San Antonio, Texas

Limited Tax Bonds
New Issue Report

Ratings

New Issue

General Improvement Refunding Bonds, Series 2014	AAA
Outstanding Debt	
Limited Tax Bonds	AAA
Municipal Facilities Corporation Lease Revenue Bonds	AA+
Starbright Industrial Development Corporation Contract Revenue Bonds	AA+
Public Facilities Corporation Lease Revenue Bonds	AA

Rating Outlook

Stable

Related Research

San Antonio, Texas (July 2014)
San Antonio City Public Service, Texas (November 2014)
San Antonio, Texas (July 2013)

Analysts

Jose Acosta
+1 512 215-3726
jose.acosta@fitchratings.com

Rebecca Moses
+1 512 215-3739
rebecca.moses@fitchratings.com

New Issue Details

Sale Information: $53,690,000 General Improvement Refunding Bonds, Series 2014, expected to price via negotiated sale during the week of Nov. 17.

Security: Annual property tax levy, limited to $2.50 per $100 assessed valuation (AV).

Purpose: To refund outstanding debt for interest cost savings.

Final Maturity: Feb. 1, 2025.

Key Rating Drivers

Strong Financial Flexibility: San Antonio's financial performance has been pressured recently, although its reserves have remained solid. Fitch Ratings favorably views the city's recently enhanced reserve policies and its two-year budget strategy, which has expanded its planning horizon.

Mixed Debt Profile: The city's debt profile is mixed, characterized by a high overall debt burden, balanced against moderately 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 sizable 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.

Stable Economy: 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.

High Starbright Debt Service Coverage: CPS Energy (CPS; electric and gas system revenue bonds rated 'AA+' by Fitch) payments to the city provide very high debt service coverage for the Starbright Industrial Development Corporation's contract revenue bonds.

PFC Lease Revenue Bond Differential: Although important to the city's economy, the leased asset (the convention center) financed by the city's Public Facilities Corporation (PFC) lease revenue bonds is not considered essential to the city's core governmental operations according to Fitch's published criteria. Its non-essential nature leads to a two-notch distinction between the PFC lease revenue bonds and the city's limited tax bonds.

Rating Sensitivities

Shift in Fundamentals: The rating is sensitive to shifts in fundamental credit characteristics, including the city's strong, albeit reduced, financial reserves. Additional 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	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

Rating History — MFC Lease Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	11/13/14
AA+	Affirmed	Stable	7/24/14
AA+	Affirmed	Stable	7/3/13
AA+	Affirmed	Stable	5/29/13
AA+	Affirmed	Stable	10/3/12
AA+	Affirmed	Stable	7/23/12
AA+	Affirmed	Stable	3/22/12
AA+	Affirmed	Stable	7/8/11
AA+	Affirmed	Stable	3/17/11
AA+	Affirmed	Stable	6/11/10
AA+	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

Rating History — Starbright IDC Contract Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	11/13/14
AA+	Affirmed	Stable	7/24/14
AA+	Affirmed	Stable	7/3/13
AA+	Assigned	Stable	5/29/13

Rating History — PFC Lease Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	11/13/14
AA	Affirmed	Stable	7/24/14
AA	Affirmed	Stable	7/3/13
AA	Affirmed	Stable	5/29/13
AA	Assigned	Stable	10/3/12

Related Criteria

Tax-Supported Rating Criteria (August 2012)

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

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 2014. 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.

Solid 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 9% 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 expects 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 is designated for the next year's spending (the two-year reserve), has expanded its planning horizon. A sizable $68 million of such reserve was budgeted for use in fiscal 2013, equal to 6.8% of spending. Greater than projected sales tax receipts and significant budget carryforwards allowed the city to utilize only $31.3 million, or slightly less than one-half of the allocation.

Sales tax receipts grew by a solid 5.2% in fiscal 2013, exceeding the budget's 1% growth estimate above fiscal 2012 actuals. As a result of use of a portion of the two-year reserve, the unrestricted fund balance declined to a still-strong $178.2 million, or 18.4% of operating expenditures and transfers out. A portion of this fund balance, $88.2 million, is designated as the city's 9% reserve. Another $47.2 million of the fiscal 2013 fund balance is designated as the city's two-year reserve.

Fiscal 2014 and Current Year's Budget

The city's unaudited fiscal 2014 results point to a $15.7 million general fund surplus (equal to 1.6% of spending). These results were aided by conservative projections for sales taxes (1.7% above actual fiscal 2013 receipts) and CPS revenues (1.4% above prior year). On an unaudited basis, sales tax receipts posted growth of 6.5%, and CPS revenues increased by a large 13%, fueled by a very cold winter and a rate increase. The positive performance allowed the city to maintain its 9% reserve and increase its two-year reserve to $63.2 million (equal to 6.4% of spending).

The city increased its fund balance policy requirement from 9% of spending to 10% in the adopted fiscal 2015 budget, which Fitch views favorably. The budget increases general fund appropriations by a manageable 5.8% due to growing public safety spending and enhanced funding for streets and capital projects. The budget is funded at the existing property tax rate, assumes sales tax receipts grow by 2.8% and CPS transfers decline by 3.4% and utilizes the entire two-year reserve of $63.2 million (6% of spending).

The financial cushion is budgeted to remain solid at $178 million, or 17% of spending, despite a planned $16.4 million (1.65% of spending) use of fund balance. Portions of the projected ending fund balance are allocated for the city's enhanced 10% financial reserve ($103 million) and two-year reserve ($32.6 million, equal to 3% of spending). Fitch notes that the city typically outperforms its projections.

General Fund Financial Summary

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

	2009	2010	2011	2012	2013
Revenues	835,409	857,493	890,262	898,162	917,522
Expenditures	764,205	816,690	863,882	885,578	923,543
Net Change	**71,204**	**40,803**	**26,380**	**12,584**	**(6,021)**
Transfers In/Other Sources	13,750	36,581	14,603	18,877	17,341
Transfers Out/Other Uses	(83,995)	(54,255)	(39,113)	(47,640)	(42,669)
Net Income/(Loss)	**959**	**23,129**	**1,870**	**(16,179)**	**(31,349)**
Total Fund Balance	206,507	229,636	232,692	216,513	185,164
As % of Expenditures, Transfers Out and Other Uses	24.3	26.4	25.8	23.2	19.2
Unrestricted Fund Balance	190,407	199,110	226,646	209,710	178,208
As % of Expenditures, Transfers Out and Other Uses	22.4	22.9	25.1	22.5	18.4

Note: Numbers may not add due to rounding.

Large Capital Needs

Voters approved a $596 million general obligation bond authorization in May 2012, the largest in the city's history. The bond authorization is intended to address the city's 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. The city plans to issue about $160 million of its remaining $214 million bond authorization in summer 2015. 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 declining debt service schedule, above-average payout rate and expansive tax base. But the city's overall debt burden remains elevated at $5,844 per capita and 8.9% of 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 64%.

Starbright Bonds' High Coverage Levels Expected

The contract revenue bonds, whose proceeds financed the acquisition and conveyance of the site for a Toyota manufacturing plant, comprise a modest part of the city's debt portfolio. The 'AA+' rating on these bonds reflects the strength of the revenue stream from which bond repayments are made (i.e. CPS payments), the very high debt service coverage and the solid contract and legal covenants of the transaction.

Debt Statistics

($000)

This Issue	53,690
Outstanding Debt	
General Obligation Bonds	1,155,330
Certificates of Obligation	283,870
Tax Notes	38,070
Public Property Finance Contractual Obligations	17,500
Municipal Facilities Corporation	
Lease Revenue Bonds	32,855
Starbright Industrial Development Corporation	
Contract Revenue Bonds	20,890
Public Facilities Corporation	
Lease Revenue Bonds	550,374
Less: Self-Support	23,535
Less: Refunding	56,290
Direct Debt	**2,072,754**
Overlapping Debt	6,172,103
Total Overall Debt	**8,244,857**
Debt Ratios	
Direct Debt Per Capita ($)[a]	1,469
As % of Market Value[b]	2.2
Overall Debt Per Capita ($)[a]	5,844
As % of Market Value[b]	8.9

[a]Population: 1,410,782 (2014 estimate). [b]Market value: $92,723,753,000 (fiscal 2015). Note: Numbers may not add due to rounding.

Audited fiscal 2013 pledged revenues totaled $293.3 million and covered the bonds' maximum annual debt service by a very high 177x. Because the city relies on CPS payments (accounting for 32% of expenditures and transfers out in fiscal 2013) for operations, Fitch expects coverage to remain very high.

PFC Lease Revenue Bond Differential

The PFC lease revenue bonds, issued in 2012, financed a major expansion of the city's convention center. The leased asset, the convention center, is not considered essential to core governmental operations by Fitch and serves as the basis for the two-notch distinction from the city's 'AAA' rating on its limited tax bonds. Also, the bonds' somewhat weak legal provisions do not include a mortgage interest for the trustee in the event of non-appropriation.

The non-appropriation of base rental payments requires the city to vacate the leased asset by the end of the last fiscal year for which lease payments were funded. Fitch notes that the primary planned repayment source, the 2% expansion hotel occupancy tax, can only be used for convention center expansion costs by state statute, minimizing the incentive for the city to withhold any annual appropriation.

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). Recent changes to TMRS's valuation methodology and the elimination of automatic repeating cost-of-living adjustments increased the pension's funded ratio to a high 86.9% as of Dec. 31, 2013. TMRS's valuation is based on a 7% discount rate, which Fitch considers reasonable. Firefighters and police participate in a single-employer defined benefit pension plan that was similarly well funded at an estimated 87% as of Oct. 1, 2013, 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 firefighters and police have been financed on a prefunded basis since 1989, resulting in a notable funded position of 40% as of Oct. 1, 2013. The combined carrying costs for the city's tax-supported debt, pension and other post-employment benefit obligations totaled a moderate 17.3% of fiscal 2013 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

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. Recent employment gains have been led by the professional/business services and construction sectors. Energy sector employment has also expanded considerably due to surging oil and gas activity within the nearby Eagle Ford Shale. As a result, the city's unemployment rate declined to 4.7% in September 2014, down from the 5.9% level recorded a year prior. The city's unemployment rate compares favorably with state and national averages of 5.0% and 5.7%, respectively, for the same period.

Property Value and Sales Tax Trends

($000, Fiscal Years Ending Sept. 30)

Fiscal Year	Taxable Assessed Valuation	% Change	General Fund Sales Tax Receipts[a]	% Change
1998	29,422,285	—	118,992	—
1999	31,253,551	6.2	126,473	6.3
2000	33,315,479	6.6	135,130	6.8
2001	36,033,321	8.2	136,811	1.2
2002	39,587,584	9.9	140,084	2.4
2003	41,535,547	4.9	138,962	(0.8)
2004	44,536,796	7.2	148,500	6.9
2005	46,481,974	4.4	162,786	9.6
2006	49,868,955	7.3	177,806	9.2
2007	56,767,702	13.8	189,753	6.7
2008	65,954,867	16.2	196,306	3.5
2009	72,541,141	10.0	187,415	(4.5)
2010	72,743,220	0.3	188,741	0.7
2011	71,007,547	(2.4)	200,245	6.1
2012	70,681,198	(0.5)	219,648	9.7
2013	71,419,599	1.0	231,000	5.2
2014	75,198,528	5.3	246,116	6.5
2015	79,769,661	6.1	253,371	2.9

[a]Fiscal 2014 sales tax receipts are unaudited. Fiscal 2015 sales tax receipts are budgeted.

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. AV rebounded with increases of 5.3% and 6.1% in fiscal years 2014 and 2015, respectively. The city projects annual new construction will increase taxable values from 1.8%–2.5% annually over the next five years, 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.

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:

San Antonio, Texas; Appropriations; General Obligation

Primary Credit Analyst:
Lauren H Spalten, Dallas (1) 214-871-1421; lauren.spalten@standardandpoors.com

Secondary Contact:
Kate Choban, Dallas (1) 214-871-1420; kate.choban@standardandpoors.com

Table Of Contents

Summary:

San Antonio, Texas; Appropriations; General Obligation

Credit Profile		
US$53.69 mil gen imp rfdg bnds ser 2014 dtd 12/01/2014 due 02/01/2025		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to San Antonio, Texas' series 2014 general improvement refunding bonds. 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 ratings reflect our view of the city's:

- Strong economy that is part of a broad and diverse metropolitan statistical area, with a stabilizing presence provided by the major military installations;
- Very strong management conditions with strong financial practices;
- Very strong budgetary flexibility;
- Very strong liquidity, with total government available cash providing strong coverage of both total governmental expenditures and debt service;
- Strong budgetary performance, with reserves at more than 15% of operational expenditures; and
- Adequate debt and contingent liabilities position.

The bonds are secured by an annual ad valorem tax levied on all taxable property located within the city, which is considered to be a GO pledge.

Strong economy

San Antonio's local economy is strong, in our view, with per capita market value at roughly $56,600 and projected per capita effective buying income at 87% of the national average. With more than 1.4 million residents, San Antonio is Bexar County's seat and the nation's seventh-largest city. The city continues to experience sustained growth in the manufacturing, tourism, and services sectors. City officials reported that permitting activity continues to increase and that construction is ongoing. 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. The city's economy is broad and diverse, in our opinion, and the major military installations in the city provide a stabilizing presence for the economy. 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. The first major grocery store for downtown is due to open in the spring of 2015, which will likely help to spur this growth. The city has also been in the process of expanding and renovating its convention center downtown; conventions are a major economic driver for the city. According to the Bureau of

Labor Statistics, the Bexar County unemployment rate for 2013 was 6.0%, which we consider low.

Very strong management

San Antonio's management conditions are very strong, in our view, with "strong" financial practices under our Financial Management Assessment (FMA) methodology, indicating practices are, in our opinion, 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 in terms of monitoring its progress against the budget during the year, monthly 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.

Very strong budgetary flexibility

San Antonio's budgetary flexibility is very strong, in our opinion, with available reserves (a combination of assigned and unassigned general fund balances) at approximately $138.6 million, or 15% of operating expenditures, at the end of fiscal 2013. The city conservatively estimates having ended fiscal 2014 with an unassigned general fund balance of about $160 million, or about 16% 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 performance will deteriorate.

Very strong liquidity

In our view, very strong liquidity supports San Antonio's finances, with total government available cash at 23% of total government fund expenditures and at 181% of debt service coverage for fiscal year-end 2013. Based on past debt issuances, which include the frequency of issuance and the type of debt issuance, we believe that the issuer has exceptional access to capital markets to provide for liquidity needs if necessary.

Strong budgetary performance

We view San Antonio's budgetary performance to be strong overall, with a surplus of 1.2% for the general fund and a deficit of 3.5% for the total governmental funds in fiscal 2013, after adjusting for the spending-down of previously deposited bond proceeds as well as additional nonrecurring expenditures. The city's projections for fiscal 2014 indicate a surplus of about 1.4% in the general fund. 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. Based on the proposed budget for fiscal 2015, the city has conservatively budgeted for a drawdown of about 1.4% in the general fund and a drawdown of about 2.6% in the total governmental funds.

The general fund continues to rely on contributions from the city's electric provider, City Public Service Energy; these transfers are the largest source of general fund revenue and accounted for about 33% of total general fund revenues in fiscal year 2013. While 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.

Adequate debt and contingent liabilities

In our view, San Antonio's debt and contingent liabilities profile is adequate. Total governmental fund debt service is 12.8% of total governmental funds expenditures, and net direct debt is about 123% of total governmental funds revenue. Approximately 70% of the principal is repaid within 10 years, which we view as a credit strength. We understand that the city plans to issue approximately $160 million of GO bonds in 2015.

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, 2013, was $232.9 million, which represented a 91.8% funded ratio. The city's UAAL related to the TMRS was $174.8 million as of Dec. 31, 2013, equivalent to an 86.9% funded ratio, which is significantly higher than the 73.3% funded ratio identified in the Dec. 31, 2009, actuarial valuation. Management attributes the reduction in the city's unfunded pension liability partly to an improving investment portfolio performance and the elimination of annual repeating cost-of-living adjustments. The combined annual required contribution pension costs and other postemployment benefit pay-as-you-go costs for fiscal 2013 were less than 10% of expenditures, and the city does not anticipate that these costs will increase substantially in the near term.

Strong institutional framework

We consider the institutional framework score for Texas cities as strong. See Institutional Framework score for Texas.

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.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Oct. 15, 2014
- 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 November 7, 2014)		
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of November 7, 2014) (cont.)		
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.

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.