FitchRatings

Fitch Rates San Antonio's (TX) Airport System Revs 'A+'; Outlook Stable Ratings

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Fitch Ratings-New York-24 November 2010: Fitch Ratings has assigned ratings to the following City of San Antonio, TX bonds issued on behalf of San Antonio International Airport (the airport):

--Approximately $41 million general airport system revenue bonds (GARBs), series 2010A 'A+';
--Approximately $22.5 million GARBs, taxable series 2010B 'A+';
--Approximately $38 million passenger facility charge (PFC) subordinate lien bonds, series 2010 'A'.

In addition, Fitch has affirmed its 'A+' rating on the airport's approximately $211 million GARBs outstanding and affirmed its 'A' rating on the airport's $133 million outstanding PFC subordinate bonds.

The Rating Outlook is Stable.

The 'A+' rating on the GARBs reflects the airport's position as the primary airport serving the City of San Antonio, TX (the city) and the surrounding region. Fitch notes that through the 2010 bond issuance the city is eliminating refinancing risk related to the city's $34.5 million 2010 tax note issuance.

RATING RATIONALE:
--Growing and diversifying service area;
--Strong 94% origination and destination (O&D) passenger base;
--Diversified carrier mix between discount and legacy carriers with no carrier accounting for more than 37% of the market;
--Healthy historical D/S coverage levels on both the GARB and PFC/Subordinate debt;
--No anticipated future borrowing on either lien expected through the end of the current capital plan in 2016.

OFFSETTING CREDIT CONCERNS:
--Lack of finalized airline agreement despite the increase in debt;
--Presence of competing airport hampers the airport's ability to grow regional market share;
--Modest volatility in traffic performance, with the airport experiencing an enplanement drop of 5.6% in 2009;
--Recent expansion of terminal facilities will increase O&M expenses and the airport's cost structure;
--The structure of the current and expected airline use and lease agreement exposes bondholders to some volatility as a loss in non-airline revenue would not be covered.

The 'A' rating on the airport's PFC subordinate lien bonds incorporates the aforementioned strengths and risks as well as the narrow PFC revenue stream and its direct correlation to passenger activity, and the junior position of the back-up GARB pledge.

KEY RATING DRIVERS:
--Future rating actions are likely to be influenced by the following:
--Level of O&D traffic generated in the San Antonio economy;
--Airport's ability to generate non-airline revenues to offset increasing O&M costs;
--Airport's ability to maintain a diverse group of airline carriers and competitive cost structure in order to maintain market-share given relative close proximity of competing airport.
--Terms and conditions of the new airline agreement expected in the first half of 2011.

SECURITY:
The GARBs are secured by a first lien on the revenues generated by the airport system, which includes San Antonio International Airport and Stinson Municipal Airport, a general aviation facility. The PFC/Subordinate bonds are secured by a senior lien on PFC revenues and a subordinate lien on general airport revenues.

CREDIT SUMMARY:
The proceeds of the 2010 issuance will be used for the following: to refund the city's $34.5 million tax note issued in April 2010, to refund approximately $21.8 million of existing GARBs, and to fund a portion of the airport's Capital Improvement Program (CIP).

San Antonio International ranked as the 50th busiest airport in North America for 2009, based on statistics from Airports Council International - North America, having served approximately 7.8 million total passengers for the year. Enplanements declined 5.6% in FY'09 to 3.93 million driven largely by the economic declines in the nation. Enplanements are estimated to increase 1.4% in FY'10 bringing the airport closer to enplanement levels in FY'06 and FY'07. Originating enplanements historically represent more than 90% of total activity at the airport, indicating that passenger volume is influenced more by local and national economic trends than the scheduling decisions of any particular airline. Based on historical growth patterns, the airport's feasibility consultant projects enplanements will grow at an annual rate of 2.3% from 2011 through 2016, reaching 4.6 million enplanements in 2016. The projected enplanement growth could be aggressive if forecasted economic development does not occur.

The airport continues to enjoy a diverse mix of low cost carriers (LCCs) and network carriers with the largest market share held by Southwest Airlines, which accounts for 37% of total enplanements, followed by American Airlines with 18%, Delta Air Lines at 14%, Continental 11%, and United 8%. Airport management has stated they do not expect any impact in service levels as result of the United/Continental merger or Southwest's acquisition of AirTran.

The airport's signatory agreement expired on Sept. 30, 2010 and the city is currently operating on an interim basis until Dec. 1, 2010. The city has adopted an airline rents, fees, and charges ordinance to provide for the intervening period- between Dec. 1, 2010 and the effective date of a new successor agreement which is expected in the spring/summer 2011. Both the airfield and terminal are operated under a compensatory methodology with a higher cost recovery rate on the airfield than the terminal. This methodology works if non-airline revenues perform as expected, however, should non-airline revenues come in below projections due to lower enplanments it could put pressure on the rating.

The airport has historically maintained sound debt service coverage on both its outstanding GARBs and the subordinate lien PFC, with FY'09 coverage at 1.47x on the senior and 4.23x (PFC only) and 5.11x (PFC with subordinate revenues). However, the subordinate lien PFC coverage is a bit overstated as it includes PFC funds on deposit. Excluding the PFC funds and interest earnings, the FY'09 coverage would be 1.54x (PFC only) and 2.4x (PFC with subordinate revenues). Going forward the airport expects to use PFC deposits on-hand for capital projects which will lower PFC coverage ratios. Under the airport consultant's base case coverage on senior lien GARBs is projected to increase slightly to 1.81x in 2014, while the coverage on the sub lien debt from PFC's is projected to decline to 1.69 times (x) (PFC only) and 2.76x (with sub-revenues). The balance of unused PFCs from previous years is expected to decline to $7.4 million in 2014 from $36 million in 2009.

The airport's current $608.8 million capital plan extends through 2016. City management made a prudent decision to delay construction of Terminal C until demand warrants. To date $369.7 million has been funded. The airport does not plan any additional GARB or PFC debt to cover the remaining Capital Plan.

Contact:
Primary Analyst
Scott Zuchorski
Director
+1-212-908-0659
Fitch, Inc., 33 Whitehall Street, New York, NY 10004

Secondary Analyst
Vanessa Roy
Associate Director
+1-212-908-0508

Committee Chairperson
Michael McDermott
Managing Director
+1-212-908-0650

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Rating Criteria for Infrastructure and Project Finance' (Aug. 13, 2010)
--'Airports Rating Criteria Handbook for General Airport Revenue, PFC and Letter of Intent Bonds', dated March 12, 2007

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Airports Rating Criteria Handbook for General Airport Revenue, PFC and Letter of Intent Bonds

STANDARD & POOR'S

PUBLIC FINANCE

San Antonio, Texas, San Antonio International Airport

Primary Credit Analysts:
Todd R Spence
Dallas
(1) 214-871-1424
todd_spence@standardandpoors.com

Secondary Contacts: Adam Torres
New York
(1) 212-438-2481
adam_torres@standardandpoors.com

Anita Pancholy
Dallas
(214) 871-1402
anita_pancholy@standardandpoors.com

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Credit Profile		
US$38.145 mil Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement and Refunding Bonds, (San Antonio International Airport), Series 2010 ,due 07/01/2040		
Long Term Rating	A-/Stable	New
US$41.155 mil Airport System Revenue Improvement and Refunding Bonds, (San Antonio International Airport), Series 2010A, due 07/01/2040		
Long Term Rating	A+/Stable	New
US$22.525 mil Airport System Revenue Refunding Bonds, (San Antonio International Airport), Series 2010B, due 07/01/2018		
Long Term Rating	A+/Stable	New
San Antonio, Texas		
San Antonio International Airport, Texas		
San Antonio (San Antonio International Airport), (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Antonio (San Antonio International Airport), (FGIC), (National)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating on San Antonio, Texas airport system revenue improvement and refunding bonds series 2010A and airport system revenue refunding bonds series 2010B. Standard & Poor's also assigned its 'A-'rating on San Antonio's passenger facility charge (PFC) and subordinate-lien airport system revenue improvement and refunding bonds series

2010.

At the same time, Standard & Poor's affirmed its 'A+' and 'A-' underlying ratings (SPURs) on the city's general airport revenue parity bonds and PFC and subordinate-lien airport parity bonds, respectively. The ratings reflect our view of this medium-hub, origin and destination airport with moderate airline costs, a diverse carrier mix, and recent enplanement declines but no additional debt plans. The outlook is stable.

The ratings reflect the following, which we consider strengths:

- The airport has a strong origin and destination (O&D) market (94% in 2009) and good diversity of carriers, with Southwest, American, and Delta accounting for a combined 69% of enplanements in 2010 fiscal year-to-date through August (11 months). Southwest is the largest carrier, with 37% of enplanements.
- The San Antonio metropolitan statistical area (MSA) benefits from a strong economy with low unemployment and a growing population, which underpins the strength of the O&D market.
- The airport currently has moderate debt per enplanement for a facility of this size, at about $107 in 2010 after issuance of the current bonds, based on fiscal 2010 enplanements of 3.9 million. Airport management has no additional debt plans during the forecast period.

We believe offsetting credit weaknesses include:

- The number of airport passengers has declined recently, with fiscal 2009 down 5.6% to 3.9 million, but with 2010 forecast for a slight increase of 1.4%.
- Based on preliminary 2010 available revenue indenture, debt service coverage (DSC) is estimated at 1.52x on the general airport revenue bonds; it has ranged from 1.47x to 1.94x from 2005 to 2009. DSC ranges from 1.70x to 2.15x during the forecast period of 2011 to 2016. PFC and subordinate-lien bonds, calculated on a combined basis with general airport revenue bonds, is forecast to range from 1.43x to 1.65x from 2011 to 2016.

Outlook

The stable outlook reflects Standard & Poor's expectation that steady enplanement growth will likely occur as projected over the forecast period. The outlook also reflects the expectation that the airport will negotiate a lease agreement that meets projected financial results, including debt service coverage (DSC) levels while maintaining a competitive cost structure. Lower enplanements that result in reduced DSC and liquidity could result in a downgrade. A rating upgrade is not anticipated during the outlook period.

Related Criteria And Research

USPF Criteria: Airport Revenue Bonds, June 13, 2007

Ratings Detail (As Of 24-Nov-2010)		
San Antonio, Texas		
San Antonio International Airport, Texas		
San Antonio (San Antonio International Airport), (FGIC)		
Unenhanced Rating	NR (SPUR)	
San Antonio (San Antonio International Airport), Subordinate Lien Airport, (AGM)		
Unenhanced Rating	A- (SPUR)/Stable	Affirmed
San Antonio (San Antonio International Airport), Subordinate Lien Airport, (FGIC), (National)		
Unenhanced Rating	A- (SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.