Fitch Ratings
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FITCH UPGRADES SAN ANTONIO, TEXAS DRAINAGE REVS TO 'AA'; OUTLOOK STABLE

Fitch Ratings-Austin-06 May 2010: Fitch Ratings takes the following action on San Antonio, Texas (the city) as part of its continuous surveillance effort:

--$36.1 million municipal drainage utility system revenue bonds, series 2003, upgraded to 'AA' from
'AA-'.
--$54 million municipal drainage utility system revenue bonds, series 2005, upgraded to 'AA' from 'AA-'.

The Rating Outlook is Stable.

RATING RATIONALE:
-- The upgrade to 'AA' from 'AA-' reflects much stronger financial performance than previously forecasted and the lack of additional borrowing plans that might weaken the financial profile.

--Financial metrics are good, although reporting presentation is not typical of other drainage utilities.

--The revenue stream, which is collected as part of the water and sewer bill, is stable and experiences limited delinquencies.

--The stormwater fee is low, lending flexibility for future rate hikes if needed.

--Capital projects currently expected to be funded from the stormwater fee are moderate, although some uncertainty exists as to future projects and the possible impact such projects could have on utility operations.

--Legal provisions are adequate, although no debt service reserve is currently required.

KEY RATING DRIVERS:
--Maintenance of a sound financial profile is key to preservation of the rating.

--Limitation of future leveraging will also be important to the credit profile.

SECURITY:
The bonds are secured by a first lien on net operating revenues of the drainage system (the system), which includes the stormwater fee.

CREDIT SUMMARY:

The system was created in 1997 as a public utility to provide the city with a funding source to comply with federal Environmental Protection Agency mandated stormwater quality mandates, as well as operation and maintenance (O&M) requirements. Financial performance for the system has been good and has exceeded previous projections. For fiscal 2009, net revenues provided 2.4 times (x) coverage on annual debt service (ADS), compared to prior estimates that called for minimal ADS coverage. For fiscal 2009 liquidity was also good, with the system maintaining nearly 250 days cash.

The city is a partner in an interlocal agreement for a regional flood control program, along with Bexar County and the San Antonio River Authority, to provide regional management of a unified flood control, drainage, and stormwater quality program. The city's fiscal 2010-2014 capital improvement plan (CIP) identifies almost $178 million in drainage projects, with only around 3% of the capital costs expected to come from surplus system revenues. While funding for the bulk of the CIP is expected to be derived from authorized city general obligation bonds and other non-pledged revenue sources, the city anticipates completing a regional stormwater management master plan by 2011, which could escalate capital costs and require additional funding from system revenues. However, Fitch expects the system's solid financial profile will continue.

Through an interlocal contract, the San Antonio Water System bills and collects the stormwater fee on behalf of the city. Each property that receives water service and bill also receives a stormwater bill. Residential customers pay either $39 or $51 annually for stormwater service, depending upon lot size. Given this low annual charge, rate flexibility for future needs is a positive rating factor.

Security provisions include a rate covenant that will produce revenues equal to 1.25x annual debt service, O&M expenses, and any other indebtedness payable from pledged revenues. The additional bonds test calls for gross revenues for the last completed fiscal year or for 12 consecutive months out of the immediately preceding 18 months to be at least 1.25x average annual debt service. The flow of funds, in priority order, is to debt service, O&M expenses, the reserve requirement, and then to any lawful purpose. The reserve requirement is average annual debt service (AADS); however, the requirement is waived in each year revenues are at least 1.75x AADS. The city also covenants to discontinue water and sewer services to a user that is delinquent in the payment of drainage charges.

Applicable criteria available on Fitch's website at 'www.fitchratings.com' include:
--'Revenue-Supported Rating Criteria', dated Dec. 29, 2009;
--'Water and Sewer Revenue Bond Rating Guidelines', dated Aug. 6, 2008.

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STANDARD &POOR'S

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Credit Profile		
Outstanding Municipal Utility Drainage System Revenue Bonds, Series 2003, 2005 (MBIA) (MBIA of Illinois)		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has raised the rating on San Antonio, Texas' municipal drainage utility system series 2003 and series 2005 revenue bonds to 'AA+' from 'AA-' reflecting trends of strong coverage, high liquidity levels, and good collection rates.

The rating reflects our assessment of the system's:

- Broad, diversified, and growing service area;
- Sound financial performance during the past several years;
- Demonstrated willingness to adjust rates, although overall rates remain low; and
- Economies of scale in the implementation of some functions of the drainage utility in conjunction with San Antonio Water System (SAWS) ('AA' senior-lien revenue bond rating).

A first lien gross revenue pledge on the storm water system secures the bonds, the proceeds of which were used to fund improvements and extensions to the existing storm drainage system. A debt service reserve in the amount of average annual debt service provides additional security, although the reserve is not required to be funded as long as annual debt service coverage (DSC) remains at least 1.75x. While the rate covenant is a moderate 1.25x average annual debt service, annual DSC has been significantly higher and city officials project it to remain at similar levels.

The storm water fund's financial position remains strong, in our opinion. Service rates are low, remaining below $4 per month for residential services. Fiscal 2008 revenues of $33.485 million resulted in 4.58x annual DSC. Coverage in the past five years has ranged from 3.8x to

7.7x, with revenues steadily increasing in each year. The debt service payment of approximately $7.3 million is level through 2028. Furthermore, fund liquidity remains strong with cash and investments of $46.6 million or about 500 days of operating expenditures. Rates were last increased in fiscal 2008. Although the responsibilities for the storm water system ultimately rest with the city ('AAA' GO debt rating), SAWS provides some services as part of an interlocal agreement, including monitoring and customer billing. Because the storm water fee is included in the water and sewer bill, collection rates are extremely high. The city coordinates the development of its capital program with other jurisdictions in the area, including Bexar County and the San Antonio River Authority.

We understand that San Antonio does not have specific plans to issue additional drainage revenue bonds in the near future, as the city will likely use excess system revenues to address capital needs.

Outlook

The stable outlook reflects Standard & Poor's expectation for maintenance of high liquidity and strong coverage levels. Given that revenues are not subject to weather-related fluctuation that could affect water and wastewater revenue levels, we anticipate revenue stability.

Related Research

USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008

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Revenue
New Issue

San Antonio, Texas

Ratings

New Issue

Municipal Drainage Utility System Revenue Bonds, Series 2005 .... A+

Outstanding Debt

Municipal Drainage Utility System Revenue Bonds .... A+

Rating Outlook .... Stable

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New Issue Details

$60,000,000 Municipal Drainage Utility System Revenue Bonds, Series 2005, are scheduled to sell on or about March 22 via negotiation to a syndicate managed by Siebert Brandford Shank. Dated April 1, 2005, the bonds will mature serially Feb. 1, 2006–2030. Bonds maturing on or after Feb. 1, 2015 are subject to optional redemption at par plus accrued interest on Feb. 1, 2014 or any date thereafter.

Purpose: Bond proceeds will be used to finance the cost of drainage improvements, including acquisition, construction, and repair of structures, equipment, and facilities for the system.

■ Outlook

The 'A+' rating reflects San Antonio's sound projected debt service coverage, strong stormwater fee collections profile, and anticipated stormwater fund balance increases. Also reflected are the adequate legal provisions, including a lenient reserve requirement, and the expectation of limited future borrowing without corresponding increases in the stormwater fee. Through city council action in December 2004, the storm water drainage service fee was increased by 19% to accommodate the debt service on this issuance, as well as provide for some regional stormwater projects. Through the 30% fee increase passed in the fiscal 2003 budget and implementation of operational efficiencies, the fund balance for stormwater operations increased by more than $4.4 million by the end of fiscal 2003. This will provide sufficient liquidity if the need arises. Additionally, the fee is collected along with the water and wastewater fees and is based on the type of customer and lot size, resulting in a very reliable revenue stream.

■ Rating Considerations

The stormwater system was created in 1997 as a public utility to provide the city with a funding source to comply with federal Environmental Protection Agency-mandated stormwater and operation and maintenance (O&M) requirements. Operational functions include vegetation control, river maintenance, street sweeping, and tunnel maintenance. The operating budget for fiscal 2005 is $18.8 million, and the appropriation for system transfers to the general fund is about $1.4 million.

The fee increase is projected to raise $5 million in revenue, 60% of which will be used for debt service, with the remainder dedicated to operational improvements. The stormwater fund balance increased by more than $4.4 million at the end of fiscal 2003 from approximately $100,000. Using unaudited fiscal 2004 revenues and expenditures, net revenues provide 1.4 times (x) coverage of annual debt service. Level debt service is anticipated throughout the life of this issue, with only one interest payment in this fiscal year, providing the opportunity to raise the fund balance. Fiscal 2005 budgeted gross revenues provide 3.6x coverage of maximum annual debt service, with net revenues providing 1.3x coverage of annual debt service. Development impact fees are also collected; however, they are segregated in a separate fund and used primarily for capital projects.

The city is a partner in an interlocal agreement for a regional flood control program, along with Bexar County and the San Antonio River Authority. The purpose of the agreement is to collaborate with municipalities, military bases, and local, regional, state, and federal agencies to provide regional management of a unified flood control, drainage, and stormwater quality program. As part of the alliance, responsibilities of each partner are still being formulated, including capital project funding.

The regional capital improvement plan (CIP) will prioritize projects based on benefits, available funding, and equity. Additionally, the city has authorized general obligation debt, which will fund drainage projects, similar to past practice. The city's six-year CIP identifies $99.3 million in drainage projects, which contemplate funding through this issuance and through proceeds from tax-supported bond sales. By virtue of raising the drainage fee in December 2004, the city will be able to fund approximately $60 million in projects, including 11 high-priority projects, as opposed to the $32 million included in the CIP. City officials have stated that any future drainage utility system revenue debt issuances of any consequence will be accompanied by a corresponding fee increase.

Through an interlocal contract, the San Antonio Water System (SAWS) bills and collects the stormwater drainage fee on behalf of the city. Each property that receives a water service bill also receives a drainage bill. Approximately 90% of all SAWS customers are residential. Residential customers pay either $33.36 or $44.16 annually for drainage service, depending on lot size. Given this low annual charge, rate flexibility for future needs also is a positive rating factor.

Security provisions include a rate covenant that will produce revenues equal to 1.25x annual debt service, O&M expenses, and any other indebtedness payable from pledged revenues. The additional bonds test calls for revenues for the most recent completed fiscal year or 12 consecutive months out of the immediately preceding 18 months to be at least equal to average annual debt service (AADS). The flow of funds, in priority order, is to debt service, O&M expenses, the reserve requirement, and then any lawful purpose. The reserve requirement is AADS; however, the requirement is waived in each year revenues are at least 1.75x AADS. The city also covenants to discontinue water and sewer services to any user that is delinquent in the payment of drainage charges.

■ Strengths

- Stable revenue stream that will grow steadily and is not likely to fluctuate.
- Low drainage service fee, which allows for future rate increases, if needed.
- Sound liquidity level anticipated in the stormwater fund at the end of fiscal 2003.
- No significant additional leveraging of the drainage fee expected without corresponding rate increases.

■ Risks

- Undetermined level of drainage capital needs and city responsibility associated with regional flood control plan.
- Debt service reserve requirement waiver as long as revenues equal at least 1.75x AADS.

■ Security Provisions

The bonds are special obligations of the system payable solely from and secured by a first lien on and pledge of revenues of the system. The city covenants to discontinue water and sewer services to any user that is delinquent in the payment of drainage charges.

Pledged Revenues: Pledged revenues are a first lien on revenues derived from the operation and ownership of the municipal drainage system, including interest income on accounts.

Rate Covenant: The city stipulates and agrees to establish, maintain, and impose charges for facilities and services reasonably expected to produce revenues sufficient to pay parity debt service and fund reserve requirements, O&M expenses, and an amount equal to 1.25x AADS requirements on parity debt, as well as to pay all other indebtedness payable from and secured by pledged revenues.

Additional Bonds: Additional bonds are authorized subject to a certification from the director or city manager that the city is not in default as to any covenant, obligation, or agreement and all payments into special funds maintained for payment and security of parity obligations have been made. Additionally, revenues for the most recent completed fiscal year or 12 consecutive months out of the 18 months immediately preceding the issuance of additional bonds must be at least equal to 1.25x AADS. A change in charges for services effective for at least 60 days prior to the last day of the period for which revenues are determined may be considered in the test calculation. Also, obligations payable from and secured by a lien on and pledge of net revenues of the system, junior and subordinate to prior lien obligations, are authorized.

Flow of Funds: In priority order, all revenues deposited into the system fund are pledged and appropriated to debt service payments, O&M expenses, amounts required to be in the reserve, and any lawful purpose, including transfer to the city's general fund.

Reserve Requirement: The reserve amount must equal AADS, funded in monthly installments in an amount equal to at least $^1/_{60}$ of the requirement. The reserve requirement is waived for each fiscal year that revenues are at least equal to 1.75x AADS. Should revenues be less than this threshold, the reserve requirement must be fully funded within two years.

■ Municipal Drainage Utility System

The system serves the city's boundaries and its unincorporated extraterritorial jurisdiction. As a public utility, the city may bill for drainage services along with other municipal utility billings. The stormwater drainage fee is a separate charge against lots and tracts of property that benefit from services. The system is a special revenue fund that provides for the O&M requirements of the city. The rate increase was passed to provide funding for capital projects and operational improvements.

Through an interlocal contract, the fee is collected monthly by SAWS from its customers based on the square footage of the lot or tract and the customer class according to a fee schedule. SAWS is the predominant water service provider in Bexar County, serving more than 306,900 customers representing more than 80% of the water utility customers in the county. SAWS is then reimbursed for its expenses associated with billing, collecting, and accounting. There are four categories of customer classes, with varying tier levels within each class. Customer classes include residential, multifamily, commercial, and public. Future rate increases will be dependent on the levels of revenue debt project financing, pay-as-you-go project funding, and O&M requirements.

STANDARD & POOR'S PUBLIC FINANCE

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City of San Antonio, Texas

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Credit Profile
US$59.275 mil Municipal Drainage Utility System Revenue Bonds, Series 2005 dtd 04/01/2005 due 02/01/2030
AA-
Sale date: 22-MAR-2005

AFFIRMED
Outstanding Municipal Drainage Utility System Revenue Bonds, Various Series
AAA / AA- (SPUR)

OUTLOOK:
STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating, and stable outlook, to San Antonio, Texas' series 2005 municipal drainage utility system revenue bonds.

The rating reflects the system's:

- Broad, diversified, and growing service area;
- Sound financial performance over the past several years;
- Demonstrated willingness to adjust rates, though overall rates remain low; and
- Economies of scale in the implementation of some functions of the drainage utility in conjunction with San Antonio Water System (SAWS) ('AA-' senior-lien revenue bond rating).

The San Antonio MSA's average wealth and income levels moderate these strengths.

A first-lien gross revenue pledge on the storm water system secures the bonds. Officials will use bond proceeds to finance improvements and extensions to the existing system. A debt service reserve in the amount of average annual debt service provides additional security, but the reserve does not have to be funded as long as annual debt service coverage (DSC) remains at least 1.75x. While the rate covenant is a moderate 1.25x average annual debt service, annual DSC has been significantly higher; and management is projecting future DSC to remain at similar levels.

Located in Bexar County, about 75 miles south of Austin, Texas, the San Antonio MSA has a population of 1.3 million, making it one of the nation's 10 leading MSAs. San Antonio's assessed value (AV) growth remains strong; AV has grown by an average of 7% annually over the past five years to $46.7 billion in fiscal 2005. The services and trade sectors continue to experience the strongest growth. Medical and biomedical industries account for the largest part of the city's economy, contributing $11.9 billion to the area as a whole. Expansions continue at South Texas Medical Center, which is the city's leading employer with almost 29,000 employees. San Antonio's unemployment, which has decreased to about 5.6%, remains below state and national levels.

The storm water fund's financial position remains sound. Service rates are low, remaining below $4 monthly for residential services even after a 23.5% rate increase in 2005. Based on audited 2003 results, management is forecasting a maximum annual debt service (MADS) coverage at 3x. Furthermore, liquidity was sound with about 342 days' unrestricted cash and equivalents on hand in fiscal 2003. Fiscal 2004 unaudited results reflect an improvement in MADS coverage to 3.3x. Officials expect recently adopted rate increases to improve MADS coverage to about 3.8x. Although responsibility for the storm water system ultimately rests with San Antonio ('AA+' GO debt rating), SAWS provides some services as part of an interlocal agreement, including monitoring and customer billing. Because the storm water fee is included in the water and sewer bill, collection rates are extremely high. The city coordinates the development of its capital program with other jurisdictions in the area, including Bexar County and San Antonio River Authority. A recent study estimated the San Antonio MSA's regional drainage needs at roughly $700 million. While the city does not have specific plans to issue additional drainage revenue bonds in the near future, the issuance of additional debt within the next five years is likely given the region's current identified drainage needs.

Outlook

The stable outlook reflects the expectation that the rate structure will generate sufficient revenues for the city to meet its debt service and operational requirements and that any future debt will be manageable.

The Drainage Utility

In fiscal 1998, San Antonio established the drainage utility as a special revenue fund. SAWS and the Texas Department of Transportation's San Antonio regional office, as copermittees under the National Pollution Discharge Elimination System, are responsible for storm water runoff management and quality control. While the ultimate responsibility of the drainage utility rests with the city, including rate-setting authority, SAWS' performance of such functions as testing and monitoring, billing, and inspections realize economies of scale. The city reimburses the system for any costs incurred by SAWS during the course of its responsibilities, but the revenue stream generated by the drainage utility can only be pledged to the utility's debt. To further offset some growth-related capital costs, the drainage utility also established a fee-in-lieu-of-detention pond, which is akin to an impact fee, levied against land developers. The drainage utility's generated combined revenues have allowed it to fund roughly $16 million of drainage improvements annually; such costs, however, are subordinate to debt service on these bonds and any future parity bonds. Additional bonds could be issued with at least 1.25x average annual DSC, but any additional near-future debt should be manageable given the utility's healthy financial condition.

Service Area Economy

San Antonio is in south-central Texas, about 75 miles south of Austin and 150 miles north of the Mexican border. According to U.S. Census estimates for 2003, San Antonio is the nation's ninth-largest city and the state's third-largest city. Although wealth levels remain slightly below the national average, they have consistently increased at a faster rate than national levels. Growth in median household effective buying income from 1998-2003 reached 9.4% compared with the state's 4.5% and the nation's 1.1%. Therefore, median household effective buying income is now at 97% of the nation's average, up from 89% in 1998. To support this upward trend in income growth, management has focused its economic development efforts to attracting industries in the biotechnology and health care, aerospace, telecommunications, IT, logistics and transportation, tourism, and automotive manufacturing sectors. City officials estimate that total employment in these targeted industries will be nearly 275,000.

San Antonio's property tax base is diversified: The 10 leading property taxpayers account for about 5% of total AV. H.E. Butt Grocery Co., the leading taxpayer, accounts for just 1.2% of total AV. Tourism and convention traffic remain strong. Hotel room nights have increased by a cumulative 12% over the past five years.

San Antonio's access to Mexico promotes strong international trade and tourism, creating further economic diversity. Government, specifically the military, remains a large component of the economy with five military bases in the city. Although Kelly Air Force Base officially closed as a military installation in July 2001, city officials have worked at privatizing the base to prevent job losses. To date, 7,400 military jobs have been retained and 5,200 private sector jobs have been created. City officials expect this second phase of development to generate an additional 6,400 jobs and increase Kelly's economic effect on the local economy to $4.3 billion annually.

In September 2003, the U.S. Army designated Fort Sam Houston in San Antonio as the new location for the U.S. Army's Southern Command Center, creating about 500 jobs and an annual economic effect of roughly $200 million. In light of the upcoming base realignment and closure round scheduled for 2005, city officials have established a task force to implement a strategy to avoid base closures.

San Antonio won its bid for a new Toyota Motor Corp. truck plant to be built on land south of the downtown area. Toyota management has scheduled the plant to go on-line at the end of 2005. The city's economy will benefit from various aspects of the project, including roughly $800 million of capital investment from Toyota. City management expects this project to create about 2,100 construction jobs. Toyota's management is forecasting the plant, once at full operation, will produce 150,000 units of its Tundra pickup truck annually. City officials expect the project to create about 2,000 manufacturing jobs and an additional 5,300 spin-off jobs in the area. The city recently issued contract revenue bonds through Starbright Industrial Development Corp. to finance land acquisition and fund other costs associated with the project; San Antonio will pay debt service on the bonds solely through revenues the city pledges from the funds it receives from city public services. City management will create a three-year limited-purpose district for the site with the expectation that the district will annex this land at the end of that period. The city is also planning a new site for Texas A&M University as part of its southside initiative.

To encourage the redevelopment of inner-city neighborhoods, San Antonio officials have implemented eight neighborhood commercial revitalization programs that have attracted an estimated $54 million of private investment and 1,741 new jobs.

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