport. Concession revenues also contribute approximately 30% of airport revenues while annual passenger facility charge (PFCs) collections in excess of $95 million are applied to offset debt service payments, and in future years, will also be deposited into the airport's revenue fund. Airport cash reserves have remained notably strong with nearly $250 million of unrestricted fund balances in fiscal 2008.

Taking into account the large growth trends in passengers since the early part of the decade, the cost per enplanement (CPE) has trended downward. The fiscal 2008 CPE is estimated at $10.73 as compared to over $15 in 2002. Fitch notes the updated $585 million CIP through 2012 will be largely debt financed and could pressure CPEs at the current enplanement level. The consultant's forecast, based on both low traffic growth rate assumptions and issuance of nearly $400 million of additional debt obligations, indicates the CPE level rising to over $15 by 2015. Any unanticipated declines in traffic given the current market conditions could either exacerbate the increases in CPE or lead to tighter financial flexibility. Fitch believes that management has adequate resources to cushion airline charges and maintain sound coverage levels in the event a downturn in traffic occurs.

The airport's capital structure includes $1.3 billion in variable-rate exposure which translates to approximately 30% of more than $4 billion in total revenue debt. Much of the variable-rate bonds have associated interest rate swaps for purposes of hedging interest costs. Fitch notes that the debt restructuring actions taken by the airport throughout 2008 in light of weakening counterparty credit have provided greater stability with regards to interest rate resets for the outstanding debt. Still, the large balance of variable-rate exposure and swaps agreements could lend to future rate volatility and ongoing risks to counterparty performance. Thus, management of the debt portfolio will remain an important consideration to the airport's credit.

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