FITCH RATES SAN ANTONIO, TX'S GARBS 'A+' AND PFC SUBORDINATE LIEN BONDS 'A'

Fitch Ratings-New York-24 April 2012: Fitch Ratings assigns an 'A+' rating on the City of San Antonio, Texas' $70.22 million Series 2012 general airport system revenue bonds (GARBs) and an 'A' rating to the $25.98 million Series 2012 passenger facility charge (PFC) subordinate lien bonds. Both series of bonds are being issued to refund a portion of the City's outstanding GARB and PFC subordinate lien bonds respectively.

In addition, Fitch has affirmed the 'A+' rating on the City's $240.4 million outstanding GARBs and the 'A' rating on $165.9 million PFC subordinate lien bonds.

The Rating Outlook on both the GARBs and PFC bonds is Stable.

KEY RATING DRIVERS:

--Diverse Carrier Mix Supported by Growing and Diversifying Local Economy: The airport is served by a diversified group of carriers between discount and legacy carriers with no carrier accounting for more than 37% of the market. The airport serves a strong origination and destination (O&D) passenger base with 94% of enplanements. Proximity of Austin 77 miles to the northeast hampers the airport's ability to grow regional market share.

--Airline Use and Lease Agreement Provides Stability to the Airport: The airport's hybrid airline use and lease agreement has a revenue sharing component that rolls into the next fiscal year. With extensions at both the airport's and the airlines option the agreement has the potential to run through September 2020. The agreement can lend to some revenue and operating margin volatility as reductions in non-airline revenue would not be fully covered through additional airline charges. Still, the rate setting methodology provides for a cost per enplanement (CPE) that is modest at $8.94 within the airport's goal of keeping it below $10.

--Conservative Debt Structure: The airport's debt is 100% fixed rate debt with declining amortization requirements. Debt service reserves are funded with a combination of cash and surety bonds from Assured.

--Historically Stable but Improving Financial Performance: The airport's financial performance has improved in large part due to additional airline charges that recover higher costs and a more equitable revenue sharing. Airline revenues were up 68% in fiscal 2011 compared to fiscal 2010. Leverage and coverage metrics are consistent for the rating level with net debt to cash flow available for debt service (CFADS) 5.54 and debt service coverage ratio (DSCR) 1.77 times. Liquidity is relatively low based on 2011 audited financials with 134 days cash on hand (DCOH).

--Limited Capital Program with no future GARB or PFC borrowing Planned: Having opened Terminal B in November 2010 and with renovation of Terminal A underway the airport's capital plan is fairly modest with no future GARB or PFC borrowing currently anticipated. The airport is in the planning stages of a consolidated rental car facility (ConRAC) which would be financed via a customer facility charge (CFC) and would open in three to five years.

WHAT COULD TRIGGER A RATING ACTION

--Significant changes in the level of O&D traffic generated in the San Antonio economy.

--Material changes in the airport's currently diverse carrier mix and potential loss of market share to nearby competing airports.

significantly alters the Airport's financial matrix.

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.

TRANSACTION SUMMARY

The proposed new issuance is for cost savings with airport system taking on no additional debt. The Series 2012 senior lien revenue refunding bonds are projected to provide an NPV savings of $9.4 MM through maturity while the Series 2012 PFC and Sub lien bonds are expected to produce an NPV savings of $3.1 million.

Subsequent to Fitch's November 2011 review, enplanements have continued to grow up 1.7%, 3%, and 6.5% in December, January, and February respectively. Enplanements increased 1.2% in fiscal year 2011 (FY'11) to 4.07 million driven largely by the economic growth in the local service area. The FY'11 growth follows an increase of nearly 3% in FY'10 as the airport continues to rebound from the recent recession. The airport continues to project enplanements growing at an annual rate of 2.2% through 2016, reaching nearly 4.6 million enplanements in 2016. The projected enplanement growth could be aggressive if forecasted economic development does not occur.

Southwest Airlines has announced plans to begin daily service to Mexico City and Cancun 4x per week beginning in May. Southwest Airlines also plans to begin serving St. Louis in August. Frontier has announced plans to eliminate a daily flight to Denver, which Airport management expects will have minimal impact as the service will be backfilled by United. Year-to-date fiscal 2012 performance indicates 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 (40% with the AirTran merger), followed by American Airlines and United/Continental with 17% each, and Delta Air Lines at 15%.

The Airport began collecting a customer facility charge (CFC) on April 1, 2012. The amount of the CFC is $4.50 per transaction day for all rentals at the Airport. The CFC is not pledged for the GARB bonds and will be used for all costs and expenses associated with a ConRAC, which the Airport expects to open in the next three to five years.

Contact:

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

Secondary Analyst
Mike McDermott
Managing Director
+1-212-908-0605

Committee Chairperson
Seth Lehman
Senior Director
+1-212-908-0755

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

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Rating Criteria for Infrastructure and Project Finance' (Aug. 16, 2011);
--'Rating Criteria for Airports' (Nov. 29, 2010).

Applicable Criteria and Related Research:
Rating Criteria for Infrastructure and Project Finance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648832
Rating Criteria for Airports
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=656970

Summary:

San Antonio, Texas
San Antonio International Airport; Airport

Primary Credit Analyst:
Todd Spence, Dallas (1) 214-871-1424; todd_spence@standardandpoors.com

Secondary Contact:
Georgina Rovirosa, New York (1) 212-438-7983; georgina_rovirosa@standardandpoors.com

Table Of Contents

Summary:

San Antonio, Texas
San Antonio International Airport; Airport

Credit Profile		
US$70.22 mil arpt sys rev rfdg bnds (San Antonio Intl Arpt) ((amt)) ser 2012 dtd 04/15/2012 due 07/01/2027		
Long Term Rating	A+/Stable	New
US$25.975 mil passenger fac charge and subord ln arpt sys rev rfdg bnds (San Antonio Intl Arpt) (amt) ser 2012		
Long Term Rating	A-/Stable	New
San Antonio, Texas		
San Antonio Intl Arpt, Texas		
San Antonio (San Antonio Intl Arpt)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Antonio (San Antonio Intl Arpt) subord lien		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Rating Services assigned its 'A+' long-term rating to San Antonio, Texas' nearly $70.22 million series 2012 airport system revenue refunding bonds, issued for San Antonio International Airport (SAT). In addition, Standard & Poor's assigned its 'A-' long-term rating on San Antonio's nearly $25.98 million series 2012 passenger facility charge (PFC) and subordinate-lien airport system revenue and refunding bonds, also issued on behalf of SAT. Finally, Standard & Poor's affirmed its 'A+' long-term and underlying ratings (SPUR) on San Antonio's airport system general airport revenue parity bonds and affirmed its 'A-' long-term rating and SPUR on the city's passenger facility charge (PFC) and subordinate-lien airport parity bonds, all of which were issued for SAT. The outlook on all bonds is stable.

The ratings reflect our opinion of SAT's:

- Strong origin and destination (O&D) market (94% in 2011) and good diversity of carriers, with Southwest Airlines Co., American Airlines Inc., and Delta Air Lines Inc. accounting for a combined 69% of enplanements in calendar year 2011;
- Location in the San Antonio metropolitan statistical area (MSA), which benefits from a strong economy with low unemployment and a growing population, underpinning the O&D market's strength; and
- Resilient passenger levels through the economic downturn and recovery, with a slight increase in enplanements of 1.2% in calendar 2011 and a projected annual growth rate that management anticipates will range from 2.0% to 2.5% from 2012-2016.

We believe offsetting credit weaknesses include SAT's:

- High debt burden, with a debt per enplanement of $98 in 2011, based on calendar 2011 enplanements of 4.07 million; and

- Flexible bond provisions that allow it to rely on rolling account balances and carryover funds to meet debt service covenant requirements.

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. PFC bondholders are additionally secured by a fully funded debt service reserve fund.

The airport's financial performance has been good, in our view. Debt service coverage (DSC; as calculated by Standard & Poor's) on GARBs in 2011 was 1.60x. Management projects, however, that DSC, which includes some PFCs as revenues, will likely range from 1.47x to 1.69x through 2016; we view these levels to be adequate for the rating. Standard & Poor's-calculated DSC does not allow for prior-period carryovers, the inclusion of a discretionary airline credit as revenues, or PFC revenues as an offset to debt service on the GARBs. Management has not historically applied its discretionary airline credit, but it forecasts it will start this in the current fiscal year. 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; available PFC revenues also offset debt service. PFC and subordinate-lien bond DSC is forecast to range from 1.57x to 1.89x from 2012 to 2016 under the indenture, which includes unused PFCs from previous years (approximately $4 million to $12 million annually). On a combined basis GARB and PFC subordinate lien, we expect Standard & Poor's-calculated coverage levels to range from 1.42x to 1.58x through 2016. This calculation does not include unused PFC funds from previous years. Coverage for the PFC subordinate bonds based only on annual PFC collections only is 1.28x to 1.41x through 2016.

The airport has what we view as a high debt burden for the rating category. Its debt per enplanement was $98 in 2011, based on calendar 2011 enplanements of 4.07 million. Cost per enplanement was above median for the category at $8.94 in 2011; the budget has it estimated at $7.94 in 2012.

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 recovered in 2010 and 2011, to 4.02 and 4.07 million passengers, respectively. The airport is forecasting enplanements to increase approximately 2.2% per year through 2016, reaching 4.6 million. We view the forecast as reasonable given the service region's strength and its historical and projected population growth. SAT's enplanements were 94% O&D in 2011. Southwest is the largest carrier, accounting for approximately 37.3% of enplanements in calendar 2011.

The airport's 2012 to 2017 capital improvement program (CIP) is manageable in our view, and totals $394 million. Management expects to fund the CIP with grants, PFCs, existing bond proceeds, customer facility charges and other airport funds. The CIP includes a proposed $128 million consolidated rental car facility that is expected to be funded from a customer facility charge (CFC), for which collections began in April 2012. The airport is evaluating a financing plan for the car rental facility, which is expected to be paid for with CFC funds. The city amended its master bond ordinance to exclude CFCs from the definition of gross revenues. This exclusion will allow the city to potentially issue bonds backed solely by CFC revenues. We understand that during the outlook period, SAT does not plan to issue GARBs that would affect its debt burden.

Enplanements at the airport benefit from what we view as a strong economy in the San Antonio MSA. The city's overall economic growth has remained vibrant, benefiting from a strong presence of the health care and defense industries. Unemployment in the MSA was an estimated 7.3% in January 2012, lower than both the state (7.6%) and the national (8.8%) rates.

Outlook

The stable outlook reflects Standard & Poor's expectation that steady enplanement growth will occur as projected during the forecast period. The outlook also reflects our expectation that SAT will meet projected financial results. Standard & Poor's also expects that DSC per our calculations will remain in line with current levels. Lower enplanements that result in reduced coverage and liquidity could result in a lowered rating. We do not expect to raise the rating during the two-year outlook period.

Related Criteria And Research

USPF Criteria: Airport Revenue Bonds, June 13, 2007

Ratings Detail (As Of April 27, 2012)		
San Antonio, Texas		
San Antonio Intl Arpt, Texas		
San Antonio (San Antonio Intl Arpt)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
San Antonio (San Antonio Intl Arpt) subord		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal 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.