Fitch Rates San Francisco Intl Airport's (CA) Series 2011CDE&F Revs 'A+'; Outlook Stable

Ratings
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Fitch Ratings-San Francisco-28 June 2011: Fitch Ratings assigns an 'A+' underlying rating to the approximately $297.8 million Airport Commission, City and County of San Francisco, San Francisco International Airport (SFO), CA second series revenue bonds series 2011C (AMT), 2011D (Non-AMT), 2011E (taxable), and series 2011F (taxable). Bond proceeds will refund certain maturities on existing parity bonds to provide for debt service savings. The bonds will be issued as fixed-rate obligations. In addition, Fitch affirms the 'A+' rating on the outstanding $4.24 billion second series revenue bonds. The Rating Outlook is Stable.

RATING RATIONALE:
--SFO is an important regional transportation provider for long-range domestic and international air service. In addition, SFO continues to benefit from a consistently high and growing market share of the regional northern California air traffic market.
--The air trade service area has a significant population base (nearing 8 million in population) that enjoys high wealth levels and a diverse economy, which collectively support the strong demand for passenger service.
--Performance continues to be solid for both passenger traffic and financial results even during the recent economic and industry challenges. Carrier concentration risk from United Airlines is still evident at about 40% of total passengers although the degree of concentration is moderating through the building presence of domestic low cost carriers.
--Management of airport infrastructure is prudent with moderate near-term capital needs. Management has recently renewed its airline use agreement that provides for strong cost recovery terms. Capital expenditure pressures should be abating given the recent completion of the of the domestic 14-gate Terminal 2 renovation project that now serves both American Airlines and Virgin America.
--Debt levels on a passenger basis are somewhat high ($219 per enplanement), and the resulting high fixed cost structure ($13.80 cost per enplanement) could places some near-term limitation on financial flexibility. Fitch notes that the airport leverage on a net debt to cashflow available for debt service basis is more moderate at 7.5 times.

KEY RATING DRIVERS:
--Stable operations at SFO despite the presence of competing airports in San Jose and Oakland;
--Ability to continue to successfully control costs that allow for competitive airline rates and charges;
--Limiting future borrowing requirements for capital budgets given the existing elevate leverage.

SECURITY:
The bonds are secured by a net revenue pledge of the airport.

CREDIT SUMMARY:
Traffic activity continues to perform quite well over the past two years evidenced by enplanment growth of 4.8% in fiscal 2010 to 19.1 million (ending June 30th) that is showing continued momentum with the additional 3.8% increase through the first 10 months of fiscal 2011. SFO is benefiting from higher growth in international passenger traffic although domestic passenger performance is similarly solid with the additional services provided by low cost carriers. United still remains the dominant carrier and currently accounts for approximately 40% of total passenger. American is the second largest operator at 8.5% with Southwest (7.7%) and Virgin America (6.6%) contributing to a stronger diversity of service for the domestic operations. During the recent economic downturn, SFO's market share of passenger traffic in the bay area increased relative to other regional airports, Oakland and San Jose, both of which have experienced notable contraction.

For the period between fiscal 2008-2010, debt service coverage levels on parity senior lien bonds ranged from 1.41 times (x) to 1.48x, taking into account the permitted contingency fund transfers of approximately $92 million as well as the use of designated PFCs as revenues. On a stand-alone basis without contingency rollover funds, senior lien coverage ranged between a 1.09x to 1.12x. These coverage levels are not unusual given the residual rate-setting methodology. Fitch notes that the airport commission utilized $61 million in fiscal 2010 and $51 million in fiscal 2009 of PFCs as revenues paid to debt service, and the PFC revenues is expected to contribute $87.2 million in fiscal 2011. Fitch expects PFCs to be used as a tool to smooth future cost increases otherwise paid by the airlines.

The airline CPE at SFO was $13.80 in 2010, which was relatively stable when compared with levels observed in 2009 and considerably lower than the approximately $20 cost level seen back in 2003. Growth in enplaned passengers as well as large increases in non-airline revenue sources and higher PFC receipts/offsets to debt service payments together

contributed to the lowering of airline costs. Given the continued growth in traffic for 2011, as well as the successful management initiatives to contain operating costs, CPE levels in 2011 should not increase measurably.

The airport's current multi-year capital plan is moderate in size at $750 million through fiscal 2015 but was principally focused on Terminal 2 reconstruction in addition to various airfield and groundside improvements. Approximately 43% of the program is expected to be bond financed (including $324 million of future proceeds), with grants and passenger facility charge revenues funding the remaining costs. Given the airport's enplanement and financial assumptions for operations and capital plan, the average cost per enplanement is expected to increase to nearly $19 by fiscal 2016. Fitch notes that while the rising rates may lend to some limitations to overall financial flexibility, these costs are supported by a traffic base that consists of more attractively yielding international and long-haul domestic markets.

While the concentration risk from United Continental (long-term Issuer Default Rating of 'B-') continues to be nominally reduced at SFO, the airport's demand profile serves as a key risk mitigant due to the high level of origination and destination (O&D) enplanements, which represents 77% of total volume. Further, the airport's revenues continue to be diverse with direct airline revenues representing less than 40% of SFO's total operating revenues and direct receipts derived from United Airlines alone represented only 19.4% of total operating revenues in fiscal 2010. However, non-aeronautical revenues from concessions as well as PFC revenues would likely be impacted if United Airlines significantly reduces operations at the airport.

The current debt structure now positions the airport to having less than 20% of its total long-term debt and notes in either a variable-rate mode or subject to mandatory tenders within the next two years. Fitch expects airport's capital structure to become increasing more conservative relative to its past market exposures to the variable-rate market and counterparty credit. Fitch notes that the airport currently maintains over $260 million in liquid assets in its operating and contingency funds, which is now more than sufficient to cover unanticipated scenarios with regard to the outstanding mandatory tender bonds.

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Applicable Criteria and Related Research:
--'Rating Criteria for Infrastructure and Project Finance', dated Aug. 16, 2010;
--'Rating Criteria for Airports', dated Nov. 29, 2010.

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