MOODY'S
RATINGS

Rating Action: Moody's Ratings revises San Francisco Airport Commission, CA's outlook to positive; affirms A1 Revenue Bonds and A2 Subordinate Bonds, and assigns A1 to Revenue Bonds Series 2025ABC

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New York, January 06, 2025 -- Moody's Ratings (Moody's) has affirmed the San Francisco Airport Commission, CA's (SFO) A1 second series revenue and A2 subordinate commercial paper notes and bank bond ratings and assigned A1 to the proposed $871 million Second Series Revenue Bonds, Series 2025A (AMT), $108 million Second Series Revenue Bonds, Series 2025B (Non-AMT/Governmental Purpose) and $17 million Second Series Revenue Bonds, Series 2025C (Federally Taxable). The rating action affects approximately $8.9 billion outstanding. The outlook has been revised to positive from stable.

The affirmation of the A1 rating with a change in outlook to positive recognizes that SFO's enplanement recovery is poised to advance with continued strength in the local economy driven by investments in the areas AI technology companies and progress on de-risking the airport's sizable $11.0 billion capital plan. The positive outlook also reflects that SFO's service offering is tilted toward premium travelers that we expect to drive growth in the high-end segment this year, despite slow overall growth caused by weakness in low-cost travel. While we expect SFO to see improved credit quality over the near term, the affirmation of the A1 reflects the Bay Area's below average recovery of domestic demand for travel to pre-pandemic levels, which includes a lagging recovery of tourism to the Bay Area.

RATINGS RATIONALE

The A1 rating reflects SFO's strong market position as the primary O&D airport for the San Francisco Bay Area region, an international gateway, and a hub for United Airlines. The Bay Area has a large population, high income and a diverse and dynamic economic base, which supports our expectation of travel demand long term. The ratings also reflect the Bay Area's slow recovery of domestic demand travel to pre-pandemic levels. SFO's enplanements for the last 12 months through November 2024 remain 10% below calendar 2019 levels - among the lowest recoveries of our rated US airports, but better than regional competitors San Jose and Oakland. SFO's recovery has also been above 95% for the past three months.

Positively, SFO's revenue generation is anchored by the long-term residual Lease and Use Agreement (LUA) in effect through 2033. Combined with the robust Bay Area market, 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) - enhancing flexibility. The new ORCIF (which is likely to be periodically spent down) along with other airport sources expected to assist in maintaining liquidity between 600-650 days cash on hand based on fiscal 2024 expense level going forward. 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 to adapt the capital program if traffic levels or other conditions differ negatively from the current baseline, which, combined with the residual LUA and higher liquidity, increases resilience to unanticipated challenges.

High leverage and associated airline costs are the primary credit negative factor on the rating, with SFO's current and projected leverage among the highest of its large airport peers. Planned capital spending is significant, driven by the redevelopment of Terminal 3. The airport anticipates $9 billion (including the Series 2025ABC bonds) of additional debt issuance, over the next ten years, to fund its capital improvement plan. The debt issuance would keep leverage elevated and require the continued management of construction cost risk. While SFO has secured fixed-price contracts for 51% of the Ascent 1.5 plan, only 34% has been spent to date. SFO's strong operational and financial management history supports our expectation that it will manage the pace of investment to ensure competitiveness and financial flexibility are maintained, as demonstrated by the significant adjustments made during COVID. However, management will face challenges in 2025 like other airports with large, non-contracted capital plans due to potential inflationary pressures from tariffs and labor shortages that could renew under the new presidential administration.

The A2 commercial paper notes and bank bond rating reflects the subordinate lien on net revenues in the event the bonds were issued.

RATING OUTLOOK

The positive outlook reflects our view that SFO will maintain liquidity above 600 days cash on hand based on fiscal 2024 expense level while advancing the large capital plan while reducing construction risk. However, the potential for increased inflationary pressure on constructions costs could cause budgets to increase again.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Enplanement growth above 4.0% as forecast by the consultant

- Increased clarity that the Ascent 1.5 and other capital improvement projects can be completed while keeping adjusted debt per O&D enplanement under $700

- Maintenance of liquidity very near or above 600 days cash on hand

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Negative trends in the economic conditions of the service area that would reduce demand for long-haul and international air travel

- Much lower liquidity below 300 days cash on hand, which is unlikely given the use and lease agreement with airlines

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, 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 of the bonds will be used to advance the airport's capital plan, including current construction on the Ascent 1.5 program, retire outstanding commercial paper, fund a debt service reserve and pay transaction costs.

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 more than 60 passenger airlines that provide nonstop service to 80 domestic and 50 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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