FITCH RATES SAN ANTONIO (TX) AIRPORT REVS 'A+'; OUTLOOK STABLE

Fitch Ratings-Chicago-09 July 2015: Fitch Ratings has assigned an 'A+' rating to The City of San Antonio Airport's (SAT) $39.3 million Series 2015 senior airport system revenue improvement bonds (GARBS). Fitch has also affirmed SAT's $182.9 million outstanding parity GARBs at 'A+' and $143.2 million outstanding airport passenger facility charge (PFC) subordinate lien airport revenue bonds at 'A'. The Rating Outlook on all bonds is Stable.

KEY RATING DRIVERS

The ratings reflect an established carrier base serving resilient traffic, the airport's airline use and lease agreement (AUL), which has stabilized and improved financial performance, and the airport's moderate leverage. Following five years of consecutive growth, enplanements have overrun pre-recessionary levels with no carrier representing more than 42% market share. Further, revenues have outpaced expenses leading to stabilization of both DSCR (1.5x range on a consolidated basis including transfers) and CPE ($7.50 range). The airport's leverage is moderate at around 5.4x and is expected to evolve down to the 3.5x range by 2023, even taking into account the current issuance.

GROWING ECONOMY, CARRIER DIVERSITY: REVENUE RISK: VOLUME - MIDRANGE

SAT serves a strong predominantly origination and destination (O&D) passenger base (92.3%), though the proximity of Austin-Bergstrom International Airport hampers SAT's ability to grow regional market share. The airport is served by a diverse carrier mix and continues to grow international service to Mexico, further stabilizing the overall enplanement base.

LEASE AGREEMENT PROVIDES STABILITY: REVENUE RISK: PRICE - MIDRANGE

The compensatory AUL provides SAT with pricing flexibility and helps maintain a competitive cost profile via revenue sharing mechanisms. However, the agreement could exacerbate revenue and operating margin volatility as reductions in non-airline revenue would not be covered through additional airline charges. The agreement has been extended through FYE2017 with an additional option to extend through FYE2020.

LIMITED CAPITAL PROGRAM: INFRASTRUCTURE DEVELOPMENT AND RENEWAL - STRONGER

The airport's capital improvement plan (CIP) is modest and limits future borrowing to 10% - 15% of anticipated funding requirements. Current projects include Phase 2 Terminal A renovations as well as a new CONRAC facility. The CONRAC facility is partially funded with customer facility charges (CFCs), but also requires additional series 2015 CFC and senior GARB backed debt.

CONSERVATIVE DEBT STRUCTURE: DEBT STRUCTURE - STRONGER

The proposed debt and all outstanding debt is 100% fixed rate with a relatively conservative debt service profile that steps down in FY2019 and again in FY2028 and FY2033. Debt service reserves are funded with a combination of cash and surety bonds.

STABLE & IMPROVING FINANCIAL PERFORMANCE

Leverage is moderate at 5.43x net debt to cash flow available for debt service (CFADS). Fitch-calculated senior DSCR was 1.88x (1.62x without transfers) in FY2014, and Fitch expects DSCRs to remain at or above these levels under Fitch's base case conditions. All-in coverage was 1.53x (1.37x without transfers) and similarly is expected to remain at or above in Fitch's Base case. Liquidity has improved to 260 days cash on hand (DCOH), yet remains low relative to peers. The modest CIP partially mitigate low liquidity.

PEER ANALYSIS

In comparison to Fitch-rated 'A' category airports, SAT has more enplanements, similar CPE, more debt outstanding, fewer DCOH, higher leverage, lower coverage, and a larger capital plan. Notable exceptions are the Port of Oakland ('A+'; Stable Outlook) with slightly larger enplanements and capital plan and Raleigh Durham ('AA-'; Stable Outlook) with higher liquidity to support more debt outstanding.

RATING SENSITIVITIES

Positive-Traffic Growth with Cost Control: Further traffic growth along with continued cost management and a material reduction in leverage.

Negative - Enplanement decline: A significant reduction in the level of O&D traffic due to a weaker local economy.

Negative - Weaker competitive position: Market share loss to nearby competing airports could impair the airport's revenue profile.

Negative - Persistent cost growth: Elevated levels of cost growth that cannot be passed along to air carriers could erode the airport's long-term cost structure.

TRANSACTION SUMMARY

The City of San Antonio is issuing $39.3 million series 2015 parity senior GARBs to construct two levels of public parking within a seven level new CONRAC at the airport. The City is also issuing $124.2 million series 2015 CFC revenue bonds to construct the CONRAC (see Fitch Rates San Antonio (TX) Airport CONRAC Facility Bonds 'BBB+'; Outlook Stable, July 9, 2015). The total project cost is estimated at $196 million and includes cash funding debt reserve accounts. The CONRAC facility will replace the short term parking garage next to the airport terminals and will directly connect to the terminal building via a sky bridge. Though secured by net airport revenues, the series 2015 GARB debt service is expected to be paid from surplus CFC collections.

The airport expected and experienced no impact from the Wright Amendment expiration and controlled operating costs for FY2014. Enplanements have steadily increased at a five-year compound annual growth rate (CAGR) of 1.3% and most recently grew 2.2% over FY2014 to 4.2 million enplanements. Furthermore, enplanements are up 0.8% for the first seven months of FY2015 (FYE September 30). International passenger traffic continues to grow with added service to Mexico and comprised around 6% of total FY2014 enplanements. Domestic traffic should also continue to increase as Delta and American add new service to Los Angeles in FY2016/2017.

A new six-year CIP totals $261 million and is funded from a variety of sources including federal grants (9%), general airport funds (30%), PFCs (1%), CFC bonds (58%), and future airport debt (3%). In addition to the new CONRAC facility, projects include terminal security and customs upgrades to accommodate increased international travellers.

FY2014 ordinance-based senior coverage was 2.06x including transfers (1.75x without). Under the Fitch approach, which treats PFCs and CFCs as revenues instead of offsets to debt service, the senior DSCR was a lesser 1.88x (1.62x without transfers). Per the airport's AUL, DSCR has remained high above 1.5x since FY2010, and CPE has begun to drop recently. Senior DSCRs should remain strong and even under a scenario of reduced enplanements, PFCs in each year should be sufficient to fully cover subordinated debt service. Added international airline service to Mexico and upgraded passenger amenities should continue to attract passenger traffic.

The Fitch cases forecasted the airport's financial and operational performance under the current compensatory AUL. While the airport intends to pay series 2015 GARB debt service with CFC revenues, CFC revenues are not pledged to the security of the bonds. Therefore, Fitch forecast financial and operational metrics both with and without the benefit of CFC offsets to GARB debt service to analyse the impact. Fitch forecasts also exclude the airport's flexibility to raise rates or increase the airline credit under the compensatory lease agreement.

Fitch's base case assumes a 1.5% enplanement CAGR, a 2.2% CAGR for airline revenues, a 1.5% CAGR for non-airline revenues, and 3.5% expense CAGR in line with historical performance and management's expectations for cost growth. Under this scenario, even with increased debt obligations, leverage would remain moderate averaging 4.7x with a minimum all-in DSCR of 1.56x (1.39x without transfers). CPE averages $7.57 through FY2023.

Fitch's rating case assumes a 6% shock to enplanements in FY2016, followed by 1%-2% annual recovery thereafter for a 0.3% CAGR over the FY2015-FY2023 forecast period. Airline revenues still grow at a 2.2% CAGR but non-airline revenues grow at a 0.3% CAGR in line with enplanements. Expenses grow at a 4% CAGR, slightly higher than the base case and inflation. Under this scenario, which includes the increased 2015 debt obligations, leverage is slightly higher averaging 5.6x with minimum all-in DSCR of 1.31x (1.08x without transfers). CPE averages around $8.12 through FY2023.

SECURITY

The senior bonds are secured by a first lien on net airport revenues. The subordinate PFC bonds are secured by a first lien on net PFC revenues and a subordinate pledge of net airport revenues.

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Applicable Criteria
Rating Criteria for Airports (pub. 13 Dec 2013)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=725296
Rating Criteria for Infrastructure and Project Finance (pub. 12 Jul 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682867

STANDARD & POOR'S RATINGS SERVICES
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Summary:

San Antonio, Texas
San Antonio International Airport; Airport

Credit Profile		
US$39.325 mil Airport Sys Rev Imp Bnds (San Antonio Intl Arpt) ser 2015 (AMT) dtd 07/01/2015 due 07/01/2045		
Long Term Rating	A+/Stable	New
San Antonio, Texas		
San Antonio Intl Arpt, Texas		
San Antonio (San Antonio International Airport)		
Long Term Rating	A/Stable	Upgraded
San Antonio (San Antonio International Airport) (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Rating Services has raised its long-term rating and underlying rating (SPUR) on San Antonio, Texas' passenger facility charge (PFC) and subordinate-lien airport system revenue bonds, issued for San Antonio International Airport (SAT), to 'A' from 'A-'. At the same time, Standard & Poor's assigned its 'A+' long-term rating and SPUR to San Antonio's airport system $39.3 million series 2015 revenue bonds, issued for SAT. The outlook is stable.

We base the upgrade on our application of the criteria "Assigning Issue Credit Ratings Of Operating Entities," published May 20, 2015. Standard & Poor's has published these criteria to provide additional transparency related to the assignment of issue credit ratings on U.S. public finance debt instruments of operating entities, including the ratings on subordinated obligations of these entities.

The ratings reflect our opinion of SAT's:

- Location in the San Antonio metropolitan statistical area, which benefits from a strong economy with low unemployment and a growing population, underpinning the origination and destination (O&D) market's strength;
- Stable passenger levels, with enplanements up 2.2% through fiscal 2014 that we expect to remain stable through fiscal 2015, with year to date through April traffic up 0.8% compared with the same period a year earlier; and
- Good all-in debt service coverage that has averaged 1.33x since fiscal 2010 and was 1.30x in fiscal 2014.

We believe offsetting credit weaknesses include SAT's:

- Adequate liquidity for the rating with 222 days cash in 2014; and
- Five year capital program (CIP) totaling $505.6 million, of which it will fund a portion with additional debt.

Bond proceeds will help finance the construction of the airport's new rental car facility. A pledge and lien on SAT's gross revenues secure the senior-lien general airport revenue bonds (GARB). Bondholders also benefit from a fully funded debt service reserve fund. Securing the PFC and subordinate-lien bonds is a combined pledge of PFC collections and a subordinate lien on airport system net revenues. A fully funded debt service reserve fund also secures the PFC bondholders. In addition, SAT has flexible bond provisions that allow it to rely on rolling account balances and carryover funds to meet debt service covenant requirements.

The airport's financial performance has been adequate, in our view, but in line with expectations. All in debt service coverage (DSC; Standard & Poor's-calculated) on GARBs in 2014 was 1.30x and 1.22x in fiscal 2013. Our calculation is based on revenues and expenses excluding depreciation as stated in the audit. Standard & Poor's-calculated DSC does not allow for previous-period carryovers, the inclusion of a discretionary airline credit as revenues, or PFC revenues as an offset to debt service on the GARBs. Under the master indenture, SAT may operate such that gross revenues are sufficient to cover operating expenses and provide for 1.25x annual debt service requirements. Revenues include previous-period revenues and the airport's competitive airline credit and available PFC revenues also offset debt service. Our calculation adds PFC and CFC revenue equal to PFC and customer facility charge (CFC) debt service and is the combined GARB and PFC debt service. PFC revenues have historically provided coverage at sufficiency on all PFC-supported debt. We expect pro forma DSC to range from 1.29x-1.52x through 2023. The debt service schedule with this issue is front-loaded, with requirements ascending to $22.5 million in 2017, before declining to $18.4 million through 2027 and stepping down thereafter. We expect DSC to remain at or above current levels given stable travel demand more recently. However, to the extent the airport experiences lower enplanement levels, it would be rating concern given just adequate DSC levels.

SAT has what we view as a moderately high debt burden for the rating. Pro forma GARB debt and PFC-supported debt totals $365.3 million. The airport's pro forma debt per enplanement is $87, as a result. We believe this is high, and it could increase if SAT issues additional debt in accordance with its capital plan. Cost per enplanement (CPE) is below the median for the category at $7.31 in 2015 and is forecast to increase to a high of $7.70 through 2023.

SAT, a medium-hub airport, reached its historical high in enplanements in calendar 2008, with 4.17 million. However, in 2009 enplanements fell to 3.91 million. Enplanements increased each year from 2010 to 2014, and 2014 ended at 4.19 million enplanements -- above the previous peak. The airport is forecasting enplanements to increase 0.4% in 2015. We view the short-term forecast as reasonable given the service region's strength and its historical and projected population growth. However, long-term growth rates are more assertive, ranging from 2.1-2.4% through 2023. SAT's enplanements were 92.3% O&D in 2014. Southwest is the largest carrier, accounting for approximately 42% of enplanements in calendar 2014.

The airport's 2015-2020 CIP is manageable, in our view, and totals $505.6 million (including costs related to the new parking facility). Management expects to fund the CIP with grants, PFCs, existing bond proceeds, CFCs, other airport funds, and future bond issuances. The CIP includes a proposed $146.5 million in projects for airfield, terminal, and other projects. Management has not determined the future debt's timing and structure. Remaining funding sources for the capital plan include $68.4 million in aviation funds, $108.6 million in airport improvement plan money and previous bond proceeds.

Outlook

The stable outlook reflects Standard & Poor's expectation that steady enplanement growth will occur as management has projected during the forecast period. Standard & Poor's also expects that DSC, per our calculations, will remain in line with current levels. If enplanement levels remain flat or decline, we could lower the rating, given the likelihood for DSC erosion. We do not expect to raise the rating during the two-year outlook period because we believe financial metrics will not improve to levels consistent with a higher rating.

Related Criteria And Research

Related Criteria

- Criteria: Airport Revenue Bonds In The U.S. And Canada, Nov. 15, 2013
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of July 14, 2015)		
San Antonio, Texas		
San Antonio Intl Arpt, Texas		
San Antonio (San Antonio International Airport) subord lien (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
San Antonio (San Antonio Intl Arpt)		
Long Term Rating	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

New Issue: Moody's assigns A1 to San Antonio (TX) airport senior lien; A3 to the CFC Special Facilities Bonds; affirms all outstanding ratings; outlook is stable

Global Credit Research - 09 Jul 2015

Approximately $194 million of senior lien debt impacted and $148.7 million of subordinated lien debt impacted

SAN ANTONIO (CITY OF) TX AIRPORT ENTERPRISE
Airports
TX

Moody's Rating

ISSUE		RATING
Airport System Revenue Improvement Bonds, Series 2015 (AMT)		A1
Sale Amount	$39,325,000	
Expected Sale Date	07/29/15	
Rating Description	Revenue: Government Enterprise	
Customer Facility Charge Revenue Bonds, Taxable Series 2015 (Consolidated Rental Car Special Facilities Project)		A3
Sale Amount	$124,210,000	
Expected Sale Date	07/29/15	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

NEW YORK, July 09, 2015 --Moody's Investors Service has assigned an A1 rating on San Antonio Airport System Revenue Improvement Bonds, Series 2015 (AMT) senior lien and an A3 rating on the Customer Facility Charge Revenue Bonds, Taxable Series 2015 (Consolidated Rental Car Special Facilities Project). The A1 rating on outstanding senior lien debt and A2 rating on outstanding Passenger Facility Charge (PFC) and Subordinate Lien Airport System Revenue Bonds were affirmed. The outlook is stable.

RATINGS RATIONALE

The A1 rating on the senior lien revenue bonds is based on the fundamental strength of the airport's service area with a large, stable, and economically diverse economy, a varied airline presence with Southwest Airlines Co. (Baa1 positive) capturing the largest enplanement share, and recent completion of a major capital improvement program that leaves the airport requiring minimal expenditures on terminals in the future. The rating also considers the above average liquidity of the airport, the stabilization of enplanements at current levels and the recent extension of the airline agreements. The A2 rating on the PFC and Subordinate Lien rating reflects the subordinated position in the waterfall.

The A3 rating on the CFC backed bonds is similarly based on the fundamental strength of the airport's service area, construction risk that is sufficiently mitigated by management's recent successful experience with sizable capital improvement projects and experienced design and construction companies with CMR agreements in place. There are strong protection features including the ability to charge a contingency fee to rental car companies and the City in the event CFC collections fall short as well as performance guarantees from operators. The CFC rate is at a moderate level with room for increase if necessary, and there is adequate liquidity in the form of a rolling coverage, surplus and renewal and replacement funds. The rating is negatively pressured by the limited history of CFC collections at the airport.

OUTLOOK

The stable outlook reflects the expectation that enplanements will remain at current or higher levels, financial metrics will remain at current or improved levels, and CFC collections will continue to follow an upward path. The stable outlook on the CFC bonds additionally reflects Moody's expectation that construction on the facility will be completed on schedule and within budget.

WHAT COULD MAKE THE RATING GO UP

-Senior lien net revenue debt service coverage exceeds 2.0 times on a consistent basis while maintaining current liquidity levels

-Enplanement growth well above the national average

-The CFC backed bond rating is deemed adequate at this level and unlikely to move up pending facility construction completion and demonstrated strong upward collections.

WHAT COULD MAKE THE RATING GO DOWN

-Lower than anticipated enplanement growth or passenger declines that compromise debt service coverage and CFC collections in a sustained manner below currently anticipated levels,

-If Assured is further downgraded and there is a deterioration in the airport's cash position, the rating on the subordinate lien bonds could face some pressure given the substantial amount that the surety represents of its debt service reserve

-Lower than projected CFC collections and/or construction delays or cost overruns associated with the ConRac and public parking facility could pressure the CFC debt rating

STRENGTHS

-Large, highly rated, and growing service area provides a stable base for origin and destination operations

-Current airline operating and lease agreements were recently extended for an additional two years through 2017 under similar terms

-Airport's major capital improvements have been completed, with the exception of the new ConRAC and related parking facility, demonstrating management's recent experience in handling sizeable projects

-Above average liquidity with 879 days cash as of FY 2014, expected to remain at similar level going forward

-Car rental agreements with eight operators over a twenty year term, including performance guarantees and ability to charge contingency fees in the event CFC collections fall short

-Debt service on outstanding revenue bonds is scheduled to step down by $5 million in FY 2019 with a further significant step down in 2027

CHALLENGES

-Nearby Austin-Bergstrom International Airport challenges San Antonio's market position, though significant passenger leakage is unlikely

-The use of surety policies to fund the subordinate debt service reserve fund requirement presents a weakness

-Current new debt issuance represents a 50% increase of debt outstanding, however expected to be fully repaid from CFC collections

-Lack of significant historical observable trends in CFC collections and car rental transaction days given airport's recent instatement of CFC collections (approved in April 2012)

-Car rental rates are somewhat higher than the rates charged in nearby airports

-Projected enplanement growth rates above 2% are higher than most recent five-year average of 1.25%

RECENT DEVELOPMENTS

The airport is issuing approximately $163 million of debt ($124 million in CFC backed and $39.3 million of Senior Lien Revenue Bonds) for construction of a consolidated rental car facility and associated public parking. Debt service will be interest only in the first four years at $8-$8.9 million from FY 2016 to FY 2019, increasing to $10.6M to $12.5 million thereafter. Debt service on outstanding senior lien debt is currently $23 million, stepping down to $15.6 million by FY 2019. PFC debt service is approximately $12.5 million per year. Debt service on both the CFC and Series 2015 Senior Lien Revenue Bonds is expected to be fully paid from CFC collections.

Total construction cost is estimated at $165.6 million. Construction is expected to commence in July 2015 for substantial completion in September 2017; the public parking area portion is expected to be completed by March 2017. Once completed, the CONRAC facility will be turned over to each rental car company (RAC) for a period of six months for tenant finishes and a break-in period. Opening is estimated to occur around March 1, 2018. Turner Construction Company was awarded the contract with a guaranteed maximum price of $135 million, including contingency, which limits the possibility of cost overruns. Turner has significant project aviation and other infrastructure project experience including the Port of Seattle and Miami rental car centers. TranSystems Corporation designed the CONRAC facility and previously designed the Phoenix and O'Hare CONRAC facilities. The CONRAC facility will include approximately 2,040 ready/return spaces and 1060 storage spaces. The building will be 7 stories.

The airport will sign rental car and concession agreements with 8 different companies prior to the delivery of the bonds, for 20 years and 10 years respectively. Each Operator is responsible for ground rent which is considered as general revenues of the airport system. A new concession agreement becomes effective once the CONRAC Facility opens and will last for 10 years, subject to a fee which constitutes general revenues of the airport system as well as a 10% fee on gross revenues of the operators.

The airport is also undertaking related public infrastructure and associated capital improvement plan projects, including the integration of the CONRAC with public parking in the same building, replacement of displaced public parking (which will include 1,340 replacement short-term public parking spaces), associated infrastructure and a parking revenue control system.

The airport has recently extended the existing airline agreements until September 2017.

DETAILED RATING RATIONALE

REVENUE GENERATING BASE

Enplanements grew 2.2% in FY 2014, versus 0.4% in FY 2013. Growth was primarily from new air service to Mexico. Transaction days based on CFC collections divided by CFC rate was 2,035,682 in FY 2014 at a growth of 0.27%. The airport saw a small downturn in 2009, to 3.91 million enplanements, but has fully recovered to the prerecession peak of 4.16 million enplanements in 2008. Enplanements appear to have stabilized at current levels given slowed growth over the past four years.

Volaris, a low cost Mexican-based airline, started service at the airport in FY 2013, with a twice a week flight to Guadalajara. Interjet increased weekly flights to Monterrey, Mexico from two to six in February 2015. VivaAerobus which had previously cancelled service in August 2013 has returned to the airport in November 2014 with two weekly non-stop flights to Monterrey, Mexico, however it will cease flights in August 2015.

American Airlines started services to Miami, FL in March 2015 while Southwest Airlines began services to New Orleans, LA in April 2015. American Airlines and Delta introduced new non-stop flights to Los Angeles in late 2014 and early 2015, adding to services provided by Southwest Airlines and United Airlines.

The airport currently operates under an extended 2-year compensatory operating and lease agreement with the airlines expiring in September 2017. The agreement's maximum term is 10 years. The current agreement transfers away from the airport the direct costs of certain operations to the San Antonio Airline Consortium (SAAC). SAAC is an entity created by the signatory airlines to maintain and operate the airport's passenger loading bridges and new baggage handling system, while also performing janitorial services for certain portions of the terminal building. The intention was to benefit the signatory airlines through lower operating costs, positively affecting the airport's overall cost per enplanement figure. CPE has been steadily declining since FY 2011 at $8.32 to $7.42 in FY 2014. Projections show CPE remaining in the $7-$7.7 range until 2023.

The city is authorized to collect approximately $463.7 million in PFCs and as of May 31, 2015, it had collected $176.2 million (unaudited) in PFC Revenues. The PFC fund balance as of FY 2014 was approximately $24.11 million. PFC revenues collected in FY 2014 were 4.3% lower at $15.3 million versus $15.9 million in FY 2013. PFC debt service is approximately $12 million per year. Approximately $3.8 million of PFCs per year are used towards Senior Lien Revenue Bonds debt service.

The airport also began collecting CFCs on April 1, 2012 at the rate of $4.50 for each transaction day. The rate was increased to $5 per transaction day on July 1, 2015, and is anticipated to increase again on September 1, 2018 to $5.50 per transaction day. Rates may be increased by the Aviation Director (upon review) to comply with the rate covenant. Off-airport rental car permittees (non-existent at this time) and operators under the CONRAC are required to remit all CFC revenues directly to the trustee on or before the 15th day of each month. As of May 31, 2015, the city had received $28.3 million (unaudited) in CFC revenues since inception. CFC collections in FY 2014 were $9.16 million and $9.13 million in FY 2013 respectively. Projections show CFC collections increasing to $10.4 million in FY 2016 and growing at an average annual rate of 2.4% over the 2016-2020 period. Given the limited history of CFC collections at the airport, growth projections may be optimistic given the most recent enplanement five-year growth rate annual average of 1.25%.

Airline revenues comprised 34% of the airport's total revenues in FY 2014 while concessions and parking represented 46% of total revenues. Seven of the food and beverage concession locations in Terminal A bid under a seven-year prime concession agreement completed in 2014. Minimum annual revenue guarantees represented 35% of total concession revenues in FY 2014, with over 50% of the contracts under long term agreements expiring in 2020.

FINANCIAL OPERATIONS AND POSITION

Senior DSCR per bond ordinance was 2.06 times in FY 2014 versus 2.88 times in FY 2013, while on a net revenues basis DSCR was 1.73 times and 1.67 times, respectively. The lower coverage of the net revenue calculation primarily reflects the use of PFCs as a revenue and not as an offset to debt service, as calculated in the bond ordinance coverage. PFC debt service coverage ratios on a bond ordinance basis, which includes the PFC fund balance, were 4.65 times and 4.48 times for FY 2014 and FY 2013, respectively. On a Moody's calculated basis based on PFC revenues collected during the year, coverage was 1.31 times and 1.19 times for FY 2013 and FY 2014, respectively.

Projected DSCR for the CFC bonds, based on an average annual growth of 2.4% over the 2016-2020 period is expected to average 1.99 times including rolling coverage and 1.64 times without. Although CFC collections could grow at a lower rate than projected, even a stress case scenario of 0% growth and no increase to CFC rates or contingency fees, the airport would still be able cover debt service for both the CFC Bonds and the Series 2015 Senior Lien Revenue Bondsuntil 2022 prior to fully depleting the renewable and replacement fund, as well as the surplus fund. Further, CFC collections could drop by 26% on average while maintaining a 1.25x debt service coverage on the CFC debt and excluding rolling coverage.

Liquidity

Assured Guaranty Municipal Corp. (A2 stable), is the surety provider on more than 70% of the subordinated lien debt service reserve. Currently only $2 million of the requirement is cash funded. Although we view the surety policy rating at the same level of the subordinated lien as a weakness, the airport's strong liquidity of 879 days cash as of FY 2014, and the maintenance of liquidity levels of 600 days and above over the past four years as a mitigating counterpoint. The increased liquidity is a result of airport management's previously stated plans to increase liquidity by transferring 20% of all non-airline revenues to the capital improvement fund to be available for budgeted capital expenditure needs as they arise. Management anticipates maintaining this strong level of liquidity going forward.

During the construction of the CONRAC and public parking facility, there will be an $8.5 million parking operating fund for the loss of associated revenues and shuttle costs. There will also be an initial tenant improvement fund of up to $6 million to be used towards any costs during the initial break-in period.

Please see Legal Security for additional details on liquidity.

Debt Structure

As of FY 2014 the Airport had $194.215 million of senior lien revenue bonds outstanding and $148.670 million of PFCs and Subordinated lien debt outstanding making a total of $342.885 million. Pro-forma for the current issuance the Airport will have $506 million of total debt outstanding.

RATED DEBT

Series 2005 Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, $29.3 million, A2

Series 2007, Airport System Improvement Revenue Bonds, $71.5 million, A1

Series 2007 PFC and Subordinate Lien Airport System Revenue Improvement Bonds, $61.7 million, A2

Series 2010 Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement and Refunding Bonds, $34.2 million, A2

Series 2010A Airport System Revenue Improvement and Refunding Bonds, $41.4 million, A1

Series 2010B Airport System Revenue Refunding Bonds, Taxable, $17.9 million, A1

Series 2012 (AMT) Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, $23.4 million, A2

Series 2012 (AMT) Airport System Revenue Refunding Bonds, $63.4 million, A1

Debt-Related Derivatives

INTEREST RATE DERIVATIVES: None

Pensions and OPEB

The financial impact of unfunded and OPEB obligations of this issuer are minor and thus not currently a major factor in our assessment of its credit profile.

MANAGEMENT AND GOVERNANCE

The airport had been evaluating the possibility of consolidating all rental car facilities since 2008. Currently, the various facilities are located at numerous sites scattered both on- and off-site, requiring shuttle buses to bring passengers to and from terminals. Further, the sites are difficult for customers to find when returning vehicles and the shuttle buses add to traffic congestion at terminal curbs. The site has been identified as an eight-acre site that currently includes the short-term parking structure and the adjacent surface parking lot.

The adopted six-year FY 2015 to FY 2020 Capital Improvement Plan (the "CIP") totals approximately $261 million, which is comprised of certain projects including the design and construction of the CONRAC, airfield improvements, land acquisition, residential acoustical treatment, road improvements, aircraft apron expansion, and cargo improvements.

The airport is currently undergoing airfield projects for both runways and taxiways, which are to address pavement conditions. These projects are expected to continue until FY 2021. Terminal A renovations (included updates to finishes and furniture, all new restroom facilities throughout the concourse, ticket lobby and baggage claim area with six new food and beverage concessions) Phase 1 was substantially completed as of May 2014. Phase II includes roadway and facility improvements. The airport currently has no plans for terminal C, which is not part of the 5-year CIP plan horizon. Excluding the ConRAC facility, the largest capital improvement items over the 2016-2020 period include security checkpoint expansion at terminal A, a support services building and an integrated control center, as well as runway and taxiways' refurbishment.

OTHER CONSIDERATIONS: MAPPING TO THE GRID

Note: The grid is a reference tool that can be used to approximate credit profiles in the airport industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see Airports with Unregulated Rate Setting for more information about the limitations inherent to grids.

METHODOLOGY SCORECARD FACTORS

FACTOR 1 - MARKET POSITION

Enplanements - A (4,192,569)

Size of Service Area - Aa (2.353 million)

Economic Strength / Diversity of Service Area - A

Competition for Travel - Baa

FACTOR 2 - SERVICE OFFERING

Carrier Base (Primary) - Baa (Southwest 42.2%)

Enplanement 5-Year CAGR - Baa (1.3%)

O&D Passenger Mix - Aa (92.3%)

FACTOR 3 - CAPACITY AND CAPITAL PLAN

Limitations to Growth / Operational Restrictions - Aa

Construction Risk of Capital Program - A

FACTOR 4 - FINANCIAL METRICS

Average Airline Cost Per Enplanement - Aa ($7.35)

Net Revenue Debt Service Coverage Ratio - A (1.73x)

Debt Per O&D Enplanement - A ($81.54)

NOTCHING FACTORS

Days Cash on Hand - 879 days

Discretionary Reserves Notch - N/A

Revenue Diversification Notch - N/A

Scorecard Indicated Rating - A1

KEY STATISTICS

Type of Airport: O&D

Rate-making Methodology: Compensatory

CY 2014 Enplanements: 4,192,569

5-Year Enplanement CAGR: 1.3%

CY 2013 vs.CY 2014 Enplanement growth: 2.2%

% O&D vs. Connecting, FY 2014 (5 YR AVG): 92.3% (94%)

Largest Carrier by Enplanements, FY 2014 (share): Southwest (42.2%)

Airline Cost per Enplaned Passenger, FY 2014 (5 YR AVG): $7.35 ($7.42)

Debt per O&D Enplaned Passenger, FY 2014 (5 YR AVG): $81.54 ($90.69)

Net Revenue Debt Service Coverage, FY 2014 (5 YR AVG): 1.73x (1.54x)

Standalone PFC Debt Service Coverage, FY 2014 (5 YR AVG): 1.19x (1.31x)

OBLIGOR PROFILE

Originally built in 1941 as a military base, San Antonio International Airport became a commercial airport in 1953. The airport occupies approximately 2,600 acres of land and is located eight miles north of the City of San Antonio's downtown business district. The city owns and operates the Airport System. The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport, which is primarily a general aviation airport, including all its land, buildings, structures, equipment, and facilities.

San Antonio International has three runways, the largest one measuring 8,500 feet in length and 150 feet wide, two passenger terminals with abutting apron areas for aircraft parking; two terminals with 24 gates and approximately 623 square feet including: hold rooms, operations, ticketing, and common areas; concessions; aviation offices, and pedestrian access to existing parking facilities. Stinson is located five miles outside of the city, and is a designated general aviation reliever airport for San Antonio International. The airport currently has 8,155 parking spaces, consisting of 7,235 public parking spaces and 920 employee parking spaces. In May 2008 parking capacity was increased by 2,100 public parking spaces. The airport is classified as a medium-hub airport by the Federal Aviation Administration (FAA) and is the only commercial service airport serving the City and the San Antonio metropolitan area.

The airport is serviced by five domestic carriers, including Southwest, American Airlines Group Inc., Delta Air Lines, Inc., United Airlines, Inc., and US Airways Group, Inc. The airport also offers international flights to destinations in Mexico through Interjet, Aeromexico and VivaAerobus.

LEGAL SECURITY FOR SENIOR LIEN REVENUE IMPROVEMENT BONDS: The senior lien revenue bonds are secured by a pledge of gross operating revenues derived from the operation of the city's airport system secure the airport system revenue bonds, on parity with outstanding senior lien debt.

The Senior Lien Revenue Bonds debt service reserve funds requirement is equal to average annual debt service requirements. The airport's general bond reserve fund balance was $11.3 million as of FY 2014. A rate covenant of 1.25x on the senior lien revenue bonds ensure that gross revenues will be sufficient to cover operating expenses and a 1.25x debt service coverage on the bonds.

LEGAL SECURITY PFC AND SUBORDINATE LIEN BONDS:

The PFC/subordinate lien revenue bonds are secured by a first lien on all PFC revenues and a first lien on all subordinate revenues of the airport system.

The PFC debt service reserve as of FY 2014 included $2 million in cash and two separate reserve fund surety policies by Assured Guaranty Municipal Corp (as the legal successor in interest to Financial Security Assurance which originally provided such surety policies) with a maximum amount available to be drawn thereon equal to $2,685,000.00 and $4,378,078.87, respectively. A rate covenant of 1.25x on the senior lien revenue bonds ensure that gross revenues will be sufficient to cover operating expenses and a 1.25x debt service coverage on the bonds.

LEGAL SECURITY SPECIAL FACILITIES BONDS :

Secured by the assets of the Trust Estate pledged by the City which will encompass: first lien and security interest on (i) CFC revenues, (ii) lease agreements, (iii) performance guarantee revenues (equivalent to 6 months of estimated CFC revenues and ground rent from rental car companies) and contingent fees (additional payment obligations required to be paid by the Operators and the City in the event of shortfalls) and (iv) the amounts in the construction, revenue, debt service, debt service reserve, coverage, renewal and replacement and surplus funds. One third of the Performance guarantee revenues may be in the form of a letter of credit with the remainder in surety bond.

The CFC bonds will benefit from a MADS reserve fund (approximately $12.5 million), an initial $7.5 million CFC Renewal and replacement fund which if depleted may be replenished over a period of 60 months, a 25% of MADS rolling coverage ($2.4 million) and a CFC surplus fund expected to be maintained at $2 million.

A rate covenant of 1.25x will be in place ensuring that CFC collections are sufficient to cover debt service, with the residual collections ensuring coverage of debt service on Series 2015 senior lien revenue bonds.

The additional bonds test requires pro-forma 1.25x MADS coverage of the CFC Bonds and compliance with all funding requirements.

USE OF PROCEEDS

Proceeds from the Airport System Revenue Improvement Bonds Series 2015 senior lien will primarily pay for the costs associated with the public parking area, fund a debt service reserve fund and paying for costs of issuance; while the CFC Bonds Series 2015 will be used to pay for the CONRAC facility, making deposits into required accounts and funds and paying for the cost of issuance.

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RATING METHODOLOGY

The principal methodology used in this rating was Airports with Unregulated Rate Setting published in July 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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