Moody's INVESTORS SERVICE

New Issue: MOODY'S REVISES THE OUTLOOK ON CITY OF DENVER AIRPORT SYSTEM REVENUE BONDS TO NEGATIVE FROM STABLE

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OUTLOOK AFFECTS $4.0 BILLION IN TOTAL DEBT

Airport
CO

Moody's Rating

ISSUE	RATING
Airport System Revenue Bonds, Series 2011A	A1

Sale Amount	$400,000,000
Expected Sale Date	04/14/11
Rating Description	Revenue Refunding

Opinion

NEW YORK, Mar 28, 2011 -- Moody's Investors Service has revised the outlook on the City of Denver's Airport System Revenue Bonds A1 rating to negative from stable. We have also assigned an A1 to the airport's $400 million Airport System Revenue Bonds, Series 2011A and affirmed the A1 rating on the airport's parity senior lien debt outstanding. The outlook revision is primarily based on the airport's capital plan which includes a substantial amount of debt funding for non-core or non-revenue generating projects. These projects introduce substantial new operational risks to the enterprise, which already has an above-average debt burden.

USE OF PROCEEDS: The proceeds of the Series 2011 A bonds will be used to refund all of the current Airport System Revenue Bonds, Subseries 2008A3 with outstanding principal of $122.06 million, all of the current Airport System Revenue Bonds, Subseries 2008A4 with outstanding principal of $72.35 million, and all or a portion of the outstanding Airport System Revenue Refunding Bonds, Series 2000A, with outstanding principal of $173.095 million. Proceeds will also be used to fund an increase in the Bond Reserve Fund equal to the minimum bond reserve requirement.

LEGAL SECURITY: Net airport revenues on a parity basis with all other senior bonds. 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. As per the senior bond ordinance, the airport's $4.50 Passenger Facility Charge (PFC) is to be allocated as follows: $1.50 (33%) of the PFC will be included in the definition of gross revenue and the remaining $3.00 (67%) will be applied as a reduction in the annual debt service requirement. This arrangement will extend through the end of fiscal year 2013 and the airport intends to apply PFC in the same manner through 2018.

INTEREST RATE DERIVATIVES: The airport's swap agreements are with several counterparties and were undertaken prior to 2007 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 2002C 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 $239.1 million became effective on November 15, 2007 and are associated with a portion of Series 2007F, Series 2007G and Series 2002C Bonds. 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 $119.5 million became effective on December 18, 2008 and is associated with a portion of Series 2007F, Series 2007G and Series 2002C Bonds. 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 are associated with Series 2008 C1 and a portion of the Series 2002C Bonds . 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 airport's swap portfolio has a negative mark-to market of $163.8 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.

RATINGS RATIONALE

STRENGTHS:

*A record level of enplanements in FY 2010 coupled with consistent annual enplanement growth, despite the recession, indicate the relative strength of the Denver economy

*Continued market share growth from Southwest Airlines and Frontier Airlines contributes to greater airline diversity

*Stable liquidity position above the Moody's median for Hub Airports provides financial flexibility

CHALLENGES

*Elevated leverage position based on the Moody's median as measured by Debt per O&D Enplanement and Debt to Operating Revenues for Hub Airports

*Cost per Enplanement (CPE) has consistently been above the Moody's median for Hub Airports and is expected to edge higher in the coming years

*Reliance on the dominant carrier United (Senior Secured Baa2/stable outlook), which accounts for 44.1% of enplanements

*Potentially large 2011-16 capital plan that would require additional debt issuance if certain projects are not deferred

RECENT DEVLOPMENTS

The trajectory of senior bond debt service coverage ratio (DSCR) will be shaped by the airport's 2011-16 capital plan and how it will be funded. The estimated total cost of the capital program is approximately $909.4 million with the bulk of the total cost borne by the South Terminal Redevelopment Program (STRP). The major projects within the STRP include the construction of a rail station that will provide connectivity to Denver Union Station via the Regional Transportation District's FasTracks. Along with the construction of the rail station itself, the airport will build a plaza above the station that will provide public access between the South Terminal, the Denver International Airport (DIA) FasTracks station, and a 500-room, full service hotel to be operated under the Westin brand. The STRP also includes an expansion of both the baggage system and AGTS. Management has allocated a maximum total cost of $500 million for the STRP.

These additional projects have the potential to significantly change the airport's debt profile depending on how they are financed and what additional funding sources are included. Management currently anticipates using a new subordinate lien for general airport revenue bonds as a primary source of funding for the capital plan and selectively issue senior lien debt to maintain current financial metrics. Debt for the planned hotel is expected to be issued on the senior lien. The airport will own the hotel and has contracted with Starwood Hotels to operate the hotel as a Westin. Westin will receive a management fee and the airport will absorb the financial risk associated with the hotel's performance. Moody's believes this venture into a non-core business carries substantial risk to the airport because demand levels for the hotel are unknown, the hotel industry has a history of substantial volatility, and the costs cannot be allocated to the airline rate base. In addition, the airport's high leverage position limits its flexibility to manage volatility in the hotel's operating income.

Moody's also notes that the local economy and the airport have both performed solidly through the recent economic recession and the fluctuations of the previous years. Since the economic recession of 2001-02, enplanements at DIA have grown from 17.830 million, to a record 26.134 million at the end of FY 2010, representing 46.6% growth over that time frame. Fiscal Year 2009 was the only year with negative enplanement growth since 2002 which can be attributed to the most recent economic downturn. The 2.0% year-over-year enplanements decline in FY 2009 is relatively mild compared with the Moody's Hub Airports median enplanement growth of -7.8% for the same period. From an annual enplanement growth perspective, DIA has generally outperformed most airports within rated portfolio over the last ten years, and especially within the last three years.

United Airlines remains the airport's largest carrier with a 44.1% share of FY 2010 enplanements. The hub operation that United maintains at DIA will be a stabilizing factor for the airport over the long-term since the latest executed Use and Lease Agreement (ULA) expires in February 2025 with the airline leasing thirty-five gates from the airport's total capacity of eighty-five gates. The October announcement of the merger between United Airlines and Continental Airlines is not anticipated to have a major effect on United's scale of operations at the airport being that Continental's market share is only 2.1% at DIA coupled with the scale and service differential offered by the carriers.

Low-cost carriers (LCC) at DIA have been able to steadily gain market share and enhance the competitiveness of fares as a whole for passengers traveling at the airport. Similar to United, Frontier maintains a hub operation at DIA, and captured 21.8% market share in FY 2010, compared with a 16.7% market share in FY 2005 when enplanements were approximately 17% lower than the most recent level of 26.134 million enplaned passengers. Frontier leases 18 gates at the airport under an ULA that expired in February 2010. Since that time, the airline has been operating on a month-to-month tendency, and airport management is in the process of executing an extended ULA by the end of 2011. Southwest Airlines (Long Term Rating Baa3/stable outlook), which began service to the Denver market in January 2006, has the third largest market share at DIA with 18.1% of enplanements in FY 2010. The airline has expanded to provide non-stop service to thirty-seven cities from Denver, in comparison to the ten cities it served in 2006 when commencing operations. As with Frontier, Southwest leases 17 gates at the airport under an ULA that expired in February 2010, and is currently operating on a month-to-month tendency while an extended ULA is being executed.

The impact that both Southwest and Frontier have on air service competition at the airport can be illustrated in terms of both competition for passengers and fares. Since the first quarter of 2001, and continuing after 2006 when Southwest initiated operations out of DIA, the average airfare at DIA has dropped approximately 36% from $452 to $291. In terms of passenger competition, United's 56.4% share of enplanements in FY 2005 has fallen to the 44.1% share recorded in FY 2010. The size of the hub operation at United is reflected in the airline's 61.5% share of total connecting passengers at the airport. Southwest and Frontier, on the other hand, appear to cater to a more origin and destination enplanement base with a combined 44% share of total originating passengers at DIA.

DIA's hybrid rate-making methodology ensures full cost recovery, including debt service, on the airfield while allowing the airport flexibility to generate revenue diversity from non-airline sources. Facility rentals, parking income and landing fees account for approximately three-quarters of total operating revenues at the airport. The airport has maintained an active role in managing parking revenues by increasing rates as necessary, with the latest change resulting in a $1 increase on both the economy and surface lots. The steady increase in facility rentals and operating revenues as a whole over the years has contributed to a CPE that is persistently above $10 at the airport. The $12.72 CPE in FY 2009 was the highest since FY 2005 and management has forecasted CPE to continue rising towards the $15 range in FY 2015. DIA's CPE is higher than the Moody's Hub Airport median of $10.77, and could become a potential source of pressure for the low cost carriers in the medium term, which could affect the competitive dynamics of recent years.

Although operating revenues have historically been rising, operating expenses have been rising faster than passenger growth at the airport over the same period. Airport management has recognized this challenge and is working to institute better expense control at the airport. The major sources of operating expense growth have been for personnel services, which have risen 25% between FY 2005 and FY 2009, and for repair and maintenance projects whose costs have substantially increased since FY 2007 due to certain aspects of the airport's capital plan being expensed rather than capitalized.

At the end of FY 2010, DIA had just under $4 billion in bonds outstanding as the airport continues to work off debt associated with initial construction in the mid-nineties and associated improvements since. The airport's total leverage profile is nearly double the Moody's Hub Airport median of $2.083 billion, while debt per enplaned passenger of $254.90 and debt to operating revenues greater than 7.0 times in FY 2009 are also greater than the Moody's Hub Airport medians for the same metrics. The aggregate debt profile of the airport has led to annual debt service costs on senior bonds to be in excess of $300 million annually till 2025. Moody's notes that annual debt service costs combined with the trend of operating margin compression at the airport could pressure debt service coverage in the future, especially considering the recent trend of bond ordinance debt service coverage since FY 2005 between 1.56 and 1.76 times. The airport's complex debt portfolio and extensive swap portfolio add an additional layer of financial risk. Moody's views DIA's financial liquidity, measured at 472 days cash on hand in FY 2009, as a key offset to the risks the airport faces with respect to its debt profile.

Outlook

The principal methodology used in this rating was 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.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's Investors Service information, and confidential and proprietary Moody's Analytics information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.The negative outlook reflects concerns about the additional non-core and/or non-revenue generating projects that the airport has committed to, which will further encumber its already debt-heavy balance sheet. Key elements to the outlook also include the manner in which these projects are financed, the performance of the construction, and the airport's ability to manage the projects within the expected budget.

What Could Change the Rating - UP

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

What Could Change the Rating -- DOWN

A marked increase in senior lien debt related to the capital program that results in lower DSCRs , changes in United's strategy at the airport that result in a significant loss of passengers, and significant variations in CPE versus projections could put downward pressure on the rating.

KEY INDICATORS

Type of Airport: Connecting Hub

Rate-making methodology: Hybrid

FY 2010 Enplanements:26.134 million

FY 2009 Enplanements25.128 million

5-Year Enplanement CAGR 2006-2010:2.02%

FY 2010 vs. FY 2006 Enplanement growth: 10.43%

FY 2010 vs. FY 2009 Enplanement growth: 4.00%

FY 2011 YTD vs. FY 2010 YTD Enplanement growth:4.03%

% O&D vs. Connecting, FY 2010 (5 YR AVG): 54.03% (55.47%)

Largest Carrier by Enplanements, FY 2010 (share): United (44.1%)

Airline Cost per Enplaned Passenger. FY 2009 (5 YRAVG): $12.72 ($11.73)

Debt per Enplaned Passenger, FY 2009 (5 YR AVG):$137.65 ($139.54)

Debt per O&D Enplaned Passenger, FY 2009 (5 YR AVG):$254.90 ($250.89)

Bond Ordinance Debt Service Coverage, FY 2009 (5 YR AVG): 1.56x (1.64x)

Days Cash on Hand, FY 2009:472 Days

Utilization Factor, FY 2009:5.32x

RATED DEBT

Airport System Senior Revenue Bonds, $3.976 billion

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