FitchRatings

Fitch Rates San Francisco Intl Airport (CA) Ser 2012A&B Revs 'A+'; Outlook Stable

Ratings Endorsement Policy
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Fitch Ratings-New York-15 February 2012: Fitch Ratings assigns an 'A+' underlying rating to approximately $325 million Airport Commission, City and County of San Francisco, San Francisco International Airport (SFO, or the airport), second series revenue bonds series 2012A (AMT) and, 2012B (Non-AMT). 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 $4.23 billion second series revenue bonds. The Rating Outlook is Stable.

KEY RATING DRIVERS:
Strong Operating Profile and Positive Traffic Trends: SFO serves as a major international gateway airport with a leading market share position for passenger traffic within the SF bay region. The airport has a well-balanced traffic profile between origination & destination (O&D) and connecting that serves domestic and international travel. United Airlines maintains a sizable presence at SFO, with a 40% share of the passenger market, although the airport is increasingly benefiting from the presence of low-cost carriers and expanding service from many foreign-flag airlines. The air trade service area's significant population base (nearing 8 million in population) enjoys high wealth levels and a diverse economy, which collectively support the strong demand for passenger service. Ongoing regional-based traffic competition exists from nearby Oakland and San Jose airports for domestic O&D traffic.
Favorable Rate Setting Framework: The current airline use agreement, utilizing a full airport residual approach, provides a strong cost recovery rate setting methodology to meet all operating and debt service requirements. The airline cost level is $13.85 per enplanement and has been relatively stable in recent years.

Stable Financials But Limited By Elevated Leverage Metrics: SFO's debt levels are high at $4.2 billion ($213 per enplanement) and contribute to the airport's high fixed-costs structure. Net debt to cashflow available for debt service is similar to peer large-hub airports at 9.8 times (x). Additional borrowings to support capital spending will likely lead to a continuation of similar debt metrics. Still, the airport has a good liquidity position and stable coverage levels to adequately meet its debt obligations.
Well Managed Infrastructure: The airport is led by prudent management of infrastructure with moderate near-term capital needs. Recently completed terminal improvements together with planned development projects are expected to allow the airport to adequately serve a growing base of operations.

WHAT CAN TRIGGER A RATING ACTION
-- Changes in the airport's traffic profile given the sizable presence of United Airlines and the presence of competing airports in San Jose and Oakland;
-- Management's ability to continue to successfully control operating costs and to complete its capital program within current forecast parameters will be important to rating maintenance.

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

CREDIT SUMMARY:
Traffic activity at SFO has continued to perform quite well over the past two years evidenced by enplanement growth of 3.9% in fiscal 2011 to 19.8 million (ending June 30) which followed a 4.8% increase in the prior year. 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. For the first six months of fiscal 2012, enplanements are up an additional 5.3%, a level that is stronger than most other large-hub airports in the country. United still remains the dominant carrier and currently accounts for approximately 40% of total passengers. Delta is the second largest operator at 8.5% with American (8.0%) and Southwest (7.6%) 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 (currently 69%) increased relative to other regional airports, Oakland and San Jose, both of which have experienced notable contraction.

The fiscal 2011 debt service coverage level on parity senior lien bonds was 1.47x, taking into account the permitted contingency fund transfers of approximately $93 million as well as the use of designated passenger facility charge (PFCs) as revenues. On a stand-alone basis without contingency rollover funds, coverage was 1.17x. This coverage level is consistent with performance in recent years and is not unusual given the residual rate-setting methodology. Fitch notes that the airport commission utilized $87.2 million of PFCs in fiscal 2011 and $61 million in fiscal 2010 as revenues paid to debt service. PFC revenues are expected to contribute $88.5 million in fiscal 2012 for debt service payments and be used as a tool to smooth future cost increases otherwise paid by the airlines.

The airline CPE at SFO was $13.85 in 2011, which was relatively stable when compared with levels observed in 2010 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 usage of PFC receipts as offsets to debt service payments together contributed to the stabilizing airline costs. Given the continued growth in traffic for 2012, as well as the successful management initiatives to contain operating costs, CPE levels in 2012 should not increase measurably.

The airport's current multi-year capital plan is moderate in size at $763.7 million through fiscal 2016 with a focus on various airfield and groundside improvements. Approximately 70% of the program is expected to be bond financed (including $526 million of future proceeds), with grants and PFC revenues funding the remaining costs. The current net debt to cashflow available to debt service is approximately 9.8x, a moderate level for a large-hub airport, and this debt metric is not expected to change materially considering the additional planned borrowings for the capital program.

Even with continued growth in the airport's enplanement base, Fitch expects the average CPE to increase over the next several years to service rising annual debt service payments. Fitch believes the rising rates may lead to some limitations to overall financial flexibility, although these costs are supported by a traffic base that consists of more attractively yielding international and long-haul domestic markets.

The current debt structure now positions the airport to having approximately 13% of its total long-term debt and notes in either a variable-rate mode or subject to a mandatory tenders. Fitch notes that the airport's capital structure is expected to become increasingly 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 far more than sufficient to cover unanticipated scenarios with regard to the outstanding mandatory tender bonds.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Rating Criteria for Infrastructure and Project Finance', dated Aug. 16, 2011;
--'Rating Criteria for Airports', dated Nov. 28, 2011.

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