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.

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RatingsDirect
Publication Date
March 2, 2010

Credit Profile		
US$8.955 mil Lease Revenue Refunding Bonds (Development and Business Services Center Project), Series 2010		
Long Term Rating	AA+/Stable	New
Outstanding Lease Revenue Bonds, Series 2001		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to San Antonio Municipal Facility Corp., Texas' series 2010 lease revenue refunding bonds. The outlook is stable.

The 'AA+' rating reflects our view of:

- The general creditworthiness of the city of San Antonio ('AAA' GO debt rating),
- The lease payments to be made from the annual appropriation of the city, and
- A stable and diversified economic base

Ongoing lease payments by the city to the municipal facilities corporation, a not-for-profit corporation, secure the bonds. A debt service reserve funded at one-half of average annual debt service on the bonds provides further bond security. Lease payments are made based on an annual appropriation of the city from legally available general fund revenues as an ongoing obligation of the city for the lease term. Officials will use bond proceeds to refund a portion of the corporation's series 2001 bonds, which funded the acquisition and construction of a municipal office facility known as One Stop Development Services Center, which provides information and services to the private sector.

(For more information on San Antonio's GO rating, please read our most recent report, published Dec. 2, 2008 on RatingsDirect.)

Outlook

The stable outlook reflects our view of San Antonio's expanding and increasingly diverse property tax base, solid financial performance, and growing level of general fund reserves, which 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.

Related Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007