Fitch Rates San Francisco Intl Airport (California) Ser 2010A Revs 'A+'; Outlook Stable

Fitch Ratings-New York-20 January 2010: Fitch Ratings assigns an 'A+' underlying rating to approximately $215.9 million Airport Commission, City and County of San Francisco, San Francisco International Airport (SFO or the airport), second series revenue refunding bonds. The bonds will be issued as variable-rate demand obligations and are expected to be supported by a direct pay letter of credit with JPMorgan Chase. Fitch will assign the long term and short term ratings to the Series 2010A bonds based on the liquidity provider prior to the closing of such bonds. In addition, Fitch affirms the outstanding $4.4 billion second series revenue bonds at 'A+' and the 'F1' rating on outstanding variable rate second series revenue bonds and notes. Both long- and short-term debt are secured by a net revenue pledge of the airport. Final maturity on all parity bonds is 2039. The Rating Outlook is Stable.

Bond proceeds for series 2010A bonds will refund certain maturities of the airport's fixed-rate issue 23A, 24A, 25, and 26A bonds. In conjunction with this refunding, the airport will commence two swaps with Goldman Sachs and Depfa Bank with a combined notional amount of $215.9 million. The airport will receive 61.85% of one-month LIBOR plus 34 basis points and will pay a fixed interest rate of 3.925% to the swap counterparties. Following the issuance of the series 2010A bonds, the airport will have interest rate swaps with a notional par of approximately $585 million. Nearly 22% of the airport's total long term debt and notes will remain in variable rate mode or be subject to mandatory tenders within the next three years.

The 'A+' rating reflects the airport's continued positive performance of both passenger traffic and financial results, despite the current economic conditions, as well as the airport's ability to produce solid financial metrics and debt service coverage levels through economic cycles and industry challenges. The rating also captures SFO's importance as a regional transportation provider for long-range domestic and international air service, as well as the San Francisco Bay Area's significant population base (in excess of 7 million), high wealth levels and diverse economy, which support the strong demand for passenger service. Near term capital needs are considered moderate for a large international gateway airport and SFO's financial results appear to demonstrate stability with debt service coverage ratios at or above 1.4 times while average cost per enplanement also remained mostly unchanged at $13.50 for fiscal 2009. SFO utilizes an airport residual rate setting methodology and this approach is expected to continue when the airport renews its airport operating agreements beyond the current expiration in 2011.

The airport has managed its airline costs in recent years to be competitive in the regional market and as a result has attracted air passenger service by prominent low cost carriers. The concentration risk from United Airlines (long-term Issuer Default Rating 'CCC' by Fitch) continues to be nominally reduced at SFO (40.6% of total passenger traffic in fiscal 2009) and the airport continues to demonstrate success at increasing its percentage market share of total passenger enplanements among the three bay area airports. SFO's passenger traffic has been notably resilient, decreasing by less than 1% in fiscal 2009 to 18.2 million enplanements. While the airport had conservatively forecasted a 3.6% additional decline for passenger enplanements in fiscal 2010, available figures for the first half of the fiscal year indicate a growth of 4% in traffic above fiscal 2009. While United has modestly pared back capacity at SFO over the past year, other carriers including LCCs and foreign-flag airlines have added more routes and frequencies.

Over the past two years, management has undertaken a series of financial transactions to stabilize its market and counterparty based risks within capital structure. Measures included debt restructurings, placing certain variable rate bonds into internally managed trusts and terminating certain interest rate swaps. Following the series 2010A bond issue, the airport will have approximately $3.4 billion in fixed rate debt, $535 million in variable rate mode (with approximately 95% of such amounts hedged with swaps) coupled with approximately $430 million in additional short-term mandatory tender revenue bonds and notes (with staggered maturities over...
the next three years). Given the continued complexity of the airport's capital structure, its exposure to a combination of variable rate debt, interest rate volatility, counterparty performance, periodic liquidity renewals, and refinance risk, the debt portfolio will remain an important consideration to the airport's credit. Fitch notes that the airport currently maintains over $300 million in liquid assets in its operating and contingency funds which should be sufficient to cover unanticipated scenarios with regards to most of the outstanding mandatory tender bonds.

Ongoing credit challenges still remain given both the weakened economy and a financially vulnerable airline industry that can pressure airport financial results. While SFO has an above average fixed cost structure given its debt levels ($240 per enplaned passenger) coupled with elevated carrier concentration with United, the airport's demand profile serves as a key risk mitigant due to the high level of origination & destination (O&D) enplanements, which represents 77% of total volume. Further, the airport revenues continues to diversity with airline revenues representing 39.5% of SFO's total operating revenues while receipts derived from United Airlines alone represented only 22.6% of total operating revenues.

The airport's capital plan is moderate in size at $882 million through fiscal 2014, and principally focused on Terminal 2 reconstruction, along with various airfield and groundside improvements. Approximately 62% of the program will be bond financed, 26% will be funded by grants, 8% with passenger facility charge revenues, and the remaining 4% from other sources. The Terminal 2 project is at 100% design, with the majority of the project under contract and an estimated completion date in the spring of 2011. Given the airport's enplanement and financial assumptions for operations and capital plan, the average cost per enplanment is expected to increase to nearly $22 by fiscal 2015. Fitch notes that while the rising rates may place limits on financial flexibility, these costs are supported by traffic base that consists of more expensive international and long-haul domestic markets.

Applicable criteria available on Fitch's website at www.fitchratings.com:

--'Rating Criteria for Infrastructure and Project Finance,' (Sept. 29, 2009);

Contact: Seth Lehman +1-212-908-0755 or Mike McDermott +1-212-908-0506, New York.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at www.fitchratings.com.

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