

Rating Action: Moody's assigns A1 to San Francisco Airport Commission's Series 2013A-E Revenue and Refunding bonds; affirms A1 and stable outlook on outstanding parity bonds

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#### Affects \$3.9 billion parity bonds

New York, July 01, 2013 --

Moody's Rating

Issue: Airport Revenue Bonds, Series 2013A (AMT); Underlying Rating: A1; Sale Amount: \$343,845,000; Expected Sale Date: 7/8/2013; Rating Description: Revenue: Government Enterprise

Issue: Airport Revenue Bonds, Series 2013B (Non-AMT); Underlying Rating: A1; Sale Amount: \$80,415,000; Expected Sale Date: 7/8/2013; Rating Description: Revenue: Government Enterprise

Issue: Airport Revenue Bonds, Series 2013C (Taxable); Underlying Rating: A1; Sale Amount: \$17,870,000; Expected Sale Date: 7/8/2013; Rating Description: Revenue: Government Enterprise

Issue: Airport Revenue Refunding Bonds, Series 2013D (AMT); Underlying Rating: A1; Sale Amount: \$3,850,000; Expected Sale Date: 7/8/2013; Rating Description: Revenue: Government Enterprise

Issue: Airport Revenue Refunding Bonds, Series 2013E (Non-AMT); Underlying Rating: A1; Sale Amount: \$15,135,000; Expected Sale Date: 7/8/2013; Rating Description: Revenue: Government Enterprise

# Opinion

Moody's assigns A1 to San Francisco Airport Commission's Series 2013A-E Revenue and Refunding bond and affirms A1 and stable outlook on outstanding parity bonds.

#### RATING RATIONALE

The A1 rating and the 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; an increasingly diversified carrier base, stable debt service coverage ratios (DSCRs) and rapidly amortizing debt; a relatively strong liquidity position and reduced variable rate exposure that offsets the expected increased debt levels to fund a large new capital improvement program (CIP) and related operating expenditure growth.

Key to maintaining the stable outlook is the airport's plan to phase in the expected \$2.1 billion of CIP debt gradually over five years and the potential total debt of \$3.9 billion over 10 years as outstanding debt is amortized. The CIP is designed to be modular and we would expect projects to be delayed or deferred as needed if traffic and revenue do not perform as forecasted. The stable outlook also is based on maintaining competitive costs in line with those of international hub airports and retaining service area market share due to its connectivity advantage as an international gateway. Debt per origination and destination (O&D) enplanements above \$300 would place downward pressure on the rating as would DSCRs below 1.3 times on a bond ordinance basis and 1.1 times excluding allowed contingency fund transfers.

#### **OUTLOOK**

The stable rating outlook reflects our expectation that enplanements will continue to steadily increase at or above the forecast rate of 1.7% average annual growth through 2019; financial margins and liquidity will remain healthy and that the airport will manage costs and maintain financial liquidity as it implements its significantly expanded CIP.

What Could Change the Rating - UP

Significantly higher than forecasted growth in passengers and increased revenue and liquidity could have a positive credit impact, though an upgrade is unlikely during the period that the CIP is being financed and implemented. Continued service additions by carriers that diversify the airport's revenue base and reduce its reliance on United for passenger traffic also could have a positive credit impact.

#### What Could Change the Rating - DOWN

Slower than forecasted traffic and revenue growth or increased or accelerated debt issuance that raise the cost per enplanement (CPE) above projections and reduce the airport's competitiveness relative to other airports would exert downward rating pressure. Debt per origination and destination (O&D) enplanements above \$300 would place downward pressure on the rating as would DSCRs below 1.3 times on a bond ordinance basis and 1.1 times excluding allowed contingency fund transfers. Reduced financial liquidity below current levels also could also place negative pressure on the rating.

## **STRENGTHS**

- \*Large, affluent, diverse and growing service area economy provides strong demand for origin and destination (O&D) traffic
- \*Strong enplanement growth has been resilient due to growth of operations by United and to a total of six low cost carriers (LCCs), accounting for approximately 20% of total enplanements. LCC service has increased domestic competition, which reinforces the airport's strength compared to other Bay Area airports because of it international connectivity advantage
- \*New 2011 airline residual use and lease agreement maintains residual rate-making and provides for increased gate utilization, but also allows airlines to downsize leased space
- \*Concession revenues have doubled over the last 10 years as facilities have been upgraded and expanded and are forecasted to continue to grow with planned terminal modernization
- \*Outstanding debt amortizes quickly with \$2..49 billion paid by 2024, opening capacity for new CIP financing
- \*Variable rate debt has decreased and now represents only 11% of total debt outstanding

### **CHALLENGES**

- \*Large new capital program will increase airline costs and adds construction risk as well as operating risk due to relatively constrained space for construction
- \*Revenues remain highly reliant on United, accounting for 45% of enplanements in FY 2012 and FY 2013
- \*Debt levels and cost structure remain above Moody's US airport medians and are projected to remain high, though consistent with international gateway airports. Increased CPE due to the planned CIP debt could reduce SFO's competitiveness relative to other service area airports
- \*Competition from other Bay Area airports and capacity constraints at SFO may limit future passenger growth, though SFO remains well positioned to capture the majority of international passenger growth in the service area due to its international terminal and FIS facilities
- \*Some exposure to an economic slowdown in Asia, with roughly half of the international passengers (which account for 26% of the airport total) arriving on Trans-Pacific routes

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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Maria Matesanz Senior Vice President Corporate Finance Group Moody's Investors Service, Inc. 250 Greenwich Street New York, NY 10007 U.S.A. JOURNALISTS: 212-553-0376 SUBSCRIBERS: 212-553-1653

Kurt J Krummenacker VP - Senior Credit Officer Corporate Finance Group JOURNALISTS: 212-553-0376 SUBSCRIBERS: 212-553-1653

Releasing Office: Moody's Investors Service, Inc. 250 Greenwich Street New York, NY 10007 U.S.A. JOURNALISTS: 212-553-0376 SUBSCRIBERS: 212-553-1653



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