New Issue: San Francisco Airport Commission, CA

MOODY'S ASSIGNS A1 UNDERLYING RATING TO SAN FRANCISCO AIRPORT COMMISSION'S SECOND SERIES REVENUE REFUNDING BONDS, ISSUE 36A/B AND ISSUE 37A/B; RATING OUTLOOK IS STABLE

SAN FRANCISCO HAS A TOTAL OF $4.15 BILLION OF AIRPORT REVENUE DEBT

Airport
CA

Moody's Rating

ISSUE		UNDERLYING RATING	RATING
Issue 36A Second Series Variable Rate Revenue Refunding Bonds		A1	A1
Sale Amount	$100,000,000		
Expected Sale Date	05/11/08		
Rating Description	Revenue		
Issue 36B Second Series Variable Rate Revenue Refunding Bonds		A1	A1
Sale Amount	$39,900,000		
Expected Sale Date	05/11/08		
Rating Description	Revenue		
Issue 37A Second Series Variable Rate Revenue Refunding Bonds		A1	A1
Sale Amount	$205,100,000		
Expected Sale Date	05/11/08		
Rating Description	Revenue		
Issue 37B Second Series Variable Rate Revenue Refunding Bonds		A1	A1
Sale Amount	$79,700,000		
Expected Sale Date	05/11/08		
Rating Description	Revenue		

Opinion

NEW YORK, May 6, 2008 -- Moody's Investors Service has assigned an A1 underlying rating to $141.9 million of San Francisco Airport Commission's ("the commission", "the airport", or "SFO") Second Series Revenue Refunding Bonds, Issue 36A/B and $284.8 million of Issue 37A/B. The rating outlook is stable. The rating is based on strong demand for domestic and international traffic, as well as the airport's history of sound financial performance. We are also affirming our A1 rating on the airport's senior lien parity bonds. Issue 36A and 36B bonds will be variable rate demand obligations supported by letters of credit from Wells Fargo Bank, N.A. and Union Bank of California, N.A., respectively. Issue 37A&B bonds will be variable rate demand obligations insured by Financial Security Assurance (FSA), Inc whose financial strength rating is Aaa with a stable outlook. These bonds will also be supported by a stand-by bond purchase agreement from Depfa Bank, plc (rated Aa3).

Please see our reports dated January 17, 2008 and March 18, 2008 for more information about the airport's underlying credit.

USE OF PROCEEDS: Issue 36A/B will refund Issue 32A,B&C, which are auction rate securities insured by FGIC, whose financial strength rating is Baa3 on watch for possible downgrade. The refunding will be accomplished by bringing the Issue 32 bonds into a trust structure described below. Issue 37A/B will refund Issue 33A/D/E/F/G, which are variable rate demand bonds insured by XL Capital, whose financial strength rating is A3, on watch for possible downgrade.

LEGAL SECURITY: Net general revenues of the airport.

INTEREST RATE DERIVATIVES:

Issue 36 A/B bonds will be hedged by the floating-to-fixed rate swap agreements the commission entered into with JP Morgan as the counterparty to originally hedge the Issue 32 bonds in the notional amount of $139.9 million. These transactions require the airport to pay a fixed rate of 3.44% to the counterparty and receive 63.5% of LIBOR plus 0.29% and mature in 2026. Issue 37A bonds will be hedged by the floating-to-fixed rate swap agreements the commission entered into with Lehman Brothers and Bear Stearns to originally hedge the Issue 33 bonds in the amount of $205.1 million. These three transactions require the airport to pay fixed rates of 3.379%, 3.393%, and 3.393% while receiving 63.5% of LIBOR plus 0.29%.

In July 2007 the airport entered into four forward-starting swaps with the expectation of issuing variable rate debt as part of Bond Issue 34 in 2008 and Bond Issue 35 expected in 2010. The airport elected to change the structure of Issue 34 into a combination of unhedged variable rate bonds and fixed rate bonds. As a result the swaps that were planned to match the Issue 34 bonds will now hedge Issue 37B and Issue 37C which is expected to close on May 14, 2008. The starting date for these swaps was extended from February 1 to May 15th at an approximate cost of $800,000 to the commission. The swap matched to the Issue 37B bonds pay the airport 61.85% of LIBOR plus 0.34% and the airport pays a fixed rate of 3.8755% to the counterparty Bear Stearns Capital Markets Inc. on a notional amount of $89.9 million. The swap that is expected to hedge Issue 37C bonds will pay the airport 61.85% of LIBOR plus 0.34% and the airport will pay a fixed rate of 3.8755% to the counterparty Merrill Lynch Capital Services on a notional amount of $79.7 million. Both swaps are insured by FSA.

The airport's forward-starting swap transactions that are expected to hedge the variable rate bonds expected to be issued in 2010 will pay the airport 61.85% of LIBOR plus 0.34% and the airport will pay a fixed rate of 3.925% to two counterparties: Goldman Sachs Capital Markets L.P. on a notional amount of $143.95 million and Depfa Bank plc. New York Branch on a notional amount of $71.973 million.

Bear Stearns Capital Markets L.P. (rated Baa1 on watch for downgrade) is the counterparty for 23% of the commission's swap portfolio. Currently, the market values of all swaps are in the bank's favor, so there is no collateral posting requirement at this time. At the bank's current rating level, the bank would be required to post-collateral if the market value of the swap to the bank reaches zero or below.

SFO's strong financial liquidity provides an offset to the additional financial risks such as basis risk, amortization mismatch, and market access risk in the airport's extensive swap portfolio, which totals $790.5 million.

STRENGTHS

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

* Strong liquidity with 511 days cash on hand at the end of FY 2007

* Strong growth in international traffic diversifies traffic risk beyond the U.S. economy

* Enplanement growth is strong due to three new, low-cost carriers increasing domestic competition

CHALLENGES

* Revenues remain highly reliant on United Airlines (enhanced equipment trust rated Ba2) accounting for 49% of enplanements

* Debt levels ($221 debt per enplaned passenger) and cost structure (average airline cost per enplanement of $15.06) are well above Moody's U.S. airport medians

*Increasing use of variable rate debt has increased the commission's exposure to variable rate bond put risk relative to its liquidity position which remains strong but has been eroded somewhat due to additional interest rate costs.

* Competition from other Bay Area airports and capacity constraints at SFO may limit future passenger growth

RECENT DEVELOPMENTS

The airport continued to experience passenger growth in February with at 13.1% increase over February 2007. Since the fiscal year began in June, the airport's traffic has increased 8.8% over last year. Please see our reports dated January 17, 2008 and March 18, 2008 for more information about the airport's underlying credit.

The Issue 36A/B bonds will refund approximately $139.5 million of Issue 32A/B/C auction rate security bonds. Following this refunding the commission will have $60.6 million of auction rate security bonds outstanding, which they expect to take out through the refunding bonds issued in Issue 36C/D later in May 2008. The commission's auction rate bonds most recent resets have put their average interest rate at 5.19%. The Issue 36A/B refunding bonds will provide funds for the commission to purchase the Issue 32A/B/C bonds and bring them into a trust account administered by the Bank of New York. The trust agreement will allow the interest rate to match the variable interest rate paid on the Issue 36 bonds. In this manner the principal and interest payments will pass through the trust back to the airport commission and be used to make the payments due on the Issue 36 bonds.

The commission expects to close on Issue 36C/D and Issue 37C/D by May 20th

Outlook

The outlook is stable and reflects our expectation that enplanement levels will stay at or above the current level and that the airport will manage costs as it implements its capital improvement program.

What Could Change the Rating - UP

Continued growth by carriers other than United that diversify the airport's revenue and reduce its reliance on United for passenger traffic could have a positive impact in the rating.

What Could Change the Rating - DOWN

Unexpected cost escalations that reduce the airport's competitive position for local traffic compared to nearby airports or for international traffic compared to other West Coast gateway airports could pressure the rating downward.

KEY INDICATORS

Type of Airport:O&D

Rate-making methodology:Residual

FY 2007 Enplanements: 16,953,978

5-Year Enplanement CAGR 2002-2007:1.8%

FY 2007 vs. FY 2002 Enplanement growth:9.2%

FY 2007 vs. FY 2006 Enplanement growth:2.8%

% O&D vs. Connecting, FY 2007 (5 YR AVG):73% (73%)

Largest Carrier by Enplanements, FY 2007 (share):United (49%)

Airline Cost per Enplaned Passenger, FY 2007 (5 YR AVG):$15.06 ($17.76)

Debt per Enplaned Passenger, FY 2007 (5 YR AVG):$221 ($244)

Bond Ordinance Debt Service Coverage, FY 2007 (5 YR AVG):1.48x (1.41x)

Utilization Factor, FY 2007 (5 YR AVG):2.1 (2.0)

RATED DEBT

Second Series Revenue Bonds, $4.15 billion outstanding, A1

Fixed rate debt: $3.27 billion

Variable rate debt: $660.8 million

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