Moody's Investors Service

New Issue: **MOODY'S ASSIGNS A1 RATING TO DENVER AIRPORT REVENUE BONDS, SERIES 2010A; OUTLOOK IS STABLE**

Global Credit Research - 11 Feb 2010

DENVER INTERNATIONAL AIRPORT HAS A TOTAL OF $4.1 BILLION RATED DEBT OUTSTANDING

Airport
CO

Moody's Rating

ISSUE	RATING
Airport System Revenue Bonds, Series 2010A	A1

Sale Amount	$115,000,000
Expected Sale Date	03/15/10
Rating Description	Revenue Refunding

Opinion

NEW YORK, Feb 11, 2010 -- Moody's Investors Service has assigned an A1 rating to the City of Denver's, Denver International Airport (DIA) Airport System Revenue Bonds, Series 2010A. The rating outlook is stable. At this time we are also affirming our A1 underlying rating on all outstanding parity bonds. The rating and outlook are based on the airport's strong market position, stable enplanement levels, and strong financial liquidity that offsets the key risks exposures of connecting passenger traffic, variable rate debt, and financial derivative instruments.

USE OF PROCEEDS: The Series 2010A bonds will be issued in amount of at least $115 million used to refund the Series 2008A2 bonds, which have a mandatory tender date of May 15, 2010. The Series 2010A bonds could be issued in an amount up to $388 million as the airport will be conducting an open market purchase request that will allow holders of the Series 2008A3 and A4 bonds to redeem their bonds early if they choose. The Series A3 and A4 bonds have a mandatory tender date of May 15, 2011.

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 is pledged as revenue and will 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 with remaining notional amount of $200 million became effective on October 4, 2000. The airport pays a fixed rate and receives a rate matched to the bond floating rate. These swaps hedge the airport's 2008 C2&C3 variable rate demand bonds (VRDB).

The 1999 SIFMA swap agreements with a remaining notional amount of $150 million became effective on October 4, 2001. The airport pays a fixed rate and receives SIFMA. In 2002 the airport entered into an interest rate exchange agreement with a remaining notional amount of $100 million. The airport pays SIFMA and receives 76.33% of 1-month LIBOR, effective April 15, 2002. Taken together, the 1999 and 2002 swap agreements will result in the airport receiving 76.33% of LIBOR, rather than SIFMA, for $100 million of the notional amount.

The 2009A swap agreement with a remaining notional amount of $50 million became effective on January 12, 2010. The airport pays the counterparty a fixed rate of 5.6229% and receives SIFMA. The 1999, 2002 and 2009A swaps are associated with Series 2009C, Series 2008B, and a portion of the Series 2001C bonds.

The 2005 swap agreements with a remaining notional amount of $279.6 million became effective on 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 agreements with a remaining notional amount of $119.9 million became effective on November 15, 2007 and are designed to hedge a portion of floating rate refunding bonds Series 2007 F & G Under these agreements, the airport pays a fixed rate and receives 70% of 1 month LIBOR.

The 2008A swap agreement with a remaining notional amount of $239.8 million became effective on December 18, 2008 and is designed to hedge a portion of floating rate refunding bonds 2007 F & G. Under this agreement, the airport pays a fixed rate and receives 70% of 1 month LIBOR.

The 2008B swap agreement with a remaining notional amount of $100.0 million became effective on January 8, 2009 and is designed to hedge floating rate refunding bonds Series 2008 C1. 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 $152.0 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

CHALLENGES

*High debt load results in relatively high airline costs

*Reliance on the dominant carrier United (enhanced equipment trust Ba3/negative outlook), which accounts for 48% of enplanements

*Potentially large capital plan if additional projects are undertaken

RECENT DEVLOPMENTS

Enplanements at Denver remained relatively stable through 2009 due primarily to growth from Southwest Airlines (senior unsecured rated Baa3, stable outlook) and U.S. Airways (long term corporate family rated Caa1, negative outlook). While the airport's largest carriers United and Frontier (not rated) reduced enplanements by 6.2% and 11.5%, respectively, Southwest and U.S. Airways increased service by 51.9% and 17.4% respectively. The recent growth of Southwest in the Denver market has made it the third largest player in the market with approximately 14% share of the market. This has reduced the airport's dependence on United, whose market share has fallen to 46.2% and its dependence on connecting traffic which increased to 63.2% in 2009 from 59.6% in 2008.

The airport spent $12.5 million to purchase five gates from United Airlines for a six year period. The purchase provides the airport with the ability to improve its gate utilization to support the current growth. Southwest recently added 2 gates to the 10 it was using and expects a need for 5 additional gates by the end of 2010. The purchase of Frontier Airlines by Republic remains an on-going concern as it brings the potential that the carrier could change its activity level at Denver. To date there has been no indication that a major change will occur, though the airline has reduced capacity by using smaller aircraft on the Denver routes. The majority of airline use and lease agreements expire at the end of 2010, which adds an additional risk as it provides carriers an opportunity to adjust their presences at the airport. While Moody's notes this risk, the strong growth from Southwest and the stability of total enplanement levels provide an indication of the strength of the market.

Financial results for FY 2009 remain unavailable, but the airport does not expect significant changes in revenues or available cash. Expenses have been running slightly below budget and revenues are expected to be bolstered by modest growth in concession and parking revenue. Parking revenue benefits from a $1 per day rate increase in all lots except garage parking that should more than offset the revenue lost by the lower passenger count. Management expects cost per enplanement to remain near the projected figure of $11.93 and debt service coverage to remain close to the 1.74 times forecast for the 2009 bond issue.

The airport's complex debt portfolio and extensive swap portfolio add an additional layer of financial risk. Moody's views the airport's solid financial liquidity, which stood at $480.1 million at the end of 2008 as a key offset to this risk.

Denver has not made any significant changes to its capital program since our last report. The program remains focused on 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 $296 million in additional bonds in the next two years to fund the remaining portion of the 2009-2012 projects. A few major projects, such as the 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. The FasTracks station will likely need to be funded during the next few years as the city continues to move forward with that project. The cost was previously set at $119 million, but is currently being re-evaluated. Management does not plan to pursue the hotel or other major projects until demand warrants.

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 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: 25.65 million

FY 2009 Enplanements25.13 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: -2.0%

% 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)

Days Cash on Hand, FY 2008: 469

Utilization Factor, FY 2008: 5.7

RATED DEBT

Airport System Senior Revenue Bonds, $4.136 billion

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The last rating action was on September 17, 2009 when the ratings on the Series 2009A, B & C 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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