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San Francisco City & County Airport Commission, California
San Francisco International Airport; Airport; Joint Criteria

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Credit Profile		
US$461.1 mil second series rev bnds (San Francisco Intl Arpt) ser 2013 A-E due 06/30/2043		
Long Term Rating	A+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating to San Francisco City & County Airport Commission, Calif.'s $461.1 million series 2013A, 2013B, 2013C, 2013D, and 2013E senior-lien revenue bonds issued for the San Francisco International Airport (SFO). In addition, Standard & Poor's affirmed its 'A+' long-term rating and underlying rating (SPUR) on the commission's $3.9 billion bonds outstanding issued for SFO and affirmed its 'AAA' long-term rating on certain bonds based on the application of joint criteria. The outlook is stable. The ratings reflect our opinion of management's demonstrated efforts to control increases to the cost structure, to attract new service, and to manage future growth at the airport.

More specifically, the 'A+' long-term rating and SPUR reflect our view of the following credit strengths:

- Management's actions to control costs, to diversify and expand air carrier service, and to maintain strong liquidity;
- A growing high-yield origin and destination (O&D) market, with virtually no competition for international passengers in the Bay Area; and
- A large, international hub designation, with historically strong international traffic growth and capacity for expanded service.

In our view, the preceding credit strengths are offset in part by:

- The current and projected high cost structure,
- Significant additional debt needs, and
- The weak credit quality of and continued concentration in the airport's primary carrier.

The bonds are secured by the net revenues of the airport. The $442.1 million 2013A, 2013B, and 2013C bonds are new money, and the $19.0 million 2013D and 2013E bonds are a refunding. The 2013 bonds are expected to be fixed rate, and the debt service reserve is expected to be cash funded. SFO currently has nearly $4 billion in senior-lien debt outstanding. In fiscal 2013 approximately 12% of the outstanding debt is variable rate; the airport has six swaps outstanding with a total notional value of $483.4 million. We understand that the current commercial paper program is backed by three letters of credit totaling $300 million.

Fiscal 2013 enplanements are projected to reach a record high of 22.2 million, a 3.6% increase over fiscal 2012, with international enplanements growing by 4.4% and domestic enplanements rising by 3.4%. Fiscal 2012 enplanements were 21.4 million, up an impressive 8.0% over fiscal 2011 enplanements of 19.8 million. In fiscal 2010, 19.1 million passengers were enplaned at the airport, a 4.8% increase from fiscal 2009 enplanements of 18.2 million. The compound annual growth rate for traffic has been 3.9% during the last five years and 4.3% during the past 10 years.

According to Airports Council International, SFO was the seventh most active airport in the U.S. for total passengers served in 2012. Of the 10 largest airports in the U.S., SFO had the highest growth rate in calendar 2012 relative to 2011 at more than 8%, outpacing the airport with the second-highest growth rate, Charlotte, at more than 5%. The airport is a large hub, and O&D passengers account for 78% of the total traffic. We believe that, historically, the large, wealthy service area (eight million people) has provided a solid traffic base, and the area serves as a popular tourist destination.

In fiscal 2012, United and United Express accounted for 45.3% of total enplanements, Virgin America held the second-largest market share at 8.5%, and Delta Airlines held the third largest at 8.0%. Projected fiscal 2013 market shares are relatively the same, with the largest, United, at 46.3%.

Domestic traffic has shown impressive growth, in our opinion, particularly in the last five years. Management attributes this growth primarily to the introduction of service in fiscal 2007 by three low-cost carriers -- Southwest Airlines, JetBlue, and Virgin America -- that nearly quintupled the percentage of low-cost carrier seats since fiscal 2003. In 2012 low-cost carriers comprised 21% of scheduled departing seats at SFO.

In terms of competition from other Bay Area airports, we believe SFO has fared well recently. As the other two main competitors, Oakland International and San Jose International, are primarily domestic, O&D airports, a comparison on this basis is more relevant. SFO's share of domestic O&D passengers increased to 66% in fiscal 2012 from 42% in fiscal 2002. The total market share for the airport was 71% for fiscal 2012 including international traffic, as the airport serves approximately 97% of the Bay Area's international passenger traffic. Management has also worked with other airports in the region to plan for future growth, with the airport serving medium- to long-haul domestic routes as well as operating as a major U.S. international gateway.

The airline use and lease agreements between the airport and 44 signatory airlines took effect July 1, 2011. The term is 10 years and the agreements maintain the same general terms of the prior agreements, including a residual cost rate-setting methodology, airline review of capital projects, common-use facilities in the international terminal, and annual service payments to the city. The international terminal is joint use; however, the domestic terminals are a mixture of preferential, joint, and common use -- not exclusive use -- allowing airport management to optimize gate utilization.

The commission has approved a $2.1 billion five-year capital plan and a $4.1 billion 10-year capital plan for fiscal years 2014 through 2023. The capital plan includes approximately $2.6 billion in projects that will require the issuance of new debt during the forecast period through fiscal 2019. According to management, other sources of funds for the capital plan consist of grants, passenger facility charges (PFCs), and other sources such as existing capital funds. The capital plan includes projects grouped into three categories: committed, planned, and conceptual. The committed and planned projects are included in the forecast. The committed projects total $883 million through fiscal 2018, the planned projects total $1.2 billion through fiscal 2018, and the conceptual projects total $1.2 billion through completion (beyond fiscal 2023). Committed projects include the renovation of T3 (terminal 3) boarding area E for United and the runway safety area; modernization of the checked baggage screening system and baggage handling system in T3, the air traffic control tower, and west field cargo; construction of a new long-term garage; and the initial phase of T3 east. Planned projects primarily include the T1 renovation, construction of the new boarding area B, redevelopment of T3 east, and the proposed on-airport hotel. The conceptual projects primarily consist of the consolidated administration campus. We consider the significant amount of debt the airport will need to issue to finance the capital plan to be a credit risk. We will monitor the effects these projects may have on the airport's financial metrics.

Audited 2012 unrestricted cash and investments was $343 million, equal to 334 days' operations, which we consider good. Debt service coverage (DSC) as calculated in the indenture (including rolling coverage and pledged PFC revenues) was 1.47x in fiscal 2012, down from 1.60x in fiscal 2000. Pledged PFC revenues designed to pay debt service in fiscal 2012 were $73.0 million of the $82.3 million collected. Management projects DSC will decline over the forecast period to 1.33x in fiscal 2019, calculated in accordance with the indenture, including the current and future additional debt plans. Excluding the transfer from the contingency account, coverage was 1.18x in fiscal 2012, and is expected to be approximately 1.11x over the forecast period. With the airport's residual rate methodology, however, the level of coverage is not a significant risk, in our view.

The airport has a high cost structure, in our opinion. The cost per enplanement in fiscal 2012 was $14.18, and management's projections indicate the cost per enplanement will rise to approximately $20.95 in fiscal 2019. While we consider this rate to be high, we understand that this is an average rate for all carriers at the airport, and based on the facility used (e.g., the international terminal or a domestic terminal) the rate is higher or lower. This is important when considering the effect of the cost on certain airlines' service decisions. Management has implemented a three-part strategy to control costs and make the airport more competitive, including cutting operating costs, increasing concession revenues, and attracting new carriers and service. The debt per enplanement is also high, in our view, at $190 as of fiscal 2012. With the net effect of planned issuance of an additional $2.6 billion and payment of some principal through fiscal 2019, debt per enplanement is forecast at $220, which we consider very high, in fiscal 2019. This assumes 1.7% average annual growth of enplanements to 24.6 million and total debt of $5.4 billion in fiscal 2019.

The airport, located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County, occupies approximately 2,383 acres on a 5,171-acre site (the remaining acreage is undeveloped tidelands). The existing domestic passenger terminal complex totals 2.6 million square feet, and the international terminal totals 2.5 million. The airport currently has 88 operational gates and four runways. The airport is owned and operated as an enterprise department by the City and County of San Francisco. A five-member airport commission, the members of which are appointed by the mayor to four-year terms, governs the airport.

Outlook

The stable outlook reflects our anticipation that United Air Lines will continue to operate a major hub at SFO, passenger demand will remain stable, and liquidity levels will remain good. The prudent implementation of a capital plan that maintains management's current estimates of additional indebtedness will also be an important rating factor going forward, in our opinion. Given our view of SFO's potential additional debt needs and current debt profile, we do not expect to raise the ratings during the next two years.

Bond Provisions

The bonds are secured by the airport's net revenues and are issued under the 1991 resolution. Net revenues include all those earned by the commission from operation of the airport in accordance with GAAP, but, among other things, explicitly exclude special facility revenues and PFCs, unless specifically pledged. The airport currently has $3.9 billion in outstanding parity debt.

The 1991 resolution allows for the establishment of a contingency account that can be used for debt service, operations and maintenance, and certain other airport costs. The commission is not obligated to replenish this account in the event funds are withdrawn. The balance in this account is $92.4 million, or 30% of maximum annual debt service (MADS) on the outstanding bonds issued under the 1991 resolution. Funds in this account are deposited as of the last business day of each fiscal year and are applied to satisfy the coverage requirement under the rate covenant.

The rate covenant requires net revenues in each year to be at least sufficient to pay debt service and all required payments to the city. In addition, together with any transfer from the contingency account, net revenues must be at least 1.25x debt service of the 1991 resolution bonds. This contingency account transfer effectively allows for rolling coverage on the bonds. In years that amounts owed after debt service decrease relative to the size of debt service, actual coverage from current-year rates and charges can fall and be offset by the contingency fund. The size of the transfer is limited to 25% of MADS for purposes of calculating the additional bonds test (ABT). While the contingency account may be used to meet the rate covenant, we expect (and management currently projects) generating revenues will equal at least 1.0x from rates and charges, without the use of the contingency account. If the contingency fund were to be drawn down for any reason, the commission has the authority to set rates and charges to 1.25x and continue to do so until the contingency fund is rebuilt, if ever.

The ABT requires that projected net revenues will meet the rate covenant for the proposed debt or that historical revenues with the transfer will cover outstanding and proposed debt by 1.25x. This test, like nearly all other tests for airports in the U.S., allows for the use of projected revenues, which, in essence, means some demonstration of compliance of the 1.25x multiple by an airport consultant.

Related Criteria And Research

- Criteria: Joint Support Criteria Update, April 22, 2009
- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- USPF Criteria: Airport Revenue Bonds, June 13, 2007

Ratings Detail (As Of July 2, 2013)
San Francisco City & Cnty Arpt Comm, California
San Francisco Intl Arpt, California

Ratings Detail (As Of July 2, 2013) (cont.)		
San Francisco City & Cnty Arpt Comm (San Francisco International Airport) (wrap of insured) (FGIC & AGM) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Francisco City & Cnty Arpt Comm (San Francisco International Airport) (wrap of insured) (MBIA & AGM) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Francisco City & Cnty Arpt Comm (San Francisco Intl Arpt) arpt rev rfdg bnds rmktd		
Long Term Rating	A+/Stable	Affirmed
San Francisco City & County Airport Commission (San Francisco International Airport)		
Long Term Rating	A+/Stable	Affirmed
San Francisco City & County Airport Commission (San Francisco International Airport) VRDB		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Francisco City & County Airport Commission (San Francisco International Airport) VRDB		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Francisco City & County Airport Commission (San Francisco International Airport) VRDB		
Long Term Rating	AAA/A-1	Affirmed, Removed from CreditWatch
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Francisco City & County Airport Commission (San Francisco International Airport) VRDB		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Francisco City & County Airport Commission (San Francisco International Airport) VRDB (ASSURED GTY)		
Long Term Rating	AA-/NR/Stable	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Francisco City & County Airport Commission (San Francisco International Airport) VRDB (ASSURED GTY)		
Long Term Rating	AA-/NR/Stable	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Francisco City & County Airport Commission (San Francisco International Airport) VRDB (AGM)		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Francisco City & County Airport Commission (San Francisco International Airport) (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Francisco City & County Airport Commission (San Francisco International Airport)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.