San Antonio, Texas

Limited Tax Bonds
New Issue Report

Ratings

New Issues

General Improvement and Refunding Bonds, Series 2013	AAA
Combination Tax and Revenue Certificates of Obligation, Series 2013	AAA

Outstanding Debt

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

Rating Outlook

Stable

Related Research

San Antonio, Texas (May 2013)
San Antonio, Texas (October 2012)
San Antonio, Texas (August 2012)
San Antonio, Texas (July 2012)
San Antonio, Texas (March 2012)
San Antonio, Texas (January 2012)

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New Issue Details

Sale Information: $188,650,000 General Improvement and Refunding Bonds, Series 2013, and $15,215,000 Combination Tax and Revenue Certificates of Obligation, Series 2013, selling the week of July 15 via negotiation.

Security: The bonds and certificates of obligation (COs) are secured by an annual property tax levy, limited to $2.50 per $100 taxable assessed valuation (TAV). The COs are additionally payable from a limited pledge of net revenues of San Antonio's (the city) municipal parks system.

Purpose: For various public improvements and to refund outstanding bonds for interest cost savings. CO proceeds will be used for street light improvements and the replacement of a fire station.

Final Maturity: Bonds — Feb. 1, 2033; COs — Feb. 1, 2028.

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 preserve its progress in implementing enhanced financial reserve policies during the economic slowdown. Fitch Ratings favorably views the city's two-year budget strategy, which has expanded its planning horizon.

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 debt service capacity within the current tax rate enabled by a declining debt service schedule. The city's capital plan is aggressive but will allow it to address its sizable deferred capital needs.

High Starbright Debt Service Coverage: Central Public Service (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 (IDC) contract revenue bonds. Additionally, the sources of the electric and gas payments to the city are considered strong, the bonds' contract terms and legal covenants are sound and no additional leveraging is planned.

Military Remains Key Sector: Although the local economy has diversified notably, the military remains a major economic factor. This is evidenced by very large ongoing investments and recent 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, enabling the city's unemployment rate to remain well below state and national averages. The city's population growth remains rapid, aided by affordable home prices and ample developable land.

Rating Sensitivities

Shift In Fundamentals: The rating is sensitive to shifts in fundamental credit characteristics, including the city's strong financial management practices. The city's history of maintaining solid reserves while addressing operating and capital needs indicates continued rating stability.

Rating History — Starbright IDC Contract Revenue Bonds

Rating	Action	Outlook/ Watch	Date
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	Affirmed	Stable	10/14/08
AA	Affirmed	Stable	10/31/06
AA	Assigned	Stable	3/20/03

Rating History — Limited Tax Bonds

Rating	Action	Outlook/ Watch	Date
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	11/21/08
AA+	Affirmed	Stable	10/14/08

Rating History — Municipal Facilities Corporation Lease Revenue Bonds

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

Related Criteria

Tax-Supported Rating Criteria (August 2012)

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

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 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.

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 internally designated for the next year's spending (the two-year reserve), has expanded its planning horizon. A sizable $76.9 million of such reserves was budgeted for use in fiscal 2012, equal to 8.2% of spending, although greater-than-projected sales tax receipts and significant budget carry-forwards allowed the city to utilize only $16.1 million (a large 79% reduction) of the allocation.

Sales tax receipts grew by a strong 9.7% in fiscal 2012, exceeding the budget's 6.0% growth estimate. In contrast, CPS payments decreased modestly due to a relatively mild summer. As a result of the partial use of the two-year reserve, the unrestricted fund balance declined to a still-strong $209.7 million, or 22.5% of operating expenditures and transfers out. A portion of this fund balance, $83.4 million, is designated as the city's 9% reserve. Another $68.9 million of the fiscal 2012 fund balance is designated as the city's two-year reserve.

General Fund Summary

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

	2008	2009	2010	2011	2012
Revenues	858,058	835,409	857,493	890,262	898,162
Expenditures	737,797	764,205	816,690	863,882	885,578
Net Change	**120,261**	**71,204**	**40,803**	**26,380**	**12,584**
Transfers In/Other Sources	18,720	13,750	36,581	14,603	18,877
Transfers Out/Other Uses	(93,730)	(83,995)	(54,255)	(39,113)	(47,640)
Net Income/(Loss)	**45,251**	**959**	**23,129**	**1,870**	**(16,179)**
Total Fund Balance	205,548	206,507	229,636	232,692	216,513
As % of Expenditures, Transfers Out and Other Uses	24.7	24.3	26.4	25.8	23.2
Unrestricted Fund Balance	190,775	190,407	199,110	226,646	209,710
As % of Expenditures, Transfers Out and Other Uses	22.9	22.4	22.9	25.1	22.5

Note: Numbers may not add due to rounding.

Current Year's Progress and Fiscal 2014 Budget

The fiscal 2013 budget, aided by the appropriation of $68 million of the two-year budget reserve (equal to 6.8% of appropriations), is balanced at a level property tax rate and is based on a modest sales tax growth projection of 1.0% above actual fiscal 2012 receipts. Sales tax receipts for the first eight months are 6.4% above the year prior. Although the city still projects it will utilize the majority ($57 million) of the two-year budget reserve, Fitch recognizes that the city typically outperforms its projections. In the event the projected amount of the two-year reserve is needed, the resulting unrestricted fund balance would total a still-strong $152.7 million, or 15.6% of spending.

Property Value and Sales Tax Trends

($000, Audited 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	70,698,850	(0.4)	219,648	9.7
2013	71,836,927	1.6	221,837	1.0

[a]Fiscal 2013 sales tax receipts projected.

The preliminary fiscal 2014 budget allocates the remaining $6.8 million of the two-year reserve, reducing the projected budget gap to $35 million–$50 million, equal to a manageable 3.6%–5.1% of planned fiscal 2014 expenditures. The city expects the projected budget gap to narrow as the fiscal year advances, which Fitch considers reasonable given past experience. Despite the sound reserves, Fitch would be concerned if the city relied on fund balance for annual spending to more than a modest degree given the high rating level.

Large Capital Needs

In 2012, the city issued the first 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. Part of the current offering represents the second installment of the 2012 authorization. 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.

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 Statistics

($000)

These Issues	203,865
Outstanding Debt	
General Obligation Bonds	972,245
Certificates of Obligation	328,400
Tax Notes	27,710
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	57,144
Less: Refunding	70,200
Direct Debt	**2,011,985**
Overlapping Debt	6,341,558
Total Overall Debt	**8,353,543**
Debt Ratios	
Direct Debt Per Capita ($)[a]	1,451
As % of Market Value[b]	2.4
Overall Debt Per Capita ($)[a]	6,025
As % of Market Value[b]	10.0

[a]Population: 1,386,547 (estimated 2013). [b]Market value: $83,636,807,000 (fiscal 2013). Note: Numbers may not add due to rounding.

debt service schedule, favorable payout rate and expansive tax base. The moderately rapid payout rate, at 62% of limited tax bond principal retiring in 10 years, is reflected in sizable annual debt payments, which in fiscal 2012 were above average, at 13.5% of total government spending (net capital outlays).

However, current offerings further increase the city's overall debt burden to a high $6,025 per capita and 10 % of market value, without consideration of state support for school district debt. Based on preliminary fiscal 2014 AV, Fitch notes that overall debt to market value falls back below 10%. After this issuance, the city's remaining bond authorization totals $398 million. The city does not anticipate issuing additional new money bonds in the next 12 months.

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' annual payment to the city's general fund is pledged for repayment of the contract revenue bonds.

Audited fiscal 2012 pledged revenues totaled $288.1 million and covered the bond's maximum annual debt service by a very high 173.0x. Because the city relies on CPS payments (accounting for 30.9% of expenditures and transfers out in fiscal 2012) for operations, Fitch expects coverage to be very high regardless of pledged revenue performance.

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' 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' 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 83% as of Oct. 1, 2012, using a Fitch-adjusted 7% investment return.

Annual contributions for both pension plans comprised a manageable 6.5% of governmental spending (net capital outlays) in fiscal 2012. 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 37.7% as of Oct. 1, 2012.

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 in 2013. 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. The ongoing recovery from the last recession has been aided by recent employment hikes in the leisure/hospitality and construction/mining sectors, fueled by surging oil and gas activity at the nearby Eagle Ford Shale. Aided by considerable growth in energy sector jobs, the city's unemployment rate declined to 5.7% in April 2013 from 6.3% in April 2012.

The city's unemployment rate compares favorably to state and national averages of 6.1 % and 7.1%, 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. The effect of federal sequestration on civilian employment in the military appears modest, although its impact on local military contracts is still unfolding.

After posting strong annual gains through fiscal 2009, the city's taxable values have flattened through fiscal 2013 as new improvement values have been offset by reappraisal losses in existing values. Preliminary indications for the fiscal 2014 AV point to a modest 2.0% increase. The city projects annual new construction will increase taxable values by 1.5%–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
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RATINGS SERVICES

RatingsDirect®

Summary:

San Antonio, Texas; Appropriations; General Obligation

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Summary:

San Antonio, Texas; Appropriations; General Obligation

Credit Profile		
US$188.65 mil gen imp & rfdg bnds ser 2013 dtd 07/01/2013 due 02/01/2033		
Long Term Rating	AAA/Stable	New
US$15.215 mil certs of oblig ser 2013 dtd 07/01/2013 due 02/01/2028		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to the City of San Antonio, Texas' series 2013 general improvement and refunding bonds and series 2013 combination tax and revenue certificates of obligation.

At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on San Antonio'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 and certificates 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 and to refund a portion of the city's outstanding GO debt for savings purposes. Certificate proceeds will be used primary to fund the city's LED Streetlights Project and a new fire station facility.

San Antonio, with more than 1.3 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 and tourism continue to be key sectors of the local economy, major industries including financial services, information technology, health care and bioscience, and aerospace have grown during the past several years. The most recent economic driver for the city has been the booming oil and gas production from the Eagle Ford Shale. In addition to adding several hundred new jobs either directly in the oil and gas sector or indirectly in related or supporting fields, the shale has attracted several companies to establish sites 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 Federal Reserve Bank of Dallas, the San Antonio metropolitan area had an unemployment rate of

6.3% as of April 2013, which was below both the state's and national rates of 6.4% and 7.5%, respectively. Second, the city's taxable assessed valuation increased modestly in fiscal year 2013, by 1.6%, to approximately $71.84 billion. Income levels for the city remain adequate, in our view, with per capita effective buying income at 81% of the national average.

The city recently completed the extension of the San Antonio Riverwalk, which serves as a major tourist attraction. Downtown redevelopment efforts have continued to be a major focus for the city, with the addition of numerous multifamily housing and mixed-use development projects in and around the downtown area. Redevelopment of the HemisFair Park area (the site of the 1968 World's Fair), also in downtown San Antonio, is underway. Upon completion, the project is planned to include items such as park space and mixed-use development. The city is also in the process of undergoing a major expansion of its convention center, which is estimated to be completed by spring 2016.

We believe that San Antonio's financial performance and position remain very strong. In fiscal year 2012, the city reported an overall drawdown in the general fund of $16.18 million (after $43.8 million in net transfers out to other funds). In our view, the fiscal year end 2012 total available general fund balance of $162.7 million was very strong, at 18% of operational expenditures. For fiscal year 2013, city officials estimate adding approximately $13.4 million to the general fund balance by the fiscal year end. The city is currently in the process of developing the fiscal 2014 budget, but city officials plan to maintain the same level of reserves. 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 29% 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 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, 2012 was $214.7 million, which represented a 91.9% funded ratio. The city's UAAL related to the TMRS was $98.6 million as of Dec. 31, 2012, equivalent to a 91.7% 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.

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 the most recently completed actuarial valuation, performed Jan. 1, 2011, the UAAL was reported at $324.5 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, 2012 was $413.7 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 other postemployment benefits liability as part of its financial reports.

We consider the city's overall net debt levels moderate on a per capita basis, at approximately $4,922, and moderately high as a percent of market value, at 9.4%. 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 in fiscal 2012 were moderate, at 13.5% of expenditures. We understand that the city may issue one series of revenue notes and one series of revenue bonds in summer 2013 and summer 2014, respectively.

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 within 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 12, 2013)		
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		

Ratings Detail (As Of July 12, 2013) (cont.)		
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) imp and rfdg lse rev bnds (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.

New Issue: Moody's assigns Aaa to the City of San Antonio's, TX two new G.O. issues; Outlook is negative

Global Credit Research - 12 Jul 2013

Affirms Aaa in G.O. debt, and Aa2 in L.R. debt

SAN ANTONIO (CITY OF) TX
Cities (including Towns, Villages and Townships)
TX

Moody's Rating

ISSUE		RATING
Combination Tax and Revenue Certificates of Obligation, Series 2013		Aaa
Sale Amount	$15,215,000	
Expected Sale Date	07/15/13	
Rating Description	General Obligation	
General Improvement and Refunding Bonds, Series 2013		Aaa
Sale Amount	$188,650,000	
Expected Sale Date	07/15/13	
Rating Description	General Obligation	

Moody's Outlook NEG

Opinion

NEW YORK, July 12, 2013 --Moody's Investors Service has assigned a Aaa rating to the City of San Antonio's, TX $188.7 million General Improvement and Refunding Bonds, Series 2013, and $15.2 million Combination Tax and Revenue Certificates of Obligation, Series 2013. The outlook remains negative. At the same time, we have affirmed the Aaa rating affecting $1.3 billion in previously issued parity debt. We have also affirmed the Aa2 rating on the city's existing lease revenue debt affecting $520.4 million.

SUMMARY RATING RATIONALE

The general obligation bonds are secured by an ad valorem tax levied against all taxable property in the city within the limits prescribed by law.

The Aaa rating reflects the city's strong and vibrant economy that continues to grow, and sustained strong financial results guided by an experienced management team. The rating also reflects a somewhat weak reserve policy, and near and medium term budget projections that include draws in reserves which is atypical of the Aaa category although consistent with historical city practice; the city's financial performance has always exceeded projections. The rating continues to reflect economic development initiatives driving taxable value growth, financial management that includes multiyear budgeting practices and conservative budget assumptions, depressed socioeconomic indicators due to significant institutional presence, and potential challenges associated with sequestration, the effects of which are expected to be minimal. Additionally the rating reflects slightly elevated debt burdens for the rating category, and manageable long-term liabilities for pension and OPEB.

The Aa2 lease revenue bond rating reflects the General Fund (GF) appropriation risk, the limited impact of debt service on the city's GF, and the essentiality of the project to the city's economy. The rating additionally incorporates the city's plan to make lease payments specifically from hotel occupancy tax (HOT) revenues, and the city's contingency to mange volatility in the revenue streams.

The negative outlook reflects the city's indirect linkages to the weakened credit profile of the U.S. government.

The negative outlook has been expanded to incorporate weakening of the credit profile marked by a draw down in fiscal year 2012, and a projected draw down in fiscal year 2013. Near to medium term projections reflect draws in the General Fund balance.

STRENGTHS

Strong and vibrant regional economy; Taxable values returned to growth following stability during the economic downturn

Strong financial results guided by an experienced management team

History of voter support for infrastructure improvements

Financial management includes multiyear budgeting and five year forecasting models

Annual funding of pension ARC for civilian and public safety employees

CHALLENGES

Operating pressures associated with large population and demand for services

Near to medium term projections include draws on reserves consistent with historical city practice; city has significantly exceeded budget projections over the past five years

Depressed socioeconomic profile

Dependence on potentially volatile revenue streams such as utility transfer and sales tax

DETAILED CREDIT DISCUSSION

DIVERSE AND VIBRAND REGIONAL ECONOMY REMAINS STRONG; INVESTMENTS FROM VARIOUS INDUSTRIES EXPECTED TO BOLSTER LOCAL ECONOMY; SEQUESTRATION EFFECTS ON OVERALL EMPLOYMENT EXPECTED TO REMAIN MINIMAL

We believe the city's strong economy will continue to thrive over the medium term given an active economic development team, and multifaceted development initiatives that should bolster the already vibrant economy. According to the 2010 U.S. Census, the City of San Antonio is the seventh largest city in the United States and the second largest city in Texas, following Houston (Aa2/stable) with a 2012 population of about 1.3 million per city estimates. Migration patterns into the city have been strong with the 2010 Census reporting growth of 16%, following the 22.3% reported in the prior (2000) Census. The city's economy is vibrant with diverse industries including military, hospitality, financial, healthcare, education, and aerospace amongst others. With strong migration patterns, the city's labor force has grown from 564,562 in 2003 to 629,789 in May 2013. Despite the growth, unemployment has historically tracked well below national levels and slightly below state levels. The unemployment rate peaked at 7.4% in 2010, declining each year since then to the May 2013 rate of 6.1%, which was below both the state's 6.5%, and the nation's 7.3% taken during the same time period. Given significant military presence, San Antonio's economy is susceptible to negative effects from Sequestration, although the effect is expected to be minimal. Per the March 2013 Moody's Economy.com report, sequestration is expected to result in a loss of 7,000 jobs, a minimal 1% of the city's total employment. Due to huge institutional presence, the city's socioeconomic profile is depressed. Per the 2010 American Community Survey, the city's median family and per capita incomes were 82.4%, and 79.8% of national levels.

The city continues to actively pursue its economic vision. Current initiatives include initiatives designed to maintain and increase both existing and new businesses, public private partnerships to increase downtown housing, international ventures, redevelopment of the inner city, and an education component through an early childhood program funded with a voter approved sales tax (1/8th of 1%). The city continued to contribute to the vision through the bond package with improvements and expansions to the convention center, and improvements to public infrastructure including parks, streets, sidewalks, and many others. San Antonio also continues to benefit from the 2005 Base Realignment and Closure (BRAC). In 2011, officials report the Department of Defense's Economic impact of $27.7 billion. With the investments, the economy maintains a strong presence of military medicine. Other investments include the renovation of the International Airport which should continue to foster tourism, a main staple of the economy, and access to international partners. The Moody's Economy.com reports states, "Longer term, the concentration of military cyber security and medical activity, growth in commercial aerospace, and above-average population gains will enable San Antonio to outperform the nation by a significant margin."

TAXABLE VALUES EXPECTED TO EXHIBIT POSITIVE TRENDS IN THE MEDIUM TERM

The city's tax base has historically exhibited strong growth with taxable values averaging 1.7% annually over the past five years. Despite the economic downturn, the tax base remained stable with a modest decline of 2.4%, and 0.4% in fiscal years 2011 and 2012. Positive growth return in 2013 with values growing by 1.6%. Officials initially estimated an increase of 2% for fiscal year 2014 but preliminary indications from the appraisal district reflect much higher growth. City projections indicate an additional increase of 0.5% each year over the 2% for 2014, reaching a 3.5% in 2018. We believe that the city's tax base will perform positively over the medium term driven by economic initiatives that should bolster the diverse economy.

HISTORICALLY STRONG FINANCIAL RESULTS; NEAR TO MEDIUM TERM PROJECTIONS SHOW OPERATING DEFICITS; WEAK RESERVE POLICY FOR RATING CATEGORY

Guided by a strong and experienced management team, the city's financial management incorporates the use of multiyear budgeting practices which has become institutionalized, and five year financial forecasting. Additionally, the city maintains a 9% reserve policy which we note is weak for the rating level. Near to medium term financial projections include budget gaps which will require a use of reserves, consistent with the city's history. However, we note the this practice is not typical at this rating level. Historical data demonstrates that the city's actual results as reported in the audits far exceed original estimates that typically call for draws, resulting in an overall favorable and strong financial position. In the near to medium term, we will continue to monitor how the city manages pressured operations. The inability to mange expenditures in line with revenues significantly lowering reserve levels is a credit weakness and will place downward pressure on the rating.

The city's financial performance reflected in the General Fund, has been historically strong with operating results that have yielded sizeable surpluses totaling over $70 million between fiscal years 2008 and 2011, resulting in a General Fund balance of $232.7 million (a strong 25.7% of General Fund revenues) at fiscal year end 2011. In fiscal year 2012, the General Fund reported a $16.2 million draw down reducing the balance to $216.5 million (23.6%). $58 million of the balance was committed for encumbrances, inventories and prepaids. The unassigned portion was $158.5 million (17.3% of General Fund revenues). Included in the unassigned portion was $87.6 million which satisfies the city's 9% reserve policy. The city's budgeting strategy includes the use of reserves, specifically the city can utilize amounts in the unassigned fund balance excluding the 9% that fulfils the reserve policy, to balance the budget. In fiscal year 2013, the city balanced the budget with the use of $71 million from the reserves. The May mid year estimates show that the city expects a draw of $57 million which will reduce the total balance to $159.5 million (17.4% of fiscal year 2012 General Fund revenues) with an unassigned portion of $108.4 million (11.8% of fiscal year 2012 General Fund revenues). Officials maintain that the expected fiscal year end results are very conservative, and expect that year end results will be much stronger. We note that the city has historically conservatively estimated year end results. For example in fiscal year 2011, estimates reported an ending General Fund balance of $184.3 million; actual results were $48.3 million higher at $232.6 million. Also in fiscal year 2012, the city estimated a balance of $191.9 million; actual results were $24.6 million higher at $216.5 million. As mentioned above, a multiyear trend of sustained expenditures outpacing revenues is not sustainable and will place pressure on the rating. However, the management team has historically, and continues to demonstrate a willingness and ability to manage the budget and yield strong operating results. The budget process for fiscal year 2014 is underway, and the city faces a budget gap between $35 to $50 million. The city has begun to identify resources including reserves and expenditure flexibility in ensuring a balanced budget is adopted. We will continue to monitor the budget development. Inability to regain structurally balanced operations will pressure the rating. San Antonio receives some federal grant funding which could be impacted by sequestration. Of the $150 million, officials estimate that federal funding could be reduced by an amount between $4.6 to $6.5 million. Given an almost $1 billion budget, the overall effects are expected to be manageable.

The city's general fund operations are supported primarily by revenues from the city's utility systems which contributed approximately 32.6% of the revenue mix in fiscal year 2012. The city's electric utility, CPS Energy (Aa1 senior lien revenue rating) accounted for a majority of the utility system revenues with $288.1 million (total revenue from utilities was $299.3 million). CPS revenues are based on a percent of CPS returns which can fluctuate due to weather patterns and energy prices. The city takes measures to smooth revenue projections and match potential non-recurring spikes to one-time capital projects. Ad valorem revenues comprised an additional 30.1% while sales taxes (including general and selective sales tax) comprise 24.5% of total General Fund revenues. In fiscal year 2012, CPS revenues were down 3.2%, while sales taxes were up 9.6%, and property taxes were up 0.3%. Officials expect a modest decrease of 1.4% in CPS transfers, an increase of 3.3% for sales taxes, and an increase of 0.8% in property taxes at fiscal year end. Projections for fiscal year 2014 indicate growth in all three categories.

The 2012 CAFR reflects a pension liability of $242.7 million for the Police and Fire pension plan and a $95.1 million unfunded liability for the civilian plan funded through the Texas Municipal Retirement System (TMRS), as of the last actuarial valuation date of 10/1/2011, and 12/31/2011 respectively. The public safety and TMRS plans have solid funding levels of 90.6% and 91.6% respectively, as reported. The city has met 100% of the annual required contribution (ARC) for both plans. The combined FY 2012 ARC payments were a manageable 11% (approximately) of fiscal year 2012 general fund revenues. In 2010 the city took measures to reduce the TMRS pension liability and "turned off" the funding of the automatic cost of living increase to current retirees. The city also has OPEB liabilities for both civilian and uniform of a combined total of approximately $727 million. The city has also implemented cost-reducing measures to manage the unfunded OPEB liability. In addition, to establishing a 30 year amortization schedule and fully fund the ARC, the city plans to increase their contributed portion in 2018. The estimated increases are manageable and do not pose a significant impact to city finances. We view the city's actions to address the long-term liabilities as favorable and demonstrative of strong fiscal management practices. Additionally, the funding levels appear to be consistent with other highly rated cities.

The city's strong fiscal management is a key factor in the high quality rating. Management continues to demonstrate a willingness and ability to implement budget adjustments necessary to maintain solid reserves consistent with the rating. Additionally, the long term financial planning reflects management's commitment to remain fiscally sound despite challenges to key revenues.

DEBT PLANNING DESIGNED FOR THE LONG TERM

The city's management team has designed a long term capital improvement planning (CIP) program that is updated annually. The CIP includes plans for future debt issuances in order to meet ongoing capital needs. The current debt plan forecasts future bond elections for ongoing capital needs. The debt plan also includes the annual issuance of Certificates of Obligation for public safety improvements, streets, drainage, parks, and other city improvements.

Inclusive of the current issue, the city's direct debt burden remains moderate at 2.9% (10.5% overall) on a fiscal year 2013 valuation. Much of this overlapping debt is from several school districts in the city that have issued large amounts of debt to keep up with student enrollment growth and / or aging facilities. Many of these school districts receive as much as 60% to 80% of funding from the State to pay for debt service; therefore, the overall debt burden is somewhat inflated when taking this into consideration. Principal payout is below the median with 63.1% of principal retied within 10 years. Typically, the city's practice is to schedule debt retirement within 20 years of the issuance. We note that this practice is favorable and consistent with the Aaa rating. Ongoing conservative debt management should allow the city to layer in future debt without negatively impacting the direct debt burden.

Included in the city's debt profile is $550.4 million in lease revenue bonds secured by legally available funds of the city subject to annual appropriation. As mentioned above, the two notch distinction between the lease revenue bonds and the general obligation bonds reflects the appropriation risk, the limited impact of debt service on the city's General Fund, and the essentially of the project to the city's economy. The Aa2 also reflects the city's contingency for debt service payment. A portion ($252.8 million) of the proceeds were used to refund existing hotel occupancy tax (HOT) bonds, while the balance ($325 million) will be used to complete the renovation of the Henry B. Gonzalez Convention Center. Although secured by legally available revenues, the city intends to pay for the bonds with HOT revenues. Should the General Fund have to make debt service payments, we believe that the expense is manageable given the limited amount. The debt service schedule is ascending with a maximum annual debt service (MADS) of $62.5 million in FY 2042; MADS accounted for a modest 6.8% of General Fund revenues in fiscal year 2012. Additionally, the city has two contingency funds that totaled $61 million at fiscal year end 2012, which would smoothen out any HOT revenue volatility. We believe that the city's contingency shows prudent financial management, and serves as a mitigating factor to the appropriation risk.

OUTLOOK

Moody's negative outlook on the City of San Antonio's Aaa rating is due to its indirect linkage to the weakened credit profile of the U.S. government. The negative outlook relates to Moody's August 2, 2011 decision to confirm the Aaa government bond rating of the United States and assign a negative outlook, and to our most recent February 5, 2013 assessment of the city's exposure to indirect linkages to the federal government. Moody's has determined that issuers with indirect linkages, such as City of San Antonio, have some combination of economies that are highly dependent on federal employment and spending, a significant healthcare presence in their economies, have direct healthcare operations, and/or high levels of short-term and puttable debt. After calculating these quantitative metrics, Moody's determined that the City of San Antonio had above average exposure to federal employment as percentage of total employment, and federal procurement contracts as % of GDP. Please see the special comment from February 5, 2013 entitled "Update: Ratings of Aaa Municipal Credits Indirectly Linked to the US Government" for more information.

The negative outlook also reflects the city's weakened credit profile marked by a weakening in financial performance. Fiscal year 2012 numbers reflected a draw in General Fund balance, and projected numbers for fiscal year 2013 include a draw on reserves. Although the city expects financial performance will be much stronger and not as severe as originally expected, a multiyear deficit performance is a weakness. Projections for fiscal year 2014 reflect a budgetary gap between $35 to $50 million. Over the outlook period, we will continue to monitor how the city manages its financial performance, and operating pressures; the inability to return to structurally balanced operations and strong reserves will result in downward rating action.

WHAT COULD MAKE THE RATING GO UP (Removal of Negative Outlook)

Strong fiscal year 2013 performance that results in a surplus

Managed fiscal year 2014 expenditures that eliminates the budgetary gap; Return to structurally balanced operations and a growth in reserves

WHAT COULD MAKE THE RATING GO DOWN

Failure to maintain balanced operations; General Fund draw down at fiscal year end 2013, futher weakening financial position

Trend of declining reserves

Trend of significant taxable value loss indicating a weakening of economic position

Downgrade of the U.S. Government's Aaa bond rating

KEY STATISTICS:

2013 Population (city estimated): 1,386,547

2013 full valuation: $71.8 billion

2013 full value per capita: $52,832

Unemployment as of May 2013: 6.1% (US: 8.3%)

Direct debt burden: 2.9%

Overall debt burden: 10.5%

Payout of Principal (10 years): 63.1%

2012 General Fund balance: $216.5 million (23.6% of General Fund revenues)

Post sale GO parity debt (Aaa): $1.5 billion

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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