Moody's

Rating Action: Moody's assigns A1 to San Francisco Airport Commission CA's Second Series Revenue Refunding Bonds, Series 2023C&D; stable outlook

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New York, October 13, 2023 – Moody's Investors Service has assigned A1 to San Francisco Airport Commission, CA's approximately $794 million Second Series Revenue Refunding Bonds, comprised of the following: $748 million Series 2023C (AMT) and $46 million Series 2023D (Non-AMT/Governmental Purpose). The airport has outstanding approximately $8 billion of parity second series revenue bonds rated A1, and a subordinate commercial paper bank bond rating of A2. The outlook is stable.

RATINGS RATIONALE

The A1 rating reflects SFO's strong market position as the primary airport for the San Francisco Bay Area region, an international gateway and a connecting hub for United Airlines. The airport is experiencing an improving traffic recover and the San Francisco Bay Area region remains a large, affluent and economically dynamic service area that will support travel demand longer term. Despite the challenges of COVID, the airport has strengthened its liquidity over the last three years and recently implemented a new long-term airline agreement that provides for significant additional reserves, which will sustain liquidity at an improved level through the forecast period. Planned capital spending is significant, driven by the redevelopment of Terminal 3, but SFO's track record of sound operational and financial management supports our expectation that it will manage the pace of investment to ensure competitiveness and financial flexibility are maintained, as was demonstrated by the significant adjustments made during COVID.

SFO's traffic recovery still trails the sector, reflecting the impact of above-average exposure to international travel, with Asia, and China in particular, key markets for SFO that have yet to fully normalize. However, domestic and other international markets are recovering better; enplanements increased 35% in FY 2023 and are forecast to increase 16% in FY 2024, which would restore activity to 95% of FY 2019 levels.

The airport is anticipating $9 billion of additional debt issuance, over the next 10 years, to fund its capital improvement plan. This is expected to keep leverage elevated and will require the continued management of construction cost risk. This is mitigated by the 10-year residual Lease and Use Agreement in effect through 2033. The LUA provides strong cost recovery and feasibility for the planned capital investments, and creates a significant new airport reserve - the Operating Revenue and Capital Improvement Fund (ORCIF) - that will further bolster flexibility. Airline support for key projects in the Ascent Phase 1.5 program is positive, and projected leverage and airline cost per enplanement will remain competitive with other international gateway airports who are also undertaking large capital programs. We expect SFO will adapt the capital program in case traffic levels or other conditions differ negatively from the current baseline, which combined with the residual LUA and higher liquidity level increases resilience to unanticipated challenges.

RATING OUTLOOK

The stable outlook reflects Moody's expectations of continued recovery in traffic and healthy financial flexibility in the form of manageable airline requirements and capital spending over the outlook period. Further stability is provided by sound internal liquidity, in excess of 600 days cash on hand, and a full residual airline agreement in effect through FY 2033.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Return to near normal operating conditions and passenger levels at the airport

- Defined medium term capital plan with airline support for major projects

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Negative trends in the fundamental drivers of the service area economy that would reduce demand for long-haul and international air service beyond the coronavirus outbreak

- Debt per enplanement and O&D enplanement significantly above previously projected peak levels as well as DSCRs sustained below 1.25x on a bond ordinance basis and 1.05x excluding allowed contingency fund transfers

LEGAL SECURITY

The bonds are secured by net airport revenues on parity with all outstanding second series senior lien obligations. Commercial Paper is subordinate to senior bonds. The vast majority of the bonds are secured by the pooled Original Reserve Account, which is required to be funded at maximum annual debt service (MADS). The 2017 reserve account is funded at the three-prong test. All reserve accounts are over-funded by cash and investments.

The rate covenant requires net revenues to be sufficient to pay all debt service payment requirements with respect to the Bonds, any Subordinate Bonds and any general obligation bonds issued by the City for the benefit of the Airport (there have been no such general obligation bonds outstanding for more than 30 years), and to make the Annual Service Payment to the City. The rate covenant also requires net revenues, including transfers from the contingency account must provide 1.25x coverage of aggregate debt service.

USE OF PROCEEDS

Proceeds will be used to repay substantially all outstanding commercial paper and, depending on market conditions, refund outstanding Series 2013A Bonds that are currently callable.

PROFILE

The San Francisco Airport Commission generates revenue solely from San Francisco International Airport (SFO). SFO is an international airport located 14 miles south of downtown San Francisco, California. It has flights to points throughout North America and is a major gateway to Europe and Asia. SFO is the largest airport in the Bay Area and the second busiest in California, after Los Angeles International Airport. The airport was served by 53 passenger airlines that provide nonstop service to 79 domestic and 51 international destinations.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Airports and Related Issuers published in February 2023 and available at https://ratings.moodys.com/rmc-documents/398689. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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