S&P Global Ratings

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San Francisco International Airport San Francisco City & County Airport Commission; Airport; Joint Criteria

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Credit Profile		
US$870.76 mil second series rev bnds (AMT) (San Francisco Intl Arpt) ser 2025A dtd 02/05/2025 due 05/01/2055		
Long Term Rating	AA-/Stable	New
San Francisco City & County Airport Commission, California		
San Francisco International Airport, California		
San Francisco City & Cnty Airport Comm (San Francisco International Airport)		
Long Term Rating	AA-/Stable	Upgraded

Credit Highlights

- S&P Global Ratings has assigned its 'AA-' long-term rating to $996.36 million in series 2025 second series revenue bonds issued by the San Francisco City & County Airport Commission's for San Francisco International Airport (SFO), which are made up of $870.6 million in series 2025A (AMT), $108.4 million in series 2025B (non-AMT), and $17.2 million in series 2025C (taxable) bonds.
- At the same time, we raised our long-term rating and underlying rating (SPUR) on the commission's senior airport system revenue bonds, issued for (SFO) to 'AA-' from 'A+'.
- The ratings on the commission's variable-rate bonds outstanding, with letters of credit (LOCs) from Barclays Bank PLC and Sumitomo Mitsui Banking Corp., are affirmed at 'AA+/A-1', reflecting the application of joint criteria, assuming low correlation.
- The outlook is stable.
- The upgrade reflects SFO's traffic recovery, rebound in financial performance, and recent modifications in the airline agreements that have improved S&P Global Ratings' calculated coverage and liquidity measures that we expect the commission will maintain considering the airport's sizable capital improvement plan (CIP).

Security

SFO's senior-lien bonds are secured by a pledge of airport system net revenue, including all revenue earned by the San Francisco City & County Airport Commission with respect to the airport. A portion of revenue derived from a $4.50 passenger facility charge (PFC) collected by the airlines and remitted to the commission has been designated (on an annual basis) as revenue by the commission and authorized to offset debt service on bonds issued to finance PFC-eligible projects. Revenue from a $10 per-rental-car contract customer facility charge (CFC) implemented in early 2022, collected by the rental car companies and remitted to the commission for making improvements to the rental car facilities, is not designated as revenue under the indenture.

As of July 1, 2024, SFO had approximately $8.9 billion in debt outstanding and debt service reserve (DSR) accounts funded at $724.6.2 million. In January 2025, the airport anticipates issuing approximately $996 million in revenue bonds in three series A-C to fund a portion of the ongoing CIP and repay about $375 million in all commercial paper notes (CP) outstanding. SFO has a $600 million program supported by six direct-pay LOCs secured by a subordinate lien on net revenue; this CP program is the primary source of interim financing for the airport's ongoing capital program between 2025-2029. It draws down on CP to fund construction projects and then issues long-term debt to retire the CP.

SFO has a generally supportive, industry-standard legal framework providing bondholder security for outstanding indebtedness. This includes a security interest and pledge of net airport revenue, use of designated PFCs as pledged revenue, a 1.25x rate covenant including use of a contingency account, a 1.25x projected additional bonds test, and common DSR account. Prior to the issuance of the series 2025 bonds, the commission and trustee will enter into a trust and series indentures that will update and modernize provisions in the current 1991 master resolution. We view the proposed amendment and restatement of the commission's bond resolutions and certificates of additional terms into a master indenture and series indentures as not materially modifying our view of the overall legal framework or credit quality.

Credit overview

The ratings reflect SFO's advantageous geographic, economic, and demographic conditions, which have supported a long history of favorable enplanement trends and stable financial performance (see table 1). Although the airport's post-pandemic enplanement recovery has lagged other large-hub peers, management now expects a full recovery to 100% of 2019 levels in fiscal 2026. The ratings also reflect improved coverage and liquidity metrics from 2023's updated airline use and lease agreements which incorporate funding annual deposits to an operating reserve and capital improvement fund up to $800 million in addition to future terminal rentals and landing fees.

The key strengths, in our opinion, are SFO's:

- Exceptionally broad and diverse service area economy;
- Extremely strong market position, supported by both a strong regional market share in the Bay Area and the airport's role as a key U.S. gateway for Pacific traffic, with international passengers representing approximately 30% of total enplanements in fiscal 2024;
- Financial metrics including proforma S&P Global Ratings-calculated coverage along with a days' cash on hand (DCOH) position that we expect will remain strong over the forecast period; and
- Sophisticated, experienced, and deep management team with clearly defined financial and operational goals that are generally achieved or exceeded, detailed projections and disclosures, generally well-defined project plans and targets that mitigate key risks, and a history of successful on-time/on-budget project-delivery.

The key offsetting credit weakness is a comparatively higher debt burden that we expect will increase as the airport continues to fund a very large $11 billion CIP, along with $7.4 billion in future bond issuances through 2029 based on identified needs that are likely to increase. For example, the size, timing, and funding sources associated with the identified Shoreline Protection Program (SPP), not currently in SFO's CIP, have the potential to pressure debt and cost levels.

We expect that SFO's coverage, on a generally accepted accounting principles (GAAP) basis, will be at or near strong levels over the 2025-2031 forecast period. Aided by collection of operating revenue and capital improvement fund (ORCIF) payments, we calculate coverage as ranging from 1.27x to 1.12x over the 2025-2031 forecast period. While indenture coverage declines through 2031, SFO's demonstrated practices of conservative budgeting and its history of financial outperformance of indenture coverage projections support our expectation that coverage will be near or above 1.25x. Management indenture-calculated debt service coverage (DSC) is projected to range from 1.6x in the early years declining to about 1.4x by 2031 including transfers from a contingency account.

Environmental, social, and governance

SFO is exposed to physical risks, with eight miles of shoreline adjacent to San Francisco Bay. A 2011 study estimated that almost three-quarters of the airport would be at risk from a 16-inch sea-level rise, with more recent state and regional studies modeling significant impacts associated with flooding. The commission has acknowledged this risk and revised its SPP, and longer-term plans are underway to adopt design criteria to protect airport infrastructure against 42 inches of sea-level rise through 2085; the next steps are environmental approvals estimated for 2025. SFO management anticipates the final costs are likely to significantly increase beyond an initial $587 million estimate, with all but $60 million of the SPP excluded from the current CIP. Absent alternative funding sources, we believe this could add to an already large airport CIP and pressure debt metrics. We also analyzed the airport's governance and social factors and consider them neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that air travel demand for SFO will continue to grow and management will adjust revenue, expenses, and capital spending as needed to maintain financial metrics we view as strong while it funds its large CIP.

Downside scenario

Although unlikely, we could lower the ratings within the next two years if SFO's enplanements decrease significantly or if financial metrics become materially weaker than expected for an extended period.

Upside scenario

We could raise the ratings if activity and financial metrics significantly outperform forecasts.

Credit Opinion

Enterprise Risk Profile: Extremely Strong

Our enterprise risk profile considered SFO's service area economy, activity levels, current projections, and market position, as well as management and governance factors.

Fundamental service area strengths and international gateway status underpin recovery

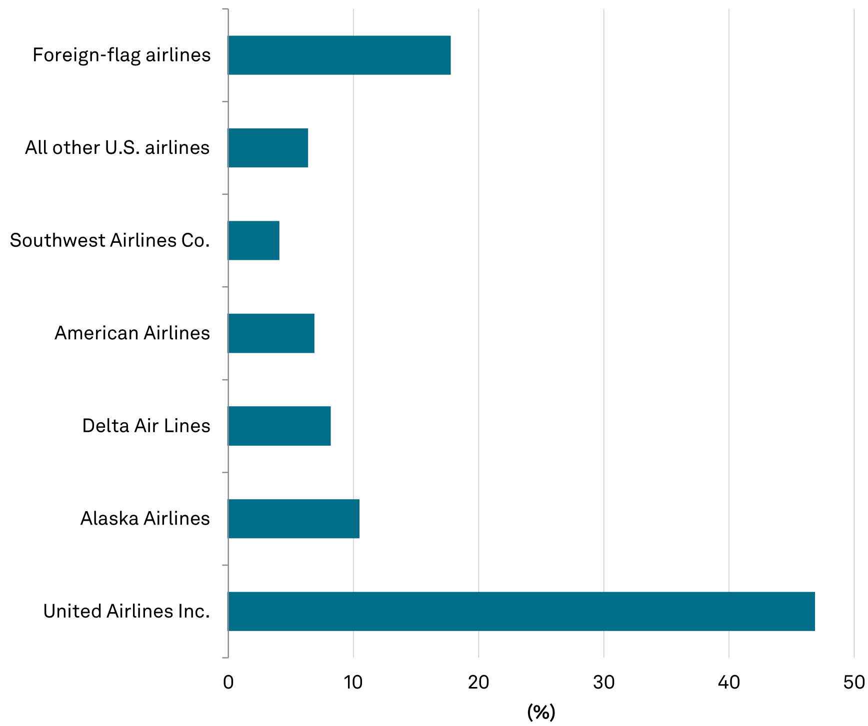
Our view of the enterprise risk profile incorporates SFO's role as an essential domestic and international transportation hub with an extremely strong market position. The region has a very robust population base of more than 8 million and favorable income levels and growth, with overall economic activity as measured by GDP per capita in San Francisco of more than $160,000 compared to the U.S. average of $77,000. As the 14th-largest U.S. airport measured by passengers in 2023 (23.4 million), it benefits from its location serving the 13-county San Jose-San Francisco-Oakland combined statistical area (at 9 million it is the fifth-most populous in the U.S. and 23% of California's population of 39 million), which continues to rank among the country's strongest levels measured by employment and educational attainment.

Largely an origin and destination market (82%), SFO is the only airport in Northern California with substantial levels of domestic long-haul (greater than 1,500 miles) travel, connecting traffic (18% of total enplaned passengers) as well as being an international gateway serving for travel between Pacific regions and the U.S. Specifically, while SFO faces some competition from other airports in the region, it handles most of the Bay Area's domestic long-haul (83%), medium-haul (50%), and international (93%) service compared with international airports in Oakland and San Jose. Hybrid and remote work, coupled with technology advances, have reduced the amount of traditional short-haul, shorter duration business travel both within California and the West Coast corridor, somewhat offset by blended business and leisure travel.

We view SFO as moderately concentrated, with United and its code-sharing affiliates remaining the dominant carrier and having a 47% market share in fiscal 2023 (see chart 1), although less concentrated than many large connecting hubs. SFO is fifth out of United's seven connecting hubs but more importantly, the airport handled 64% of United's Asian-Pacific traffic in fiscal 2024, which offers more service to that region than any other airline. United had nearly 40% of international departing capacity (measured in seats) in July 2024 with more daily international departures than in July 2019 (46 versus 32).

Chart 1

San Francisco International Airport (SFO) airline market shares fiscal 2024



Source: SFO management.

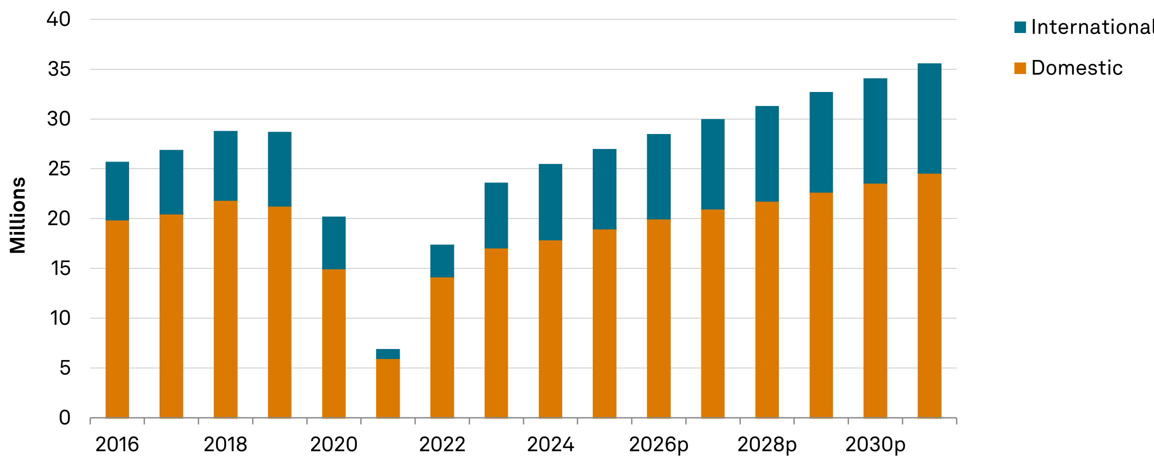
Moderately aggressive passenger forecasts incorporate a continued rebound in demand

Baseline passenger forecasts show a compounded annual growth rate of 4.8%, increasing to 35.5 million by 2031 from 25.4 million in 2024 (actual), which we view as somewhat high and lower than 2024 forecasts but achievable (see chart 2). The growth rate is less front-loaded in fiscal 2025 (5.8% versus 8.5% from 2024's forecast), before tapering off in the outyears. Forecasts also assume the domestic/international composition to be 70%/30% by 2030 versus 75%/25% in 2019.

Chart 2

San Francisco International Airport (SFO) historical and projected enplaned passengers

January 2025 baseline



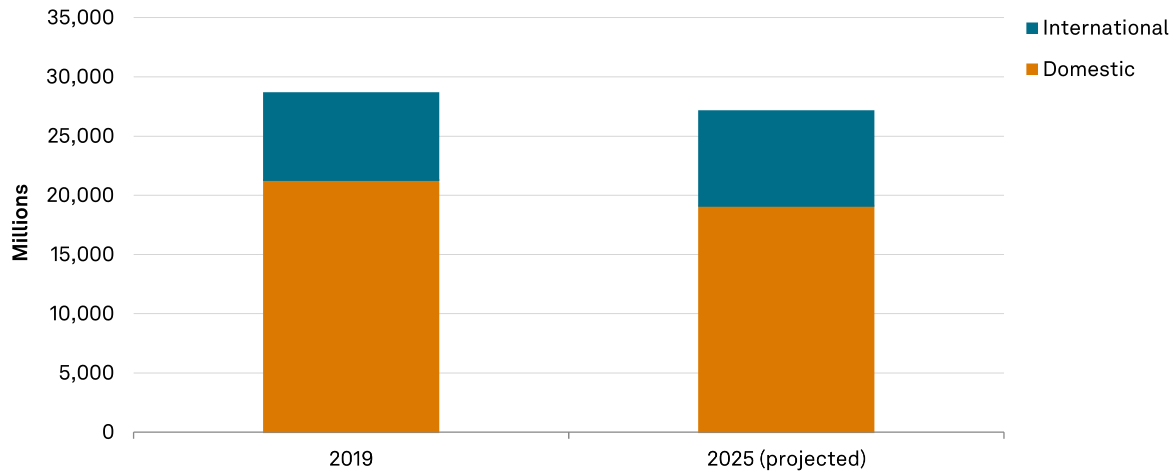
p--Projected. Source: SFO management; 2025-2031 baseline projections.

Fiscal 2024 activity was favorable, with enplanement levels through June 30 at 8.9% over fiscal 2023, domestic up 4.7%, and international up 20.7%. For fiscal 2025, management is anticipating domestic passengers will reach nearly 90% of 2019 levels and international at 108% of pre-pandemic levels, respectively. Through November 2024, fiscal year-to-date 2025 passengers are about 3% ahead of 2024 and 5% under budget. Projected passengers in fiscal 2025 of 26.9 million are below 2019's 28.6 million with a full rebound to pre-pandemic levels likely in fiscal year 2026 or 2027 (see chart 3). Overall, we view the forecasts as moderately aggressive given some macro airline industry assumptions regarding a slowing economy and near-term seat capacity constraints due to pilot labor shortages and aircraft delivery delays.

Chart 3

San Francisco International Airport (SFO) enplaned passenger snapshot

Fiscal 2019 vs 2025 (projected)



Management Insights: Delivery of capital plan while maintaining financial performance will be key

Our view of the SFO's management and governance structure is extremely strong and incorporates the team's experience, depth, and focus on key priorities, namely the successful delivery and execution of the large and ongoing CIP while continuing to develop air service and maintaining financial performance metrics while keeping pace with cost competitiveness with other gateway airports. A new airport director has started in January 2025 with considerable experience both at SFO and Denver International Airport.

SFO's reporting and disclosure are detailed and reflect management practices and commission policies to mitigate risks and progress toward priorities identified in the commission's 2023 five-year strategic plan. We believe examples include the commission's emphasis on climate-related risks and its 2023 re-negotiation of the airline use and lease agreement. Business terms of the agreement remained largely the same (residual ratemaking), but also included an $800 million operating revenue and capital improvement fund (ORCIF) to be airline rate base-funded annually through 2033. Inclusion of the annual funding requirement in the residual airline agreement has the positive effect of improving DSC. In addition, the ORCIF is a discretionary account and can be used for any lawful purpose, thereby improving by liquidity measures or reducing future debt requirements. Overall, we view the ORCIF fund as a credit positive, increasing financial performance metrics and financial flexibility.

Financial Risk Profile: Strong

Our financial risk profile assessment of strong considered SFO's audited results, and financial projections through fiscal 2031 that incorporate future debt to fund the CIP.

Passenger growth and strong financial risk profile support ongoing debt plans

Recent historical financial performance has followed the overall recovery of passenger levels, with generally improving coverage and debt-to-net revenue metrics even at debt levels that have steadily grown since the pandemic's low point in fiscal 2021 (see table 2). Receipt of federal assistance, which SFO did not include as revenue but instead used to offset expenses, helped preserve and enhance unrestricted cash and investments. In addition, strategic debt restructurings and control of operations and maintenance (O&M) expenses provided some cushion when revenue was depressed.

Financial projections from 2024 to 2031 assume annual total revenue growth of 8.5% (with nonairline revenue growth at 5.4%) and annual expense growth of 9.7%. We view there to be some upside to concession revenue that is projected on per-enplaned passenger spend rates rather than under the terms of many concession agreements, which have minimum annual guarantees. A significant 40% increase in O&M in 2025, even if not fully realized, could pressure future financial performance, particularly if passenger traffic and nonairline revenue falls short of budget and continues further into the forecast period. However, a history of conservative budgeting and outperformance of financial metrics mitigates this exposure.

Looking forward, we expect overall S&P Global Ratings-calculated financial metrics to be strong, including coverage, debt-to-net revenue, and liquidity measures. We expect that SFO's coverage, on a GAAP basis, will be at or near 1.25x over the 2025-2031 forecast. We exclude contingency account balances and include debt service of all liens, loans, notes, and debt and debt-like obligations (i.e., annual service payments to the City and County of San Francisco). Aided by collection of ORCIF payments, we calculate coverage as ranging from 1.27x to 1.12x over the 2025-2031 forecast period. While coverage declines through 2031, SFO's demonstrated practices of conservative budgeting and its history of financial outperformance of indenture coverage projections support our view of anticipated strong financial performance. After an initial $250 million deposit in fiscal 2024, annual ORCIF deposits are projected to step down over time from $95 million in 2025 to $30 million by 2033.

While there is some headroom with debt-to-net revenue in the 10x-15x range over the forecast, a higher cost structure and debt measures with likely future capital requirements support our adequate view of debt and liabilities. Unrestricted days' cash (very strong at above 500 days) and availability liquidity-to-debt (adequate at between 7.5%-20%) support our overall view of strong liquidity.

Airline cost per enplanement (CPE) is estimated to increase to $41 in 2031, which we consider high, from $21 in 2024. Debt per enplaned passenger grows to about $430 in 2031 from about $350 in 2024. Given SFO's fully residual airline rate, financial metrics do not differ materially under base- or low-case enplanement scenarios developed by consultants to the commission; however, costs increase somewhat with lower passenger volume.

Large CIP has modular recovering demand to support adequate financial risk profile and ongoing debt needs

SFO's current CIP was approved in fall 2023 and totals about $11 billion with about $7.4 billion in new-money debt through 2029 that includes sizable investments to expand and modernize the terminals and meet long-term capacity requirements (Ascent Program-Phase 1.5), as well as addressing aging infrastructure and rolling components for support systems and airfield enhancements, in addition to energy and efficiency improvements (Infrastructure Projects

Plan). The CIP is updated annually, and clearly outlines the airport's anticipated funding sources. Excluded from the forward-looking CIP and assumed debt requirements are future capital costs related to updating the airport development plan, an infrastructure modernization plan for utility resiliency, and the SPP. These have the potential to significantly add to SFO's future debt requirements.

While the CIP is significant, management continuously evaluates and updates the plan and the airport has a history of reprioritizing or delaying projects if prudent, as evidenced during 2020-2022. Much of the program is modular, with different phases that allow management to suspend or delay work should conditions change. In addition, management operates under conservative fiscal policies and maintains an up-to-date long-term financial forecast that, in our view, help mitigate construction and operational risks associated with SFO's large CIP.

Table 1

San Francisco International Airport--Ratings score snapshot	
Enterprise risk profile	1
Economic fundamentals	1
Industry risk	2
Market position	1
Management and governance	1
Financial risk profile	3
Financial performance	3
Debt and liabilities	4
Liquidity and financial flexibility	3

Table 2

San Francisco International Airport, California--Financial and operating data							
	--Fiscal year ended June 30--						Medians for 'AA' category rated airports
	2027(p)	2024	2023	2022	2021	2020	2023
Financial performance							
Total operating revenue ($000s)	1,661,533	1,401,390	1,064,104	821,253	515,416	943,879	560,247
Plus: interest income ($000s)	46,005	156,780	42,540	(64,113)	N.A.	87,250	MNR
Plus: other committed recurring revenue sources ($000s)	200,000	99,587	92,341	72,804	29,473	72,967	MNR
Less: total O&M expenses and like transfers out, if any, net of noncash expenses	960,300	562,084	498,574	415,275	535,309	555,058	371,974
Numerator for S&P Global Ratings' coverage calculation ($000s)	1,011,670	1,095,673	700,411	414,669	9,580	549,038	MNR
Total debt service ($000s)	779,880	485,327	418,800	294,648	295,757	484,114	203,859
Denominator for S&P Global Ratings' coverage calculation ($000s)	884,312	540,927	467,501	332,554	310,493	517,857	MNR
S&P Global Ratings-calculated coverage (x)	1.20	2.03	1.50	1.25	0.03	1.06	1.97

Table 2

San Francisco International Airport, California--Financial and operating data (cont.)							
	--Fiscal year ended June 30--						Medians for 'AA' category rated airports
	2027(p)	2024	2023	2022	2021	2020	2023
Debt and liabilities							
Debt ($000s)	14,406,905	8,936,700	8,552,890	8,185,250	7,949,791	7,954,375	2,464,986
EBIDA ($000s)	765,665	839,306	565,530	405,978	(19,893)	388,821	MNR
S&P Global Ratings-calculated net revenue ($000s)	1,011,670	1,095,673	700,411	414,669	(19,893)	549,038	279,615
Debt to net revenue (x)	14.2	8.2	12.2	19.7	(399.6)	14.5	7.9
Debt to EBIDA (x)	18.8	10.6	15.1	20.2	(399.6)	20.5	MNR
Liquidity and financial flexibility							
Unrestricted cash and investments ($000s)	1,277,330	1,008,580	998,115	950,880	651,373	515,525	689,278
Available liquidity, net of contingent liabilities ($000s)	1,277,330	1,008,580	998,115	950,880	651,373	515,525	MNR
Unrestricted days' cash on hand	520.4	654.9	730.7	835.8	444.1	339.0	MNR
Available liquidity to debt (%)	8.9	11.3	11.7	11.6	8.2	6.5	MNR
Unrestricted days' cash on hand (excluding credit facilities)	520.4	654.9	730.7	835.8	444.1	339.0	811.0
Available liquidity to debt (%) (excluding credit facilities)	8.9	11.3	11.7	11.6	8.2	6.5	30.0
Operating metrics - airport							
Rate-setting methodology	Residual	Residual	Residual	Residual	Residual	Residual	MNR
Total EPAX (000s)	29,886	25,516	23,420	17,396	6,925	20,215	25,268
Origin and destination EPAX (%)		81.5	81.8	82.7	79.1	80.2	78.0
Primary passenger airline carrier name		United Air Lines	United Air Lines	United Air Lines	United Air Lines	United Air Lines	MNR
Primary airline EPAX market share (%), including regional affiliates		46.8	46.7	47.2	47.7	45.8	41.0
Passenger airline revenue ($000s)	937,636	576,210	556,675	616,190	337,215	613,473	MNR
Debt per EPAX ($)	482.06	350.24	365.20	470.52	1,147.98	393.49	116.00
Airline cost per EPAX ($)	31.38	22.58	23.77	35.42	48.70	30.35	9.72
Annual PFC revenue ($000s)	200,000	99,587	92,341	72,804	29,473	72,967	MNR
PFC rate ($)	4.50	4.50	4.50	4.50	4.50	4.50	MNR

O&M--Operations and maintenance. EBIDA = Total operating revenue - total O&M expenses excl. noncash expenses. EPAX--Enplanements. PFC--Passenger facility charge. CFC--Customer facility charge. MADS--Maximum annual debt service. S&P Global Ratings-calculated net revenue = (Total operating revenue + other recurring nonoperating revenue committed to debt service) - total O&M expenses excl. noncash expenses. Available liquidity = unrestricted cash and investments + total contingent liquidity resources - contingent liabilities. Examples of total contingent liquidity resources include working capital line of credit and other available cash reserves not already included in unrestricted cash and investments. See Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions criteria for more S&P Global Ratings definitions and calculations. N/A--Not applicable. N.A.--Not available. MNR--Median not reported. N.M.--Not Meaningful.

Credit Snapshot

Organization description: SFO is owned and operated by the city and is 14 miles south of downtown in an unincorporated area of San Mateo County, with 106 operational gates, four runways, and more than 14,000 public (nonemployee) parking spaces. The City and County of San Francisco owns and operates the airport as an enterprise department. A five-member airport commission, the members of which the mayor appoints to four-year terms, governs the airport.

Rate-setting methodology: SFO renegotiated a 10-year airline use and lease agreement through 2033, which maintained the residual rate-making approach for terminal rentals and landing fees to fully recover its net airport-related costs after the credit of nonairline revenue. Costs include O&M and annual city service payment, and now also fund deposits to the ORCIF.

Annual City Service Payment: In addition to payment for overhead and other direct services such as police, fire, and utilities ($235 million in 2023), SFO makes an annual service payment to San Francisco for indirect services (projected at $57.2 million in 2025) equal to approximately 15% of concession revenue. This is a permitted, grandfathered payment under the U.S. Department of Transportation policies that prohibit such revenue transfers at most other U.S. airports. Because the increase in this payment has exceeded inflation, the FAA lowered the amount of federal grants awarded to SFO very modestly in 2023 and 2024,but could reduce or delay federal grants by larger amounts in the future.

Long-term financial objectives: To increase and strategically use revenue, pursue debt service savings and flexibility, preserve financial reserves and liquidity, maintain cost competitiveness with other gateway airports, manage capital costs, and maximize PFCs and other federal funds.

Ratings Detail (As Of January 7, 2025)

San Francisco Intl Arpt jt crit		
Long Term Rating	AA+/A-1	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
San Francisco Intl Arpt jt crit		
Long Term Rating	AA+/A-1	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
San Francisco City & County Airport Commission, California		
San Francisco International Airport, California		
San Francisco City & Cnty Arpt Comm (San Francisco Intl Arpt) RMKT		
Long Term Rating	AA-/Stable	Upgraded
San Francisco City & County Airport Commission (San Francisco International Airport)		
Long Term Rating	AA-/Stable	Upgraded
San Francisco City & County Airport Commission (San Francisco International Airport) 2nd series rev rfdg bnds (AMT) (San Francisco Intl Arpt) ser 2018		
Long Term Rating	AA-/Stable	Upgraded