

Rating Action: Moody's assigns A1 to San Francisco Airport Commission, CA's Series 2019E-H Revenue Bonds; outlook is stable

26 Jul 2019

New York, July 26, 2019 -- Moody's Investors Service ("Moody's") assigns an A1 to the San Francisco Airport Commission, CA's \$819.5 million San Francisco International Airport (SFO) Second Series Revenue Bonds, Series 2019E (AMT), \$124.0 million Series 2019F (Non-AMT/Governmental Purpose), \$39.5 million Series 2019G (Federally Taxable) and \$277.2 million SFO Second Series Revenue Refunding Bonds, Series 2019H (AMT) in the aggregate amount of \$1.3 billion. The commission has approximately \$7.3 billion of outstanding debt that is also rated A1. The outlook is stable.

RATINGS RATIONALE

The A1 rating and the stable outlook are based on SFO's sustained strong market position for air travel in the San Francisco Bay Area and track record of sound operational and financial management, including the execution of complex capital projects on schedule and within budget. While SFO's large primarily debt financed capital improvement plan (CIP) contributes risk, the rating and stable outlook continue to be supported by the airport's strong enplanement levels relative to other US airports, very strong economic growth in its service area that supports the fourth largest origination and destination (O&D) passenger base in the US, an increasingly diversified carrier base with continued service additions, stable debt service coverage ratios (DSCRs), rapidly amortizing debt, a strong liquidity position and reduced variable rate exposure.

Offsetting these strengths are already high and increasing debt levels as the airport implements its \$7.6 billion CIP funded with \$3.8 billion in airport revenue bonds through 2023 (including this issuance) and on-going construction and execution risks, though management has identified significant mitigants against cost escalation. Also, SFO has demonstrated an ability to manage and deliver complex capital programs ahead of schedule and within budget using a design-build methodology. The projects are 51% complete and 73% of expected construction value has been contracted through guaranteed maximum price contracts.

Key to maintaining the stable outlook is sustained growth in the service area economy and the airport's plan to absorb and support the expected \$2.8 billion of additional debt through 2023 as \$0.9 billion of outstanding debt is amortized.

RATING OUTLOOK

The stable outlook reflects our expectation that enplanements will continue to steadily increase at or above the previously forecast rate of 1.8% average annual growth through 2025; financial margins and liquidity will remain healthy and the airport will manage costs and maintain financial liquidity as it implements a largely debt-financed \$7.6 billion CIP.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Completion of the CIP within the current budget with an expectation of limited additional capital expenditures, while meeting financial and enplanement projections.
- Continued service additions by carriers that diversify the airport's revenue base and reduce its reliance on United Airlines for passenger traffic also could have a positive credit impact.

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Negative trends in the fundamental drivers of the service area economy that would reduce demand for long-haul and international air service.
- Slower than forecast traffic and revenue growth or increased or accelerated debt issuance that reduces the airports competitiveness relative to other airports would exert downward rating pressure, as would downsizing of operations by United.

- Debt per enplanement and O&D enplanement significantly above current projected peak levels as well as DSCRs sustained below 1.25x on a bond ordinance basis and 1.05x excluding allowed contingency fund transfers.

LEGAL SECURITY

The bonds are secured by net airport revenues on parity with all outstanding second series senior lien obligations. Commercial Paper is subordinate to senior bonds. The bonds will be secured by the pooled Original Reserve Account which is required to be funded at maximum annual debt service (MADs).

USE OF PROCEEDS

The airport is issuing \$1.3 billion of bonds. The Series 2019E-G bonds in the aggregate amount of \$0.98 billion will be used to fund capital projects, refund commercial paper, make deposits to the reserve accounts, terminate certain swaps and to pay capitalized interest. A portion of the Series 2019G in the amount of \$8 million will fund a contingency account. The Series 2019H planned in the amount of \$277 million will be used to refund outstanding bonds.

PROFILE

San Francisco International Airport is an international airport located 14 miles south of downtown San Francisco, California. It has flights to points throughout North America and is a major gateway to Europe and Asia. SFO is the largest airport in the Bay Area and the second busiest in California, after Los Angeles International Airport. The airport is served by 52 passenger airlines, including four LCCs that collectively provide nonstop service to 83 domestic and 53 international destinations.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Airports and Related Issuers published in March 2019. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody.com for additional regulatory disclosures for each credit rating.

Earl Heffintrayer
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
Plaza Of The Americas
600 North Pearl St. Suite 2165
Dallas 75201

US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Kurt Kruppenacker
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON

WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of

MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.