

Summary:

Denver City And County, Colorado Denver City And County Department Of Aviation, Denver International Airport; Airport; Joint Criteria

Primary Credit Analyst:

Robert Hannay, San Francisco (1) 415-371-5038; robert_hannay@standardandpoors.com

Secondary Credit Analyst:

Kurt Forsgren, Boston (1) 617-530-8308; kurteric_forsgren@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Research

Summary:

Denver City And County, Colorado Denver City And County Department Of Aviation, Denver International Airport; Airport; Joint Criteria

Credit Profile		
US\$150. mil Airport System rev bnds (Denver Intl Arpt) ser 2010A due 11/15/2039		
<i>Long Term Rating</i>	A+/Stable	New
Denver City & Cnty, Colorado		
Denver Intl Arpt, Colorado		
Denver City & Cnty (Denver Intl Arpt) arpt sys rev bnds (Amt) ser 2008C2		
<i>Long Term Rating</i>	A+/NR/Stable	Downgraded
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation, Colorado		
Denver Intl Arpt, Colorado		
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) arpt sys rev bnds (AMT) (Denver Intl Arpt) ser 2007A dtd 08/29/2007 due 11/15/2023-2024 2026-20		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating to the Denver City and County, Colo.'s series 2010A airport system revenue bonds, issued on behalf of Denver's department of aviation and the Denver International Airport (DIA). At the same time, Standard & Poor's affirmed its 'A+' long-term and underlying rating (SPUR) on the department's outstanding senior lien airport system revenue bonds. The outlook is stable.

The rating reflects our view of the following credit strengths:

- The continued commitment from United Air Lines (B-/Negative) to operate a major hub at DIA;
- Stable passenger traffic during the economic downturn, with enplanements totaling 25.1 million in 2009, down only 2.0% from 2008;
- A strategic location for the east-west flow of domestic traffic and no major competing facilities within 500 miles; and
- Excellent airfield efficiency and significant capacity for future growth, with six runways and more than 50 square miles of land.

We believe these strengths are partially offset by the following weaknesses:

- A high proportion of connecting traffic, at 45.7% of total enplanements in 2009;
- Relatively high airline concentration, with United Airlines representing about 46.2% of passenger traffic;
- A relatively high airline cost structure, with an average cost per enplanement (CPE) of \$10.95 in 2008 that is projected to increase during the intermediate term; and
- The likelihood of additional debt needs during the intermediate term to finance the airport's capital plan, and the potential for the capital plan to expand to include additional proposed projects.

The series 2010A bonds are being issued to defease the airport's \$111 million subseries 2008A2 bonds. The airport may also use bond proceeds to make secondary market purchases of a portion of its 2008A3 and 2008A4 bonds. The bonds are secured by a first lien on the airport system's net revenues, on parity with its outstanding senior lien bonds. The department currently has about \$4.1 billion in outstanding senior-lien debt. The department also has liquidity support for \$127 million in commercial paper (CP), although currently no CP is outstanding. We understand that the airport may use CP to finance a portion of its capital needs, and typically refunds CP with long-term bonds.

Denver International Airport 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 airfield includes six runways, one of which is the longest commercial service precision-instrument runway in North America. The passenger terminal complex includes a landside terminal and three airside concourses with a total of 92 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 54 concessionaires operating at approximately 148 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.

DIA has use and lease agreements with all major domestic carriers and foreign-flag carrier airlines, most of which expire at the end of 2010. The United Airlines agreement expires in 2025. These agreements utilize a hybrid rate-setting methodology, whereby landing fees are based on a cost center residual methodology and terminal rental rates are based on a compensatory methodology. According to management, for those agreements expiring in 2010, the airport is in negotiations with the signatory carriers regarding new use and lease agreements. We view the airport as having relatively high airline costs. Cost per enplanements was \$10.95 in 2008 and, according to management, is expected to increase in the intermediate term.

Passenger traffic at DIA has been relatively resilient during the recession, with enplanements increasing 2.8% in 2008 and falling only 2.0% in 2009. Capacity cuts and passenger declines from United and Frontier have been partially offset by increases in service by Southwest Airlines. United represented 46.2% of 2009 enplanements, Frontier represented 23.0%, and Southwest represented 14.4%. The growth in Southwest's enplanements has worked to increase air carrier diversity, in our view, although the airport still relies on connecting traffic from United and Frontier to maintain current passenger activity levels.

Financial performance has been solid. Operating revenues totaled \$540.8 million in 2008, up 2.0% from 2007. For the first nine months of 2009 (the latest figures available), operating revenues decreased 3.1%. Operating expenses increased 28.6% in 2008, partly due to a large increase in the cost of repair and maintenance projects. For the first

nine months of 2009, operating expenses decreased 7.0%. Senior-lien debt service coverage, as calculated according to the indenture, was solid at 1.76x in 2008, including rolling coverage from a coverage account and offsetting debt service with revenues from \$3.00 of the \$4.50 passenger facility charge (PFC) levied in that year. 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), coverage was good at 1.39x in 2008. Under the supplemental indenture associated with the series 2009 bonds, the department designated the remaining \$1.50 PFC revenue for debt service payments through 2013. This allows the \$1.50 PFC revenue to be included in gross revenues when calculating debt service coverage under the indenture. The airport's liquidity position is strong, in our view, with unrestricted cash and investments totaling \$413 million as of Aug. 31, 2009, representing about 403 days' operating funds on hand.

DIA's capital program for 2009 through 2012 includes \$583.5 million in planned projects, which will be financed with a combination of airport system revenue bonds, CP, installment purchase agreements, federal grants, and airport cash. The airport issued new money bonds in 2009 to finance a portion of these projects. Projects in the CIP include airfield improvements, baggage system improvements, terminal and concourse improvements, parking and ground transportation improvements, and automated guideway transit system improvements. In addition to the projects in the capital plan, we understand that the airport is likely to finance a new rail station to be operated by the Regional Transportation District (RTD) and may finance a hotel at the airport terminal, although plans are preliminary at this time. Substantial new debt issuances in the future for projects that are not passenger-demand based, such as the RTD station, would be a credit concern.

The airport has entered into 18 interest rate swaps, with a current combined notional amount of about \$1.5 billion. DIA's counterparty exposure is spread across a relatively large number of financial institutions, with no counterparty representing more than 20% of total exposure. Standard & Poor's has assigned the swap portfolio an overall Debt Derivative Profile score of '1' on a four-point scale, where '1' represents the lowest risk. The overall score of '1' reflects our view that the issuer's swap portfolio represents a low credit risk at this time. The market value of DIA's swap portfolio as of Feb. 9, 2010, was negative \$152 million, meaning that if all swaps were terminated on this day, the airport would owe \$152 million to its counterparties.

Outlook

The stable outlook is based on our expectation that United Air Lines will continue to operate a major hub at DIA, that cash flow debt service coverage will remain good, and that the airport will maintain a good liquidity position. The airport's ability to prudently implement its capital plan during the current challenging airline industry environment remains an important rating factor.

Related Research

- USPF Criteria: Airport Revenue Bonds, June 13, 2007
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006

Ratings Detail (As Of February 12, 2010)

Denver City & Cnty, Colorado

Denver Intl Arpt, Colorado

Ratings Detail (As Of February 12, 2010) (cont.)		
Denver City & Cnty (Denver Intl Arpt) arpt sys rev bnds (Amt) ser 2008 C1		
Long Term Rating	AAA/A-1/Stable	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) ser 2008A		
Long Term Rating	A+/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) ser 2008B		
Long Term Rating	AAA/A-1+/Watch Neg	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) var rate arpt sys rev bnds ser 2009C		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) Aiport System rev bnds (Denver Intl Arpt) (Amt) ser 2008C3 due 11/15/2025		
Long Term Rating	A+/NR/Stable	Downgraded
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) (AGM)		
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)		
Long Term Rating	A+/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) arpt rev bnds ser 1991A dtd 04/01/91 due 2025		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) arpt sys rev bnds ser 1985 dtd 11/01/85 due 08/01/2011 (cusip #249181GE2)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) arpt sys (wrap of insured) (SYNCORA GTY) (ASSURED GTY - SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) arpt (wrap of insured) (MBIA, National & ASSURED GTY) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt) (wrap of insured) (FGIC & AGM) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty Dept of Aviation (Denver Intl Arpt)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) arpt		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) arpt sys		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1/Negative	Affirmed
Denver City & Cnty (Denver Intl Arpt) VRDB ser 2007G1		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Ratings Detail (As Of February 12, 2010) (cont.)		
<i>Long Term Rating</i>	AAA/A-1/Negative	Affirmed
Denver City & Cnty (Denver Intl Arpt) VRDB ser 2007G2		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1/Negative	Affirmed

Many issues are enhanced by bond insurance.

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright (c) 2010 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.