STANDARD & POOR'S
RATINGS SERVICES
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Summary:

San Antonio, Texas; Appropriations; General Obligation

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Summary:

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Credit Profile		
US$339.615 mil gen imp and rfdg bnds ser 2015 dtd 07/01/2015 due 02/01/2035		
Long Term Rating	AAA/Stable	New
US$43.94 mil comb tax and rev certs of oblig ser 2015 dtd 07/01/2015 due 02/01/2035		
Long Term Rating	AAA/Stable	New
US$36.93 mil comb tax and rev certs of oblig ser 2015 dtd 07/01/2015 due 02/01/2035		
Long Term Rating	AAA/Stable	New
US$4.845 mil tax nts ser 2015 dtd 07/01/2015 due 02/01/2018		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to San Antonio, Texas' series 2015 general improvement and refunding bonds, series 2015 combination tax and revenue certificates of obligation, taxable series 2015 combination tax and revenue certificates of obligation, and series 2015 tax notes. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's general obligation (GO) debt outstanding and its 'AA+' rating and SPUR on San Antonio Municipal Facilities Corp. debt, issued for the city. The outlook is stable.

The bonds, certificates, and notes are secured by the city's levy of an annual ad valorem tax on all taxable property in the city. The maximum allowable rate in the state of Texas is $2.50 per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to $1.50. The city's levy is well below the maximum, at 56.569 cents, 21.15 of which is dedicated to debt service. Additional security for the certificates is provided by a pledge of the city's surplus net revenues from its municipal parks system not to exceed $1,000. Proceeds from the four issuances will be used primarily to fund various capital projects.

The ratings reflect our assessment of the following factors of the city:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2014, which closed with an operating surplus in the general fund but an operating deficit at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash of 24.4% of total governmental fund expenditures and

1.9x governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability position, with debt service carrying charges of 13.0% of expenditures and net direct debt that is 159.4% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider San Antonio's economy strong. The city, with an estimated population of 1.4 million, is located in Bexar and Medina counties in the San Antonio-New Braunfels, Texas MSA, which we consider to be broad and diverse. The city also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 84.0% of the national level and per capita market value of $56,977. Overall, the city's market value grew by 6.9% over the past year to $79.8 billion in 2015. The weight-averaged unemployment rate of the counties was 4.6% in 2014.

With more than 1.4 million residents, San Antonio is Bexar County's seat and the nation's seventh-largest city. The major military installations in the city continue provide a stabilizing presence for the economy. The city continues to experience sustained growth in the manufacturing, tourism, and services sectors. More than 4,700 new jobs have been added during the past year. During the past few years, several new companies have moved to and around the city to participate in the Eagle Ford Shale play, which has boosted both taxable values and jobs for the city. Even with the recent declines in oil prices, the city is not expecting a negative impact as it expects to reabsorb any jobs lost into other areas around the city.

City officials reported that permitting activity continues to increase and that construction is ongoing. Redevelopment of the city's downtown has been a major project for the city, with a goal of having 7,500 housing units downtown by 2020; at this point, more than 4,000 units have been completed. The first major grocery store for downtown is due to open December 2015, which will likely help this growth to continue. The city has also been in the process of a $325 million expansion and renovation of its convention center downtown, with construction expected to be completed by spring 2016.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Strengths of the assessment, in our opinion, include the city's use of conservative revenue and expenditure assumptions in its budgeting process, strong oversight of budget-to-actual results during the year, monthly budget-to-actual reporting to the city council, ability to amend the budget as needed, formal investment policy with quarterly updates to the council, five-year rolling capital improvement plan, and extensive five-year financial plan. The city recently revised its formal reserve policy to require the maintenance of at least 10% of operating expenditures (up from 9%) in reserve.

Strong budgetary performance

San Antonio's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 3.5% of expenditures, but a deficit result across all governmental funds of 5.4% in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could improve from 2014 results in the near term.

We have adjusted the city's total governmental revenues and expenditures for significant one-time items such as the spending-down of previously deposited bond proceeds. Depending on the level of capital spending from year to year, the budgetary flexibility tends to fluctuate. Currently for fiscal 2015, the city is conservatively projecting a surplus in the general fund and no significant drawdown in the total governmental funds (net of bond proceed spending). As such, we expect the city's budgetary performance to be strong. The city budgets on a two-year basis and currently has no plans to significantly draw down on its reserves or materially alter its budget practices. It is common practice for the city to project budget gaps and work throughout the year to close them and maintain its historically strong financial position. The city plans to adopt the fiscal 2016 budget, which it expects to be balanced, by September.

The general fund continues to rely on contributions from the city's electric provider, City Public Service Energy; these utility revenues are the largest source of general fund revenue and accounted for about one-third of total general fund revenues in fiscal year 2014. Although the utility has moved into a deregulated environment, we believe that its favorable and competitive position mitigates the risks with the city's dependence on these payments.

Very strong budgetary flexibility

San Antonio's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 17% of operating expenditures, or $165.2 million.

The city conservatively projects ending fiscal 2015 with an available general fund balance of about $173 million, or about 17% of operating expenditures; however, city officials indicated that this estimate was very preliminary. Given the city's projections, coupled with a formal 10% reserve policy and a target of at least 15%, we do not expect the city's budgetary flexibility will deteriorate.

Very strong liquidity

In our opinion, San Antonio's liquidity is very strong, with total government available cash of 24.4% of total governmental fund expenditures and 1.9x governmental debt service in 2014. In our view, the city has exceptional access to external liquidity if necessary.

We expect the city's liquidity to remain very strong, based on the city's lack of plans to spend down cash and cash equivalents. While the state does allow for investments that we consider to be somewhat permissive, the city's investments all have maturities of less than one year, which we view as conservative.

Weak debt and contingent liability profile

In our view, San Antonio's debt and contingent liability profile is weak. Total governmental fund debt service is 13.0% of total governmental fund expenditures, and net direct debt is 159.4% of total governmental fund revenue.

The city currently has several future bond issuances planned for the next year, all of which are expected to be revenue bonds.

San Antonio's combined pension and otherpostemployment benefit (OPEB) contributions totaled 3.6% of total governmental fund expenditures in 2014. Of that amount, 1.8% represented contributions to pension obligations and 1.8% represented OPEB payments. The city made 100% of its annual required pension contribution in 2014.

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, 2014, was $209.9 million, which represented a 92.9% funded ratio. The city's UAAL related to the TMRS was $169.5 million as of Dec. 31, 2014, equivalent to an 87.8% funded ratio. The city also provides other postemployment health benefits to most retired employees through two programs, which it funds on a pay-as-you-go basis: one for civilian employees and uniform employee retiring prior to Sept. 30, 1989, and the other for those retirees eligible for Medicare. In addition, the city has an OPEB program for fire and police who retired after Sept. 30, 1989; this program has a funded ratio of 40.9%.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

San Antonio's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above the Sovereign: Corporate and Government Ratings--Methodology and Assumptions," U.S. local governments are considered to have moderate sensitivity to country risk. The city's general obligation pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the city. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management and no history of government intervention. San Antonio has considerable financial flexibility, as demonstrated by the very high fund general balance as a percentage of expenditures, as well as very strong liquidity.

Outlook

The stable outlook reflects our view of San Antonio's broad and diverse economy, strong budgetary performance, and very strong budgetary flexibility, which will likely allow management to continue to address its capital needs and meet growing service delivery needs. We do not expect to change the ratings within the two-year outlook time frame, given the continued diversification of the city's economic and employment base, coupled with the city's strong financial management practices. While unlikely, a material decrease in the city's economic indicators, or a decline in budgetary performance or flexibility, could place downward pressure on the ratings.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- USPF Criteria: Electric And Gas Utility Ratings, Dec. 16, 2014

- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments

Ratings Detail (As Of July 23, 2015)		
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
San Antonio Mun Facs Corp, Texas		
San Antonio, Texas		
San Antonio Mun Facs Corp (San Antonio) (Pub Safety Answering Point Proj)		
Long Term Rating	AA+/Stable	Affirmed
San Antonio (Mun Facs Corp) (Dev and Bus Svcs Ctr Proj)		
Long Term Rating	AA+/Stable	Affirmed
San Antonio Mun Fac Corp lse rev bnds		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
San Antonio Pub Facs Corp, Texas		
San Antonio, Texas		
San Antonio Pub Facs Corp (San Antonio) (Convention Center Refinancing and Expansion Proj)		
Long Term Rating	AA+/Stable	Affirmed
Starbright Indl Dev Corp, Texas		
San Antonio, Texas		
Starbright Indl Dev Corp (San Antonio)		
Long Term Rating	AA+/Stable	Affirmed
Starbright Indl Dev Corp (San Antonio) (Starbright Proj)		
Long Term Rating	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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San Antonio, Texas

Limited Tax Bonds and Notes

New Issue Report

Ratings

New Issues

General Improvement and Refunding Bonds, Series 2015	AAA
Combination Tax and Revenue Certificates of Obligation, Series 2015	AAA
Combination Tax and Revenue Certificates of Obligation, Taxable Series 2015	AAA
Tax Notes, Series 2015	AAA
Outstanding Debt	
Limited Tax Bonds	AAA

Rating Outlook

Stable

Related Research

Fitch Affirms San Antonio (TX) Water System CP Notes Series A at 'F1' and Series B at 'F1+' (July 2015)

Fitch Rates San Antonio (TX) Airport Special Facility Bonds 'BBB+'; Outlook Stable (July 2015)

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

Fitch Rates San Antonio, TX's Elec and Gas System Revenue Refunding Bonds 'AA+'; Outlook Stable (June 2015)

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New Issue Details

Sale Information: $339,615,000 General Improvement and Refunding Bonds, Series 2015, $36,930,000 Combination Tax and Revenue Certificates of Obligation, Series 2015, $43,940,000 Combination Tax and Revenue Certificates of Obligation, Taxable Series 2015, and $4,845,000 Tax Notes, Series 2015, via negotiated sale the week of July 27.

Security: An annual property tax levy, limited to $2.50 per $100 taxable assessed valuation. Certificates of obligation (COs) additionally payable from a nominal pledge of net revenues of San Antonio's municipal parks system (not to exceed $1,000).

Purpose: To finance various capital projects city-wide, refund outstanding bonds for interest cost savings, and pay issuance costs.

Final Maturity: General improvement and refunding bonds, COs, and taxable COs: Feb. 1, 2035; tax notes: Feb. 1, 2018.

Key Rating Drivers

Strong Financial Flexibility: San Antonio's financial performance has been pressured in recent years, although its reserves have remained solid. General operations returned to a net surplus position in fiscal 2014, modestly improving fund balance. The city's recently enhanced reserve policies and its two-year budget strategy, which is part of a longer fiscal planning horizon, are positive credit factors.

Mixed Debt Profile: The city's debt profile is mixed, characterized by a high overall debt burden, balanced against rapid, limited tax bond amortization and ample and growing debt service capacity within the current tax rate. The city's capital plan is aggressive but will allow the city to address its sizeable deferred capital needs.

Military Remains Key Sector: Although the local economy has diversified notably, the military remains a major economic factor. This is evidenced by very large recent investments and additions to troop strength resulting from base realignment and closure decisions that have benefited the city.

Expanding Economy, Tax Base: The recessionary contraction of the local economy has reversed course and the city's unemployment rate continues to be well below state and national averages. Population growth remains rapid, aided by affordable home prices and ample developable land. Taxable assessed valuation (TAV) gains continue to strengthen.

Rating Sensitivities

Material Shift in Finances: The rating is sensitive to shifts in key credit characteristics including the city's strong financial reserves. Significant reductions in reserves, even if planned, could result in negative rating pressure.

Rating History — Limited Tax Bonds

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	7/22/15
AAA	Affirmed	Stable	11/13/14
AAA	Affirmed	Stable	7/24/14
AAA	Affirmed	Stable	7/3/13
AAA	Affirmed	Stable	5/29/13
AAA	Affirmed	Stable	10/3/12
AAA	Affirmed	Stable	7/23/12
AAA	Affirmed	Stable	3/22/12
AAA	Affirmed	Stable	7/8/11
AAA	Affirmed	Stable	3/17/11
AAA	Affirmed	Stable	6/11/10
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	3/1/10
AA+	Affirmed	Stable	6/16/03
AA+	Upgraded	—	10/26/99
AA	Assigned	—	10/13/92

Credit Profile

San Antonio is the second largest city in the state and seventh largest in the U.S., with an estimated population of 1.4 million for 2015. Prominent sectors in the local economy are military and government employment, domestic and international trade, convention and tourism, medical and healthcare, financial services, and telecommunications.

Large Financial Reserves

The city's financial profile remains solid as evidenced by the maintenance of unreserved or unrestricted fund balances in excess of 18% of spending since fiscal 2006, well above its current 10% fund balance policy level. Additions to fund balance had been enabled by strong sales tax growth and positive CPS payment trends, along with management's aggressive cost controls in the form mainly of annual personnel reductions. However, in recent years the moderate planned use of reserves to balance budgets has reduced the city's financial cushion. Fitch's rating assumes any future planned drawdowns to be more modest.

Two-Year Budget Strategy

The city's two-year budget strategy, in which a portion of reserves in excess of its fund balance policy are designated for the next year's spending (the two-year reserve), has expanded its planning horizon. $35 million of such reserve was budgeted for use in fiscal 2014, equal to 3.5% of spending. However, the year's strong 8.45% general fund revenue gain, largely attributable to increased CPS (the city's electric and gas utility) revenue and fueled by a very cold winter and a rate increase, allowed the city to fully offset the planned use of the reserve allocation as well as outpace the year's 3.8% expenditure growth.

Strong sales tax receipts, which were up by approximately 8% in fiscal 2014, or roughly $18.6 million over fiscal 2013 actuals, also added to the year's robust fiscal performance. Sales tax revenues exceeded the budget's 3.5% growth assumption above the fiscal 2013 budgeted levels. As a result, fiscal 2014 operations produced a net surplus of $33.4 million (3.4% of spending). The fiscal 2014 unrestricted fund balance strengthened modestly to $212 million, or 21.4% of operating expenditures and transfers out. The positive performance allowed the city to maintain a portion of this fund balance, $88.2 million, as the city's 9% reserve and increase its two-year reserve to $63.3 million (equal to 6.4% of spending).

General Fund Financial Summary

($000, Audited Fiscal Years Ended Sept. 30)

	2010	2011	2012	2013	2014
Revenues	857,493	890,262	898,162	917,522	994,636
Expenditures	816,690	863,882	885,578	923,543	958,703
Operating Surplus/(Deficit)	**40,803**	**26,380**	**12,584**	**(6,021)**	**35,933**
Transfers In/Other Sources	36,581	14,603	18,877	17,341	27,699
Transfers Out/Other Uses	(54,255)	(39,113)	(47,640)	(42,669)	(30,201)
Net Operating Surplus/(Deficit) After Transfers	**23,129**	**1,870**	**(16,179)**	**(31,349)**	**33,431**
Total Fund Balance	229,636	232,692	216,513	185,164	218,595
As % of Expenditures, Transfers Out, and Other Uses	26.4	25.8	23.2	19.2	22.1
Unreserved/Unrestricted Fund Balance	199,110	226,646	209,710	178,208	212,059
As % of Expenditures, Transfers Out, and Other Uses	22.9	25.1	22.5	18.4	21.4

Note: Numbers may not add due to rounding.

Related Criteria

Tax-Supported Rating Criteria (August 2012)

U.S. State Government Tax-Supported Rating Criteria (August 2012)

Fiscal Years 2015 and 2016 Budgets

Budgeted general fund appropriations in fiscal 2015 grew by a manageable 6% to $1.05 billion due to increased public safety spending and enhanced funding for streets and capital projects. The budget was funded at the existing property tax rate, assumed sales tax receipts growth of 2.8% and CPS transfers declined by 3.2%, as well as planned use of the entire two-year reserve of $63.2 million over fiscal years 2015–2016.

Unaudited fiscal 2015 performance points to a very modest $8 million general fund surplus after closing the year's $16.4 million (or 1.7% of spending) budget gap. These results are again largely aided by improved actual revenue trends (inclusive of sales taxes) year to date that exceed conservative projections in addition to modest cost savings. The city's financial cushion is projected to remain strong and stable at year end, inclusive of the city's enhanced 10% financial reserve ($103 million) as well as the two-year reserve ($32.6 million equal to 3% of spending).

The fiscal 2016 operating budget is under development and presently estimated at $1.09 billion. Growth of 2%–9% from fiscal 2015 midyear estimates is projected in the city's three key revenue streams (CPS payments, sales, and property taxes) in support of the year's increased spending. Budgeted sources also include full use of the aforementioned $32.6 million two-year reserve, although Fitch notes the city's historical outperformance of its initial projections. The city expects to further enhance its financial reserve to 15% by year end (about $164 million) while establishing its two-year reserve at $54.7 million, equal to 5% of spending, for fiscal 2017.

Large Capital Needs

Voters approved a $596 million GO bond authorization in May 2012, the largest in the city's history. The bond authorization is intended to address the substantial deferred capital needs. According to management, all future debt will be sized and timed to maintain the city's current debt service tax rate assuming modest tax base growth. About $54 million in GO bond authorization remains after this issuance. The city plans to seek similarly sized authorizations every five years.

Overall Debt Profile Pressured

The impact of the 2012 bond program on the city's direct debt profile should be manageable given its generally declining debt service schedule expected to be maintained with this issuance, above average pay-out rate, and expansive, growing tax base. But the city's overall debt burden remains elevated at approximately $5,700 per capita and 8.8% of fiscal 2015 market value due to the presence of 12 overlapping school districts. The 10-year principal amortization rate for property tax-supported bonds is above average at 61%.

Well-Funded Pension Plans

Civilian and certain public safety employees participate in an agent multiple employer defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). Structural and actuarial changes to TMRS's valuation methodology approved at the state level significantly boosted the city's funded position in recent years, which remained sound and stable at 88% as of actuarial date Dec. 31, 2014. TMRS's valuation is based on a 7% discount rate which Fitch considers reasonable. Fire fighters and police participate in a single employer defined benefit pension plan which was similarly well-funded at an estimated 88.1% as of Oct. 1, 2014 using a Fitch-adjusted 7% investment return assumption.

Retiree health benefits for civilians are provided by the city and are funded on a pay-as-you-go basis. Retiree health benefits for fire fighters and police have been financed on a pre-funded basis since 1989, resulting in a notable funded position of 41% as of Oct. 1, 2014. The combined carrying costs for the city's tax-supported debt, pension, and other post-employment benefit obligations totaled a moderate 17.4% of fiscal 2014 governmental expenditures. Fitch notes that a healthcare and benefits taskforce has recommended that the city review public safety healthcare and retirement benefits for potential cost savings.

Military Still Key within Broad Economy

Recent employment gains have been led by the professional/business services and construction sectors. The city's job base was also expanded by energy sector employment from oil and gas activity within the nearby Eagle Ford Shale, although this has tapered recently given reduced activity as a result of lower oil prices. Nonetheless, the city's unemployment rate remained a low 3.5% in March 2015, which was down from the 4.8% level recorded a year prior. The city's unemployment rate compares favorably to state and national averages of 4.2% and 5.6%, respectively, for the same period.

After posting strong annual gains through fiscal 2009, the city's taxable values remained flat through fiscal 2013 as new improvement values were offset by reappraisal losses on existing properties. TAV rebounded with increases of approximately 5% and 7% in fiscal 2014 and 2015, respectively. Another strong 9.5% TAV gain is anticipated for fiscal 2016. Included in this assumption are the city's projections of annual new construction increasing taxable values from 1.5%–3.0% annually over fiscal years 2016–2020 which Fitch considers reasonable.

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