

Summary:

Denver City and County Department of Aviation, Colorado Denver International Airport; Airport; Joint Criteria

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Credit Profile		
US\$341.315 mil rev rfdg bnds (Denver Intl Arpt) ser 2011A dtd 04/14/2011 due 11/15/2023		
<i>Long Term Rating</i>	A+/Stable	New
Denver City & Cnty Dept of Aviation, Colorado		
Denver Intl Arpt, Colorado		
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 Denver City and County Department of Aviation, Colo.'s \$341.3 million series 2011A airport system refunding revenue bonds, issued for Denver International Airport (DIA). In addition, Standard & Poor's affirmed its 'A+' long-term rating and underlying rating (SPUR) on DIA's bonds outstanding. Also, Standard & Poor's affirmed its 'AAA' long-term rating on certain bonds based on the application of joint criteria. The outlook is stable.

The ratings reflect our view of the following credit strengths:

- The continued commitment from United Continental Holdings Inc. (United; B/Stable/--) to operate a major hub at DIA;
- Stable passenger traffic during the economic downturn, with enplanements totaling 26.1 million in 2010, an increase of 4% from 2009;
- 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.

The preceding credit strengths are offset in part by our view of:

- A high proportion of connecting traffic, at 46% of total enplanements in 2010;
- A relatively high concentration in one airline, with United (including United Express and Continental) representing about 46% of passenger traffic;
- A relatively high airline cost structure, with an average cost per enplanement (CPE) of \$12 in 2010 that is projected to increase moderately during the intermediate term; and
- Significant planned additional debt totaling \$996 million, of which \$190 million is expected to be senior debt and

\$806 million issued on the subordinate lien.

The bonds are secured by a first lien on the airport system's net revenues, on parity with its outstanding senior-lien bonds. The bonds are being issued to refund certain outstanding obligations. The airport currently has about \$4 billion in senior-lien debt outstanding. The airport also has liquidity support for \$128 million in subordinate 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.

DIA 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 (AGTS). 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 officially expired at the end of 2010 but are being extended through 2011. 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. We view the airport as having relatively high airline costs; the CPE was \$12 in 2010, and, according to management, is forecast to increase to \$13.84 by the end of the forecast period in fiscal 2018.

Passenger traffic at DIA has been relatively resilient during the recession, with enplanements increasing 2.8% in 2008, falling only 2.0% in 2009, and rising by 4.0% in 2010 to an historic high of 26.1 million. Capacity cuts and passenger declines from United and Frontier have been offset by increases in service by Southwest Airlines. United (including United Express and Continental) represented 46% of 2010 enplanements, Frontier represented 22%, and Southwest represented 18%. Southwest began operations at DIA in January 2006, and 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.

The airport's financial performance has been solid, in our view. Operating revenues totaled \$564.5 million in 2009, up 4.4% from 2008. For the first nine months of 2010 (the latest figures available), operating revenues increased 12.0%. Operating expenses rose 1.5% in 2009. For the first nine months of 2010, operating expenses declined by 10.8%. Senior-lien debt service coverage, as calculated according to the indenture, was solid, in our view, at 1.7x in 2009, 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, and is expected to be 1.8x in 2010. 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, in our view, good at 1.3x in 2009 and is estimated at 1.4x in 2010. Under the supplemental indenture associated with the series 2009 bonds, the airport designated the remaining \$1.50 PFC revenue for debt service payments through 2013; management intends to use designated PFC revenue from 2014 through 2018 to pay debt service on senior bonds and/or defease certain outstanding senior bonds. 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 good, in our view, with unrestricted cash and investments totaling an unaudited \$397.7 million as of year-end 2010, representing about 439 days' operating funds on hand based on the 2011 operating expense budget.

DIA's capital program for 2011 through 2016 includes \$933 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. Projects in the capital improvement plan include the South Terminal Redevelopment Program, as well as improvements to the airfield, baggage system, terminal and concourse, parking and ground transportation, and the AGTS. As part of the South Terminal redevelopment plan, we understand that the airport is contractually obligated to finance a new rail station to be operated by the Regional Transportation District, the costs of which are currently estimated at \$274 million. In addition, the South Terminal redevelopment includes a hotel at the airport terminal (\$153 million), an interface between the plaza and terminal (\$35 million), and terminal renovation (\$5 million). Although plans are not finalized at this time, the South Terminal Project is currently estimated at a total of \$468 million.

We understand that management is planning to issue future bonds totaling \$996 million. Currently management expects \$190 million to be issued on the senior lien and \$806 million on the subordinate lien. The forecast estimates that debt service coverage on the senior lien as calculated per the indenture will increase over the forecast period to 2.0x in 2018 from 1.8x in 2010. Debt service coverage on the senior and subordinate bonds as calculated per the indenture is forecast by management to range from 1.8x in 2011 to 1.6x in 2018. Substantial variances from the current capital plan and new debt issuances in the future for projects that are not passenger demand-based and would increase costs and lower debt service coverage could 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, and no counterparty represents 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 Nov. 1, 2010, was negative \$227 million, meaning that if all swaps were terminated on this day, the airport would owe \$227 million to its counterparties.

Outlook

The stable outlook reflects our expectation that United 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. Significant additional debt for capital projects that are not passenger demand-based and would weaken financial metrics may result in a rating downgrade. We do not expect to raise the ratings during the outlook period.

Related Criteria And Research

- USPF Criteria: Airport Revenue Bonds, June 13, 2007
- General Criteria: Methodology: The Interaction Of Bond Insurance And Credit Ratings, Aug. 24, 2009

- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006
- Criteria: Joint Support Criteria Update, April 22, 2009

Ratings Detail (As Of March 30, 2011)

Denver City & Cnty, Colorado

Denver Intl Arpt, Colorado

Denver City & County Department of Aviation (Denver International Airport) (AGM)

Unenhanced Rating A+(SPUR)/Stable Affirmed

Denver City & County (Denver International Airport)

Long Term Rating A+/Stable Affirmed

Denver City & County (Denver International Airport) (AMT)

Long Term Rating A+/NR/Stable Affirmed

Unenhanced Rating A+(SPUR)/Stable Affirmed

Denver City & County (Denver International Airport) (AMT) ser 2008B

Long Term Rating AAA/A-1+ Affirmed, Removed from CreditWatch

Unenhanced Rating A+(SPUR)/Stable Affirmed

Denver City & County (Denver International Airport) (AMT) ser 2008C1

Long Term Rating AAA/A-1/Stable Affirmed

Unenhanced Rating A+(SPUR)/Stable Affirmed

Denver City & County (Denver International Airport) (AMT) ser 2008C2

Long Term Rating A+/NR/Stable Affirmed

Unenhanced Rating A+(SPUR)/Stable Affirmed

Denver City & County (Denver International Airport) (Term Rate-AMT)

Long Term Rating A+/Stable Affirmed

Denver City & County (Denver International Airport) (VRDB) ser 2009C

Long Term Rating AAA/A-1+ Affirmed

Unenhanced Rating A+(SPUR)/Stable Affirmed

Denver City & Cnty Dept of Aviation, Colorado

Denver Intl Arpt, Colorado

Denver City & County Department of Aviation (Denver International Airport)

Long Term Rating A+/Stable Affirmed

Denver City & County Department of Aviation (Denver International Airport) (wrap of insured) (FGIC & AGM) (SEC MKT)

Unenhanced Rating A+(SPUR)/Stable Affirmed

Denver City & County Department of Aviation (Denver International Airport) (wrap of insured) (MBIA, National & ASSURED GTY) (SEC MKT)

Unenhanced Rating A+(SPUR)/Stable Affirmed

Denver City & County Department of Aviation (Denver International Airport) (wrap of insured) (SYNCORA GTY) (ASSURED GTY - SEC MKT)

Unenhanced Rating A+(SPUR)/Stable Affirmed

Denver City & County Department of Aviation (Denver International Airport) (AMT) (MBIA) (BHAC)

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) arpt sys

Ratings Detail (As Of March 30, 2011) (cont.)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) VRDB ser 2007G1		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
Denver City & Cnty (Denver Intl Arpt) VRDB ser 2007G2		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed

Many issues are enhanced by bond insurance.

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