San Antonio, Texas

Limited Tax Bonds
New Issue Report

Ratings

New Issues

General Improvement and Refunding Bonds, Series 2014	AAA
Tax Notes, Series 2014B	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 City Public Service (June 2014)
San Antonio, Texas (July 2013)
San Antonio, Texas (October 2012)

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New Issue Details

Sale Information: $230,650,000 General Improvement and Refunding Bonds, Series 2014, and $6,300,000 Tax Notes, Series 2014B, scheduled to sell via negotiation during the week of July 28.

Security: Both current offerings are secured by an annual property tax levy, limited to $2.50 per $100 assessed valuation.

Purpose: Bond proceeds will be used for various public improvements and to refund outstanding debt for interest cost savings. Note proceeds will be used for various public improvements.

Final Maturity: Series 2014: Feb. 1, 2034; Series 2014B: Feb. 1, 2021.

Key Rating Drivers

Strong Financial Flexibility: Although San Antonio's financial performance has been pressured recently, 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; Large Capital Plans: 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 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	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 — Municipal Facilities Corporation Lease Revenue Bonds

Rating	Action	Outlook/ Watch	Date
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+	Revised	Stable	4/30/10
AA	Assigned	Stable	3/1/10

Rating History — Starbright Industrial Development Contract Revenue Bonds

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

Rating History — Public Facilities Corporation Lease Revenue Bonds

Rating	Action	Outlook/ Watch	Date
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 the 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.

General Fund 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.

Solid Financial Reserves

The city's financial profile remains solid as evidenced by the maintenance of unreserved fund balances in excess of 20% 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, mainly in the form 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 trend downward.

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.

Property Value and Sales Tax Trends

($000, Audited Fiscal Years Ended 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	243,600	5.5

[a]Fiscal 2014 sales tax receipts are projected.

Current Year's Progress and Fiscal 2015 Budget

The fiscal 2014 budget increases general fund spending by less than 1% above the fiscal 2013 budget. The budget is balanced at a level property tax rate, assumes a modest sales tax gain of 1.7% (above actual fiscal 2013 receipts) and is aided by the appropriation of $6.8 million of the two-year budget reserve (equal to less than 1% of appropriations). Sales tax receipts for the first six months are 5.5% above the year prior and CPS revenues are up by a large 8.9% for the same period, fueled by a very cold winter and a rate increase. Due to these positive revenue variances, the city now projects a modest general fund surplus for fiscal 2014.

The proposed fiscal 2015 budget, still under development, will incorporate a higher 10% financial reserve ($102 million) and is also expected to include a two-year budget reserve equal to 2%–3% of appropriations (approximately $20 million–$30 million). Based on a $30 million two-year reserve, the city is currently facing a $27 million budget gap (a manageable 2.6% of appropriations), which the city expects to narrow as the fiscal year advances. Fitch considers this reasonable given past performance.

Large Capital Needs

Part of the current offering represents the third installment of the $596 million general obligation bond authorization approved by voters in May 2012. As the largest bond authorization in the city's history, it 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 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, average payout rate and expansive tax base. The city's overall debt burden remains elevated at $5,861 per capita and 9.5% of market value. After this issuance of $160 million in new money bonds, the city's remaining bond authorization totals $238 million. The city does not anticipate issuing additional new money bonds in the next 12 months.

Debt Statistics

($000)

These Issues	236,950
Outstanding Debt	
General Obligation Bonds	998,190
Certificates of Obligation	324,630
Tax Notes	14,835
Public Property Finance Contractual Obligations	17,500
Municipal Facility Corporation	
Lease Revenue Bonds	35,845
Starbright Industrial Development Corporation	
Contract Revenue Bonds	20,890
Public Facility Corporation	
Lease Revenue Bonds	550,374
Less: Self-Support	70,835
Less: Refunding	72,575
Direct Debt	**2,055,804**
Overlapping Debt	6,213,277
Total Overall Debt	**8,269,081**
Debt Ratios	
Direct Debt Per Capita ($)[a]	1,457
As % of Market Value[b]	2.4
Overall Debt Per Capita ($)[a]	5,861
As % of Market Value[b]	9.5

[a]Population: 1,410,782 (2014 estimate). [b]Market value: $87,317,369,000 (fiscal 2014). Note: Numbers may not add due to rounding.

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, the very high debt service coverage and the solid contract and legal covenants of the transaction. CPS's annual payment to the city's general fund is pledged for repayment of the contract revenue bonds.

Audited fiscal 2013 pledged revenues totaled $293.3 million and covered the bonds' maximum annual debt service by a very high 177 times (x). 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 91.7% as of Dec. 31, 2012. 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 also provided through TMRS 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 OPEB 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.

Solid Employment and Tax Base Trends

Recent employment gains have been led by the leisure/hospitality 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 May 2014, down from the 5.8% level recorded in May 2013. The city's unemployment rate compares favorably with state and national averages of 5.1 % and 6.1%, 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. AV rebounded with a 5.3% increase in fiscal 2014 and preliminary AV results for fiscal 2105 point to a solid 5.8% gain. 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.

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Summary:

San Antonio, Texas; Appropriations; General Obligation

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Summary:

San Antonio, Texas; Appropriations; General Obligation

Credit Profile		
US$230.65 mil gen imp and rfdg bnds ser 2014 dtd 07/01/2014 due 02/01/2034		
Long Term Rating	AAA/Stable	New
US$8.12 mil tax nts ser 2014B dtd 07/01/2014 due 02/01/2021		
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 and refunding bonds and series 2014B tax notes. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's outstanding general obligation (GO) debt 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 a limited 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 $56,300 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. Over the past few years, several new companies have moved in 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 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 at approximately $138.6 million, or 15% of operating expenditures, at the end of fiscal 2013. The city conservatively projects to end fiscal 2014 with a total general fund balance of about $190.8 million. 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. 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 4.2% 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.

The general fund continues to rely on contributions from the city's electric provider, City Public Service Energy (AA/Stable); 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 106.4% of total governmental funds revenue. Approximately 70% of the debt is repaid within 10 years, which we view as a credit strength. We understand that the city may issue additional GO refunding bonds this fall.

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 successfully develop its capital program and meet growing service delivery needs. We do not expect to change the ratings within the next two years 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

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014
- Institutional Framework Overview: Texas Local Governments

Ratings Detail (As Of July 24, 2014)		
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		

Ratings Detail (As Of July 24, 2014) (cont.)		
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.