San Antonio, Texas

Limited Tax Bonds

New Issue Report

Ratings

New Issues

General Improvement Bonds, Series 2012	AAA
Combination Tax and Revenue Certificates of Obligation, Series 2012	AAA
Tax Notes, Series 2012	AAA

Outstanding Debt

Limited Tax Bonds	AAA
Municipal Facilities Corporation Lease Revenue Bonds	AA+
Starbright Industrial Development Corporation Contract Revenue Bonds	AA+

Rating Outlook

Stable

Related Research

Fitch Affirms San Antonio, TX Drainage Revenue Bonds at 'AA'; Outlook Stable, April 23, 2012

San Antonio, Texas, March 26, 2012

San Antonio City Public Service (Revenue Bonds), March 15, 2012

San Antonio, Texas (San Antonio Water System), Jan. 31, 2012

San Antonio, Texas (San Antonio Water System), Sept. 9, 2011

San Antonio, Texas, July 11, 2011

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New Issue Details

Sale Information: $171,795,000 General Improvement Bonds, Series 2012, and $27,460,000 Combination Tax and Revenue Certificates of Obligation (COs), Series 2012, expected to price during the week of July 30 via negotiated sale. $18,105,000 Tax Notes, Series 2012, expected to price during the week of Aug. 6 via negotiated sale.

Security: All the current offerings secured by an annual property tax levy, limited to $2.50 per $100 of assessed valuation. COs additionally payable from a pledge of net revenues of the municipal park system.

Purpose: Proceeds to be used for various public improvements.

Final Maturity: Feb. 1, 2032.

Key Rating Drivers

Strong Financial Reserves: San Antonio's favorable financial performance has been aided by management's focus on increasing efficiency and conservative budgeting, enabling the city to maintain solid financial reserves during the economic slowdown. Fitch Ratings favorably views the city's two-year budget strategy, which has expanded its planning horizon.

Large but Manageable Capital Plans: The city's favorable debt profile is characterized by its manageable overall debt burden, moderately above-average payout rate, and ample 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.

Essential Leased Assets: The legal provisions of the lease revenue bonds are sound, and the leased assets are essential to city operations.

High Debt Service Coverage: Electric and gas utility payments provide very high debt service coverage for the Starbright Industrial Development Corporation's contract revenue bonds. Additionally, the bonds' contract terms and legal covenants are sound, and no additional leveraging is planned.

Growing Population: The city's population growth remains rapid, aided by affordable home prices and ample developable land, which, until recently, has fueled solid property tax base growth.

Military Remains Key Sector: Although the local economy has diversified notably, the military remains a major economic factor, as 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 contraction of the local economy has begun to reverse course, enabling the city's unemployment rate to remain well below state and national averages.

Rating History

Rating	Action	Outlook/ Watch	Date
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[a]	Stable	4/30/10
AA+	Affirmed	Stable	3/1/10
AA+	Affirmed	Stable	11/21/08
AA+	Affirmed	Stable	10/14/08
AA+	Affirmed	Stable	7/1/08
AA+	Affirmed	Stable	11/11/07
AA+	Affirmed	Stable	10/31/06
AA+	Affirmed	Stable	3/28/05
AA+	Affirmed	Stable	11/29/04
AA+	Affirmed	Stable	3/10/04
AA+	Affirmed	Stable	6/16/03
AA+	Upgraded	—	10/26/99
AA	Assigned	—	10/13/92

[a]Reflects rating recalibration.

Related Criteria

Tax-Supported Rating Criteria, Aug. 15, 2011

U.S. Local Government Tax-Supported Rating Criteria, Aug. 15, 2011

Credit Profile

Large 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 previously strong sales tax growth and positive City Public Service (CPS; electric and gas utility rated 'AA+' by Fitch) payment trends, along with management's aggressive cost controls mainly in the form of annual personnel reductions.

General Fund Financial Summary

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

	2007	2008	2009	2010	2011
Revenues	753,742	858,058	835,409	857,493	890,262
Expenditures	647,880	737,797	764,205	816,690	863,882
Net Change	**105,862**	**120,261**	**71,204**	**40,803**	**26,380**
Transfers In/Other Sources	15,972	18,720	13,750	36,581	14,603
Transfers Out/Other Uses	(123,620)	(93,730)	(83,995)	(54,255)	(39,113)
Net Income/(Deficit)	**(1,786)**	**45,251**	**959**	**23,129**	**1,870**
Total Fund Balance	159,690	205,548	206,507	229,636	232,692
As % of Expenditures, Transfers Out, and Other Uses	20.7	24.7	24.3	26.4	25.8
Unrestricted Fund Balance	142,960	190,775	190,407	199,110	226,646
As % of Expenditures, Transfers Out, and Other Uses	18.5	22.9	22.4	22.9	25.1

Note: Numbers may not add due to rounding.

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 internally designated for next year's spending, has expanded its planning horizon. A sizable $71 million of such reserves was budgeted for use in fiscal 2011, although actual results added modestly to fund balance, aided by greater than projected sales tax receipts and CPS transfers.

Property Value and Sales Tax Trends

($000, Fiscal Years Ending Sept. 30)

	Taxable Assessed Valuation	% Change	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	187,400	(4.5)
2010	72,743,220	0.3	188,741	0.7
2011	71,007,547	(2.4)	200,245	6.1
2012	71,239,470	0.3	210,600	5.2

[a]Fiscal 2012 sales tax receipts projected.

Sales tax receipts grew 6.1% in fiscal 2011, exceeding the budget's modest 1% growth estimate, and CPS payments increased moderately due to a very hot summer and a rate hike. As a result, the unrestricted fund balance totaled a strong $226.6 million, or 25.1% of operating expenditures and transfers out. A portion of this fund balance, $85.3 million, is designated as the city's 9% reserve.

Current Year's Progress and 2013 Budget Gap

The adopted fiscal 2012 budget is based on conservative revenue growth assumptions and includes the use of $76.9 million of the city's two-year budget reserve. The spending plan also designates $20.8 million of the two-year budget reserve for next year's spending. Due to a greater than budgeted fiscal 2011 ending balance and sales tax growth, the city now expects to utilize only about $43.5 million, or 56%, of the two-year budget reserve in fiscal 2012, allowing it to increase the two-year reserve to $54.2 million for use in fiscal 2013.

The estimated unrestricted fund balance for fiscal 2012 is projected to equal a still strong $187.8 million, or 19.8% of spending, moderately better than the budgeted level of 15.9%. The preliminary fiscal 2013 budget, aided by the two-year budget reserve, now faces a materially lower budget gap of a modest $12 million (equal to 1.2% of spending). Additional budget items under consideration by the council, including pay hikes, outlays for certain deferred maintenance items, and tax incentives, would increase the budget gap to a still manageable $24.6 million (2.5% of spending).

Large Capital Needs

The current offering is comprised of the last installment of the city's 2007 bond program and the first installment of the $596 million GO 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. Additionally, the city plans to draw down its large debt service fund balance to maintain level tax rates as part of its overall capital plan, with a target of $25 million–$30 million for its debt service fund balance. The balance at year-end fiscal 2011 was $64.1 million. The principal payout rate for limited tax bonds is modestly above average with 59% of principal to be retired within 10 years.

Manageable Debt Profile

The impact of the 2012 bond program on the city's direct debt profile should be manageable, given its low current levels, favorable payout rate, and expansive tax base. The modestly above-average payout rate is reflected in sizable annual debt payments, which, in fiscal 2011, were above average at 18.5% of general government spending. The city's overall

Debt Statistics

($000)

These Issues	217,360
Outstanding Debt:	
GO Bonds	900,310
Certificates of Obligation	328,275
Tax Notes	27,450
Municipal Facility Corporation Lease Revenue Bonds	36,750
Hotel-Occupancy Tax Bonds	15,275
Hotel-Occupancy Tax Subordinate Lien Bonds	205,165
Starbright Industrial Development Corporation Contract Revenue Bonds	21,925
Less: Self Support	61,837
Direct Debt	**1,690,673**
Overlapping Debt	2,534,949
Overall Debt	**4,225,622**
Debt Ratios	
Direct Debt per Capita ($)[a]	1,237
As % of Market Value[b]	2.0
Overall Debt per Capita ($)[a]	3,093
As % of Market Value[b]	5.1

[a]Population: 1,366,249 (2012 estimate). [b]Market value: $82,838,364,000 (fiscal 2012). Note: Numbers may not add due to rounding.

debt burden is slightly above average at $3,093 per capita and 5.1% of market value after adjusting for substantial state support of local school district debt.

High Coverage of Starbright Bonds

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' annual payment to the city's general fund is pledged for repayment of the contract revenue bonds. Audited fiscal 2011 pledged revenues totaled $297.6 million and covered the bond's maximum annual debt service by a very high 188.0x.

Convention Center Expansion Plans

Using lease revenue bonds, the city expects to move forward this fall 2012 on a major $325 million expansion of its convention center. The proposed plan of finance also includes the restructuring of all outstanding HOT debt with lease revenue bonds. HOT receipts will be the primary source of the lease payments, although all legally available funds will be pledged to the bonds.

Employee Pension and Other Retiree Benefits

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' valuation methodology and the elimination of recurring, automatic cost-of-living adjustments increased the pension's funded ratio to a high 92% as of Dec. 31, 2011.

Fire fighters and police participate in a single-employer defined benefit pension plan, which was similarly well funded at 91% as of Oct. 1, 2011. Annual contributions for both pension plans comprised a manageable 5.3% of total primary government spending in fiscal 2011. Retiree health benefits for civilians are also provided through TMRS and are funded on a pay-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 37% as of Oct. 1, 2011.

Military Still Key within Broad Economy

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 2012. 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. Aided by considerable growth in energy sector jobs, the city's unemployment rate declined to 6.6% in May 2012, down from the 7.3% level recorded in May 2011.

The city's unemployment rate compares favorably with state and national averages of 6.9% and 7.9%, respectively, for the same period. The city's construction sector has benefited from several large projects, including the recent completion of the $3.2 billion San Antonio Military Medical Center, which was accompanied by approximately 12,500 additional military personnel to the city. After posting strong annual gains through fiscal 2009, the city's taxable values have flattened through fiscal 2012 as new improvement values have been offset by reappraisal losses in existing values.

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$171.795 mil gen imp bnds ser 2012 due 02/01/2032		
Long Term Rating	AAA/Stable	New
US$27.46 mil comb tax and rev certs of oblig ser 2012 due 02/01/2032		
Long Term Rating	AAA/Stable	New
US$18.105 mil tax nts ser 2012 due 02/01/2016		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to San Antonio, Texas' series 2012 general improvement bonds, series 2012 certificates of obligation, and series 2012 tax notes.

At the same time, Standard & Poor's affirmed its 'AAA' rating and underlying rating (SPUR) on the city's general obligation (GO) debt outstanding and its 'AA+' rating and SPUR on the city's appropriation debt issued by the San Antonio Municipal Facilities Corporation. The outlook on all ratings is stable.

The ratings reflect our view of the city's:

- Deep and increasingly diverse economy, which has allowed management to maintain stable financial operations through recessionary cycles;
- Very strong financial performance and position;
- Strong financial management policies, which include a comprehensive long-term financial and capital program; and
- Moderately high overall debt burden as a percent of market value.

The bonds, certificates, and notes issued 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. City officials will use bond proceeds to fund various capital improvements in the city, certificate proceeds to fund contractual obligations for public improvements, and note proceeds to fund the acquisition of property interests for the Edwards Aquifer Protection Venue Program.

San Antonio, with approximately 1.4 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 expansion of the production capacity at a Toyota Corp. manufacturing plant, along with several facilities in the information technology and health care sectors, has contributed to a growing diversity in employment opportunities and a significantly deeper economic base. In addition, the recent expansion of drilling activity at the Eagle Ford Shale has also resulted in increase economic activity in San Antonio, as several energy companies have established satellite operations in the city. The increased economic activity is also reflected in the improvement of two factors that we consider key, from an economic standpoint: First, according to the Bureau of Labor Statistics, the San Antonio metropolitan area had an unemployment rate of 6.2% as of April 2012, which was below both the state's and national rates of 6.5% and 7.7%, respectively. Second, the city's taxable assessed valuation experienced a modest 0.33% increase in fiscal year 2012, growing to approximately $71.24 billion.

We believe that San Antonio's financial performance and position remain very strong. In fiscal year 2011, the city reported an operating surplus in the general fund of $26.3 million and an overall surplus (after $40.9 million in net transfers out to other funds) of $1.8 million. In our view, the fiscal year-end 2011 total available general fund balance of $178 million is very strong, at 21% of expenditures. For fiscal year 2012 current estimates show a $33.4 million projected excess reserve that will be available to maintain a balanced budget in fiscal year 2013. City officials expect to maintain available reserves well in excess of the formally approved budget reserve minimum of 9% of expenditures. We believe that the city's policy of producing five-year financial forecasts and maintenance of a comprehensive two-year balanced budget strategy have enhanced officials' ability to anticipate and address potential budget gaps on a timely basis.

The general fund continues to rely on contributions from the city's electric utility (San Antonio Public Service Authority, AA/Stable), which are the largest source of general fund revenue and are projected to account for about 31% of total general fund revenues in fiscal year 2012. 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 transfers. 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 its street lighting system.

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. Highlights of the city's practices include the city's use of extensive long-range financial and capital planning, as well as the adoption of strict reserve and expenditure control measures.

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, 2011 was $242.7 million, which represented a 90.6% funded ratio. The city's UAAL related to the TMRS was $95.1 million as of Dec. 31, 2011, equivalent to a 91.6% funded ratio, which is significantly higher than the 73.3% funded ratio identified in the Dec. 31, 2009 actuarial valuation. An improving investment portfolio performance and the elimination of annual repeating cost-of-living adjustments are some of the reasons for the reduction in the city's unfunded pension liability. According to the TMRS' latest actuarial valuation, the city's expected contributions for fiscal year 2012 will be reduced to 10.05% of covered payroll from 12.6% in fiscal year 2011.

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

The first program provides benefits for all nonuniformed city retirees, and for all pre-Oct. 1, 1989 uniformed (fire and police) retirees. Based on a review, certain changes were made to the retirement health plan and were approved on Sept. 7, 2006 as a component of the city's fiscal year 2007 adopted budget. These changes resulted in a reduction of the UAAL to approximately $400 million from $581.3 million. Based on a recently completed actuarial valuation, as of Jan. 1, 2011 the UAAL was projected at $324 million.

The second program provides retirement health care 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. After legislative changes were made to the plan in 2007, the estimated UAAL as of Oct. 1, 2011 was $403.6 million.

While House Bill 2365 gives local governments in Texas the option to not comply with GASB 45, management decided to adopt GASB 45 and reported the unfunded OPEB liability as part of its financial reports.

We consider the city's overall net debt levels moderate at approximately $4,348 per capita and moderately high at 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. In our opinion, the city's debt service carrying charges are moderate, at 13% of total governmental funds expenditures. In May 2007, the electorate approved by an ample margin the city's $550 million bond program, which was previously the largest bond program the city had managed. The bulk of the bond program has addressed street and drainage needs, and as of May 2012 the program was substantially complete. On May 12, 2012 the voters authorized an additional bond program, this one surpassing the last in size at $596 million, to fund improvements to streets, bridges, drainage and flood control systems, parks and recreation, libraries and museums, and public safety facilities. The city currently has approximately $523.8 million of authorized and unissued bonds, which management plans to issue in various installments during the next few years. City officials expect that the current authorization will meet the city's capital needs through 2017.

Outlook

The stable outlook reflects our view of San Antonio's deep and increasingly diverse property tax base, solid financial performance, and very strong level of general fund reserves, 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 in the next two years given the continued diversification of the city's economic and employment base, coupled with management's strong financial management practices.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

Ratings Detail (As Of July 17, 2012)		
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		

Ratings Detail (As Of July 17, 2012) (cont.)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
San Antonio Mun Facs Corp, Texas		
San Antonio, Texas		
San Antonio Mun Facs Corp (San Antonio) lse rev bnds (Pub Safety Answering Point Proj)		
Long Term Rating	AA+/Stable	Affirmed
San Antonio (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

Many issues are enhanced by bond insurance.

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal 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.