MOODY'S INVESTORS SERVICE

Rating Action: Moody's assigns A1 to San Francisco Airport Commission's remarketed Second Series 2009D Bonds; Outlook stable

Global Credit Research - 08 Nov 2012

Rating affirmed for $3.97 billion parity debt

New York, November 08, 2012 --

Moody's Rating

Issue: Second Series Revenue Refunding Bonds Series 2009D (Non-AMT/Private Activity); Rating: A1; Sale Amount: $85,270,000; Expected Sale Date: 11/12/2012; Rating Description:

Revenue: Government Enterprise

Opinion

Moody's Investors Service has assigned an A1 to San Francisco Airport Commission's (SFO) remarketed Second Series 2009D Bonds in the amount of $85,270,000.

RATING RATIONALE

The rating and stable outlook are based on the airport's strong market position for air travel in the San Francisco Bay Area, rapidly growing enplanements relative to other US airports; diversifying carrier base, stable DSCRs; rapidly amortizing debt and a relatively strong position that offsets high debt levels and expenditure growth.

While there is potential for an additional over $1 billion in capital projects over the intermediate term, we expect the commission will undertake these projects prudently so as to remain competitive with other international hub airports.

STRENGTHS

*Large, affluent service area provides strong demand for origin and destination (O&D) traffic

* Strong enplanement growth has been resilient due to growth of operations by United and a total of six low-cost carriers accounting for nearly 22% of enplanements, increasing domestic competition which reinforces the airport's strength compared to other Bay Area airports

* Airline use and lease agreement maintains residual rate-making and provides for increased gate utilization, but also allows airlines to downsize leased space

CHALLENGES

* Revenues remain highly reliant on United Airlines (UAL, enhanced equipment trust rated Ba1, ratings under review for upgrade), accounting for 45% of enplanements in FY 2012

* Debt levels and cost structure remain above Moody's US airport medians and are projected to remain high though consistent with international gateway airports

*Use of variable rate debt has increased the commission's exposure to variable interest rate risk and bond put risk relative to its liquidity position, though this risk continues to moderate and now represents only 11.9% of total debt outstanding

* Competition from other Bay Area airports and capacity constraints at SFO may limit future passenger growth, though technological solutions and larger planes with higher load factors are expected provide some capacity relief

OUTLOOK

The rating outlook reflects our expectation that enplanements will continue to steadily increase; financial margins and liquidity will remain healthy and that the airport will manage costs and maintain financial liquidity as it implements its evolving capital improvement program.

What Could Change the Rating - UP

Continued expansion by carriers other than United that diversify the airport's revenue base, reduce its reliance on United for passenger traffic, and improved CPE and internal financial liquidity could have further positive impact in the rating.

What Could Change the Rating - DOWN

Unexpected cost increases that raise the CPE above projections and reduce the airport's competitiveness relative to other airports, or reduced passenger traffic could pressure the rating downward. Changes in financial liquidity below the current level, which reduce the airport's ability to offset existing finance-related risks, could also place negative pressure on the rating.

The principal methodology used in this rating was Airports with Unregulated Rate Setting published in July 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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