MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades rating of Pensacola's outstanding airport revenue bond debt to Baa1; Outlook is stable

Global Credit Research - 06 Jun 2012

Airport has $48 million of rated revenue bonds outstanding

New York, June 06, 2012 --

RATINGS RATIONALE:

Moody's Investors Service has downgraded to Baa1 from A3 the rating of Pensacola Airport Enterprise's (the "airport") outstanding revenue bonds based on the airport's narrower financial margins, decreased liquidity and lack of a longer term airline agreement, which leaves it more vulnerable to pressures from airline consolidations. The airport's competitive cost base, fairly significant military presence providing greater level of enplanement stability, all origination and destination (O&D) passenger base and minimal additional leverage in the medium term contribute to the stable outlook.

STRENGTHS

* Presence of Pensacola Naval Air Station provides some stability to service area

* Cost per enplanement, a key metric for residual airports, remained competitive in FY2011 at $6.47

* Minimal additional borrowing plans in medium term

CHALLENGES

* Liquidity levels have deteriorated further and remain low compared to peer airports and Moody's U.S. airport median

* Month-to-month airline agreements, with somewhat limited airline diversification (five airlines account for 95% of total enplanements) amid an airline industry consolidation environment

* The airport's leverage position is well-above average, although minimal future borrowing is expected

Outlook

The stable outlook is based on the strength of the airport's O&D base, completion of the terminal expansion and renovation construction, and expected rolling over of CFC debt maturity for another three years.

What could change the rating--UP

Faster than expected enplanement recovery to previous high levels, debt service coverage that recovers and remains at the historic 2.0x times average, and an improvement in liquidity levels to more closely align with medians.

What could change the rating--DOWN

Continuous decline or maintenance of low enplanement levels that results in declines in debt service coverage, lack of signing of longer term airline agreements, and/or continued decline in or maintenance of liquidity levels below 200 days cash on hand could exert downward pressure on the rating.

RATING METHODOLOGY

The principal methodology used in this rating was Airports with Unregulated Rate Setting published in July 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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