FitchRatings

FITCH AFFIRMS OUTSTANDING NOAB GARBS AND PFC BONDS AT 'A-'; GARB OUTLOOK REVISED TO POSITIVE

Fitch Ratings-New York-15 June 2012: Fitch Ratings affirms the New Orleans Aviation Board's (NOAB) approximately $120.4 million general airport revenue refunding bonds (GARBs), series 2009, at 'A-'. Fitch also affirms the 'A-' rating on approximately $134.9 million of outstanding NOAB revenue bonds (Passenger Facility Charge Projects), series 2010 and series 2007.

The Rating Outlook on the 2009 GARBS has been revised to Positive from Stable. The Outlook on the 2007 and 2010 PFC bonds remains stable.

The Positive Rating Outlook on the GARBs reflects the continuing healthy recovery of enplanements at Louis Armstrong International Airport (LANOIA), with the 4.3 million current enplanement base now at 88% of pre-Hurricane Katrina levels. The outlook also recognizes the maintenance of very high levels of liquidity and low leverage since the storm, evidenced by NOAB's approximately $87 million in unrestricted cash and investments and very low leverage of 1.62 times (x) net debt to cash flow available for debt service (CFADS) on the GARB lien. These metrics compare very favorably to peers that are rated higher. Studies to build a new terminal are currently underway at LANOIA, and while the scope and sources of funding for the potential project have yet to be identified, leverage metrics could migrate upwards. The ability to maintain leverage, liquidity and debt service coverage metrics consistent with higher rated airports upon additional clarity in the airport's capital plan and continued stability in enplanement levels could trigger a positive rating action.

KEY RATING DRIVERS

--Midrange Revenue Risk Profile: NOAB is not exposed to material air service competition. Approximately 98% of its enplanement base is origin and destination (O&D), and the airport benefits from relatively low carrier concentration with Southwest (Fitch rated 'BBB' with a Stable Outlook) providing 32.0% of the market and an overall stable presence of low cost carriers making up a total of 39.1%. Traffic is highly dependent on the tourism industry, and the air service area is potentially exposed to force majeure risk and resulting economic displacement.

--Solid Cost Recovery Structure: NOAB's residual Airline Use and Lease Agreement allows the airport to recover most of its operational and debt costs after sharing non-airline revenues it earns on the airfield and terminal side. Additionally, certain cash spent on capital expenditures is passed onto the airlines.

--Conservative Debt Structure: Both GARB and PFC lien principal amortizes fully and at a fixed rate of interest, with nearly 40% of outstanding par on the 2009 bonds paid over the course of the next five years.

--Strong GARB Financial Metrics: NOAB maintains a very strong balance sheet, now with over 780 days cash on hand and very low leverage of 1.6x. Debt service coverage under the current use and lease agreement has averaged 1.8x and equaled 2.2x in 2011.

--PFC Metrics Meeting Expectations: A moderate O&D air traffic market supports annual PFC collections between $15 and $20 million, sized to generate a 1.75x or higher PFC coverage ratio. The PFC lien has moderately high leverage and a long-dated maturity of 2040.

--Potentially Increasing Capital Program: NOAB's current capital program of $334 million is funded from a diverse mix of PFCs, customer facility charges (CFCs) through the airport's rental car operations, and federal and state grants. However, the airport has initiated studies for a new terminal and is negotiating contracts for program management, design and environmental services.

The sources of funding, cost of the project and related leverage are not known at this time.

WHAT COULD TRIGGER A RATING ACTION

--A continuation of favorable aviation operations and the ability to maintain debt service, liquidity and leverage metrics, which may include future debt associated with a new terminal;

--Airline commitment to a potentially elevated capital plan in the next five to seven years;

--Additional clarity on what role over LANOIA governance, if any, the Southeast Regional Airport Authority (SRAA) could have. SRAA was created with privatization of the airport in mind, and NOAB has since withdrawn its privatization application from the Federal Aviation Administration.

SECURITY

The 2009 GARBs are secured by a pledge of general airport revenues, net of operating expenses and deposits to arbitrage rebate accounts.

The 2007 and 2010 PFC bonds are solely secured by passenger facility charge (PFC) revenues collected at the airport with no recourse to other revenues and funds of the airport.

CREDIT UPDATE

Enplanements increased in 2011 by 4.3%, growth which continues to exceed marginally prior projections. Year-to-date (YTD) fiscal 2012 enplanements are up, but at a less robust 2.5% growth rate. While Southwest's market share at LANOIA has grown from 24% to 32% since Hurricane Katrina, Fitch views this more as a return to pre-Katrina levels when Southwest's share of traffic was 31%. Similarly, Delta and Southwest currently hold a combined 53.7% of the market, a percentage which only slightly exceeds the combined market share of Delta, Northwest and Southwest of 51.1% in 2004 before the storm.

LANOIA's financial profile remains strong as evidenced by 785 days cash on hand and net debt to CFADS of 1.6x, not including rollover coverage. NOAB's liquidity position has consistently been strong since Katrina, the result of a number of factors. First, following the storm, the airport benefited from increased levels of cash flow from insurance proceeds. Second, the state's Gulf Opportunity Zone bond program covered the airport's previous GARB debt service and related interest rate swap payments from August 2006 to July 2008, allowing the airport to build substantial amounts of liquidity from airline and non-airline revenues that otherwise would have gone to pay bondholders. The total amount of $35.4 million received over the course of those nearly two years will be paid off as bonds secured by airport revenues through 2026. The bond principal payments carry 4.6% interest and are subordinate to 2009 GARB debt service payments. Third, gross leverage declined due to forgiveness of a $10 million federal loan by the Federal Emergency Management Agency (FEMA).

As a function of the airport's residual use and lease agreement with the airlines, cost per enplanement (CPE) decreased to $9.49 in 2011 from $10.14 in 2010, reflective of both a decreased level of NOAB operating costs and an 18% increase in non-airline operating revenues. Non-airline revenue gains reflect mainly higher terminal concession and parking revenues. Expenses declined about 13% in 2011 due to lower police and fire costs and lower contracted services costs, as well as some savings achieved in security costs.

Current capital projects underway at the airport include the west terminal modernization, 80% complete, with ticket counter relocations and floor finishes at curbside and upper level medians yet to be completed. The expansion of Concourse D was substantially complete on September 30, on budget and ahead of schedule. Plans being studied for a new terminal could alter the airport's capital plan substantially. Fitch will continue to monitor the scope and funding of the project and any potential issuances on a parri passu basis with the 2009 GARB bonds that could impact financial leverage. As mentioned, the SRAA has been created. Fitch will monitor whether potential transfer of control affects airport operations and development.

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Additional information is available on Fitch's web site at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Rating Criteria for Airports' (Nov. 28, 2011);
--'Rating Criteria for Infrastructure and Project Finance' (Aug. 16, 2011).

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Rating Criteria for Airports
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=656970
Rating Criteria for Infrastructure and Project Finance
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