FITCH RATES SAN ANTONIO, TX'S GOLT BONDS 'AA+' & LEASE REV BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-Austin-01 March 2010: Fitch rates San Antonio, TX's bonds as follows:

--$146.1 million general improvement refunding bonds, series 2010, 'AA+';
--$8.9 million municipal facilities corporation lease revenue refunding bonds, series 2010 (development and business services center project), 'AA'.

The bonds are expected to sell via negotiation during the week of March 1, 2010.

In addition, Fitch affirms the following ratings:

--$1,099.4 million in outstanding San Antonio, TX limited tax bonds at 'AA+'.

The Rating Outlook is Stable.

RATING RATIONALE:

--The city's favorable financial performance has been aided by management's focus on increasing efficiency and conservative budgeting, enabling the city to preserve its progress in implementing its enhanced financial reserve policies during the economic slowdown.
--The city's favorable debt profile is characterized by its low direct debt burden, rapid pay out, and ample debt service capacity within the current tax rate.
--The legal provisions of the lease revenue bonds are sound and the leased asset is essential to city operations.
--The city's capital plan is aggressive but will allow the city to address its sizeable deferred capital needs.
--The city's population growth remains rapid, aided by affordable home prices and ample developable land, which until recently was fueling solid property tax base growth.
--Although the local economy has diversified notably, the military remains a major economic factor and will remain so given very large ongoing investments and planned additions to troop strength.
--The contraction of the local economy has moderated somewhat as growth in government employment offsets other sector losses, assisting in keeping the city's unemployment rate well below state and national averages.
--Residential building activity has declined significantly although non-residential activity has remained stable due to numerous major projects in the military, healthcare, higher education, and professional business and services sectors; additionally, the area's housing market remains relatively healthy as evidenced by only modest home price declines.

RATING DRIVERS:

--The maintenance of solid financial reserves, aided by the continued attention to cost controls, is key to preserving credit quality.
--The stabilization of the city's sizeable residential taxable values is an important factor in maintaining its favorable taxing flexibility and financial resilience.

SECURITY:

The permanent improvement refunding bonds are secured by an annual property tax levy, limited to $2.50 per $100 taxable assessed valuation (TAV). The municipal facilities corporation lease revenue refunding bonds are secured by annually appropriated lease payments made by the city to the corporation; additionally, the trustee has been granted a mortgage interest on the leased asset.

CREDIT SUMMARY:

The city's financial profile remains solid as evidenced by the maintenance of unreserved fund balances in excess of 20% since fiscal 2006, enabled by previously strong sales tax growth and positive City Public Service (CPS - electric and gas utility rated 'AA+' by Fitch) transfer trends, along with management's aggressive cost controls in the form of annual personnel reductions. After growing by a five-year annual average of over 7%, sales taxes declined by 4.7% in fiscal 2009 due to the economic slowdown. Similarly, CPS transfers decreased by over 10% in the same period due to the substantial decline in natural gas prices, which impacted CPS' gross revenues and transfer amounts. Management's prompt mid-year budget adjustment enabled the city to close the resulting $49 million budget gap as reflected in its unaudited results which actually show a modest surplus. Notably, in fiscal 2009, the city also added $15.5 million to its dedicated cushion, the reserve for revenue loss, increasing it to 9% of appropriations. The city's goal to increase its dedicated reserves to 10% of spending by fiscal 2010 has been delayed but remains steady at 9% despite projected revenue sluggishness. The fiscal 2010 budget was adopted as balanced after cutting another $19 million primarily from staffing expenditures in response to very modest TAV growth and conservative assumptions of sales tax and CPS transfer trends. Subsequent CPS rate increases and greater than anticipated carry-over from fiscal 2009 should allow the city to offset modest year-to-date sales tax shortfalls.

After growing by a five-year annual average of 10.3%, taxable values grew by under 1% in fiscal 2010, the result of declines in base valuations totaling 1.9%, netted against a 2.7% increase resulting from $1.9 billion in new improvements. Preliminary projections indicate fiscal 2011 may also post declines in base valuations. However, value from new construction is projected to more than offset any losses, resulting in modest net growth. The city's top 10 taxpayers comprise a modest 5% of TAV.

In late 2008, the city issued the second installment of a $550 million authorization approved by voters in May 2007, the largest in the city's history. Intended to address the city's large deferred capital needs, the administration is proposing to seek voter authorization for similar-sized programs every five years. All future debt will be sized to maintain the city's current debt service tax rate assuming modest tax base growth.

The impact of the proposed debt plans on the city's direct debt profile should be manageable given its low current levels, rapid pay out rate, and expansive and growing tax base. However, the city's already high overall debt burden may become burdensome, even after adjusting for state support of local school district debt. The principal payout rate for property tax-backed debt is above average at almost 70% in 10 years, and debt service payments represent an above average 14% of combined general and debt service fund expenditures in fiscal 2008.

San Antonio is the second largest city in the state and seventh largest in the U.S., according to census information, with an estimated population of 1.3 million for 2009. Prominent sectors in the local economy are military and government employment, domestic and international trade, convention and tourism, medical and health care, financial services, and telecommunications. The economic slowdown has impacted local employment levels as evidenced by a growing unemployment rate that totaled 6.8% in December 2009. Nevertheless, the city's unemployment rate still compares favorably to state and national averages of 8% and 9.7%, respectively for the same period. Major near-term job growth is expected from the relocation of Toyota's Tacoma production from California and the construction of the $2.1 billion San Antonio Military Medical Center which will receive nearly 5,000 additional troops and 9,000 additional students per year.

Applicable criteria available on Fitch's web site at 'www.fitchratings.com' include:

--'Tax-Supported Rating Criteria,' dated Dec. 21, 2009.
--'U.S. Local Government Tax-Supported Rating Criteria,' dated Dec. 21, 2009.

Contact: Jose Acosta +1-512-215-3726 or Gabriela Gutierrez +1-512-215-3731, Austin.

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at www.fitchratings.com.

STANDARD & POOR'S

PUBLIC FINANCE

City of San Antonio, Texas

***Primary Credit Analysts*:**
Horacio Aldrete-Sanchez
Dallas
(1) 214-871-1426
horacio_aldrete@
standardandpoors.com

***Secondary Credit Analysts*:**
Jennifer Garza
Dallas
(1) 214-871-1422
jennifer_garza@
standardandpoors.com

RatingsDirect Publication Date
March 3, 2010

Credit Profile		
US$146.145 mil General Improvement Refunding Bonds, Series 2010 dated 03/01/2010, due 02/01/2023		
Long Term Rating	AAA/Stable	New
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' rating and stable outlook to San Antonio, Texas' series 2010 general improvement refunding bonds. In addition, Standard & Poor's affirmed its 'AAA' rating on the city's general obligation (GO) debt outstanding. The outlook on all ratings is stable.

The ratings reflect our assessment of the city's:

- Deep and increasingly diverse economy, which has allowed management to successfully manage the city's operations through previous economic cycles;
- Strong financial management policies, which include a comprehensive long-term financial and capital program;
- Very strong financial performance and position; and
- Moderately high overall debt burden.

The city's ad valorem property pledge secures the bonds. Proceeds from the series 2010 bonds will refund a portion of the city's GO debt outstanding.

San Antonio, with about 1.3 million residents, is Bexar County's seat and the nation's seventh-largest city. San Antonio continues to experience sustained growth in the manufacturing, tourism, and services sectors. While the military continues to be a key sector of the local economy, the opening of a Toyota Corp. manufacturing plant, along with several facilities in the IT and health care sectors, has contributed to a growing diversity in employment opportunities and a significantly deeper economic base. Despite a slowdown in new construction, assessed valuation (AV) growth remained healthy in fiscal 2010, increasing by 0.9% from fiscal 2009 AV. The city's total AV is now slightly above $73 billion, up approximately 46.7% in the past five years. The city's employment base has exhibited, in our opinion, significant stability throughout the current recession, as evidenced by its 6.8% unemployment rate in December 2009, which remained significantly below the state and national averages.

In our opinion, San Antonio's financial position remains very strong. In fiscal 2008, the city reported an operating surplus of about $120.2 million, and an overall surplus (after $93.7 million in transfers to other funds) of $45.2 million. The unreserved general fund balance reached $190.7 million, or a very strong, in our view, 25.8% of expenditures, at fiscal year-end 2008. Unaudited figures for fiscal 2009 reflect a year-end unreserved general fund balance of $190 million, or 24.8% of expenditures, which we consider very strong. For fiscal 2010, city management was able to close a projected $11 million revenue shortfall by implementing a 5% budget reduction and eliminating approximately 330 positions from the budget.

San Antonio's financial management practices are considered "strong" under Standard & Poor's financial management assessment (FMA) methodology, indicating practices are strong, well embedded, and likely sustainable. The city's use of extensive long-range financial and capital planning, coupled with the adoption of strict reserve and expenditure control measures, is key to the "strong" assessment.

We consider overall net debt moderate at about $4,090 per capita and 8.3% of market value. These figures include the city's overlapping debt, which consists primarily of school district debt that receives significant support for debt service payments from the state's supplemental aid programs. Debt service carrying charges are moderately high, in our view, at 120.5% of total governmental funds expenditures. In May 2007, the electorate approved by an ample margin the city's $550 million bond program, which is the largest bond program San Antonio has managed to date. The bulk of the bond program will address street and drainage needs. The city currently has $364 million of authorized and unissued bonds, which we understand management plans to issue in various installments over the next few years.

Outlook

The stable outlook reflects our assessment of San Antonio's expanding and increasingly diverse property tax base, solid financial performance, and growing level of general fund reserves, which we believe should allow management to successfully develop its capital program and growing service delivery needs. The continued diversification of the city's economic and employment base, coupled with a steady increase in household wealth and income levels provides additional stability to the rating.

Finances: Strong Performance, Growing Reserves

In our view, San Antonio's financial performance remains strong, despite an anticipated revenue shortfall in fiscal 2010. In fiscal 2010 city management successfully closed a projected $11 million budget shortfall by reducing the overall budget by 5% relative to the fiscal 2009 budget. The cuts implemented included the elimination of 330 positions in the budget; however, no employee was laid off as a result of these cuts. The city was able to adopt a balanced 2010 budget while reducing the property tax rate by 2/10ths of one cent. The budget also includes a projected reduction in sales tax collections of 6.5% relative to the fiscal 2009 budget. For the first quarter of fiscal 2010, sales tax collections were $900,000 (6.9% on average) below fiscal 2009 levels.

As it has been management's practice for the last two years, city staff prepared a two-year budget outlook, which includes fiscals 2010 and 2011. The projections for fiscal 2011 include another anticipated gap of approximately $11 million, which the city council will need to address once the budget is adopted later this year. However, management has already identified potential reductions to address the anticipated budget gap. Both the fiscal 2010 budget and the projected fiscal 2011 budget maintain the city's contingency reserves at the adopted policy of 10% of budget.

The general fund continues to rely on contributions from the city's electric utility (San Antonio City Public Service, AA/Stable), which is the largest source of general fund revenue and accounted for about 35% of total general fund revenues in fiscal 2008. Although the utility has moved into a deregulated environment, its favorable and competitive position mitigates concerns over the city's dependence on this transfer. The maximum amount in cash to be transferred to the city's general fund from the net revenues of CPS Energy cannot exceed 14% of the gross revenues of the utility, less the value of gas and electric services used by the city for municipal purposes and street lighting system.

Capital Improvement Program: Needs Are Significant

Management has identified about $2.2 billion in capital needs to be funded over the next 15 years. The $550 million bond program authorized by the voters in May 2007 will address a portion of these needs without requiring a tax rate increase. We understand that management intends to fund the remainder of its identified capital needs through a combination of non-voter authorized certificates of obligation and future potential bond elections.

The 2007 bond program will fund the following capital projects:

- $306.9 million for streets, bridges, and sidewalks improvements (43 projects);
- $152 million for drainage improvements (26 projects);
- $79.1 million for parks, recreation, open space, and athletics improvements (69 projects);
- $11 million for library improvements (11 projects); and
- $800,000 for public health facilities (2 projects).

City management anticipates issuing the remaining $440 million in authorized bonds over the next four years: $115 million in fiscal 2010, $168 million in fiscal 2011, and $80.6 million in fiscal 2012. In addition, city officials plan to continue to supplement its bond program with the issuance of tax notes and certificates of obligation, including approximately $222 million through fiscal 2012, $57 million from fiscals 2013 through 2017, and $45 million for fiscals 2018 through 2022. The certificates of obligation will fund fire station improvements, streets, libraries, and other capital improvements. Future bond elections are planned for fall 2012 (approximately $596 million), and fall 2017 (approximately $550 million).

Financial Management Assessment: 'Strong'

San Antonio's financial management practices are considered "strong" under Standard & Poor's FMA methodology, indicating practices are strong, well embedded, and likely sustainable.

State statutes and internally developed policies guide long-term financial and capital planning, debt management, and investing. In addition to its internal resources, San Antonio's revenue estimates for budget forecasting have been based on a number of outside data sources and economic forecasting firms. Furthermore, budget priorities incorporate considerable input from the city's residents, developed through open-budget sessions. Officials prepare monthly revenue and expenditure reports measured against the budget. As well, city officials are implementing a new budget and financial operating system that will allow a more timely and efficient tracking of the city's financial operations. Management annually prepares a five-year financial forecast that is linked to the annual operating and capital budget. Investment of city funds is based on the city's investment policy, which complies with stringent state statutes. Dedicated staff monitor investments and generate reports monthly.

San Antonio's reserve policy requires the city to achieve reserves of at least 10% of general fund expenditures by fiscal 2010. Although the city does not have a formal debt management policy, officials closely evaluate and monitor debt issuance. Management evaluates several key variables that guide its issuance of debt, including the tax rate's stability, a 20-year maturity profile, and an average life of between seven and nine years for debt.

The city has not entered into derivatives to hedge its GO debt outstanding, and we understand that management plans to develop a swap management policy before considering the use of derivatives.

Pension And Other Postemployment Benefits Liabilities: The City Will Adopt GASB 45

San Antonio provides two pension benefit plans to its employees: the Texas Municipal Retirement System (TMRS) and the Fire and Police Pension Fund. The city conducts an annual actuarial valuation on both funds. Based on these actuarial valuations, the unfunded actuarial accrued liability (UAAL) of the fire and police pension plan as of Oct. 1, 2007, was $183 million. The TMRS' UAAL as of Dec. 31, 2007, was $317.7 million.

In addition to pension benefits, the city provides all retired employees with certain health benefits under two post-employment retirement benefit programs.

The first program provides benefits for all non-uniformed city retirees and for all pre-Oct. 1, 1989, uniformed (fire and police) retirees. Based on a recently completed actuarial valuation, as of Jan. 1, 2006, the UAAL was projected at $581.3 million. Based on a review, the city made certain changes to the retirement health plan that were approved on Sept. 7, 2006, as a component of the city's fiscal 2007 adopted budget. These changes resulted in a reduction of the UAAL from $581.3 million to approximately $400 million. Further changes to the eligibility requirement were made in fiscal 2008, which reduced the city's unfunded liability to $258 million.

The second program provides retirement healthcare benefits to the city's fire fighters and police officers who retired on or after Oct. 1, 1989. The benefits of this plan are financed on a prefunded basis. A 2007 actuarial study indicated that the UAAL was $325 million. However, the program does not have a short-term financing problem. As of Sept. 30, 2007, the plan had net assets available for postemployment health benefits of $198 million while benefits payments for fiscal 2007 were $15 million.

Although House Bill 2365 gives local governments in Texas the option to not comply with Governmental Accounting Standards Board Statement 45 (GASB 45), management has decide to adopt GASB 45 and will report its unfunded OPEB liability as part of its fiscal 2008 audit report.

Related Research

USPF Criteria: GO Debt, Oct. 12, 2006