

Airports
U.S.
Presale

San Diego County Regional Airport Authority (California)

San Diego International Airport

Rating History^a

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	9/14/10
A+	Affirmed	Stable	4/24/09
A+	Assigned	Stable	10/26/05

^aSenior lien.

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Related Research

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria

- *Rating Criteria for Infrastructure and Project Finance, Aug. 16, 2010*
- *Airports Rating Criteria Handbook for General Airport Revenue, PFC and Letter of Intent Bonds, March 12, 2007*

Ratings

Class	Amount (\$ Mil.) ^a	Final Maturity	Rating	Note Type	Outlook
Subordinate Airport Revenue Bonds, 2010A — Non-AMT	257.74	7/1/40	A	N.A.	Stable
Subordinate Airport Revenues Bonds, 2010B — Non-AMT	27.145	7/1/30	A	N.A.	Stable
Subordinate Airport Revenue Bonds, 2010C — Taxable Build America Bonds	132.935	7/1/40	A	N.A.	Stable
Total Issuance	417.820				

^aAmounts based on information provided by the issuer as of Sept. 8, 2010. N.A. – Not applicable.

Rating Rationale

The ratings reflect the San Diego International Airport's (SDIA or the airport) position as the primary airport serving San Diego County and the surrounding region, a strong 96% O&D passenger base that is served by a diverse group of airlines, and a historically robust financial profile and healthy liquidity position. The senior lien rating reflects low leverage and strong senior debt service coverage ratio of 3.9x or higher, although this is expected to drop as future issuance on the senior lien is planned. Credit concerns include a large capital plan with nearly \$550 million in additional borrowing that will make the airport more dependent upon robust enplanement and concession revenue growth over the next five years to allow the airport to maintain financial margins.

Annual debt service obligations are expected to grow from \$5 million in fiscal 2011 to approximately \$79 million in five years. Fitch views the 2010–2016 projected enplanement growth rate of 2.8% as somewhat speculative, particularly given continued softness for the first seven months of calendar 2010. Leverage for the airport's Green Build program and rolling five-year capital improvement program (CIP) is expected to be split evenly across the senior and subordinate liens. These projects are expected to be 70% debt financed, adding significantly to the airport's debt burden and potentially limiting the airport's financial flexibility. Partially mitigating this risk are management's stated goals to maintain at least one year's liquidity on hand, to keep cost per enplanement (CPE) below \$12, and to limit debt per O&D enplanement to \$150 or less. The Stable Outlook reflects an expectation that the airport will be able to maintain coverage levels in excess of 1.2x on an all-in basis through the medium term.

Considerations for Taxable/Build America Bonds Investors

This sector credit profile is provided as background for investors new to the municipal market.

Airport Bonds

Airport credits generally fall into four categories: fortress hubs and international gateways; large O&D airports; secondary hubs and reliever airports; and small O&D airports. Credit risk for these types of airports can vary significantly. The large international gateway and fortress hub airports generally offer the broadest service, have the least competition for passengers, have less passenger volatility, and have the most underlying economic strength. The key issue for these airports is managing leverage, and in the case of fortress hubs, airline concentration. Ratings for these types of facilities range from 'A' to 'AA'.

Project Summary Table

Project Summary Data	Financial Summary Data
Project Type — Airport	Rated Debt Terms — \$41 million outstanding senior airport revenue refunding bonds, final maturity 2020. 2010 subordinate bonds will consist of \$257.7 million series 2010A (private activity non-AMT, 30-year maturity), \$27.1 million series 2010B (governmental non-AMT, 20-year maturity), and \$132.9 million series 2010C (BABs, 30-year maturity)
Project Location — San Diego	Amortization Profile — Current debt service \$5 million/year. Grows to \$35 million with new subdebt. With additional issuances in 2012 and 2013, will have flat debt service of \$79 million/year through 2040.
Status — Operation	Liquidity/Provider — LOC with Lloyds TSB Bank (rated AA–), expires 2014. Currently \$164 million of CP outstanding on a \$250 million program; post-refunding, expect \$22 million to remain, to be amortized over 20 years.
Revenue Basis — Cost Recovery – Airline and non-airline sources	Reserves — Senior: Least of 10% of principal, MADS, or 1.25x of average ADS. Sub: Least of subordinate MADS, 10% of subordinate principal, or 1.25x average subordinate ADS. The airport has \$5.4 million in debt service reserve funds for its outstanding 2005 bonds (MADS), all cash funded. 2010 issuance includes \$31.2 million cash-funded reserves.
Applicable Regulation — U.S. and California law	Rate Covenant — Senior bonds: The authority covenants to establish rentals, rates, fees, and other charges such that net operating revenues equal at least 1.25x of aggregate ADS for outstanding bonds. Sub: Subordinate net revenues must be sum sufficient for principal and interest on subordinate bonds, reserve requirements, and any reimbursement to credit or liquidity providers. Authority has also covenanted that subordinate net revenues will be 1.10x of subordinate ADS.
Operator — San Diego County Regional Airport Authority	ABT — Senior: Net senior revenues for 12 of the 18 months prior to issuance must equal at least 1.25x MADS; or a consultant's report certifies rate covenant is met for the first full fiscal year that interest is expected to be paid, and estimated net revenues equal 1.25x of aggregate debt service for (1) fifth fiscal year following issuance of subordinate obligations, or (2) third fiscal year post-capitalized interest payments. Sub: Net subordinate revenues for 12 of the 18 months prior to issuance must equal at least 1.10x MADS on outstanding and proposed subordinate obligations. Capitalized interest test same as for senior, except subordinate net revenues must equal 1.10x aggregate subordinate debt service.

Key Rating Drivers

- Stagnation or declines in enplanement levels, which are closely linked to non-airline revenues and passenger facility charge collections (PFCs), which will cover 43% of debt service by 2016, may limit the airport's ability to meet its growing debt service requirements and place negative pressure on the rating.
- The airport's ability to execute the current capital program and associated borrowing plans while meeting its forecasted targets for enplanement growth and coverage will affect the rating.
- Should considerable leverage be added to the senior level such that the coverage differential between the senior and sub liens is eroded, the rating may be adjusted to be in line with the subordinate rating. Similarly, should the subordinate lien become disproportionately levered over the course of the capital program and financial performance not meet expectations, the notching between the ratings may be increased.

Project Profile and Analysis

Overview

The SDIA began operations in 1928. SDIA is the principal airport serving San Diego County, and is the busiest single-runway commercial airport in the nation based on passenger levels. The airport is located on 661 acres, three miles northwest of San Diego's business district. Three independent entrance roadways from North Harbor Drive provide access to the terminals. The terminal roadway is currently one level; the Green Build capital program (see *Capital Expenditure section*) includes the planned construction of a two-level roadway in front of Terminal 2.

Passenger service is provided from three terminal buildings. Terminal 1, which contains 19 narrow body jet gates, opened March 5, 1967. Terminal 2 opened July 11, 1979, and was expanded in 1998 to 22 gates. Terminal 2 East, the original portion of Terminal 2, contains 13 jet gates, including two international gates. All international flights operate at Terminal 2 East. Terminal 2 West, an expansion of Terminal 2 that opened in 1998, contains nine additional jet gates. The Commuter Terminal, which accommodates most of the airport's turboprop and regional jet flights, has seven commuter aircraft parking positions. The Green Build program includes the planned expansion of Terminal 2 West, including the addition of 10 new jet gates.

Airfield facilities include one 9,401-foot east/west runway, one full-length parallel taxiway on the south (Taxiway B), and one partial taxiway on the north (Taxiway C). The airfield also includes ancillary taxiways that provide runway and terminal access, and aprons that provide aircraft parking.

Parking capacity includes approximately 2,700 short-term parking spaces in lots adjacent to each of the terminal buildings. Some parking spaces in front of Terminal 2 are currently blocked off to accommodate Green Build construction work. Approximately 4,300 long-term parking spaces are located in three remote lots that provide free shuttle service to the terminals. Additionally, the airport has a free cell phone lot and offers valet parking at the curb of Terminals 1 and 2 and in their respective short-term parking lots.

The north airfield area contains the air traffic control tower, airport rescue and fire fighting facility, and a fuel farm. An air cargo loading apron and one general aviation fixed-base operator (FBO) are also located north of the runway. Enclosed cargo facilities are located on the south side of the airport between Terminal 1 and the Commuter Terminal. Some of the all-cargo carriers maintain off-airport sorting facilities. The airport has 19 remain overnight (RON) aircraft parking positions (10 by Taxiway C in the north Airfield area, nine next to the terminals on the south side of the airport).

The airport primarily serves San Diego County, which is located in the southwest part of California, bordered by Orange and Riverside counties on the north, Imperial County on the east, the Pacific Ocean on the west, and the border with Mexico at Tijuana on the south. There is limited competition for air service, with the nearest competing facilities at least two-hours away and largely serving the greater Los Angeles area.

The service area is characterized by a large and growing population. San Diego's population ranks fourth largest in California by MSA and second by county. The San Diego Regional Chamber of Commerce forecasts the San Diego County population to grow from 3.05 million in 2009 to 3.95 million by 2030 (1.2% CAGR). Unemployment in San Diego County was 9.7% in 2009 (lower than the 11.4% reported for California in 2009, higher than 9.3% nationwide). However, in 2010, through July, San Diego's unemployment rose to 10.7% (state 12.5%, nationwide 9.6%). Per capita personal

income in San Diego County is higher than per capita personal income in California and the U.S., based on data for the years 2005–2008. The area is a popular tourist and conference destination, with a variety of attractions and year-round good weather.

San Diego County has a diversified economic base. No single major industry accounted for more than 18.3% of 2009 nonfarm jobs. The government was the largest employer; top private industry sectors are as follows: trade, transportation, and utilities (16.1%); professional and business services (16.0%); leisure and hospitality (12.6%); and education and health services (11.6%).

Sponsors and Legal Structure

The San Diego County Regional Airport Authority (the authority) was created as a local agency of regional government in 2002 and became fully independent of the San Diego port district on Jan. 1, 2003. The authority's jurisdiction extends throughout the county and is charged with the responsibility of managing the airport. Additional responsibilities include planning for future growth and the operation of any future airport that could be developed as a replacement for, or supplement to, SDIA, as well as development of a comprehensive land use plan for the entire county; the authority serves as the region's airport land use commission. The authority is also charged with preparing a regional aviation strategic plan by June 2011.

The authority is governed by a nine-member appointed board serving three-year terms. Three members of the board serve as the executive committee. The mayor appoints three members, two of which are subject to confirmation by City Council. The chair of the board of supervisors of the county appoints two members, one of which was previously appointed by the governor (beginning in 2011, both will be appointed by the chair of the board of supervisors, and subject to confirmation by the county board of supervisors). Mayors of the east county cities (El Cajon, La Mesa, Lemon Grove, and Santee), north county coastal cities (Carlsbad, Del Mar, Encinitas, Oceanside, and Solana Beach), north county inland cities (Escondido, Poway, San Marcos, and Vista), and south county cities (Chula Vista, Coronado, Imperial Beach, and National City) each appoint one member.

Two ex-officio members are appointed by the governor (serving as district director of the state department of transportation [DOT] for San Diego and department of finance representative for the state lands commission). The board may provide for additional ex-officio members, including reps for the U.S. Navy and U.S. Marine Corps.

Completion Risk

In April 2009, the authority completed its environmental impact report on a group of planned capital improvement projects known as "The Green Build," which incorporates certain elements of the authority's master plan, including the expansion of the airport's terminal facilities, the expansion of the terminal roadway system, and the construction of new aircraft apron improvements and an aircraft taxi lane. The Green Build includes a number of capital improvement projects (CIP) through fiscal 2013, estimated to total approximately \$864.6 million. This is in addition to the authority's five-year rolling CIP, which totals \$376.9 million for 2011–2015. Further details are provided under the CIP section.

The terminal component of the Green Build project is under a design-build contract with Turner/PCL/Flatiron, U.S. Subsidiaries of Hochtief, an established global construction and transportation company. For the landside component, a design-build contract is in place with Kiewit/Sundt, experienced contractors on transportation and transit projects that previously led projects for Denver's Regional Transportation District (RTD) and others. The design-build contracts include contingencies representing

6%–8% of contract value, and liquidated damages are in place for all major project milestones. Fitch views the completion risk as medium to low, as the bulk of the project is adding to an existing building (Terminal 2 West) that was designed with eventual expansion in mind.

Obsolescence and Economic Life Risk

The airport's facilities are in good condition and are not capacity constrained during the forecast period. Terminal facilities are in the process of being redeveloped/expanded as a part of the Green Build program.

The San Diego Port District (Port District) is currently in the process of demolishing the buildings and other improvements currently located on the former Teledyne Ryan (TDY) property, adjacent to the terminal buildings. Demolition costs will be the joint financial responsibility of the authority and the Port District. The authority's share of the cost is estimated to be approximately \$9 million. In addition to the demolition of the buildings and the other improvements, certain hazardous substances on and around the TDY property will be remediated by Allegheny Technologies Inc. to cleanup standards set by the San Diego Regional Water Quality Control Board (SDRWQCB).

The Port District's demolition activities are being conducted in two phases, commencing with removal of all onsite surface structures down to the slabs, followed by removal of all surface pavements, and subsurface infrastructure. The aboveground demolition phase is now in progress with an expected completion date sometime in February 2011. The surface and subsurface demolition is anticipated to commence as soon as the buildings are removed, with final completion of all demolition activities by early 2012.

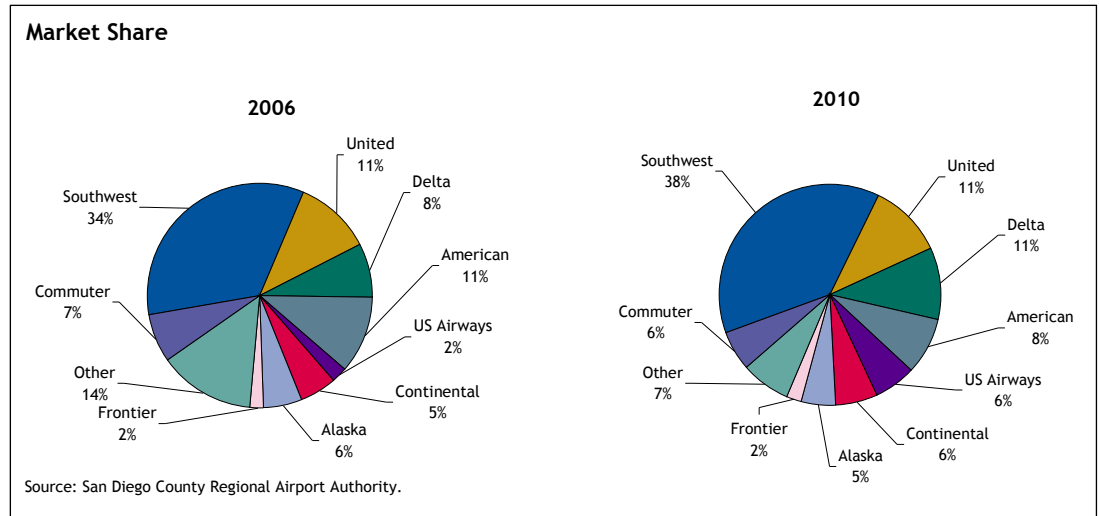
Once the buildings have been removed from the first phase of the demolition project, further remediation actions will take place, primarily in the form of the excavation and removal of contaminated soils. It is anticipated that the remediation project should reach completion by 2012, though groundwater monitoring may be required of Allegheny Technologies Inc. by the SDRWQCB for several subsequent years. None of these remediation activities are anticipated to hinder the authority's ability to develop the TDY property for future aviation-related activities.

Industry Risk

The authority derives a substantial portion of its operating revenues from fees generated by the airlines, and, as a result, the financial strength and stability of the airlines using airport facilities influence the level of aviation activity and thus airport revenues. Given that the financial results of the airline industry periodically have been subject to volatility and accumulation of substantial losses, and that recent events have had a significant, negative impact on airline industry profitability, exposure to the airline industry causes some credit concern.

Volume Performance

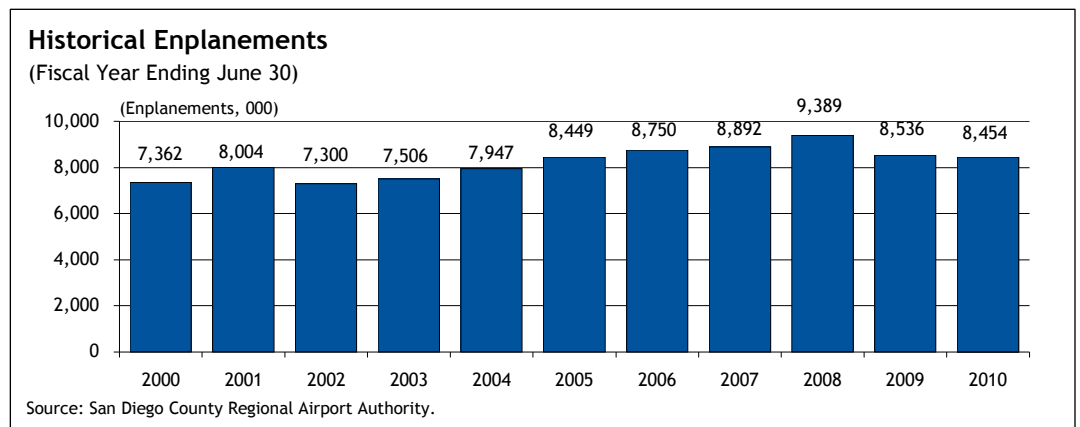
As of July 2010, San Diego has scheduled service from 13 U.S. mainline air carriers, four regional/commuter airlines, two foreign flag carriers, and six all-cargo carriers. Together with charter service, these airlines provide scheduled and nonscheduled service to more than 100 destinations across the U.S. and Mexico. Principal carriers include Southwest (38% of enplanements in fiscal 2010), United Airlines (11%), Delta Air Lines/Northwest (11%), American Airlines (8%), US Airways (6%), Continental Airlines (6%), and various commuter airlines (6%). Mainline service accounts for a majority of enplanements at the airport, with a combined share having increased from 93.1% in 2006 to 94.8% in 2009 before decreasing slightly to 94.1% in 2010.



In calendar 2009, O&D traffic accounted for 96% of total passengers, an increase from the 94%–95% share during the previous nine years. The volume and share of connecting traffic decreased in 2009 due largely to adjustments in the route strategies and schedules of airlines such as Southwest and American, in response to the recent economic recession.

- Southwest has pursued fleet and route optimization strategies through the downturn, designed to reduce flight frequencies and increase load factors. Aircraft departures decreased 3.5% in 2009 and approximately 7% in 2010, with a load factor improvement from approximately 64% from 2009 to approximately 71% in 2010.
- American’s market share decreased from 11.1% in 2006 to 8.3% in 2010, mainly due to the airline’s strategy to refocus on its primary hub markets.

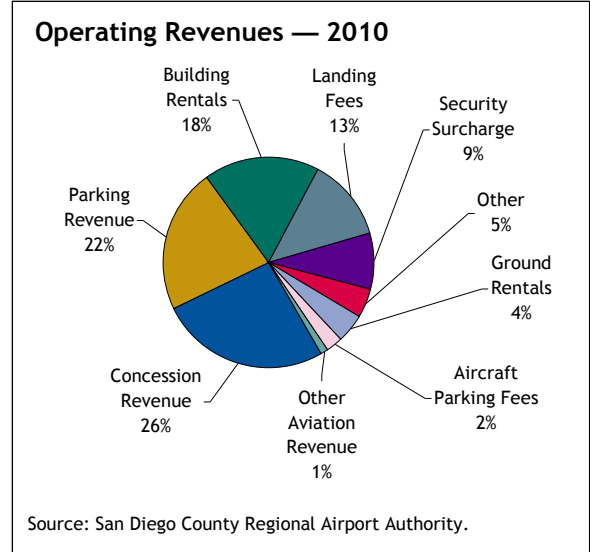
Enplanements for fiscal 2010 compared with 2009 have decreased 1.0% and decreased 9.1% in 2009 versus 2008. Prior to this, enplanements grew every year in the past decade with the exception of 2002, which captured enplanements related to Sept. 11, 2001 and saw a decrease of 8.8%. For the first month of fiscal 2011 (July), enplanements are down 2.9% year over year. For the first seven months of the calendar year, enplanements have shown decreases in five months, for a year-to-date decrease of 0.7%.



Revenue

Fiscal 2010 unaudited operating revenues increased \$2.4 million, or 1.8% over 2009,

primarily due to increased aviation revenue, which was up 4.4% over 2009. Airline revenue billed to airlines on a progressive cost recovery system was higher in 2010 versus 2009 due to a graduated rate increase from 45% to 55%. Concession revenues and parking revenues were slightly lower than the previous year (down 0.5% and 3.8%, respectively) due to lower enplanements. Other operating revenues increased approximately \$1.1 million primarily due to federal grant reimbursements. The 2006–2010 CAGR for operating revenues is 2.8%; the 2005–2009 CAGR is 4.9%



In 2010, non-airline revenues (building rents, terminal concession revenues, parking and ground transportation revenues, ground rentals, other operating revenue) accounted for 57% of operating revenues, with concessions the largest source of non-airline revenues. Airline revenues accounted for 43%, with no carrier accounting for more than 15% of operating revenues. Southwest accounted for largest share of operating revenues (14.6%) followed by United (5.9%) and American (5.6%). United/Continental’s combined operating revenue represents 8.5%.

Terminal Concessions — The authority receives a percentage of concession fees from rental car, food and beverage, news and gift, and other concessionaires. Concession revenue is calculated as a percentage of each concessionaire’s sales, subject to minimum annual guarantees (MAGs). The authority’s food/beverage and news/gifts concessions are currently operated by a master concessionaire, Host International, and is set to expire Nov. 30, 2012 (prior to planned opening of the Terminal 2 expansion). At this time, the authority will change from the current master concessionaire model to a hybrid model involving direct leasing and multiple prime concessionaires. Rental cars made up the largest component of terminal concession revenue (58%) in fiscal 2010. Companies pay 10% of gross revenues as a concession fee. Rental car agreements expire on Dec. 31, 2010. The authority is negotiating new rental car license agreements with the rental car companies and it expects new agreements will be finalized by Dec. 31, 2010 under similar terms.

Parking — Public parking accounted for approximately \$30 million of operating revenues in fiscal 2010, equal to approximately 30% of operating revenues, or 51 % of nonairline revenues. Lindbergh Parking (Lindbergh) manages parking facilities under an agreement that expired Jan. 31, 2009, which has been extended on a month-to-month basis (a request for proposals is planned in late 2010). Lindbergh remits gross revenues from parking facilities to the authority on a daily basis; the authority compensates Lindbergh for O&M expenses and provides additional incentives when Lindbergh exceeds target revenues. Long-term parking rates are \$10 to \$20 per day, depending on location, and short-term parking rates are \$4.00 for the first hour and a maximum of \$21.00 for the first day, with every additional day being \$26.00 per day. Valet parking rates are \$30 per day. There is competition off-airport at slightly higher price points.

PFC — The airport PFC fee has been \$4.50 per enplaned passenger since 2003. Passenger facility charges revenue increased 1.3% in 2010 compared with the prior year; in 2009, PFCs dropped 11.2%. The authority has irrevocably committed a portion

of the PFCs it has received/expects to receive through July 1, 2016 to debt service on its senior and subordinate bonds issued to finance projects authorized by the FAA. Debt service covered by PFCs may be excluded from the calculation of debt service coverage under the indenture.

The authority has approval to collect up to \$460 million PFCs under seven applications. As of June 30, 2010, approximately \$401.2 million PFCs have been received (\$390.8 million PFC collections and \$10.3 million interest), and \$343.3 million of PFCs have been disbursed on eligible capital projects expenditures. In July 2010, the authority submitted an eighth application to collect approximately \$1.1 billion of additional PFCs. The current PFC balance is \$57 million; the authority estimates this will fall to \$44 million by the end of the forecast period (2016).

Customer Facility Charge (CFC) — In March 2009 and May 2010, the board authorized the collection of a \$10 per transaction CFC on cars rented from rental car companies operating at the airport. The CFC is collected by the rental car companies from their customers and subsequently transferred to the authority. CFC revenues are not pledged to the senior or subordinate bonds, but will be used for the purposes of designing, financing, and constructing a consolidated rental car facility (CONRAC, estimated CONRAC cost would be \$218 million). In fiscal 2010, \$11 million in CFCs were collected.

Operations/Maintenance Risk

Expenses — Fiscal 2010 operating expenses, before depreciation and amortization, were 1.9% higher than 2009, with costs contained through decreased business development expenses and travel, reduced equipment rental and repairs, and recovery of certain bad debts. Decreases were offset by increased salaries and benefits expense; increased contractual services linked to a mapping study for the Quieter Home Program; increased security and safety expense due to the required utilization of the Port District's Harbor Police; increased maintenance expenses due to increased maintenance of escalators, elevators, air conditioning system and pavement restriping; and increased equipment and systems due to the replacement of small computer equipment and servers.

In fiscal 2009, operating expenses increased 1.1% primarily due to increased salaries and benefits, safety and security, and depreciation and amortization expense. The 2006–2010 CAGR for operating expenses is 3.8%; the 2005–2009 CAGR is 6.0%.

CPE — The airline CPE at the airport has increased from \$5.98 in 2006 to \$6.71 in 2010. With the addition of the new terminal build-out, the airport's forecast indicates CPE will increase to the \$10 range by 2016 (management's goal is to maintain a CPE below \$12). Fitch's more conservative scenarios (which contemplate further a decline and slower recovery in enplanements, along with heightened expense growth rates that mirror the 2005–2009 CAGR for operating expenses, and spend per enplaned passenger for terminal concessions, and rental cars held constant at fiscal 2011 levels) anticipate CPEs as high as \$12.50. While this represents nearly a 50% increase over previous levels, management indicates that carriers are onboard with the increase. This CPE is still competitive relative to peer airports.

Capital Expenditures

In 2008, the board approved a master plan to address requirements for accommodating near-term passenger growth at SDIA through 2015 and to consider conceptual improvements through 2030. One option contemplated by the plan included construction of additional gates, the expansion of vehicle circulation serving Terminal 2, and expanded aircraft parking areas and taxi lanes. In 2009, the board authorized the design, construction, and funding of certain master plan projects, known as the Green

Build program. The Green Build program has an estimated cost of approximately \$865 million, and consists of the following:

- Expansion of Terminal 2 West, including the addition of 10 gates to the existing 41 gates at the airport, the addition of six security checkpoint lanes (to increase the total to 12), expanded concessions areas, and “smart curb” technology to enable curbside check-in. Estimated cost of all terminal improvements: \$605 million.
- Construction of a two-level roadway, including an arrivals curb on the lower level and a departures curb on the upper level. The estimated cost of these and other roadway improvements is \$161.8 million.
- Construction of new aircraft parking apron and aircraft taxi lane, to reduce congestion and improve airfield circulation. Estimated cost is \$60.9 million.
- Surface parking improvements. Estimated cost is \$36.5 million.

In addition to the Green Build Program, the authority maintains a five-year CIP that is intended to address critical improvements and asset preservation at the airport. The authority's current five-year CIP includes projects to be undertaken between 2011–2015 at an estimated cost of \$377 million.

A portion of the proceeds of the subordinate series 2010 bonds will be used to finance a portion of the construction of the Green Build Program and certain projects included in the 2011–2015 CIP. In addition to the 2010 bonds, the projects will be financed with a combination of additional senior and subordinate bonds, federal grants, PFCs, and available money of the authority and CFCs.

San Diego International Airport — Funding Sources for Green Build and 2011–2015 CIP

(\$000)

	Estimated Project Costs	2010 Bonds	Future Bonds	Federal Grants	Pay-Go PFC	Authority Funds	CFC/Other
Green Build							
Airside	60,929	7,435	3,042	41,247	9,186	19	—
Terminal	605,389	142,276	340,603	25,346	96,477	687	—
Roads	161,806	75,160	72,817	1,750	12,029	50	—
Parking	36,488	14,573	21,494	—	409	11	—
Total Green Build	864,613	239,445	437,955	68,343	118,102	767	—
CIP							
Airside	157,308	51,596	9,978	73,430	20,338	1,641	325
Terminal	120,020	23,619	54,432	450	37,656	3,150	713
Landside	73,367	6,813	40,953	—	—	1,959	23,642
Administrative	13,794	5,261	3,950	—	—	4,583	—
Ancillary	12,435	1,435	—	—	2,200	8,800	—
Total CIP	376,923	88,724	109,312	73,880	60,194	20,132	24,681
Total All Projects	1,241,536	328,169	547,267	142,223	178,296	20,900	24,681

CIP – Capital improvement program. PFC – Passenger facility charge. CFC – Customer facility charge.
Source: San Diego County Regional Airport Authority.

Financial Profile and Analysis

Debt Structure

Debt Characteristics

As of September 2010, the authority has \$41.2 million outstanding in senior revenue bonds series 2005. The bonds are fixed rate, with final maturity in 2020, and are secured by a pledge and lien on net revenues.

The authority is issuing \$417.8 million in subordinate series 2010 bonds, which will consist of \$257.7 million series 2010A (private activity non-AMT, 30-year maturity), \$27.1 million series 2010B (governmental non-AMT, 20-year maturity), and \$132.9 million series 2010C (Build America Bonds [BABs], 30-year maturity). The bonds are being issued to finance capital improvements; fund a portion of interest accruing on the series 2010 bonds through 2013; refund \$142.176 aggregate principal amount of the authority's outstanding CP notes; fund the subordinate reserve fund; and pay costs of issuance.

Prior to the issuance of the 2010 series bonds, the authority had no subordinate revenue bonds outstanding. However, it does have \$164.43 million in outstanding subordinate CP. The CP program was established in 1997 to fund the then-approved CIP and related Terminal 2 expansion project, and is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing the payment of the series 2005 bonds. The authorized program provides for borrowings up to \$250 million through September 2027. The CP notes require that pledged revenues provide at least 1.10x debt service coverage on subordinate obligations, including the CP notes. The CP notes are additionally secured by an irrevocable LOC issued by Lloyds TSB Bank plc (rated 'AA-' by Fitch). The letter of credit expires on Sept. 10, 2014.

In the context of the CIP and Green Build programs, the authority anticipates the issuance of additional future general airport revenue bonds (GARBs) in addition to the series 2010 subordinate revenue bonds. It is currently anticipated that the series 2012 bonds will be issued as senior lien revenue bonds (\$395 million), and the series 2013 bonds will be issued as subordinate bonds (\$226 million). However, the authority will make a final determination regarding whether future bonds will be issued as senior lien revenue bonds or subordinate bonds before the actual issuance of any future bonds. Internal board policy is to maintain debt per enplanement at or below \$150/O&D enplanement.

Annual debt service is projected to increase with the issuance of the series 2010 bonds and future GARBs during the forecast period. The annual debt service requirements assume interest rates of 5.33% for the series 2010 bonds and 6.00% for the GARBs anticipated to be issued in 2012 and 2013. Annual debt service for the \$22.3 million of outstanding CP notes that will not be financed with the series 2010 bonds is estimated based on an assumed 20-year amortization period (commencing with fiscal 2011 through July 1, 2030) at 3.0%. The largest increases in annual debt service are projected to occur in fiscal 2013 and fiscal 2014, when debt service is projected to increase to \$35.4 million and \$75.8 million, respectively (from \$9.2 million in fiscal 2012), due to the projected expiration of the capitalized interest periods on the series 2010 bonds and the GARBs anticipated to be issued in 2012 and 2013.

Beginning in fiscal 2013, the authority intends to apply a portion of annual PFC revenues toward debt service on the series 2010 bonds and the GARBs anticipated to be issued in 2012 and 2013. The financial plan assumes that \$951 million in PFC revenues will be applied toward annual debt service.

Structural Features

Security — The senior revenue bonds are secured by the net revenues of the San Diego International Airport, or revenues less O&M expense. The subordinate revenue bonds are secured by subordinate net revenues, or revenues less O&M expenses and payment and deposit requirements for senior lien bonds. PFCs are excluded from the definition of revenue, but can be irrevocably pledged to pay debt service and to reduce debt service requirements.

Rate Covenant — The authority covenants to establish rentals, rates, fees, and other charges so that, in each fiscal year, net operating revenues will equal at least 1.25x of the aggregate annual debt service for the outstanding senior bonds. Subordinate net revenues must be sum sufficient for principal and interest on subordinate bonds, reserve requirements, and any reimbursement to credit or liquidity provider. Authority has also covenanted that subordinate net revenues will be 1.10x of subordinate annual debt service. Above and beyond the legal covenants, the authority intends to maintain minimum debt service coverage of 1.75x for senior lien debt, and aggregate debt service coverage (senior and subordinate) of 1.50x (1.20x when adding PFCs to revenues, rather than used as an offset to debt service).

Additional Bonds — Net senior revenues for 12 consecutive months of the preceding 18 consecutive months prior to the proposed issuance must equal at least 1.25x MADS; or a consultant's report certifying that the rate covenant is met for the first full fiscal year that interest is expected to be paid, and that estimated net revenues equal 1.25x of aggregate senior debt service for 1.) the fifth fiscal year following issuance of subordinate obligations, or 2.) third fiscal year post-capitalized interest payments. Subordinate net revenues for 12 out of 18 months must equal at least 1.10x MADS on outstanding and proposed subordinate obligations. Capitalized interest test is the same as for senior, except subordinate net revenues must equal 1.10x aggregate subordinate debt service.

Debt Service Reserve — The senior debt service reserve must equal the least of senior MADS, 10% of senior principal, or 1.25x of average senior annual debt service (ADS). The subordinate debt service reserve must equal the least of subordinate MADS, 10% of subordinate principal, or 1.25x average subordinate ADS.

Fitch Base and Stress Case Assumptions

In evaluating the creditworthiness of the authority, Fitch considered a variety of scenarios, including forecasts developed by the authority and their airport consultant, and also Fitch's base and stress cases. All scenarios assume additional debt is issued on the senior lien in 2012 and on the subordinate lien in 2013; the scenarios do not include any credit for BAB subsidies, and treat PFCs as an offset to debt service.

The authority's "midpoint" case predicts that the airport will experience a 2.8% CAGR for enplanements from fiscal 2010 through fiscal 2016. Traffic is expected to recover with 2.1% growth forecast for fiscal 2011, higher growth in 2012 and 2013, then more moderate growth through the end of the period. Concession revenues are increased to reflect a higher spend per passenger based on more varied concession offerings in expanded terminal. Under this scenario, the CPE is forecast rise to \$10.72 by the end of 2016, up from current level of \$6.71. O&M expenses are forecast to increase 3.9% across the forecast period (3.0% in all years except 2014, when a 7.7% growth rate is assumed). Debt service coverage is forecast to remain between 3.37x and 8.40x on the senior lien; 2.00x and 10.35x on the sub lien, and 1.58x and 4.90x on an all-in basis.

Fitch's cases contemplate scenarios where enplanements recover at a lower rate of 1.5% annually; the recovery is assumed to begin in 2011 in the base scenario, and in 2012 in the more stressful scenario. Concession revenues are assumed to be lower, as the spend per enplaned passenger for terminal concessions and rental cars is held constant at fiscal 2011 levels across the period. O&M expenses increase between 5.5% and 6.5% annually across the forecast period, mirroring the 2005–2009 CAGR for operating expenses. Under these scenarios, CPE is forecast to rise to between \$12.01 and \$12.54 by the end of the forecast period, and debt service coverage is forecast to remain between 2.67x and 7.18x on the senior lien; 1.22x and 8.65x on the sub lien, and 1.13x and 4.19x on an all-in basis. Under the various reviewed scenarios, the authority meets all legal covenants, but with little headroom on an all-in basis.

Historical Financials — San Diego County Regional Airport Authority

(\$000, Fiscal Years End June 30)

Operating Statement and Coverage	2006	2007	2008	2009	2010 (Unaudited)
Revenues					
Landing Fees	22,243	24,006	24,763	18,689	17,330
Aircraft Parking Fees				3,222	3,406
Building Rentals	21,137	22,495	24,265	23,057	24,850
Security Surcharge	7,759	8,441	8,618	10,204	12,048
Other Aviation Revenue	1,868	1,757	1,808	1,565	1,584
Concession Revenue	29,362	34,201	38,785	36,280	36,093
Parking Revenue	26,904	28,392	31,038	31,492	30,296
Ground Rentals	5,505	4,994	5,207	5,776	5,923
Other	4,717	1,080	1,197	693	1,807
Total Operating Revenues	119,495	125,366	135,681	130,977	133,337
Salaries and Benefits	26,847	28,333	32,912	34,741	35,397
Other Operating Expenses	74,508	76,217	81,072	80,537	82,076
Total Operating Expenses	101,355	104,550	113,984	115,278	117,473
Net Revenues	18,140	20,816	21,697	15,699	15,864
Net Revenues Available for Debt Service	25,634	29,983	30,004	23,114	21,289
Total Net Debt Service Payments	8,945	5,336	5,337	5,342	5,349
DSCR — Indenture (x)	2.87	5.62	5.62	4.33	3.98

Note: Revenues available for debt service excludes grants that are otherwise included in revenues, and includes interest.

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