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March 27, 2008

Denver International Airport, Colorado; Airport

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Credit Profile		
US$455.51 mil Aiport System rev bnds (Denver Intl Arpt) (Term Rate-Amt) ser 2008A due 11/15/2032		
Long Term Rating	A+/Stable	New
Denver City & Cnty Dept of Aviation, Colorado		
Denver Intl Arpt, Colorado		
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) (FGIC)		
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)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) (XL CAPITAL)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating to Denver City and County Department of Aviation, Colo.'s $455.51 million series 2008A senior-lien airport system revenue bonds, issued on behalf of the Denver International Airport (DIA). Additionally, Standard & Poor's affirmed its 'A+' rating and underlying rating (SPUR) on DIA's outstanding senior-lien general airport revenue bonds. The rating is based on the demonstrated commitment of United Air Lines ('B/Stable'), which holds the majority of the market share, to continue using DIA as a major hub, as well as the strength and resiliency of airline travel demand in a solid service region.

More specifically, credit strengths include:

- Strong growth in enplanements to a historical high of 24.9 million in 2007, a 5.4% increase from the previous record of 23.7 million in 2006 and a 28.6% increase from the pre-Sept. 11, 2001, record of 19.4 million in 2000;
- Good senior-lien debt service coverage (DSC) in 2006 of 1.89x when including revenues from the coverage account and a passenger facility charge (PFC) to offset debt service, or coverage of approximately 1.48x on a cash flow basis excluding the coverage account and including PFCs as revenue;
- 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.

These strengths are mitigated by the following weaknesses:

- Significant additional debt during the forecast period through 2013 to implement the airport's $987 million capital improvement plan (CIP);
- The inherent vulnerability of high air carrier concentration in United Air Lines, which, including United Express and Ted, accounted for 53.3% of market share in 2007;
- A high degree of connecting traffic (43% of the total), which is more elastic than the stable origin and destination

(O&D) traffic; and
- A high cost structure at a projected $10.59 per enplaned passenger in 2008 and an above-average debt load ($165 senior-lien debt per enplaned passenger in 2007).

The bonds are secured by a first lien on the airport system's net revenues. The series 2008A bonds are being issued as part of the airport's restructuring of its variable rate debt portfolio. Due to the recent poor performance of the auction rate securities (ARS) market, the department plans to refund all outstanding ARS. The 2008A bonds are being issued to refund the department's outstanding series 2002A1-3 ARS, series 2005B1-2 ARS, and series 2001C3-4 subordinate lien ARS. A portion of the series 2008A bonds are being issued as fixed-rate bonds. The remainder of the series 2008A bonds are being issued as term rate bonds with an initial fixed rate period of two years or longer. At the end of the term rate period, the bonds can be converted to another interest rate mode, including a variable rate mode, or remain as term rate bonds with a new term rate period. A liquidity facility is not required during a term rate mode, and no liquidity facility is provided for the initial term rate period. The bonds must be remarketed at the end of the term rate period. Should the remarketing agent be unable to remarket the bonds, the bonds will bear interest at the maximum rate of 10% until they are successfully remarketed. The department will not be terminating any swaps as part of this refunding.

In addition to this financing, the department plans to refund the outstanding series 2001C1-2 ARS with commercial paper, which will be taken out by revenue bonds at a later date. The department also plans to convert the outstanding series 2007F1-4 ARS to variable rate mode, backed by a liquidity provider. After these steps, the department will have no ARS outstanding. In addition to the outstanding ARS, the department's CIFG-insured series 2004A, 2004B, and 2005C1-2 variable rate bonds have been performing poorly, compared to the department's other variable rate bonds. The department is exploring its options regarding the possible restructuring of these bonds, and they may be refunded in conjunction with this transaction.

The department has $4.0 billion in outstanding senior-lien revenue bonds and $200 million in outstanding subordinate lien bonds. As of Dec. 31, 2007, the department had $316.6 million in unrestricted funds in an operating fund and capital fund, an amount equal to a good 398 days' of unrestricted cash and investments on hand, or about 7.7% of total outstanding senior lien debt. The department currently has a $127 million commercial paper program, $100 million of which will be used to refund the subordinate lien series 2001C1-2 ARS.

The 2008-2013 CIP is large at $987 million, and will further expand capacity at the airport. The plan of finance for this CIP relies primarily on debt. Management expects to issue more than $900 million in bonds to finance the CIP. Although Standard & Poor's is concerned about the size of the CIP and the amount of debt, financial forecasts and management's track record in handling large CIPs partially mitigates this concern. We will closely monitor the implementation of the CIP.

Outlook

The stable outlook is based on our expectation that United Air Lines will continue to operate a major hub at DIA, generating results that are in line with current forecasts of financial performance and positive passenger forecasts. Prudent implementation of a capital plan that maintains current estimates of additional indebtedness and debt service coverage will be an important rating factor going forward.

Airport Description

The Denver Municipal Airport System is owned by the City and County of Denver and, under city charter, management and operation of the system is delegated to the city's department of aviation. The manager of the department of aviation is appointed by the city's mayor. The primary asset of the airport system is Denver International Airport (DIA), which opened on Feb. 28, 1995, and replaced Stapleton International Airport. The airport system also includes land at the former Stapleton airport site. In 2006, DIA was ranked as the fifth-busiest airport in the nation, based on total passengers, and maintained that rank during the first 11 months of 2007.

The airfield includes six runways, one of which is the longest commercial service precision-instrument runway in North America. The airfield has been designed to accommodate up to 12 runways. The passenger terminal complex includes a landside terminal and three airside concourses with a total of 95 full-service jet gates and 64 commuter aircraft parking positions. The terminal and concourses are connected by an underground automated guideway transit system. The airport has more than 80 concessionaires operating at approximately 140 locations in the terminal complex. Two parking structures adjacent to the terminal building provide more than 14,000 parking spaces. More than 27,000 additional parking spaces are provided in both close-in and remote surface parking lots.

Legal Provisions

The senior-lien general airport revenue bonds are secured by a pledge of airport net revenues after the payment of operating and maintenance (O&M) expenses. Covenants require that gross airport system revenues, together with other available funds -- limited to 25% of debt service and credited to the airline rate base from a rolling DSC account -- be sufficient to pay the larger of total required deposits to funds created under the indenture or 125% of the aggregate debt service requirements on the senior bonds. The flow of funds is typical for airports, with provisions to pay O&M expenses, senior-lien bonds, bond reserve requirements, subordinate bond requirements, and an O&M reserve account (one-sixth of the previous year's O&M), with the excess flowing to a capital fund. Once deposited to the capital account, funds are used to top off the coverage account and fund equipment and capital outlays, with 50% of the remainder shared with the airlines as a rental credit (capped at $40 million per year); the balance deposited to a capital improvement account. Before 2006, the amount shared with the airlines was 75%. The bond reserve fund is set at the maximum annual debt service requirement on outstanding senior bonds. At the time of the 2008 issuances, the amount in the reserve fund will be at least the requirement. Should future issuances raise the reserve fund minimum, the department can, at its discretion, fund the increased reserve requirement during a 60-month period.

The additional bonds test (ABT) is a projected test. The department may issue additional senior lien airport system revenue bonds if the following conditions are met: net revenues, including rolling coverage from other available funds, during a 12 month period in the previous 18 months must be at least 125% debt service for that period; and projected net revenues for each of the three fiscal years after project completion, including rolling coverage provided by other available funds, must be at least 125% of aggregate debt service on all outstanding and proposed bonds, including additional bonds required for projection completion.

For purposes of calculating debt service coverage in the rate maintenance covenant and ABT, the department may deduct dedicated PFC revenues from the debt service requirement (the denominator). This is more permissive than including PFC revenues in net revenues when calculating coverage, and therefore allows for potentially greater leverage. The airport currently pledges two-thirds of PFC revenues to the payment of debt service, representing $3.00 of the $4.50 passenger facility charge.

Airline Use/Lease Agreement

DIA has use and lease agreements with all major domestic carriers and foreign-flag carrier airlines. These agreements utilize a hybrid rate setting methodology to determine airline charges. Landing fees are based on a cost center residual methodology and terminal rental rates are based on a compensatory methodology. Pursuant to the agreements, the airlines also acknowledge that the rate base for rentals, fees and charges must generate gross revenues that, together with over available funds, satisfy the rate covenant. The department may amend the rate-making system with the written consent of a majority of signatory airlines represented by both a numerical majority and a majority in terms of rentals, rates, fees and charges paid in the preceding fiscal year.

Starting in fiscal year 2006 and continuing thereafter, 50% of net revenues remaining after payment of debt service and fund deposit requirements, with an annual maximum of $40 million, are required to be applied as a credit against signatory airline rentals, fees, and charges in the following fiscal year. The remaining 50% of net revenues plus any excess are to be credited to the capital improvement account of the capital fund to be used for any lawful airport purpose. It is expected that the maximum $40 million will be credited to the airlines, though this will not be determined until the summer of 2008. Prior to 2006, the amount of net revenues credited to the airlines was 75%.

The airport also entered into a specific agreement with United Airlines in 1991, which terminates in 2025. The terms of the agreement are similar to those of the other passenger airlines. Under the agreement, United agreed to lease, on a preferential use basis, Concourse B, and, on an exclusive-use basis, certain ticket counters and other areas in the terminal complex. The agreement with United contains a provision requiring DIA management to take measures to reduce costs if United's cost per enplaned passenger at DIA exceeds $20, in 1990 dollars, in any year. United's cost per enplaned revenue-passenger is calculated by dividing United's total rentals, fees, and charges by the larger of United's enplaned revenue-passengers for that year or 6 million (the approximate number of United's enplaned-revenue passengers at the former Stapleton International Airport in 1989). United's cost per enplaned-revenue passenger was $11.19 in 2006, in 1990 dollars).

In December 2002, UAL Corp. filed for Chapter 11 bankruptcy protection and emerged in February 2006. In 2003, during bankruptcy proceedings, United assumed the use and lease agreement, with certain changes made under a stipulated order of the bankruptcy court. After the assumption, United's use and lease agreement was further amended in 2005, 2006, and 2007. As a result of the stipulated order and subsequent amendments to the United use and lease agreement, the department agreed to reduce rates and charges for all airlines on a net basis by $4 million per year from 2004 through 2010. In years 2006 through 2010, airline rates and charges are to be further reduced up to an aggregate amount of $50 million, according to a sliding scale based on the net amount available for revenue sharing each year. Cost reductions are to be achieved through revenue from an additional $1.50 PFC that commenced in April 2001, the department's share of net revenues available for revenue sharing, and savings from refundings of outstanding revenue bonds.

In September 2005, United discontinued its use of the automated baggage system at DIA and reverted to the traditional tug and cart system. The rates and charges associated with the automated baggage system are continuing to be charged to the airlines, although the city has agreed mitigate these costs over time. The department also agreed to reduce United's rates and charges associated with the automated baggage system by $4.9 million in 2006, $8.5

million in 2007, and $11.0 million in 2008 through 2025. These reductions are to occur only after the reductions in rates and charges to all airline described above are achieved. Under the 2006 amendment, the department agreed to further mitigate United's baggage system charges by defeasing certain outstanding airport system revenue bonds and reducing amortization charges allocated to the baggage system not to exceed $10 million per year.

Under the 2005 amendments to the United use and lease agreement, United agreed to maintain the following number of enplaned revenue connecting passengers at the airport: 7.5 million in 2006, 7.6 million in 2007, and 7.7 million in 2008 and onward. If United fails to meet this "Base Hub Commitment" in any calendar year, the department's commitment to reduce rates and charges to United decreases by $6 per connecting passenger below the minimums.

Air Trade Service Area/Economy

The air trade service area served by DIA consists of the Denver metropolitan area, including the counties of Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson. Denver serves as a trade and transportation center for the greater Rocky Mountain region. As the state capital, Denver also has a large governmental employment base. In the late 1980s, the city, state, and region suffered a severe recession that resulted in modest population declines in the city. Through the 1990s, however, population and employment growth were strong, due to strength in computers and high technology, service sector expansion, and in-migration from California, even during the national recession of the early 1990s and the closure of regional military bases in the mid-1990s. Beginning in 2001, however, the city and state were affected by the downturn in high technology and telecommunications. The city also experienced a decline in tourist and convention center visitors after the events of Sept. 11, 2001. State employment growth lagged the nation's recovery in 2002 and 2003, before exceeding the nation in 2004, 2005 and 2006.

Denver's population is still increasing today within a larger metropolitan area that is growing strongly. The metropolitan area grew at an average rate of 1.9% between 1995 and 2006, compared to 2.0% for the state of Colorado and 1.1% for the United States. Nonagricultural employment increased at an average rate of 1.8% during that period, although employment fell for three consecutive years from 2002 through 2004, before increasing again in 2005 and 2006, according to Bureau of Labor Statistics data. Unemployment rates for the metropolitan area went from below that of the nation to above the national rate between 2001 and 2003, although metropolitan Denver's unemployment rate dropped back below that of the nation in 2006. Metropolitan area income levels remain above average, with 2005 per capita income at 114% of the state and 124% of the U.S.

Leading area public employers include the state of Colorado, due to Denver's position as the state capital; the federal government; the Denver School District; and the City of Denver. Major private area employers include King Soopers Inc. (10,700), Wal-Mart (10,000), QWEST Communications (9,400 employees), Lockheed Martin Corp. (8,200), and HealthONE (7,700).

Airline Traffic

DIA is classified as a large hub by the FAA. Enplaned passengers totaled 24.9 million in 2007. In 1995, enplanements decreased 5.9%, which was mostly attributable to Continental Airlines' decision to abandon its Denver hub. From 1996 to 2001, traffic at DIA grew an average of 2.2% annually to a total of 18 million enplanements. Enplanements grew 5.2% in 1998, even after the bankruptcy of Western Pacific, and grew a further

3.2% in 1999. In 2000, enplanements grew by only 1.9%, as labor difficulties and bad summer weather nationwide affected United's service at the airport; despite this lower growth, however, enplanements grew to a record high of 19.4 million. In 2001, primarily due to the events of Sept. 11, enplanements dropped 6.9% and were at their lowest level since 1997; the events of Sept. 11 significantly affected DIA and all other U.S. airports. In September 2001, with the nationwide closure of U.S. airports for three days, DIA experienced a 33.1% decline in enplanements relative to September 2000, slightly better than the average 34.9% decline nationally. Management responded well to the crisis of Sept. 11 and sped the airport's recovery. Operating and capital expenditures were strictly monitored, and discretionary spending was suspended. Enplanements at DIA in 2002 were 17.8 million, a decline of only 1.2% from the previous year versus the national average decline of 7.7%. Of the 17.8 million passengers, 54% were O&D. Average daily departures in 2002 were 658 versus 641 in 2001 and 678 in 2000.

Since 2002, enplanements have increased in each year at a compound annual rate of 6.94% to a record total of 24.9 million in 2007. Of those enplanements, 57.1% were O&D, and 42.9% were connecting. The strong growth at DIA has been attributable to recent increased service provided by low-fare carriers and the subsequent market stimulation, as well as the general improvement in the regional and national economies, and the emergence of United from bankruptcy. Southwest Airlines began service on Jan. 3, 2006, and enplaned 3.3% of the market in 2006; in 2007, Southwest's market share increased to 5.3% of enplanements.

Diversity at the airport, while not high, is increasing. In 2007, United, including Ted and United Express, enplaned the largest share of passengers at 53.3%, marking the low at DIA in a downward trend from the historical high of 74.3% in 1998. Frontier Airlines holds the second-largest market share at DIA at 22.6%. Frontier Airlines is a publicly traded, low-fare, low-cost passenger airline based in Denver. It has consistently been increasing market share since DIA opened in 1995, when it held only 1.9%. Currently, 30 airlines provide scheduled passenger service at DIA, including the seven largest U.S. passenger airlines, five foreign-flag airlines, and regional/commuter airlines. In addition, several passenger charter and all-cargo airlines provide service.

With concentration in one airline, the airport enterprise is exposed to the risk of a reduction in connecting traffic. A significant percentage (30.9%, or 7.7 million enplanements) of the DIA's total enplanements is United connecting traffic, and because much of this traffic could be lost if United ceased operations, the financial viability of United is especially important. This concern is mitigated to some degree by United's emergence from bankruptcy and its financial health relative to that of the rest of the airline industry, as well as its significant commitment to remaining at the airport -- as demonstrated by the lease amendments agreeing to route specific numbers of passengers through DIA. Further strengthening DIA's ability to attract and retain carriers is its desirable location for an airline given its large, affluent air trade service area and geographic location. Additionally, DIA is attractive to airlines, given its high yield; DIA consistently has the highest yield of all of United's hubs. Further demonstrating DIA's attractiveness to carriers was Southwest Airlines' entrance into the market in 2006, despite a relatively high cost per enplanement.

The last full consultant's report covering traffic and revenue forecasts was prepared in July 2007. In this report, the airline passenger traffic average growth rate from 2007 to 2013 was forecasted to be 1.7% per year, with enplanements growing to 27.3 million by 2013. Southwest is expected to continue to increase its service at DIA during this time, keeping pressure on airfares to remain competitive. The percentage of originating passengers is projected to remain stable at approximately 56%. The forecasted growth rate is lower than the previous forecast of 3.3% in 2005-2011. In addition, the airport's actual 2007 traffic is 1.4% greater than forecasted in the July 2007 report. We consider the current forecast to be reasonable.

The airport does not face major competition, as the closest large- and medium-hub airports are in Salt Lake City (530 miles away), Kansas City (590 miles), Albuquerque (440 miles), and Phoenix (810 miles). DIA faces some potential competition from the Colorado Springs Airport, located about 75 miles to the south, as it attracts some traffic from the growing southern suburbs of Denver. Nevertheless, the Colorado Springs air service area is generally considered too small to merit a significant hub operation.

Finances

DIA is a high-cost facility with cost per enplanement at $11.34 in 2006, and estimated to grow to between $15 and $16 by 2013. These figures include the implementation of the $1.2 billion in planned projects in the 2007-2013 capital improvement program (CIP), including $930 million in additional debt beyond last year's new money bonds. Senior-lien debt per enplanement was significant at $165 in 2007. The cash position was good in 2007, with $316.6 million in unrestricted funds in an operating account and capital account, an amount equal to a good 398 days' operating cash on hand, or about 7.7% of total debt. DIA currently has outstanding $4.0 billion in senior lien bonds and $200 million in subordinate lien bonds. The airport has a $127 million commercial paper program which is on the subordinate lien. $100 million of the commercial paper program will be used to refund the outstanding subordinate series 2001C1-2 bonds. Currently, there are no plans to use the additional $27 million.

Operating revenues have shown consistent growth during the past several years, with revenues in 2007, at $530 million, representing a 4.3% increase from 2006. Operating expenses have also increased during this period. Expenses in 2007, at $291 million, represent a 13.5% increase from 2006. This relatively large increase in expenses can be attributed, in part, to snow removal expenses and increased personnel expenses. Senior-lien DSC, as calculated according to the indenture, was solid at 1.89x in 2006, allowing rolling coverage and a PFC revenue offset 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), then coverage was good at 1.48x. Cash flow debt service coverage is expected to decline, but remain adequate going forward, as the airport implements its large CIP. The PFC revenues above represent the first $3.00 of the $4.50 passenger facility charge levied at the airport.

Capital Plan

It is management's practice to develop and regularly update a capital improvement program. DIA's current CIP includes $987 million in planned projects from 2008-2013, which will be financed with a combination of airport system revenue bonds, commercial paper notes, installment purchase agreements, federal grants, and airport cash. Projects in the CIP include the Concourse C expansion (10 new mainline gates, new commuter jet facility, and additional apron area); construction of a new public parking garage; rehabilitation of taxiways and runways; and improvements to baggage and building facilities. We consider the CIP to be significant and will monitor the costs to ensure they remain in line with forecasts; airport management has been proactive in developing airport infrastructure, including the completed sixth runway, but has also demonstrated prudence in examining and refining the CIP.

Debt Derivative Profile

The airport entered into 21 interest-rate swaps between 1998 and 2007 with various financial institutions. Standard & Poor's has assigned the swap portfolio an overall Debt Derivative Profile (DDP) 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 reflects a neutral credit risk at this time. Primary DDP scoring factors include sound management oversight and practices, strong economic viability of the swap portfolio across various interest rate environments, and the airport's limited exposure to involuntary termination events.

The airport's swap portfolio is well diversified across 12 financial institutions, which are generally of sound credit quality. The airport does have exposure to Bear Stearns through a $181 million swap with Bear Stearns Capital Market, Inc. and a $150 million swap with Bear Stearns Financial Products, Inc. JPMorgan Chase & Co. has guaranteed Bear Stearns' counterparty obligations, and airport management is monitoring the situation in case the acquisition of Bear Stearns by JPMorgan does not go through.

Ratings Detail (As Of March 27, 2008)		
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) arpt sys rev bnds ser 2005 C1 dtd 11/10/2005 due 11/15/2025		
Long Term Rating	A+/A-1	Downgraded, Removed from CreditWatch
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) arpt sys rev bnds ser 2005 C2 due 11/15/2025		
Long Term Rating	A+/A-1	Downgraded, Removed from CreditWatch
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) (AMBAC)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) (FSA)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) (MBIA)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) arpt sys (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) arpt (MBIA)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) (AMBAC)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.