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FITCH UPGRADES SAN FRANCISCO INTL AIRPORT (CALIFORNIA) REVS TO 'A+'; OUTLOOK REVISED TO STABLE

Fitch Ratings-New York-28 September 2009: Fitch Ratings assigns an 'A+' rating to approximately $1.3 billion Airport Commission, City and County of San Francisco, San Francisco International Airport (SFO or the airport), second series revenue and revenue refunding bonds consisting of the following:

--$88 million, series 2009D (non-AMT/private activity);
--$600 million, series 2009C (non-AMT/private activity);
--$445 million, series 2009E (non-AMT/private activity);
--$232 million, series 2009F (non-AMT/private activity).

Fitch also upgrades the outstanding $3.8 billion second series revenue bonds to 'A+' from 'A'. Fitch also affirms the 'F1' rating on approximately $400 million outstanding second series revenue bonds and notes. Both long- and short-term debt are secured by a net revenue pledge of the airport. Final maturity on all bonds is 2039. The Rating Outlook is revised to Stable from Positive.

Bond proceeds for series 2009E will finance the airport's reconstruction and rehabilitation of Terminal 2 and related projects, series 2009C and series 2009F will refund portions of outstanding debt, market conditions permitting. The series 2009D bonds will refinance the 2008B notes that have a mandatory tender date on Dec. 1, 2009.

The upgrade to 'A+' from 'A' reflects the airport's continued positive performance of both passenger traffic and financial results, despite the current economic conditions, as well as the airport's ability to produce solid financial metrics and debt service coverage levels through economic cycles and industry challenges, such as airline capacity reductions, that are more comparable with peer airports at the 'A+' rating level. Importantly, the airport has reduced airline costs over the past seven years and as a result has attracted air passenger service by three additional low cost carriers, reducing airline market share concentration at SFO, and increasing its percentage share of total passenger enplanements among the three bay area airports. SFO's passenger enplanements held relatively steady decreasing by 1% at the close of fiscal 2009 to 18.2 million enplanements, as the growth in the airport's overall domestic passenger base counterbalanced the airline industry capacity reductions. While SFO's forecast for passenger enplanements is expected to be pressured over the near term, the airport's cost structure remains comparable to other international gateway hubs. Despite the issuance of new money debt for Terminal 2, debt service coverage levels and operating ratios are expected to be in line with historical financial performance, in excess of 1.30 times (x) and above 40%, respectively.

The 'A+' rating captures SFO's importance as a regional transportation provider for long-range domestic and international air service, as well as the San Francisco Bay Area's significant population base (in excess of 7 million), high wealth levels and diverse economy, which support the strong demand for passenger service. Additional strengths include SFO's stable balance sheet and healthy financial operating ratios, estimated at 44% for unaudited fiscal 2009, debt service coverage ratio at 1.44x and a cost per enplanement at $13.76 for that same year. Credit challenges remain a weakened economy and airline industry that can pressure airport financial results, SFO's high fixed cost structure and to some extent, air service market share concentration (40.6%, including United Express and Sky West) in United Airlines (long-term Issuer Default Rating 'CCC' by Fitch). This concentration is partially mitigated by the high level of origination & destination (O&D) enplanements, which represents 76% of total volume. Airport revenues derived from United Airlines represented only 22.7% of SFO's total operating revenues.

The airport's capital plan is large and estimated at $1.0 billion through 2014, and principally focused on Terminal 2 reconstruction, along with various airfield and groundside improvements. Approximately 60% of the program will be bond financed, 28% will be funded by grants, 7% with passenger facility charge revenues, and the remaining 5% from other sources. The Terminal 2 project is at 100% design, with the majority of the project under contract and an estimated completion date of January 2011. Given the airport's enplanement and financial assumptions for operations and capital plan, the average cost per enplanement is expected to increase to approximately $23.11 in fiscal 2015. Under a Fitch alternative scenario that stresses operating expense growth and enplanement assumptions, the average cost per enplanement could increase to approximately the $26.00-$27.00 range by fiscal 2015. Under both scenarios, it is expected that the airport will maintain, or substantially maintain, its current residual rate making methodology, which should produce debt service coverage levels in excess of 1.30x.

As of August 2008, the airport's capital structure included approximately $3 billion in fixed rate debt, $494 million in variable rate debt (approximately 75% of which is hedged with swaps) and approximately $400 million in short-term mandatory tender revenue bonds and notes (with staggered maturities over the next two years). Given the complexity of the airport's capital structure, its exposure to variable rate debt, interest rate volatility, counterparty performance, periodic liquidity renewals, and refinance risk, the debt portfolio will remain an important consideration to the airport's credit.

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