MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A1 to SFO Fuel Company, LLC's (CA) proposed special facilities lease revenue bonds; outlook stable

03 Jan 2019

New York, January 03, 2019 -- Moody's Investors Service assigns an A1 rating to SFO FUEL COMPANY, LLC's (SFO Fuel) proposed $125 million Special Facilities Lease Revenue Bonds, consisting of $62.3 million Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC) Series 2019A-1 (AMT) New Money, $57 million Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC) Series 2019A-2 (AMT) Refunding, and $5.7 million Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC) Series 2019B (Federally Taxable). The outlook is stable.

RATINGS RATIONALE

The assignment of the A1 rating for the proposed "San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC) Series 2019A (AMT)" (Series 2019A) and "San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC) Series 2019B (Federally Taxable)" (Series 2019B) reflects our view of a structural improvement to the debt service reserve fund which is cash funded compared to the outstanding Series 1997A and Series 2000A Bonds (rated A2 stable). Outstanding bonds have a debt service reserve fund requirement that is fulfilled by the surety policies and fundamentally viewed as a weaker form of protection to bondholders. The Series 1997A and Series 2000A bonds are to be refunded by a portion of the Series 2019A bond proceeds. No rating action was taken on the Series 1997A and Series 2000A Bonds.

The rating incorporates our view of SFO Fuel's exclusive right to own and operate a fuel system in the third largest US airport by origin and destination enplanements (San Francisco Airport Commission A1 stable), improved credit quality of member airlines, and strong contractual mechanisms that mitigate various risks. The rating benefits from a strong cost recovery framework covering all operating, capital, debt, and management costs, and various levels of bondholder protections that mitigate airline credit risk, fuel facility system failure, and disruption of timely revenue collection.

The rating also incorporates sum sufficient rate covenants and a cash funded debt service reserve fund. In addition, SFO Fuel's cost recovery framework results in $0 in net income annually translating into insufficient cash flow to be called upon in the event of a disruption in debt service payments. However, this is mitigated by a cash funded debt service reserve and a strong financial framework that provides for full cost recovery and step-up provisions.

FACTORS THAT WOULD LEAD TO AN UPGRADE

- Improved financial position or credit quality of member airlines

- Greater cash reserves

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Dramatic changes in environmental remediation costs and capital costs to keep the system in compliance with tightening environmental legislation

- Events that reduce the strong market position of SFO relative to major nearby airports

- Significant reductions in the number of or credit quality of member airlines

USE OF PROCEEDS

Proceeds for the proposed Series 2019A and Series 2019B bonds will be used to fund capital projects scheduled to begin in the first quarter of 2019, refund existing debt, and reimburse SFO Fuel for prior capital expenditures. Approximately $60 million of the Series 2019A bonds will fund the construction of two 67,000 barrel working capacity tanks for on-airport storage capacity to meet projected demands and expected future growth as well as provide improvements to the fuel systems associated pump pad. The project is expected to be completed in February 2020 for the storage tanks and January 2021 for the pump pad.

Approximately $57 million of proceeds of Series 2019A bonds will entirely refund outstanding Series 1997A and Series 2000A bonds while approximately $5.7 million in Series 2019B taxable bond proceeds will be used to reimburse SFO Fuel for prior completed capital projects.

LEGAL SECURITY

The bonds are secured by a pledge of the trust estate, which is primarily facilities rent paid by member airlines as well as by the debt service reserve fund. The debt service reserve fund will be initially funded using bond proceeds with approximately $8.9 million being deposited into the reserve fund and $3.3 million deposited into the capitalized interest fund. Total fuel system charges paid by airlines cover operations, capital and debt service costs. Payment of debt service will be guaranteed to the Trustee by the SFO Fuel pursuant to the terms of a guaranty. SFO Fuel has granted to the Trustee a security interest in certain collateral, including the right, title and interest of the SFO Fuel in and to the Interline Agreement, pursuant to a Security Agreement.

PROFILE

SFO Fuel was organized on May 28, 1997 as a limited liability company under the laws of the state of Delaware for the purpose of leasing, constructing and operating the fuel system at San Francisco International Airport (SFO). The San Francisco Airport Commission issued Special Facilities Lease Revenue Bonds on October 7, 1997 and May 1, 2000. The bonds were issued specifically to finance the costs of acquisition, construction, modification, expansion and installation of certain additions, replacements and improvements to the jet fuel receipt, storage and distribution system serving SFO, certain diesel and gasoline storage, and delivery facilities for ground service equipment and related environmental costs. SFO Fuel contracts with Menzies Aviation for the operation and administration of the fuel system.

METHODOLOGY

The principal methodology used in these ratings was Generic Project Finance published in April 2018. Please see the Rating Methodologies page on www.moodys.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.moodys.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.moodys.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.moodys.com for additional regulatory disclosures for each credit rating.

Eriq Alexander
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street

New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Maria Matesanz
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Kurt Krummenacker
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