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Public Finance

Revenue
New Issue

Greater Orlando Aviation Authority, Florida

Ratings

New Issue
Special Purpose Facility Taxable Revenue Bonds, Series 2009 (Rental Car Facility Project) A

Rating Outlook

Stable

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New Issue Details

Sale Information: $63,600,000 Special Purpose Facility Taxable Revenue Bonds, Series 2009 (Rental Car Facility Project), during the week of Sept. 21.
Purpose: To fund design and construction of airport car rental facilities; to fund debt service reserve and coverage fund requirements; and to refund GOAA's taxable commercial paper debt.
Final Maturity: October 2017.

Related Research

- *Fitch Rtes Greater Orlando Aviation Auth, FL's $64MM Special Facility Revs 'A'; Outlook Stable , Sept. 10, 2009*
- *Fitch Rates Greater Orlando Aviation Auth, Florida's $123MM Rfdg Revs 'AA–'; Outlook Stable, April 23, 2009*

Rating Rationale

- Greater Orlando Aviation Authority's (GOAA, or the authority) customer facility charge (CFC)-secured consolidated rental car facility project benefits from a sizable underlying visitor origination and destination (O&D) market, supporting a high level of rental car transactions.
- Orlando is the largest rental car market in the United States by gross rental revenues.
- GOAA's current $2.50 CFC rate, in effect since October 2008, is very competitive with rates charged at other large airports.
- GOAA's CFC-backed bonds benefit from a short tenor and level debt service with no dependence on revenue growth, resulting in expected debt service coverage of 2.0 times (x) or greater through the life of the bonds.
- The bonds benefit from $17.5 million in up-front fund balances.
- Car rental facility agreements have been executed by all operators serving the airport.
- The rental car facility project is already in advanced stages of construction and will be operational in early 2010.
- Modest near-term capital expenditures, funded without additional bonding.
- Risks to the rating include the limited nature of car rentals as a revenue stream, as the special facility revenue bonds have no recourse to GOAA's general airport revenues.
- Rental car demand in Orlando is somewhat vulnerable to the economically-sensitive tourism/leisure sector in the current economic downturn.
- GOAA car rental demand faces modest competitive threats from other transportation modes available at the airport.

Key Rating Drivers

- GOAA's ability to sustain sufficient levels of rental car transactions going forward provides stability to the rating, supported by the sizable visitor-based O&D component of air traffic.
- GOAA's ability to modify CFC rates as needed without outside approvals provides additional flexibility to weather economic cycles and fluctuations in demand for rentals.

Credit Summary

The 'A' rating reflects GOAA's sizable underlying visitor O&D market, which supports a high level of rental car transactions with nearly 11.7 million visiting O&D passengers in 2009. Orlando is the largest rental car market in the U.S. by gross revenue, owing to the geographically dispersed nature of its business centers and theme park attractions. GOAA's $2.50 CFC rate, instituted in October 2008, is competitive with rates charged at other large airports. Maturity on the CFC-backed debt is a short eight years, with level debt service

Rating History

Rating	Action	Outlook/ Watch	Date
A	Assigned	Stable	9/10/09

independent of future revenue growth, resulting in expected debt service coverage of 2.0x or higher through the life of the bonds. Furthermore, bondholders benefit from $17.5 million in up-front fund balances, including cash-funded debt service reserve, coverage, and CFC stabilization funds. Car rental facility agreements have been executed by all operators that will operate on–airport once the 2009 project opens, with the CFC assessed on practically all operators, including some that operate off-airport (e.g. Hertz). The CFC is not limited by a rate cap or sunset, and rates may be increased by approval of the airport director and board, providing further flexibility to weather economic and traffic cycles. Near-term capital expenditures are expected to be modest, funded without additional bonding. Phase 1 of the project is 70% complete and due to open in April 2010.

While the short maturity, low debt quantum, and structural protections of GOAA's special facility bonds allow for a relatively high rating for this debt issuance, inherent risks to this type of structure place upper limits on the rating. Concerns include the limited nature of car rentals as the only revenue stream available to service debt. Without recourse to airport revenues, it is difficult for the rating on debt solely secured by this revenue stream to rise above the 'A' category. Furthermore, demand for car rentals is exposed to the variability of discretionary spending in the current economic downturn. This is particularly true in Orlando, which is dependent on tourism and leisure activity for much of its visiting traffic.

Security Terms

Security: The series 2009 bonds are issued pursuant to a trust indenture, and constitute a special limited obligation of the issuer payable solely from the CFC payments received by the authority pursuant to the CFC enabling resolution and automobile rental car concession agreements. Bonds are also secured by interest earnings on available funds and other pledged funds (amounts on deposit in the revenue fund, debt service fund, debt service reserve fund, coverage fund, facility improvement fund, and CFC stabilization fund). Revenues and net revenues of GOAA are not pledged to the payment of the 2009 bonds.

Rate Covenant: Coverage is on a rolling basis. Pledged revenues (CFCs, interest earnings, and coverage fund) must provide 1.25x coverage of actual debt service and replenishment of all funds within 12 months of any draw on funds.

Additional Bonds Test: Additional bonds are permitted, and would be issued on parity with the 2009 bonds and any refunding bonds. In order to issue additional bonds, in addition to executing a supplement to the trust indenture, the authority must obtain either certification from an authorized officer of the authority that pledged revenues and amounts on deposit in the coverage fund, for the prior fiscal year or any 12 consecutive months out of the 18 months prior to the authorization of additional bonds, was equal to at least 1.25x maximum annual debt service (MADS) on the outstanding CFC bonds after the issuance of additional bonds; or certification from the airport consultant that pledged revenues, including any projected increases in the CFCs to be received in the five fiscal years following the issuance of additional bonds, plus all amounts required to be on deposit in the coverage fund during such five years, will in each fiscal year be at least 1.25x MADS on all CFC bonds after the issuance of additional bonds.

Debt Service Reserve Fund: The funding requirement for the debt service reserve is equal to MADS ($10 million) and is expected to be funded by cash reserves from proceeds of the series 2009 bonds.

CFC Stabilization Fund: The trust indenture defines the CFC stabilization fund requirement as $5 million with respect to the series 2009 bonds. Upon issuance of the series 2009 bonds, the CFC stabilization fund requirement will be funded with previously collected CFCs currently held by the authority. In the event of a draw on funds, the Trustee must make transfers into the debt service fund in the following order: first, from the CFC stabilization fund; second, from the coverage fund; third, from the facility improvement fund; and fourth, from the debt service reserve fund.

Coverage Fund: The coverage fund requirement is equal to 25% of MADS ($2.5 million) and is expected to be cash funded with proceeds of the series 2009 bonds. A similar "coverage account" has been used in other car rental facility transactions. The coverage fund mitigates rental car operators' concern over higher charges due to the imposition of the CFC.

Rental Automobile Concession Agreement

GOAA has two governing documents regarding rental car concessions: one with L&M/EZ for three years; and another with the following companies — Avis Budget Car Rental, LLC (with respect to the Avis and Budget brands), DTG Operations, Inc. (with respect to the Dollar and Thrifty brands), EAN-Orlando, LLC (with respect to the Enterprise, Alamo and National brands), and The Hertz Corporation (with respect to the Hertz and Simply Wheelz brands). As amended, the two concession agreements contain similar provisions, except with respect to the commencement and termination dates of the agreements.

These agreements cover 95% of GOAA's rental market, and will result in on-airport presence for all signatories. Currently, Hertz has no on-airport presence; Thrifty and Enterprise are off-airport, but have representation on-airport via Dollar and Alamo/National, respectively.

The term of the rental automobile concession agreements will commence 60 calendar days after the authority relinquishes the 2009 project for occupancy; this is expected to happen in April 2010. The agreement has a five-year term with the option for two one-year extensions.

Collection of CFCs: The agreement requires concessionaire rental car companies to collect CFCs and remit them on the 15th day of each calendar month following the calendar month in which they are collected. Only collected CFCs are pledged to series 2009 bondholders.

Additional Fees: In addition to collecting and remitting CFCs, concessionaire rental car companies must pay GOAA a minimum annual privilege fee for use of the car rental facility, in the amount greater of the privilege fee (initially $12.4 million), or 10% of airport gross receipts. These funds are not pledged to the Series 2009 bonds. In addition to the privilege fee, concessionaire rental car companies must also pay an annual rental fee for the right to occupy the premises during the agreement term. This includes counter space and queuing space (rent based on signatory airline class 2 rental rate per square foot); office space (rent based on signatory airline class 2 rental rate per square foot); quick turnaround area (QTA) (ground rent paid per month at 10% of the fair market value of the land); and ready/return spaces (paid on a per month, per space basis). After full recovery of the cost of the 2009 project (project costs and debt service), QTA rent converts to the fair market rent for land and improvements. Funds from the minimum annual privilege fees and annual rental fees are not pledged to the series 2009 bonds.

Improvements to Premises: Under the agreement, rental companies will pay for all operating, utility, maintenance, and service management expenses related to their respective leased premises.

The Airport

The Orlando airport is located on approximately 13,500 acres of land nine miles southeast of downtown Orlando, and is owned by the City of Orlando. The airport is operated by GOAA under an operation and use agreement that runs through Sept. 30, 2026. In the event that this agreement is not extended and debt remains outstanding, the city assumes all existing GOAA debt and contracts.

GOAA's airfield consists of four runways and supporting taxiways. The terminal complex consists of a multi level landside terminal and four airside terminals with 96 gates connected by an automated guide way system.

Historically, Orlando has largely been an O&D airport, with O&D constituting roughly 95% of enplanements. The airport ranks as the third largest O&D airport in the nation behind Las Vegas and Los Angeles. Visiting passengers (O&D passengers whose destination is Orlando) outnumber area residents by three to one. The airport served nearly 11.7 million visiting O&D passengers in 2009. The share of visiting passengers has declined from 78% of all O&D passengers in fiscal 2000 to 74% in fiscal 2008. For the first eight months of fiscal 2009, total enplaned passenger levels at the airport have been 10.5% lower than in the same period in fiscal 2008, reflecting weak passenger demand in the current economic downturn.

Car Rental Operations

Current Facilities: Currently rental car ready/return stalls are located on levels 1 and 2 of the garages adjacent to the landside terminal. Adjacent to the garages at grade level (level 1), there are QTAs for stacking, cleaning, fuelling, washing, and staging cars prior to moving them into the ready car spaces in the garage. In addition to these facilities, Budget maintains a support facility on the airport on Casa Verde, and both Avis and the combined Enterprise brands maintain support facilities on Hangar Boulevard, which is in the vicinity of Casa Verde and Cargo Road.

2009 Project: In early 2008, the authority developed its CFC project in order to: increase the rental car operational capacity at the airport; maximize efficiency of on-airport rental car facilities and operations; improve traffic flow; and accommodate the 11 brands on-airport that serve a combined 95% of the rental market. Construction of the 2009 phase of the project is underway and expected to be complete in February 2010 to provide beneficial occupancy by the rental car companies by April 2010. Proceeds from the 2009 bonds will fund 83% of the 2009 project construction, with the remaining funds coming from CFCs already collected.

Car Rental Activity: Between fiscal years 2002–2008, gross rental car revenues increased 33.5%, which compares to a 35.2% increase in visiting passengers. Revenues increased each year during this period except fiscal 2006, when the annual change in visiting passengers was virtually nil. Transactions per visiting O&D passenger have stayed in the 20% range, slightly decreasing. This compares to most other airports at the 35%–40% level.

Historical Passengers and Car Rentals

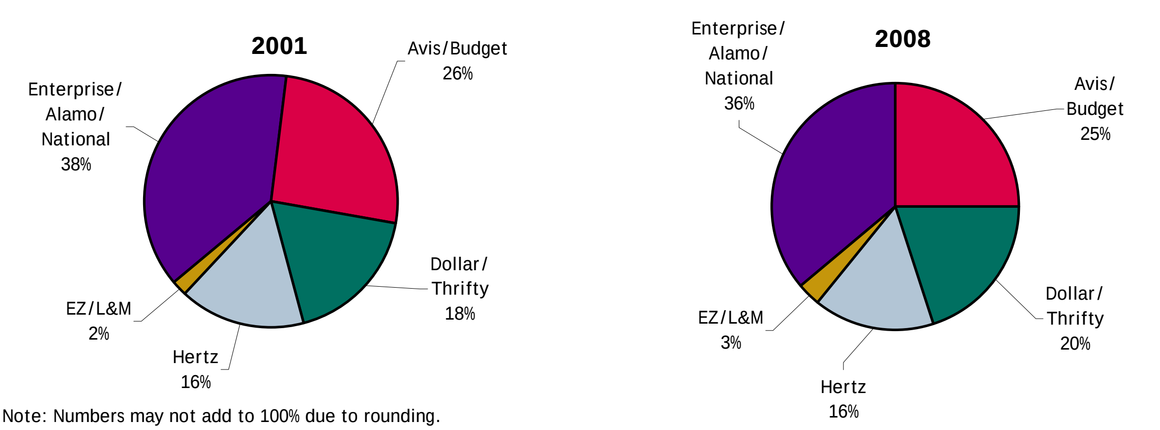
Fiscal Year	Total Enplaned Passengers (000)	% Change	Visiting O&D Passengers (000)	% Change	Rental Car Transactions (000)	% Change	Transactions Per Visiting O&D (%)	Gross Rental Revenue ($000)[b]	% Change
2001	14,934	—	11,025	—	2,348	—	21.3	474,196	—
2002	13,025	(12.8)	9,492	(13.9)	1,957	(16.7)	20.6	412,195	(13.1)
2003	13,532	3.9	9,790	3.1	2,026	3.5	20.7	427,449	3.7
2004	15,234	12.6	10,987	12.2	2,260	11.5	20.6	475,629	11.3
2005	16,833	10.5	12,019	9.4	2,449	8.4	20.4	496,091	4.3
2006	17,311	2.8	12,073	0.4	2,414	(1.4)	20.0	490,020	(1.2)
2007	17,832	3.0	12,447	3.1	2,429	0.6	19.5	528,567	7.9
2008	18,238	2.3	12,835	3.1	2,488	2.4	19.4	550,297	4.1
2009[a]	N.A.	N.A.	11,667	(9.1)	2,261	(9.1)	19.4	509,000	(7.5)

[a]Estimated. [b]Gross rental revenue excludes off-airport companies that will not be coming on-airport. N.A. — Not applicable.

The airport is currently served by five rental car companies, consisting of 11 distinct brands. Of the five companies, only Hertz currently has no on-airport presence (Thrifty and Enterprise are off-airport, but have representation on-airport via Dollar and Alamo/National, respectively). The new rental car agreements will cause some of the current onsite brands (Avis, Budget, Dollar, Alamo, and National) to team with some of the current offsite brands (Thrifty, Enterprise, Hertz, and Simply Wheelz) to maintain vehicles and operations on airport property.

Of the five reporting groups, Enterprise/Alamo/National is the market leader, representing 36% of gross revenues in 2008, followed by Avis/Budget with 25%, and Dollar/Thrifty at 20%. Other operators include Hertz/Simply Wheelz at 16% and EZ/L&M at 3%. These market shares have been fairly constant on a gross revenue basis and are consistent with market share seen earlier in the decade *(see the chart below)*.

Gross Revenue Distribution
(Fiscal Years Ended Sept. 30)



Note: Numbers may not add to 100% due to rounding.
Source: GOAA.

Finances

GOAA's $2.50 daily CFC rate has been in place since Oct. 1, 2008. CFC revenues totalled $17 million in the first nine months of fiscal 2009, ranging from a low of $1.6 million per month to a high of $2.4 million per month in collections. As this is the first year of collections, there is no historical data to consider regarding revenue. Similarly, as first debt service on the 2009 bonds will occur in fiscal 2010, there is no data to consider regarding debt service coverage on a historic or year-to-date (YTD) basis.

Pledged revenue for debt service will consist of CFC collections, which grow as a function of transaction days (as a function of visiting passengers and propensity to rent) plus interest earned on the various funds (estimated at around $420,000 per year).

Fitch believes the current $2.50 rate level will be more than sufficient to meet GOAA's special facility debt obligations going forward. Under various stress scenarios of declines in transaction days of up to 23% over the next four fiscal years with modest 1% recovery per annum thereafter, pledged revenues generated by the CFC are sufficient to provide 1.9x or greater debt service coverage. Including the fully funded coverage account of $2.5 million, coverage increases to 2.2x. This stable, elevated level of coverage provides room for substantial downside risk, and is consistent with an ‘A’ category rating. GOAA’s ability to increase the CFC rate or rescind the five-day maximum period on rental contracts with board approval only (no need to consult with county officials or concessionaires) provides further downside protection for bondholders.

Capital Program

2009 Project: The CFC project consists of expansion and reconfiguration of the existing Terminal A QTA; construction of a new Terminal B QTA and associated relocation of the bus and taxi hold facilities; addition of ready/return spaces at Terminal A; construction of a common fuel distribution system; and associated terminal roadway and signage improvements.

Construction of the Terminal A and B QTAs, temporary taxi/bus hold facilities, and certain roadway improvements, is underway and expected to be complete in February 2010 to provide beneficial occupancy by the rental car companies by April 2010. Proceeds from the 2009 bonds will fund 83% of the 2009 project construction, with the remaining funds coming from CFCs already collected.

As of September, the 2009 project is 70% complete and is projected to cost $60.3 million (including soft costs and allowances for contingencies). Of this, $10.3 million has been funded by CFCs collected since collection began in October 2008. The remainder will be funded by proceeds of the 2009 bonds.

Outstanding Projects: Additional design/bid packages for future elements of the CFC Project have been bid, but temporarily deferred. The cell lot/taxi hold area and return to Terminal A is expected to be constructed in 2013, while the permanent bus hold area is expected to be constructed in 2011. The authority expects to fund these additional projects, projected to cost $39 million, using CFCs on a pay-as-you-go basis as CFCs are deposited into the facility improvement fund.

Project Costs and Sources of Funding

($000s)

	2009 Bonds	Historical CFC Collections	Future CFC Collections	Total
Current RAC Projects				
Temporary Taxi/Bus Hold Facility	990	264	—	1,254
Loop Road Improvements	6,194	1,651	—	7,845
Rental Car QTA/Support Facilities	42,592	8,329	—	50,921
RAC Capacity Ops Analysis	224	60	—	284
Total 2009 Project	**50,000**	**10,304**	**—**	**60,304**
Future RAC Projects				
Cell Lot/Taxi Hold Area/Return To Terminal Road	—	505	30,167	30,672
Permanent Bus Hold Area	—	244	8,535	8,779
Total Future Projects	**—**	**749**	**38,702**	**39,451**
Total CFC Project	**50,000**	**11,053**	**38,702**	**99,755**

No additional bonding is anticipated. While the current issuance has a very short tenor and benefits from substantial structural liquidity, additional parity bonds would not necessarily enjoy the same protections. To the extent that additional bonds are issued with a longer tenor and minimal liquidity, the ‘A’ rating could be pressured.

Economy

The greater Orlando area is one of world's leading destinations for the convention and tourism industry. In 2007, the region recorded $31.1 billion in visitor spending, and tourism accounts for nearly 400,000 jobs (24% of total employment). Total visitation to Orlando was 47.1 million in 2008, down from 48.7 million in 2007; the forecast for 2009 is 43.4 million, another decline of 8.1%. Domestic visitors are approximately 95% of total.

The Walt Disney World Company, which operates the Magic Kingdom, EPCOT Center, Animal Kingdom, and Disney's MGM Studios, is Orlando's largest employer, with roughly 62,000 employees. Other large employers include Universal Orlando (13,000), Marriott (6,300), Darden Restaurants (5,900), and SeaWorld Orlando (5,500). Other important and growing segments of the area economy include defense, technology, and medical activities.

Unemployment has been rising in the region. As of June 2009, unemployment was 10.9%, up from 5.7% the year prior and 3.9% in 2007. This is slightly above the state, which was at 10.7% for the same period, and is above the June national unemployment rate of 9.5%.