

CREDIT OPINION

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Contacts

Aysha Seedat +1.212.553.7595
 Analyst
 aysha.seedat@moodys.com

A. J. Sabatelle +1.212.553.4136
 Associate Managing Director
 angelo.sabatelle@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

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Albany County Airport Authority, NY

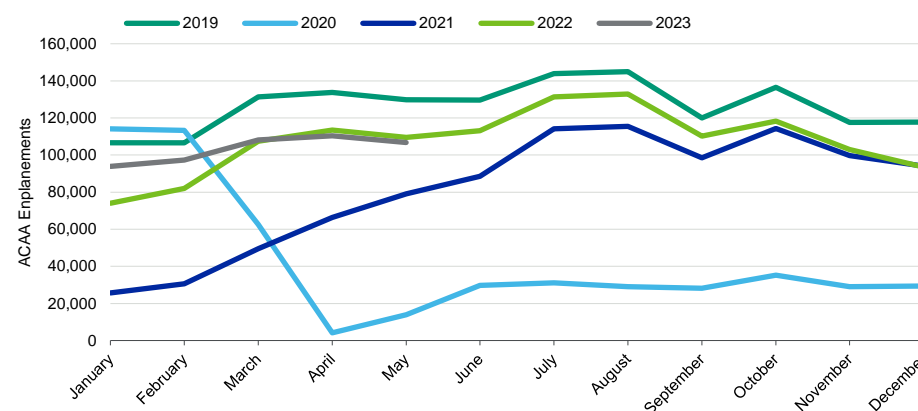
Update to credit analysis following recent upgrade

Summary

The credit profile of Albany County Airport Authority's (A2/STA) reflects effective management of the financial profile, robust financial metrics, as evidenced by a Moody's calculated total debt service coverage ratio of 2.2x, and continued decline in debt levels relative to historical. The credit profile also reflects the fundamental strength of the New York State capital region service area economy (Albany County, NY, Aa3), which is driven by government spending, a growing technology industry, and stable healthcare and educational sectors. The airport's origin and destination (O&D) traffic composition with limited competition, relatively diverse carrier mix, and comparably low cost per enplanement (CPE) levels provide incremental credit strength.

While the airport does not expect a recovery in enplanements to pre-pandemic levels until 2025, rapid recovery in parking revenues, which account for nearly 30% of total revenues, coupled with declining debt service, mitigate these concerns.

Exhibit 1

ALB's enplanement levels, compared to traffic pre-pandemic


Source: Albany County Airport Authority financial statements, Moody's Investors Service

Credit strengths

- » Service area economy is stabilized by government, health care and educational employment, with further support from a strong position in technology research
- » The authority is prohibited, by state law, from incurring more than \$285 million in debt

- » At \$7.00, significant CPE advantage compared with the A2-rated peer airport median of \$8.63
- » 2022 debt service coverage was 2.19x, above the A2-rated peer airport median of 1.47x

Credit challenges

- » 2022 liquidity, as measured by days cash on hand (DCOH), was 328 days, significantly below similarly rated peers
- » Enplanement levels are still below pre-2008/09 recession levels

Rating outlook

The stable outlook reflects Moody's expectation that enplanements will continue to grow moderately, coupled with maintenance of coverage above 2x and continued decline in debt levels.

Factors that could lead to an upgrade

- » Improved liquidity levels, with DCOH consistently exceeding 600 days
- » Moody's debt service coverage ratio (DSCR) is in excess of 2.5x on a sustained basis

Factors that could lead to a downgrade

- » Material decline in enplanements
- » Consolidated senior and subordinate lien net revenue debt service coverage below 1.75x and debt per O&D enplaned passenger above \$200 on a sustained basis

Key indicators

Exhibit 2

	2018	2019	2020	2021	2022
Enplanement Annual Growth (%)	3.4%	3.6%	-65.8%	87.7%	32.2%
Debt Outstanding (\$'000)	90,489	92,555	75,945	69,000	62,315
Debt to Operating Revenues (x)	1.6	1.59	2.32	1.54	1.06
Debt Per O&D Enplaned Passenger (\$)	62.32	61.55	147.52	71.41	48.77
Days Cash on Hand ('000)	285	318	328	328	382
Total Coverage By Net Revenues (x)	1.56	1.77	1.41	1.8	2.18

Source: Moody's Investors Service, Albany County Airport Authority financial statements

Profile

Albany County Airport Authority is a public benefit corporation established in 1993 and exists pursuant to the Albany County Airport Authority Act. The airport is categorized by the FAA as a small air traffic hub, which is defined as an airport which handles between 0.05 percent and 0.249 percent of the enplaned passengers by U.S. air carriers nationwide. The airport is owned by the County of Albany and is operated by the authority under an airport lease agreement. The airport is approximately seven miles outside of downtown Albany, the capital of the State of New York.

Detailed credit considerations

Revenue Generating Base: Coronavirus outbreak impact lingers on passenger traffic levels

Given the Albany metropolitan area employment base is grounded in relatively stable government employment, which accounts for over 20% of the entire Albany-Schenectady-Troy work force, we still anticipate that the authority's enplanement levels will bounce back gradually, in line with management's expectations. While Albany's economy is strongly supported by state capital institutional

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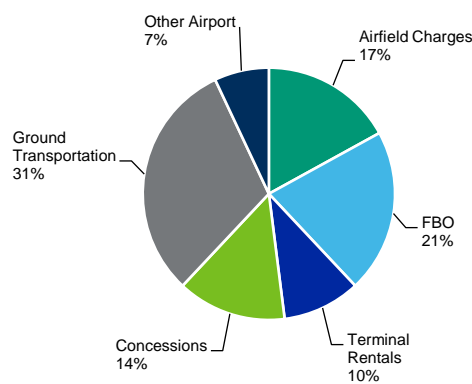
employment, the metropolitan area has also experienced growth in the technology sector, with additional support from education and health care institutions. The stable economic base provided by governmental employment, coupled with technology related growth, has translated into lower than state average unemployment rates, with capital region unemployment of 3% in 2022. Employment volatility in the region is also lower than the state and US national average, owing to the significant state government institutional employment.

The authority had its highest enplanement level of roughly 1.52 million in FY2019, before dropping to about 520,000 in FY2020, owing to the pandemic. Since then, the airport has gradually bounced back, with FY2022 enplanements reaching 1.3 million or 85% of 2019 levels. Currently, the airport is projecting to reach 1.4 million enplanements by FYE2023, or 92.2% of 2019 levels; 1.5 million enplanements in FY2024, reaching 2019 levels, and steadily growing up to 1.7 million enplanements by 2026. Prior to the recent dip, the authority previously had a cumulative enplanement growth of 16.2% over the past 4 years (3.7% in 2019, 3.4% in 2018, 0.7% in 2017, 8.4% in 2016), partially recovering from a steady decline of a five-year compounded average rate of -2.5% from 2008 through 2013.

The airport also has a history of dedicated service from the major airline carriers, including Delta (Baa3/STA), Jetblue (Ba2/STA), Southwest (Baa1/STA), United (Ba1/STA) and American (Ba3/STA), in addition to their respective affiliates. Southwest, which began serving the airport in 2000, has been the authority's dominant carrier pre-pandemic having a 28.3% market share in 2022, which was down slightly from 32.1% in 2019. Southwest's 28.3% market share in 2022 was followed by Delta at 10.5%, American at 9%, JetBlue at 7% and United at 6.5%. We believe this carrier diversity makes the airport less susceptible to strategic changes of routes serviced by a single airline.

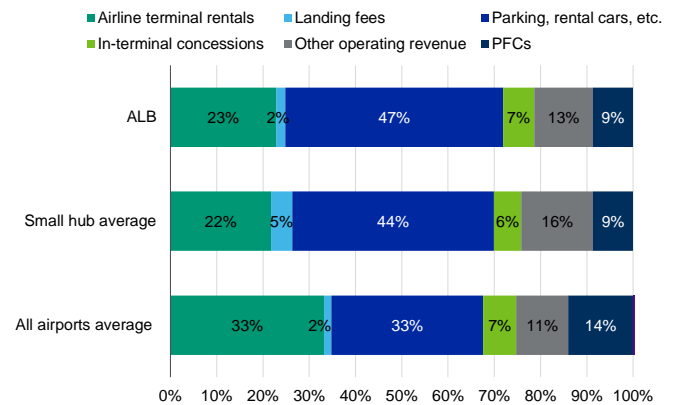
The authority's airline use lease agreement was effective from January 2016 through 2021. The renewal option was renegotiated and the Authority and airlines agreed to a one-year option and one two-year option (2024 and 2025). The authority utilizes a residual framework for its airfield, and a compensatory framework for all other areas. The authority's ability to recover airline charges is supported by a contractual structure that allows for rates and charges to be adjusted if any monthly financial report shows annual revenues are 10% or more below projections. The agreement also provides for the suspension of airline revenue sharing, extraordinary coverage protection and capital charge coverage of 25% of debt service, and we believe these airline agreement features support the authority's ability to maintain adequate financial metrics over the outlook period.

Exhibit 3
Total 2023 Budgeted Revenues



Source: Albany County Airport Authority Annual Budget 2023

Exhibit 4
ALB derives more parking and airline rental revenue, on a percentage basis, than small hub peers



Source: Federal Aviation Administration Certification Activity Tracking System

Operational and Financial Performance: financial metrics continue to recover

FY2022 total operating revenues increased to \$53.6 million, or 31.4% over 2021, largely due enplanement driven sources such as parking and concessions, as well as FBO. Ground transportation revenue increased to \$16.4 million or 75.9% from 2021. Ground

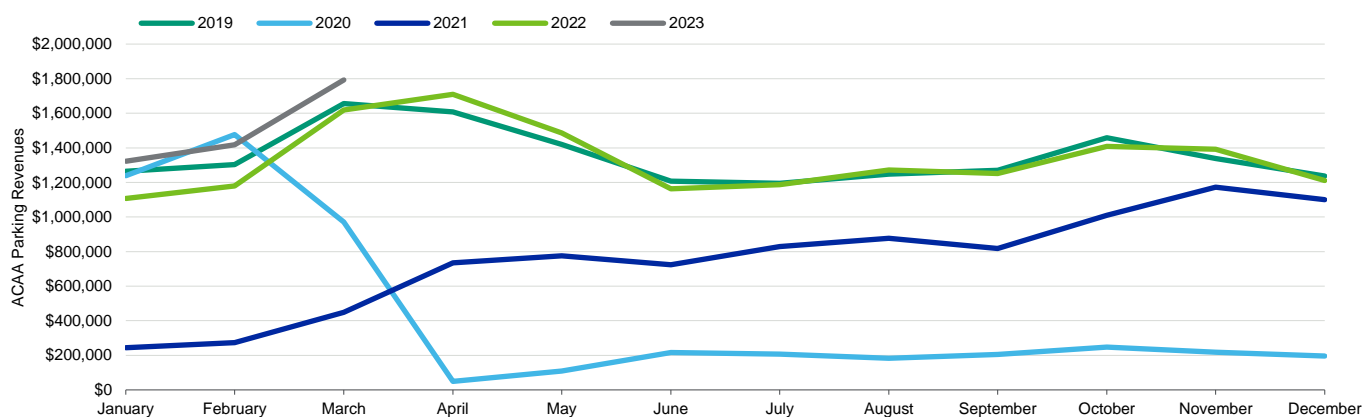
transportation, which consists of nearly all of parking revenue as well as taxi/hotel access fees, and transportation network charges (Lyft/Uber), accounted for 31% of operating revenues in FY2022. FY2022 total operating expenses increased to \$40.2 million, or 19.5% over 2021, largely due to materials and supplies and personnel.

FY2022 DSCR by net revenues increased to 2.2x, from 1.8x in FY2021, due to improvements in enplanement driven revenue. The authority's debt service coverage requirements are aided by the use of passenger facility charges (PFCs) toward GARB debt service payments, and in 2022, the authority used \$3.6 million in PFCs toward debt service.

Airline cost per enplanement decreased to \$7.00 in FY2022 from \$8.49 in FY2021. The commission projects remaining in the \$7.00-8.50 range through FY2026. This compares favorably to the A2 peer CPE median of \$8.63. In addition to terminal rents and airfield costs, CPE includes a variety of services provided to airlines, including providing jet bridges, IT services, utilities, maintaining stations and restrooms and employee parking.

Exhibit 5

Year to date parking revenues have surpassed historical performance



Source: Albany County Airport Authority

LIQUIDITY

Liquidity, as measured by days cash on hand, is the most important factor in the airport's ability to manage through a volatile period over the outlook period. Days cash on hand remained flat at 328 days in FY2022, which is below similarly rated peer airports. The Authority is expected to stay in the 200-300 DCOH range through FY2026.

The lower level of liquidity relative to similarly rated peers is partially mitigated by the authority's ability to impose a capital charge of up to 25% of its required debt service on its signatory airlines, as well as the extraordinary coverage protection provision that enables the authority to raise rates at any time during the year, a provision which has yet to be utilized. The revenue bonds benefit from a two-month O&M reserve and a standard three-pronged cash-funded debt service reserve fund.

Currently the airport only has approximately \$3 million in coronavirus-related federal relief uncollected, with the remainder either being allocated to capital improvement projects or concessionaires.

Debt and Other Liabilities: Manageable leverage profile

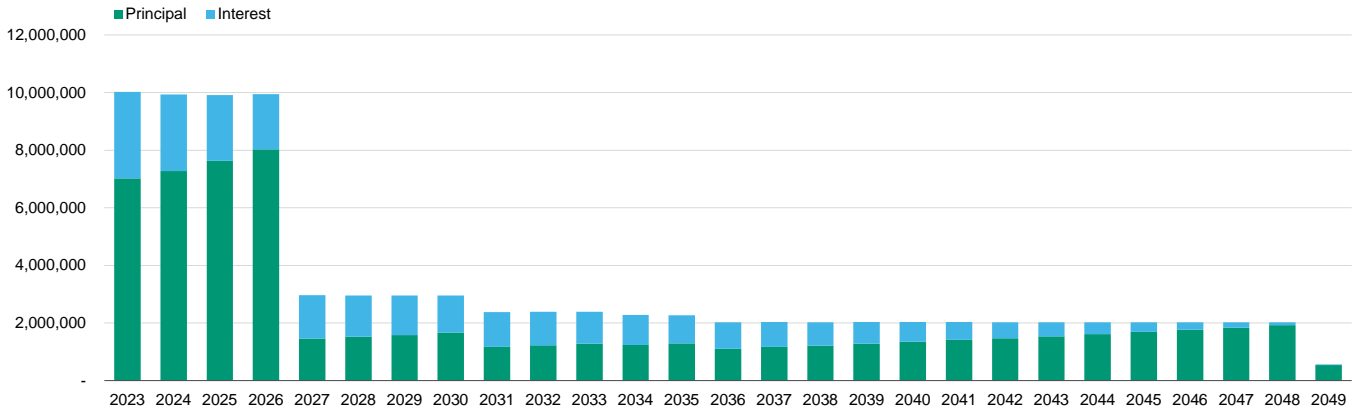
The airport had debt outstanding of about \$62.3 million at the beginning of 2023. Adjusted debt per O&D enplanement levels has rapidly declined from pandemic highs, from \$155.85 in FY2020 to \$50.55 in FY2022. The capital improvement plan (CIP) through 2025 provides for potential projects totaling about \$351 million featuring a terminal concourse expansion, cargo apron rehabilitation, air traffic control tower renovation, baggage system and passenger gate expansion.

The CIP is largely funded by federal and state grants (including COVID-relief), PFCs, and rates & charges. The airport has no plans to issue debt to fund the plan.

DEBT STRUCTURE

The authority has a manageable debt service schedule, which will average roughly \$10 million annually through 2026, before declining to roughly \$2 million annually until 2048. These reduced debt service requirements after 2026 gives the authority substantial financial flexibility to address future capital needs as they arise. The authority has not committed to an additional debt issuance in the short to medium term and all debt is fixed rate.

Exhibit 6
Annual debt service levels of around \$2 million after 2026 through maturity



Source: Albany County Authority Financial Statements

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

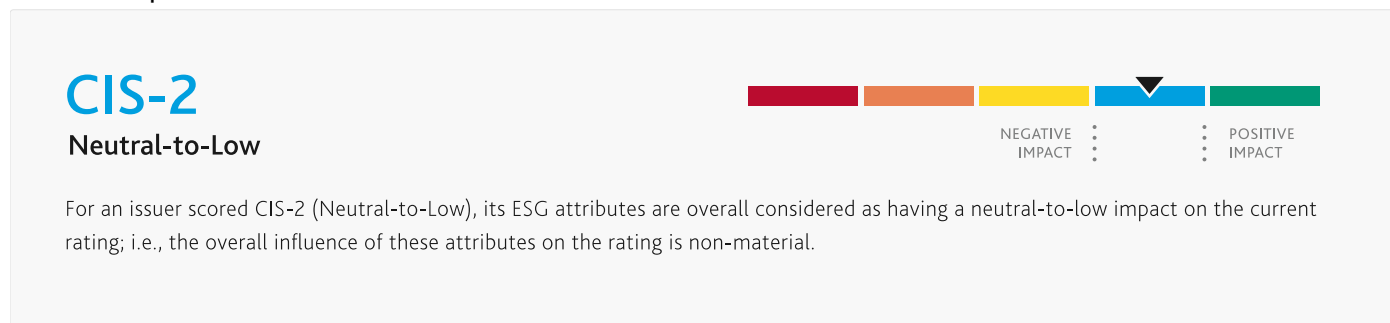
The authority's long-term defined benefit pension and health care liabilities are adequately funded and are not a major factor in our assessment of the authority's credit profile. The adjusted net pension liability in FY2022 was about \$2.9 million. This has a nominal impact on the authority's financial metrics when added to FY2022 total debt outstanding of roughly \$62 million.

ESG considerations

Albany County Airport Authority, NY's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 7

ESG Credit Impact Score



Source: Moody's Investors Service

Albany County Airport Authority, NY's (ACAA) credit impact score of **CIS-2** indicates that ESG considerations are not material to the rating. ACAA is exposed to carbon transition and demographic and societal trend risks but exposure to governance risks are limited.

Exhibit 8

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

ACAA's **E-3** issuer profile score reflects carbon transition risk through evolving decarbonization policies around the globe and regulations may increase operating costs for airlines and result in higher airfares that reduce the demand for air travel. Further, the desire by some to reduce carbon emissions may lead to reduced travel, in particular, corporations seeking to reduce their carbon footprints. The airport is also exposed to physical climate risks due to the high risk of flooding and extreme weather events such as hurricanes and nor'easters.

Social

ACAA's **S-3** issuer profile score reflects exposure to demographics and population trends in the Airport's service area, due to lower than average population growth. Levels of social risk related to the linkage between carbon transition and demographic and societal policies to be lower in the US than in other regions given the geographically dispersed nature of the country and the lack of viable rail alternatives.

Governance

ACAA's **G-2** issuer profile score acknowledges that Federal Aviation Administration regulation of US airports tightly restricts the use of funds generated at US airports to aviation purposes and essentially eliminates the possibility that a municipal owner could extract value from the airport at the expense of bondholders.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Methodology

The scorecard indicated outcome of A2 is in line with the current rating.

Note: The grid is a reference tool that can be used to approximately credit profiles in the airport sector in most cases. However, the grid is a summary that does not include every rating consideration. Please see our Publicly Managed Airports Rating Methodology published February 10, 2023 for information about the limitations inherent to grids.

Exhibit 9

Publicly Managed Airports and Related Issuers Methodology Grid - Fiscal 2022

Regional Position:	Regional		
Rate Making Framework:	Hybrid		
Factor	Subfactor	Score	Metric
1. Market Position	a) Size of Service Area (millions)	A	1.2 million
	b) Economic Strength and Diversity of Service Area	A	
	c) Competition for Travel	A	
2. Service Offering	a) Total Enplanements (millions)	Baa	1.3 million
	b) Stability of Traffic Performance	Baa	
	c) Stability of Costs	Aa	
	d) Carrier base (Primary Carrier as % of Total Enplanements)	Aa	28.3%
3. Leverage and Coverage	a) Net Revenue Debt Service Coverage Ratio	Aa	2.18x
	b) Debt + ANPL per O&D Enplaned Passenger	A	\$50.55
4. Liquidity	Days Cash on Hand	Notch	Metric
5. Connecting Traffic	O&D Traffic	0	328
6. Potential for Increased Leverage		0	
7. Debt Service Reserves		0	
Scorecard Indicated Outcome:		A2	

Source: Moody's Investors Service

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