San Antonio, Texas

Consolidated Rental Car (CONRAC) Special Facility Project

New Issue Report

Ratings

New Issues

$124,210,000 Consolidated Rental Car Facility Bonds, Series 2015	BBB+

Outstanding Debt

$222,265,000 Airport Revenue Bonds Series 2006, 2007, 2010, 2012	A+
$143,210,000 Passenger Facility Charge Subordinate Airport Revenue Bonds, Series 2005, 2007, 2012	A

Rating Outlook

Stable

Related Research

Fitch Rates San Antonio (TX) Airport Revs 'A+', Outlook Stable (July 2015)

Peer Review of U.S. Airports (February 2015)

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Debt Class/Lien	Amount ($ Mil.)	Final Maturity	Ratio of Transaction Days/Deplaned Passengers (%)	Transaction Days	Leverage (x)
Consolidated Rental Car Facility Bonds, Taxable Series 2015	124.2	2045	48.8	2.0	10.2

Source: Fitch Ratings.

Key Rating Drivers

Rationale: The rating reflects rental car market monopoly for visitor transportation services and increased efficiency from a new airport-connected CONRAC facility. Near-term rising debt service requires transaction growth either from longer car rentals or more deplaned passengers. Customer facility charges (CFC) collections have been growing since FY2012 inception to support the CONRAC and will be required through maturity. Fitch notes that the airport is able to charge rental car companies contingent rent should CFC rate increases be insufficient.

Rental Car Necessity: Despite a predominantly origin and destination (O&D) base (92.3% of total enplanements), limited visitor transportation options make the airport's rental car business a necessary service. The new CONRAC will increase convenience with the ability to rent cars from a single facility, but car rental demand is vulnerable to leisure, and the ratio of transaction days to deplaned passengers has been declining over the past few years.

Flexible Rate Setting: CFC rates can be changed at any time without outside approval, and the competitive current $5.00 rate may be increased as debt service ramps up to its maximum. All airport rental car operators plus three new entrants have executed CONRAC agreements.

Rising Debt Structure: Fixed-rate debt with escalating annual debt service levels from issuance to FY2027 at $9.8 million through final maturity in FY2045. The bonds will benefit from a fully cash-funded debt service reserve fund sized to MADS, a 25% coverage account, and a $7.5 million renewal and replacement (R&R) account, which provide some initial liquidity to partially mitigate the debt obligations. Additional CFC-backed borrowing is not anticipated.

Moderate Metrics: Initial liquidity is around $2.5 million in the CFC surplus fund. In Fitch's base case through FY2023, net debt-to-cash flow available for debt service (CFADS) is initially high around 10x and should drop to around 7x, CFC bond coverage is strong (above 1.5x), but total coverage including the new general airport revenue bond (GARB) debt service is thinner at just above 1.13x.

Consolidated Operations: Project construction starts August 2015 and should open March 2018. The project is expected to be fully funded with proceeds from the San Antonio International Airport (SAT) series 2015 CFC revenue bonds, series 2015 GARBs and internal CFC liquidity.

Peer Analysis: SAT has similar levels of transaction days as Charlotte (rated A, Stable Outlook) and Austin (rated BBB+, Stable Outlook). When considering additional GARB debt being issued, SAT's CONRAC is expected to cost more than both Charlotte and Austin. However, leverage is expected to be comparable to Austin but higher than Charlotte, partially explaining SAT's 'BBB+' rating.

Rating Sensitivities

Negative: A considerable drop in rental car transactions or volatility in the underlying O&D traffic base could adversely affect pledged revenue and coverage levels absent an increase in the CFC rate.

Negative: Use of fund balances beyond those anticipated in the sponsor's forecast or imposition of contingent rents to rental car companies in order to fully support project cash flow requirements under the bond documents and rental car concession agreements may lead to a downgrade.

Positive: Rental car transaction day growth above Fitch's base case and a material reduction in leverage.

Overview

Transaction Summary

The City of San Antonio is issuing $124.2 million series 2015 CFC revenue bonds to construct five levels for CONRAC operations within a new seven-level CONRAC facility at the airport. The city is also issuing $39.3 million series 2015 senior GARBs secured by net airport revenues to construct two levels of public parking within the new CONRAC facility (see *Fitch Rates San Antonio (TX) Airport Revs 'A+', Outlook Stable*, July 9, 2015). However, the city intends to pay Series 2015 GARB debt service with surplus CFC revenues.

Enterprise Summary

Project Summary Data		**Financial Summary Data**	
Project Type	Airport CONRAC	Rated Debt Terms	$124.2 million fixed rate
Project Location	San Antonio, TX	Amortization Profile	Fully amortizing, matures 2045
Status	Construction	Reserves	$2.44 million Debt Service Coverage Fund; $9.8M Debt Service Reserve Fund; and $7.5M CFC Renewal and Replacement Fund.
Operator	City of San Antonio	Transaction Triggers	Senior Bonds: Rate Covenant: 1.25x; Additional Bonds Test: 1.25x
Revenue Basis	Volume		

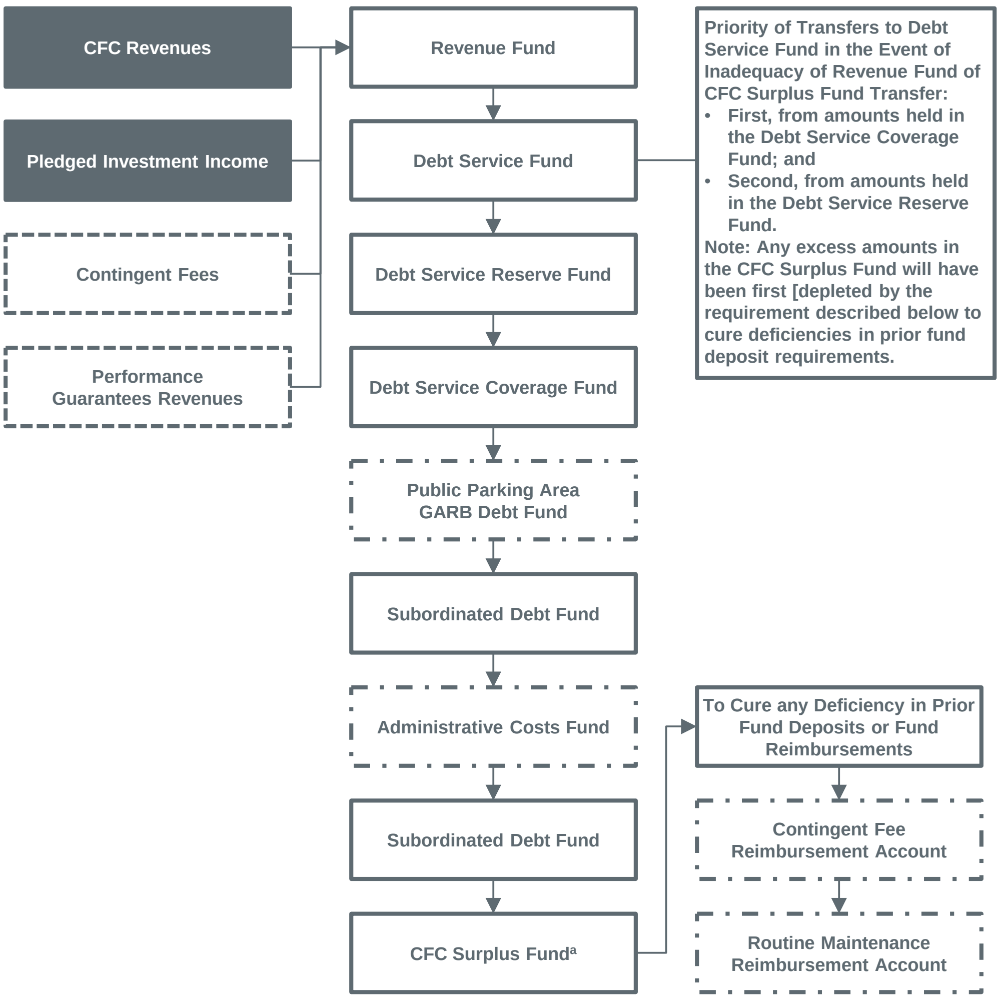
Source: SAT, Fitch Ratings

Key Features

Project Overview

Airport rental car operations are currently unconsolidated and spread across multiple sites, which requires customer shuttle buses that create congestion. Present public parking facilities adequately serve volume but are not sized to fit demand expectations. The CONRAC facility will consolidate all airport rental car operations, replace the short-term parking garage next to the airport terminals and directly connect to the terminal via a sky bridge. A total of seven stories tall, the facility will include 2,040 ready/return spaces, 1,060 storage spaces, a customer service center, a quick turn-around facility that allows car rental companies to provide vehicle service support and maintenance, other essential supplemental functions, as well as 1,349 short-term public parking spaces on the first two floors. Construction will begin in August 2015, public parking levels are expected to open 20 months later, and the CONRAC should open to the public in March 2018 (the date of official occupancy, or DBO). The city and rental car operators will operate CONRAC through a CONRAC lease agreement and rental car concession agreements, and Fitch expects manageable operation risk given the detailed provisions set out in both agreements. All rental car operators have participated in developing the CONRAC and will execute and deliver the lease agreements on or prior to Series 2015 CFC bond delivery, which will give each rental car operator the right as well as the obligation upon completion to occupy and operate rental car concessions in the CONRAC.

Flow of Funds Chart



Source: San Antonio International Airport.

CFC Collection

The CFC is a per transaction day fee at a city-determined rate charged to every airport rental car customer. The airport has collected CFCs since FY2012 in preparation for the new CONRAC facility and will use approximately $27 million of previously collected CFC revenues in addition to bond proceeds to fund construction and establish project reserves. The total project cost is estimated at $196 million, incorporating uses for tenant improvements and reserve funds, which include a renewal and replacement fund, a debt service reserve fund, and a debt service coverage fund. Future CFCs will be used to pay Series 2015 debt service and maintain and operate the CONRAC, as well as replenish bond funds. The airport must collect CFCs from all rental car companies as long as CFC bonds remain outstanding regardless of when the CONRAC opens.

While the CFC debt is secured by a narrow revenue stream dependent upon rental car activity, the current $5.00 per day CFC rate is moderate when compared to other airports with CFC-secured stand-alone bonds. Management forecasts a $0.50 increase in the CFC rate on Sept. 1, 2018. Unscheduled rate increases are permitted as needed to meet annual gross debt service, and contingent rent may be levied to the extent that a needed rate increase is not economically feasible.

CONRAC Agreements

In Fitch's view, the lease and concession agreements provide a strong framework for operations and payments between the airport and the rental car operators. The CONRAC lease agreement is initially set for a 20-year term, starting when construction is completed. The city hands over the CONRAC to rental car operators who have 180 days to make company-specific improvements. The city will reimburse operators up to $6 million or 50% of total improvements constructed by all operators. After 180 days, the CONRAC opens for business to the public on the DBO which is expected on March 1, 2018. Rental car operators deposit an amount equal to six months of CFCs as a security deposit as well as an amount equal to six months of ground rent. The city is required to charge rental car operators contingent fees if CFC revenues are anticipated to fall short of necessary payment obligations under the agreements and bond ordinance.

The lease may be terminated by the city or a rental car operator before it expires if a rental car operator defaults. Fitch notes that the 20-year lease agreement is short of the 2045 debt maturity which the airport views as additional flexibility and allows for lease revisions or modifications. Contingent fees and security deposit will be required in future leases as mandated in the CFC indenture.

The rental car operators will pay the city $1 per square foot per year of ground rent which will be increased by 15% every five years. The city will perform as well as pay for facility and site major maintenance using the CFC R&R fund, which is initially funded upfront with $7.5 million of bond proceeds and then from the CFC surplus fund. Rental car operators are responsible for CONRAC routine maintenance and estimate $4.0 million total annual expenses, either CFC eligible ($1.5 million) or non-CFC eligible ($2.5 million). The rental car operators will perform CONRAC maintenance and will be reimbursed for CFC-eligible tasks. Rental car operators will charge customers a facility maintenance fee (FMF) per transaction day to cover non-CFC-eligible expenses as well as projected CFC-eligible maintenance shortfalls. All labor salaries are embedded in task-specific items. All CONRAC routine maintenance is paid by rental car operators, and CFC-eligible expenses are reimbursed to the extent sufficient funds are available.

Current rental car companies operate under existing concession agreements which have been extended to the DBO and will begin new 10-year agreements after the DBO, which mitigates completion risk. The new 10-year agreements may be extended for an additional 10 years, and the city will maintain concession agreements from the DBO until the Series 2015 CFC Bonds mature. If rental car companies fail to execute and deliver concession agreements, they will be unable to offer rental car services at the airport.

Current as well as any new rental car operators are also required to pay SAT the greater of percentage rents and minimum annual guarantees (MAGs). The initial MAG for current operators is 85% or $250,000/brand while the MAG for new operators will be set at $250,000/brand. MAGs are removed if passenger air traffic collapses or auto supply shortages cause a greater than 25% loss in gross revenue for the entire rental car industry at SAT. In lieu of a MAG, rental car operators will still pay the city a percentage fee, which is a portion of the rental car operator's gross revenues.

Completion Risk

Fitch considers the structural features of the transaction to be adequate based on protections available to mitigate project completion and delay risk. Under the terms of the guaranteed maximum price construction contract, the CONRAC contractor is responsible for any cost overruns but the DBO can be delayed. Under a delay in opening, CFCs would continue to be collected. Reserves include a $2.44 million debt service coverage fund; a $9.8 million debt service reserve fund; and a $7.5 million CFC renewal and replacement fund.

Nonstop Flights

Source: San Antonio International Airport.

San Antonio Airport

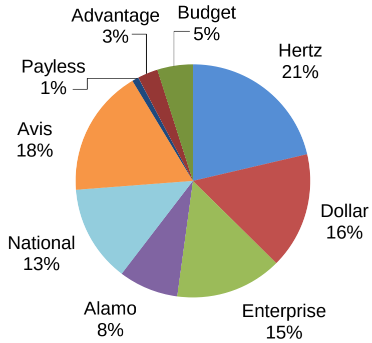
SAT is a city-owned airport eight miles from downtown San Antonio, and visitors usually rent a car, take a cab or are picked up by residents because robust regional transportation alternatives are not present, which supports the rental car market. San Antonio is the seventh largest U.S. city with strong military and government employment, trade, convention and tourism, health care, finance, and telecommunications alongside low unemployment and high population growth, which support a firm 92.3% O&D enplanement base. The level of deplaned passengers is directly correlated to rental car transaction days. Deplanements increased 1.34% for FY2014 to 4.1 million (a 5-year CAGR of 1.09%) and should continue to grow alongside Texas as Texas outpaces the U.S.

A diverse group of airlines, including five network carriers, approximately ten of their regional affiliates and four Mexican carriers, serve the airport with no airline holding more than a 42% share of passengers (Southwest; 'BBB' Positive Outlook). The airport serves 35 nonstop destinations including five cities in Mexico and, as expected, experienced no impact from the Wright Amendment expiration. SAT's main competition comes from Austin-Bergstrom International Airport, a 77 mile (1.5 hour drive) northeast. However, Austin does not offer as many international services, and San Antonio maintains that significant traffic diversion between the two airports does not occur due to comparable fare and service levels at each airport.

Rental Car Operations

In Fitch's view, the rental car operations are an essential component of the airport enterprise with an established history. All rental car operators have participated in developing the CONRAC. Ten rental car brands that currently serve SAT as well as three new brands have entered into lease agreements with the city to operate at the CONRAC. SAT does not have any off-airport rental car operators, but if any arrive, they will have to pay SAT CFCs.

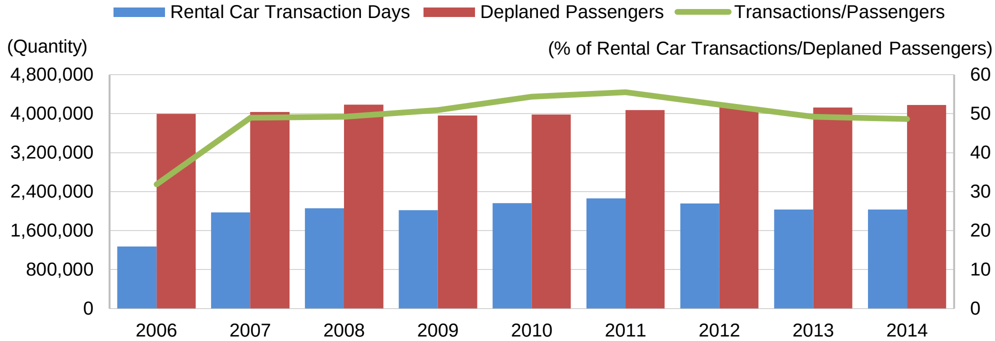
SAT Rental Car Brand Market Share
(FY2014)



Source: SAT.

SAT rental car activity is measured by rental car transaction days and gross rental car sales with a distinct seasonal pattern (highest demand during summer tourism season). Usually rental car transaction days equate to half of deplaned passengers, which should increase with the convenience the CONRAC will bring and support early revenue pressure from rising debt service. After decreasing demand from FY2011 through the first half of FY2013, rental car transaction days at the airport began increasing in the second half of FY2013 through the end of FY2014. Gross rental car sales at SAT increased at a 4% CAGR in FY2011–FY2014, which can be attributed to increasing daily rental rates that averaged $39.43 in FY2011 and $49.37 in FY2014.

Rental Car Transaction Days to Deplaned Passengers



Source: SAT.

Financial Profile and Analysis

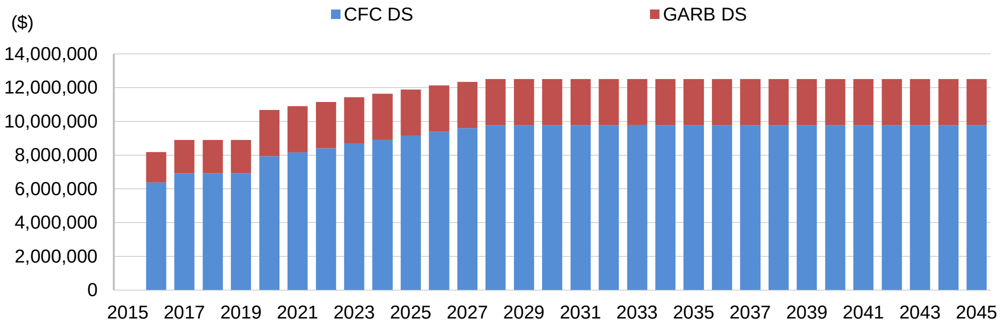
Debt Structure

In Fitch's view, the debt structure is comparable in form to a number of other airport, stand-alone CONRAC financings. The City of San Antonio is issuing approximately $124 million in fixed-rate CFC secured debt to construct an airport-connected CONRAC facility. The city is separately issuing approximately $39 million of fixed-rate airport system revenue bonds that will pay for the construction of two floors of public parking within the seven-story CONRAC facility. While the GARBs are secured by a pledge of airport revenues with no recourse to CFC funds, management intends to pay the debt service on those bonds with surplus CFC monies.

The debt amortization is structured to have inclining payment levels through the first 10–15-year period followed by level payments through maturity. CFC debt has a five-year interest-only period to protect against revenue underperformance and allow for surplus fund accumulation should management's projections be realized. CFC bond annual debt service (ADS) is sculpted such that it begins at approximately $6.4 million in FY2016 and ramps up to around $9.8 million by FY2028 before levelling out through maturity. When factoring in the additional GARB debt, the total debt service profile grows by about 53% between FY2016 and FY2028 or a CAGR of 3.9%, which necessitates revenue growth in the early years; However, Fitch notes that there are several cash-funded reserves that will provide some initial liquidity to partially mitigate this risk. Further, management retains the right to levy contingent fees or to pay the CFC debt service should CFC collections fall short of forecast.

Security and Structural Features

Total CONRAC Debt Service To Be Paid with CFCs



CFC – Customer facility charge. DS – Debt service. GARB – General airport revenue bonds.
Source: San Antonio Airport.

Security

The bonds are special obligations of the city, secured by and payable from CFCs. SAT must charge/collect CFCs from all on/off airport rental car operators as long as CFC bonds remain outstanding. There is no recourse to general airport revenues.

Rate Covenant

CFC rates are reviewed and/or adjusted annually/as required to equal the aggregate of: a) 125% of CFC Debt Service and b) amounts necessary with the remainder after actually paying CFC debt service to provide (1) 125% of Series 2015 GARB debt service; and (2) fully (100%) fund all transfers from the revenue fund as required by the indenture in each fiscal year. No contingent fees will be established by the city and no drawings will be made under performance guarantees for the applicable fiscal year unless the CFC increase fails to generate sufficient funds and all funds are exhausted. If the rate covenant is not satisfied, it will not constitute an event of default so long as no payment default has occurred and the aviation director promptly follows the recommendations of the CFC consultant.

Additional Bonds Test

Additional parity debt is permitted to make future renovations/improvements to the CONRAC. Pledged revenues (CFCs) from the last completed fiscal year, or for 12 of the 18 consecutive months immediately preceding, must be equal to at least 1.25x the MADS requirements for all bonds outstanding plus the additional bonds. Additional bonds issued may refund existing bonds as long as new debt service will not exceed current debt service. The city may issue subordinated debt to repair/improve the CONRAC or refinance existing outstanding bonds as long as there are enough pledged revenues (CFCs) to pay subordinate debt service after all senior and GARB debt service payments are made.

Debt Service Reserve Fund

The debt service reserve fund will be cash funded at MADS and initially expected to be funded from proceeds at $9.8 million.

Debt Service Coverage Fund

The debt service coverage fund will be funded at 25% MADS and initially expected to be cash funded with proceeds at $2.4 million.

Renewal and Replacement Fund

The CFC R&R fund pays CONRAC facility major maintenance and will be cash funded with proceeds at close at $7.5 million (required). Importantly, the R&R fund may be used to fill buckets above it in the flow of funds including debt service and must be replenished upon depletion.

CFC Surplus Fund

Within the CFC surplus fund, the city has established the contingent fee reimbursement account, the routine maintenance reimbursement account, and the airport parking operating funds account (funded with prior CFC revenues at initial delivery of the Series 2015 bonds; no transfers from the revenue fund shall be made to this account). None of these accounts of the CFC surplus fund are included in or part of the trust estate, though amounts and deposits held in the CFC surplus fund that are not held in any other account are included. Management expects the fund to have a beginning balance of $2.5 million for FY2015 from prior CFC collections not contributed towards the total CONRAC cost.

Forecasts

SAT's management case expects rental car transaction days to equal 48% of deplaned passengers through FY2023, which is in line with the historical average since FY2013. Rental car transaction days are the basis for CFC revenues and are projected to grow at the same rate as deplaned passengers, representing a 2.3% CAGR from 2.0 million in FY2015 to 2.5 million for FY2023. CFC collections are projected at $9.4 million in FY2015, rising to $13.5 million for FY2023. In FY2016 (the first full year collecting at a $5.00 rate) through FY2023, CFCs are expected to grow at a 4.7% CAGR. Minimum debt service coverage ratio (DSCR) including series 2015 GARB debt service obligations is projected to be 1.22x in FY2017. Project leverage is initially high at around 10x net debt/CFADS but will evolve to a more moderate 7.5x by 2023.

In addition to the management case, Fitch developed its own base and rating cases incorporating the traffic assumptions used in the Fitch Ratings 2015 review of SAT's GARB and PFC subordinate bonds.

Fitch's base case assumes a more moderate 1.5% deplanement CAGR over the FY2015–FY2023 period while maintaining the airport's assumption of a 48% rental car transaction days/deplanement ratio. Under this scenario, management's forecast CFC rates were also observed ($5 increasing to $5.50 on Sept. 1, 2018); However Fitch notes that management would have to raise the CFC rate from a forecast $5.50 to $6.23 in FY2023 in order to meet all debt obligations and projected operating expenses without dipping below a $2 million balance in the CFC surplus reserve fund.

Fitch's rating case, which assumes a 6% drop in deplanements in FY2016 followed by recovery of 1%–2% annually for a 0.3% CAGR through FY2023 also maintained the 48% rental car transaction days/deplanement ratio. Once again, management's forecast CFC rates were observed except for FY2022 and FY2023, where management would have to raise the CFC rate from the forecast $5.50 to $7.57 and $6.95 in order to meet all debt obligations and forecasted operating expenses without fully depleting the CFC surplus fund balance. Fitch notes that, in practice, the surplus fund would be held at a minimum of $2 million and the

Forecast Scenario Summary FY2015–FY2023

($)	Sponsor Case	Fitch Base Case	Fitch Rating Case
Deplanement CAGR (%)	2.3	1.5	0.3
% Rental Car Transaction Days	48.8	48.6	48.6
CFC Rates			
FY2015	4.50/5.00	4.50/5.00	4.50/5.00
FY2016-FY2017	5.00	5.00	5.00
FY2018	5.00/5.50	5.00/5.50	5.00/5.50
FY2019-FY2021	5.50	5.50	5.50
FY2022	5.50	5.50	7.57
FY2023	5.50	6.23	6.95
CFC DSCR Min	1.57	1.50	1.41
CFC DSCR Max	1.81	1.74	1.89
CFC + GARB DSCR Min	1.20	1.13	1.06
CFC + GARB DSCR Max	1.41	1.36	1.43
CFC Net Debt/CFADS Max	10.09	10.20	11.08
CFC Net Debt/CFADS Min	7.47	7.18	6.74

Source: SAT and Fitch.

airport's share of routine maintenance would be reduced if funds were not available for a given year. Further, the airport would still have the additional liquidity from the CFC R&R fund to meet its operating and maintenance needs. In addition, Fitch understands that management would have the ability to proactively raise rates sooner and to a lesser extent to build up liquidity instead of having to raise rates so materially once a shortfall was imminent.

Fitch also ran several sensitivity analyses including testing the impact of either the ratio of transaction days to deplaned passengers stabilizing at 44% or the CFC remaining at the current $5 rate. Fitch notes that reserves may need to be tapped and/or contingent fee levied if transaction days fall short of forecast or the planned CFC increase fails to materialize. While the structure depends on near-term growth, Fitch views the growth to be achievable given the strength of the San Antonio market and takes comfort in the system's reserves should CFC revenues initially underperform.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

STANDARD & POOR'S RATINGS SERVICES
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Summary:

San Antonio, Texas San Antonio International Airport; Airport

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Summary:

San Antonio, Texas
San Antonio International Airport; Airport

Credit Profile		
US$124.21 mil Customer Facility Charge Rev Bnds (San Antonio Intl Arpt) ser 2015 dtd 07/01/2015 due 07/01/2015		
Long Term Rating	A-/Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'A-' rating to San Antonio, Texas' $124.2 million rental car special facility revenue bonds series 2015, issued for the San Antonio International Airport. The outlook is stable.

The rating reflects our assessment of the following factors:

- 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;
- 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
- A strong origin and destination (O&D) market (92.3% in 2014) and adequate diversity of carriers, with Southwest Airlines Co., American/US Airways, and United Air Lines Inc. accounting for a combined 79.4% of enplanements in calendar year 2014.

We believe credit weaknesses include:

- The narrow revenue pledge, with customer facility charges (CFC) revenue being the main recurring revenue source available to repay the bonds;
- A moderate CFC rate, at $5.00 per transaction per day; and
- Projected debt service coverage levels from annual CFC collection of 1.4x-1.6x through 2023, which we consider adequate, based on projections that we consider optimistic.

Bond proceeds will fund approximately $166.4 million of the total $196.0 million in project costs. The airport is also issuing approximately $39.3 million in general airport revenue bond debt for this transaction, which will benefit from CFC revenues as well. Bond provisions are adequate, in our view, and provide a good legal framework for the operations of the facility. The rate covenant requires that the CFC be reviewed and adjusted as necessary to ensure 1.25x debt service coverage on the bonds, including a rolling debt service coverage fund funded to 25% maximum annual debt service, and the maintenance of all other fund requirements as stipulated in the indenture. The airport may issue additional bonds if revenues from 12 of any of the previous 18 months preceding a fiscal year equal 1.25x debt service on debt outstanding. The debt service reserve is fully funded to maximum annual debt service as well.

Upon completion, the facility will include 2,040 ready/return spaces, 1,060 storage spaces, a customer service center, a quick turn-around facility that allows rental car companies to provide vehicle service support, and other essential supplemental functions. Airport officials expect project construction to commence in July 2015 and be substantially completed in September 2017. The public parking area portion of the project is expected to be complete and open for public parking in March 2017. In September 2017, the facility will then be turned over to each rental agency complex (RAC) pursuant to separate lease agreements for approximately six months for tenant finishes and a break-in period. The facility is slated to enter operations March 1, 2018.

In addition to improved operating facilities for the rental car companies, management expects the facility to result in more efficient operations. The project also provides replacement covered close-in public parking spaces for the airport's passengers. New concession agreements among the city and eight rental car companies, representing 13 brands, are uniform and run for 10 years, with one optional 10-year extension. Under its terms, the rental car companies are required to charge, collect, and remit the CFC to the trustee. In addition, contingent fees may be charged to the rental car companies under the new concession agreements, in the event CFC collections are insufficient to meet the rate covenant. The aviation director can raise the CFC rate at any time, and rate increases do not require city council approval. The daily rate is $5.00, having increased July 1 from the initial rate of $4.50. Management forecast includes an increase to $5.50 in 2018. Net of routine maintenance costs, debt service coverage ranges from 1.4-1.6x through 2023. As calculated by the airport's consultant's feasibility study, however, with routine maintenance paid after debt service, projected coverage of annual debt service ranges from 1.57x-1.81x through maturity in 2023. Given 1.5% compound annual average declines in deplanements since 2010, we consider the projections to include more assertive growth assumptions (ranging from 2.1-2.4% through 2023). A consultant call-in is required pursuant to the indenture, however, should CFC collections fall 90% below forecast in any budgeted year. In addition, management has set a floor of $2 million in its CFC surplus fund, which we believe will support cash flow management and mitigates some of the risks associated with more optimistic forecasting.

Outlook

The stable outlook reflects our view of the airport's generally stable enplanement history and San Antonio's strong economy, which we believe will support demand for rental cars. The rating could be pressured to the extent that lower demand for the airport fuels declines for the facility and debt service coverage levels fall significantly below forecast. We could also consider a downgrade if the project experiences significant delays in construction or cost overruns. We do not expect to raise the rating during the outlook period, given that forecast performance is in line with the current rating level and is unlikely to be exceeded in that time.

Related Criteria And Research

Related Criteria

- USPF Criteria: Airport Multi-Tenant Special Facilities Bonds, June 13, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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