Moody's Investors Service

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New Issue: **Denver (City and County of) CO Airport Ent.**

MOODY'S ASSIGNS UNDERLYING A1 RATING TO DENVER INTERNATIONAL AIRPORT'S AIRPORT SYSTEM REVENUE BONDS, SERIES 2009A,B&C; OUTLOOK IS STABLE

DENVER INTERNATIONAL AIRPORT (CITY OF DENVER DEPARTMENT OF AVIATION) HAS A TOTAL OF $4.3 BILLION RATED DEBT OUTSTANDING

Airport
CO

Moody's Rating

ISSUE		RATING
Airport System Revenue Bonds, Series 2009A		A1
Sale Amount	$160,800,000	
Expected Sale Date	09/30/09	
Rating Description	Revenue	
Airport System Revenue Bonds, Series 2009B		A1
Sale Amount	$71,025,000	
Expected Sale Date	09/30/09	
Rating Description	Revenue	
Airport System Revenue Bonds, Series 2009C		A1
Sale Amount	$107,240,000	
Expected Sale Date	09/30/09	
Rating Description	Revenue	

Moody's Outlook Stable

Opinion

NEW YORK, Sep 17, 2009 -- Moody's Investors Service has assigned an A1 underlying rating to Denver International Airport's (DIA's) Airport System Revenue Bonds, $339.1 million Series 2009 A,B,&C. The rating outlook is stable. At this time we are also affirming our A1 underlying rating on all outstanding parity bonds. The Series 2009A and B bonds ($160.77 million and $71.025 million, respectively) are fixed rate bonds. The $107.24 million Series 2009C bonds are expected to be issued as variable rate bonds supported by an irrevocable direct pay letter of credit (LOC) provided by J.P. Morgan Bank (long-term rating Aa1/short-term rating P-1, negative outlook). The enhanced rating on the 2009C bonds will reflect the financial strength of the LOC, and will be discussed in more detail in a forthcoming report.

LEGAL SECURITY: Net airport revenues. The pledge of PFCs is being changed simultaneously with this issuance. Historically, two-thirds of passenger facility charges (PFCs) have been pledged to debt service and this will be extended through 2014. For the purposes of calculating the debt service coverage, this amount is used as a direct offset to debt service requirements. The remaining one-third has previously remained unpledged, but will now be pledged as revenue and be included as revenue in the calculation of debt service coverage. The rate covenant requires gross revenues plus other available revenues, including the rolling coverage account, to be sufficient to cover operating and maintenance expenses (O&M) and 125% of debt service. The rolling coverage account is currently funded at 25% of debt service and debt service reserves are funded at maximum annual debt service.

INTEREST RATE DERIVATIVES: The airport's swap agreements are with several counterparties and were undertaken in accordance with the City and County of Denver's Master Derivatives Policy.

The 1998 swap agreements were entered into for a notional amount of $300 million, effective October 4, 2000. The airport pays a fixed rate and receives a rate matched to the bond floating rate. A portion ($200M) of these swaps hedge the airport's 2008 C2&C3 variable rate demand bonds (VRDB) and $100M now hedges the 2008C1 bonds.

The 1999 SIFMA swap agreements were entered into for a notional amount of $200 million, effective October 4, 2001. The airport pays a fixed rate and receives SIFMA. In 2002 the airport entered into two interest rate exchange agreements for a total notional amount of $200 million. The airport pays SIFMA and receives an average of 76.165% of 1-month LIBOR, effective April 15, 2002. Taken together, the 1999 and 2002 swap agreements will result in the airport receiving 76.165% of LIBOR, rather than SIFMA, and it will continue to pay the fixed rate agreed to in the 1999 swap agreements. These swaps were used to hedge the airport's 2001 C bonds, however, since these bonds were refunded, the hedge will be matched with the 2008B, 2002C, and 2009C variable rate bonds. Additionally, in 2007, the Airport entered into a forward starting interest rate exchange agreement for a notional amount of $200 million that has an effective date of May 1, 2010. The Airport will pay 76.165% of 1-month LIBOR and receive 65.55% of 10-year LIBOR. When the 2007 swap agreement becomes effective, taken together, the 1999, 2002, and 2007 swap agreements will result in the Airport receiving 65.55% of 10-year LIBOR and paying the fixed rate agreed to in the 1999 swap agreements.

The airport has entered into several forward starting interest rate exchange agreements to provide predictability in savings on future refunding transactions. The 2005 swap agreement entered into for a notional amount of $279.6 million was effective November 15, 2006. The Airport pays a fixed rate and receives 70% of 1-month LIBOR. In 2006, the Airport entered into a swap agreement (2006B swap agreement) in which the Airport pays SIFMA and receives a fixed rate. Taken together, the 2005 and 2006B swap agreements result in the Airport paying SIFMA and receiving 70% of 1-month LIBOR plus the difference between the fixed swap rates. The 2005 and 2006B swap agreements are associated with the 2006A fixed rate bonds. The 2006A swap agreement entered into for a notional amount of $361.7 million, effective November 15, 2007, was designed to hedge floating rate refunding bonds Series 2007 F & G bonds. Approximately $120.23 million of these are now associated with the 2008A swap agreements. Under these agreements, the airport pays a fixed rate and receives 70% of 1 month LIBOR.

The swaps are not a perfect hedge and the airport may need to make additional floating rate payments to the extent the tax exempt variable rate on the bonds exceeds the floating rate agreed to in each of the swaps. The airport retains a unilateral option to terminate the swaps; however a payment may be due from the airport if it opts to terminate. Currently the combined market value of the airport's swap portfolio is $158.6 million in favor of the counterparties. The airport could be required to post collateral or the swap counterparties could have the right to terminate the swaps if the airport rating were to fall, which could result in a drain on the airport's liquidity. Payments, including termination payments due under the swaps are subordinate to senior lien debt service payments. Given the stability of the airport's credit rating, we do not believe these agreements present a significant credit risk to the airport at this time.

STRENGTHS:

*Solid enplanement levels despite the recession indicate the relative strength of the Denver economy

*Continued growth from Southwest Airlines contributes to greater airline diversity

*Strong cash position provides financial flexibility

*Relatively short average life of debt could allow for restructuring to reduce near term costs, if needed

*Strong proactive financial management with a focus on maintaining stable and predictable rates charged to the airlines

CHALLENGES

*High debt load results in relatively high airline costs

*Reliance on the dominant carrier United (corporate family rating Caa1/negative outlook), which accounts for 48% of enplanements

*Potentially large capital plan if additional projects are undertaken

RECENT DEVLOPMENTS

Denver has not seen the same magnitude of enplanement declines that have been experienced at other airports in the U.S. this year. Year-to-date through June enplanements are down only -4.7%, compared to the national average passenger decline of -8.9%, according to the Bureau of Transportation statistics. Enplanement growth of over 70% by Southwest Airlines (senior unsecured rated Baa3, stable) has offset enplanement declines by United (approximately -10%) and Frontier (ratings withdrawn approximately -15%).

Frontier filed for bankruptcy in 2008 and was recently sold in bankruptcy to Republic Airlines (not rated), which owns Midwest Airlines and several small regional airlines. The impact of this sale at Denver is unclear, but to date there has been no indication that service levels will change sharply in either direction.

The rapid growth from Southwest Airlines continues to bring greater airline diversity to the airport and has helped to reduce United's market share from 59% in 2004 to 48% in 2008. The airport's enplanement levels have also benefited from the relatively strong regional Denver economy. By many measures the economic recession and housing slumps have been less severe in the City of Denver (GO rated Aa1) and this has kept demand for travel to and from the area stronger than average.

Financial results for FY 2008 showed little change from FY 2007. Debt service coverage declined slightly to 1.60 times from 1.68 times due to a jump in operating expenses from a need to increase maintenance staff and contracts for improved snow removal operations. FY2008 cost per enplanement (CPE) increased only slightly to $10.73 from $10.69, indicating the airport's ability to manage its elevated costs during FY 2008. CPE remains a concern as it is well above the Moody's U.S. airport median of $6.24 and is projected to rise to over $15 by 2014. While these costs have not impacted competition at the airport in recent years, Moody's notes that increasing airport costs have the potential to limit future carrier growth particularly by low cost carriers such as Southwest.

Debt service coverage by bond ordinance is expected to decline measurably over the five-year forecast period; however, the additional PFC pledge will keep the numbers near current levels. For FY 2008, the airport had debt service coverage of 1.60 times on a bond ordinance basis using two-thirds of PFCs as an offset to debt service requirements and 1.10 times on a net revenue basis without any benefit of PFCs. With the remaining one-third of PFCs now pledged as revenues, coverage is forecast to jump to 172% for both senior and subordinate debt in 2009 and decline to 157% by 2014. Under a sensitivity analysis that includes fairly conservative enplanement growth assumptions, the coverage only slips to 152% for all debt, so Moody's expects coverage to remain solid.

Internal financial liquidity is one key strength that helps to offset both the operational risk of concentration in United, as well as the financial risk associated with the airport's substantial amount of variable rate debt and complex swap portfolio. Currently the airport has an above average liquidity level with 469 days cash on hand. Given the magnitude of the operational and financial risk the airport currently faces, Moody's expects total cash to remain near or above current levels. A measurable change in liquidity would reduce the airport's financial flexibility necessary to balance a potential severe financial market dislocation or a sharp change in service levels from United, Frontier or Southwest.

The airport has changed its capital planning horizon to a four-year plan, reducing it from its historically six-year plan due to the amount of uncertainty in the commercial aviation industry. As a result the capital improvement plan (CIP) has reduced from the $987 million 2008 through 2013 plan to the $584 million 2009 through 2012. The new CIP does not include a number of major additional projects that the airport will evaluate on a case-by-case basis and likely pursue if acceptable financial metrics can be maintained. These major projects, such as $119 million FasTracks rail station and $214 million airport hotel, have the potential to significantly change the airport's debt profile depending on how they are financed and what additional funding sources are included. For now the CIP mainly includes airfield and terminal infrastructure upgrades and major maintenance projects that will be funded through the current bond offering. The airport also expects to issue approximately $384 million in additional bonds in the next two years to fund the remaining portion of the 2009-2012 projects and this debt has been included in all financial projections discussed in this report.

Outlook

The rating outlook is stable reflecting the solid enplanement levels, strong financial liquidity, and proactive financial management that continues to produce solid financial margins.

What Could Change the Rating - UP

Moderating debt position, improved financial strength of United and continued growth in O&D enplanements from airlines other than United could have positive credit implications.

What Could Change the Rating -- DOWN

Meaningful reduction in available reserves or debt service coverage, changes in United's strategy at the airport that may result in a significant loss of passengers, and significant variations in cost per enplanement versus projections could put downward pressure on the rating.

KEY INDICATORS

Type of Airport: Connecting Hub

Rate-making methodology: Hybrid

FY 2008 Enplanements: 25.650 million

5-Year Enplanement CAGR 2003-2008: 6.5%

FY 2008 vs. FY 2003 Enplanement growth: 21.3%

FY 2008 vs. FY 2007 Enplanement growth: 2.8%

FY 2009 YTD vs. FY2008 YTD Enplanement growth: -4.7%

% O&D vs. Connecting, FY 2008 (5 YR AVG): 56% (56%)

Largest Carrier by Enplanements, FY 2008 (share): United (48.2%)

Airline Cost per Enplaned Passenger. FY 2008 (5 YRAVG): $10.73 ($11.75)

Debt per Enplaned Passenger, FY 2008 (5 YR AVG): $127 ($146)

Bond Ordinance Debt Service Coverage, FY 2008 (5 YR AVG): 1.60x (1.66x)

Utilization Factor, FY 2008: 5.7

RATED DEBT

Airport System Senior Revenue Bonds, $4.343 billion

ISSUER CONTACTS

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The last rating action was on September 18, 2008 when the ratings on the Series 2008C bonds were assigned and the parity bond ratings were affirmed.

The Denver International Airport's revenue 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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