San Antonio, Texas

Municipal Drainage Utility System Revenue Bonds
New Issue Report

Ratings

New Issue	
Municipal Drainage Utility System Revenue Refunding Bonds, Series 2013	AA
Outstanding Debt	
Municipal Drainage Utility Revenue Bonds	AA

Rating Outlook

Stable

Related Research

Fitch Rates San Antonio, TX's Drainage Revenue Bonds at 'AA'; Outlook Stable (April 2013)

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

Analysts

Gabriela Gutierrez, CPA
+1 512 215-3731
gabriela.gutierrez@fitchratings.com

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

New Issue Details

Sale Information: $74,285,000 Municipal Drainage Utility System Revenue Refunding Bonds, Series 2013, via negotiation the week of April 22.

Security: First lien on gross revenues derived from operation and ownership of the municipal drainage system, including interest income on accounts. Pledged revenues exclude drainage charges specifically provided by ordinance for contribution to the funding of future drainage system construction.

Purpose: To refund outstanding series 2003 and 2005 bonds for savings and pay issuance costs.

Final Maturity: Feb. 1, 2030.

Key Rating Drivers

Sound Financial Metrics: Financial metrics historically have been solid, featuring strong debt service coverage and ample liquidity. Operating pressures are on the horizon as the city completes large capital projects that are financed by GO bonds, but maintained and operated with the pledged stormwater fees.

Rate Flexibility: The current stormwater fee is low, lending ample flexibility for future rate hikes if needed.

Stable Revenue Stream: Stormwater fees are collected as part of the water and sewer bill, and collections are stable with limited delinquencies.

Manageable Capital Needs: Capital projects currently expected to be funded from stormwater fee revenues are limited, although some uncertainty exists as to future projects and the possible impact such projects could have on utility operations.

Adequate Legal Covenants: Legal provisions are adequate. A strong feature is the city's covenant to disconnect water service for nonpayment of drainage fees. However, the debt service reserve requirement is springing and not currently required.

Strong and Diverse Service Area: The trend of San Antonio's overall economic activity and diversification remains relatively stable, with the softening in residential building activity partially offset by steady commercial and military construction.

Rating Sensitivities

Financial Flexibility Maintained: Maintenance of adequate debt service coverage and liquidity, given the rising cost of operations, is a key credit consideration.

Rating History

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	4/18/13
AA	Affirmed	Stable	4/23/12
AA	Upgraded	Stable	5/6/10
AA–	Revised	Stable	4/30/10
A+	Affirmed	Stable	3/18/05
A+	Assigned	—	4/25/03

Credit Profile

San Antonio (GO bonds rated ‘AAA’ by Fitch) is the second largest city in the state and seventh largest in the U.S., with an estimated population of 1.4 million for 2013. The system, which covers the entire city, was created in 1997 as a public utility to provide the city with a funding source to comply with federal Environmental Protection Agency storm water quality mandates.

Historically Strong Financial Performance

Financial performance for the system has been good with net revenue coverage ranging from 1.8x–2.4x over the past five fiscal years. For fiscal 2012, net revenues provided strong 2.0x coverage on annual debt service (ADS), and liquidity remained adequate at 120 days cash on hand, although it declined from 180 days in fiscal 2011. Debt service coverage is projected to be lower with increased spending on the O&M of large capital projects financed with GO bonds. Management indicated its target net coverage is between 1.25x and 1.30x over the next five fiscal years, which is at the rate covenant level (1.25x ADS). Fitch assumes in its rating that coverage will exceed this target, as projections are based on conservative revenue and expenditure assumptions. Significant deviation from historical coverage levels of closer to 2.0x net coverage would put pressure on the current ‘AA’ rating.

Large Capital Improvement Plan Supported by GO Bonds

The city is a partner in an interlocal agreement for a regional flood control program, along with Bexar County and the San Antonio River Authority (SARA), to provide regional management of a unified flood control, drainage and stormwater quality program. Under these agreements, the county and SARA are responsible for funding regional capital projects, with the city of San Antonio taking responsibility for operations and maintenance of these assets.

Local drainage projects have been funded with proceeds from the previously issued revenue bonds and with city GO bonds. The city’s fiscal years 2013–2018 capital improvement plan (CIP) identifies $219 million in drainage projects to be funded primarily with GO debt and roughly $10.3 million in remaining unspent revenue bond proceeds from the series 2003 and series 2005 bonds.

The city does not plan to further leverage the stormwater system revenues at this time. Instead, the city voters recently approved a total of $128 million in GO bond-financed drainage and flood control projects in the May 2012 election. This was part of a larger GO bond authorization request for a total of $596 million. While funding for both local and regional drainage projects is expected to be derived from other sources, stormwater fee revenues are used to maintain and operate the capital projects. As projects are completed and placed in operation, operating costs will rise and likely pressure the system. However, Fitch expects the system’s solid financial profile will continue given the ample rate flexibility.

Good Collections and Rate Flexibility

Through an interlocal contract, the San Antonio Water System (SAWS) bills and collects the stormwater fee on behalf of the city. Each property that receives water and/or sewer service also receives a stormwater bill. Residential customers pay either $39 or $51 annually for stormwater service, depending upon lot size. Given this low annual charge, rate flexibility for future needs is a positive rating factor. The rates have remained unchanged since 2007. Management reports plans to engage an independent rate study to ensure the city maintains an adequate rate structure and rates to cover growing costs of operations. SAWS discontinues water service for nonpayment of drainage charges, thus delinquencies are minimal.

Related Criteria

Revenue-Supported Rating Criteria (June 2012)

U.S. Water and Sewer Revenue Bond Rating Criteria (August 2012)

Adequate Security Provisions

Security provisions include a rate covenant that will produce revenues equal to 1.25x ADS, O&M expenses, and any other indebtedness payable from pledged revenues. The additional bonds test (ABT) calls for gross revenues for the past completed fiscal year or for 12 consecutive months out of the immediately preceding 18 months to be at least 1.25x average annual debt service. Fitch considers the ABT to be weak and is inconsistent with the rate covenant, but derives comfort from the lack of debt issuance plans. The flow of funds, in priority order, is to debt service, O&M expenses, the reserve requirement and then to any lawful purpose. The reserve requirement is average annual debt service (AADS); however, the requirement is waived in each year that gross revenues are at least 1.75x AADS. The city also covenants to discontinue water and sewer services to a user that is delinquent in the payment of drainage charges.

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

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Summary:
San Antonio, Texas; Water/Sewer

Primary Credit Analyst:
James M Breeding, Dallas (1) 214-871-1407; james_breeding@standardandpoors.com

Secondary Contact:
Scott W Sagen, Dallas (1) 214-765-5867; scott_sagen@standardandpoors.com

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Summary:

San Antonio, Texas; Water/Sewer

Credit Profile		
US$74.285 mil mun drainage util sys rev rfdg bnds ser 2013 dtd 05/01/2013 due 02/01/2030		
Long Term Rating	AA+/Stable	New
San Antonio muni drainage util sys		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services has assigned its 'AA+' rating to San Antonio, Texas' municipal drainage utility system revenue refunding bonds, series 2013. At the same time, Standard & Poor's has affirmed its rating on the utility system's series 2003 and series 2005 revenue bonds, though these bonds are expected to be refunded with the series 2013 bond proceeds.

The rating reflects our assessment of the system's:

- Broad, diversified, and growing service area;
- Sound financial performance over the past several years, with strong collection rates;
- Demonstrated willingness to adjust rates, although overall rates remain low; and
- Economies of scale in the implementation of some functions of the drainage utility in conjunction with San Antonio Water System (SAWS).

A first-lien gross revenue pledge on the storm water system secures the bonds. A debt service reserve in the amount of average annual debt service provides additional security, although the reserve is not required to be funded as long as annual debt service coverage (DSC) remains at least 1.75x. While the rate covenant is a moderate 1.25x average annual debt service, annual gross DSC has been significantly higher and management projects it will remain at similar levels.

In our opinion, the storm water fund's financial position remains strong. Service rates remain low, ranging from $3.22 to $4.25 per month depending on residential square footage. Fiscal 2012 gross revenues available for debt service totaled $38.9 million, resulting in gross annual debt service coverage of more than 5.0x. Coverage over the past five years has consistently remained near this level, driven by annually steadily increasing revenues. Revenue projections for the next five years show similar gross coverage levels, because the debt service payment of approximately $6.5 million is level through 2028. The system does, however, fund drainage system maintenance and capital improvements each year. As a result, net coverage each year is much lower than gross coverage and typically near 1.0x. Accumulated cash and recurring surpluses fund these system capital and maintenance needs. The liquidity in the system, however, has remained strong with an ending fund balance of $9.2 million (fiscal 2012). This level will likely decrease and could fluctuate depending on the maintenance needs each year. Although the responsibilities for the storm water system ultimately rest with the city, SAWS provides some services as part of an interlocal agreement, including monitoring and customer billing. Because the storm water fee is included in the water and sewer bill, collection rates are extremely high. The city coordinates the development of its capital program with other jurisdictions in the area, including Bexar County and the San Antonio River Authority.

The city does not have specific plans to issue additional drainage revenue bonds in the near future, as officials will continue to use excess system revenues to address capital needs.

Outlook

The stable outlook reflects Standard & Poor's expectation for maintenance of high liquidity and strong coverage levels, though net coverage may approach thin margins in any given year. Given that revenues are not subject to weather-related fluctuations, revenue stability is likely.

Related Criteria And Research

USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008

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 Aa2 rating to City of San Antonio's (TX) $74.3 million Municipal Drainage Utility System Revenue Refunding Bonds, Series 2013

Global Credit Research - 18 Apr 2013

Affirms Aa2 rating on the city's outstanding $80.9 million in previously issued debt

SAN ANTONIO (CITY OF) TX MUNICIPAL DRAINAGE UTILITY SYSTEM
Storm Water Enterprise
TX

Moody's Rating

ISSUE	RATING
Municipal Drainage Utility System Revenue Refunding Bonds, Series 2013	Aa2
Sale Amount $74,285,000	
Expected Sale Date 04/24/13	
Rating Description Revenue: Government Enterprise	

Moody's Outlook NOO

Opinion

NEW YORK, April 18, 2013 --Moody's Investors Service has assigned a Aa2 rating to the City of San Antonio's (TX) $74.3 million Municipal Drainage Utility System Revenue Refunding Bonds, Series 2013. Concurrently, we have affirmed the Aa2 rating on the system's $80.9 million in currently outstanding previously issued bonds. Proceeds from the sale of the bonds will be used to refund certain maturities of the system's outstanding debt for an expected net present value savings of 14.5% and no extension of the final maturity.

SUMMARY RATINGS RATIONALE

The bonds are secured by a first lien on and pledge of the revenues of the city's Municipal Drainage Utility System. The rating reflects the strong pledge (gross revenues of the system), ample debt service coverage even when considering net revenues of the system, satisfactory financial performance, adequate legal provisions, and the system's sizable and diverse service area.

STRENGTHS

Ample debt service coverage by gross revenues

Strong service area

CHALLENGES

Adequate legal provisions

DETAILED CREDIT DISCUSSION

UTILITY SYSTEM CREATED TO ADDRESS STORM WATER CHALLENGES

In 1997 the city created the Municipal Drainage Utility System in order to address drainage problems throughout the city. State legislation, enacted in 1989, allows cities to establish municipal drainage utility systems to better manage storm water challenges. Under the statute, the drainage utility system functions similar to that of a city water and sewer utility, by assessing a charge to property owners for drainage. The revenue can be used to maintain drainage ways, to pay for drainage capital projects and to pay for environmental regulations regarding drainage and storm water management. Officials report that the system is in compliance with all Texas

Commission on Environmental Quality (TCEQ) mandates. At the moment, the system is in the process of receiving its permit renewal.

GROSS REVENUE PLEDGE PROVIDES STRONG SECURITY; ADEQUATE LEGAL COVENANTS

The city currently assesses two drainage fees. The first is a fee in lieu of detention pond, which is a one-time assessment levied against developers of land and assessed and collected by the city. The fee is determined by acreage and property use according to a set fee schedule; officials are currently weighing a rate determined by impervious cover as an alternative. The second fee is a storm water drainage fee collected monthly by the city owned utility named San Antonio Water System (SAWS) from its customers. Security on the debt is provided by a gross pledge of these revenue sources, although conservative coverage with net revenues will also be presented. The flow of funds is for debt service, operations and maintenance and then to the debt service reserve fund. Thereafter, any available monies may be transferred to the City's General Fund or used for any additional purposes. A gross revenue pledge adds strength to the credit quality of the bonds compared to using net revenues, which is generally considered a weaker pledge. The additional bonds test calls for revenues to be at least 1.25 times average annual debt service for all outstanding bonds after given effect to the additional bonds. The rate covenant requires 1.25 times annual debt service. The reserve fund equals average annual debt service but the city is not required to fund the reserve if the revenues for each fiscal year equal at least 1.75 times the average annual debt service; the city has not had to fund the debt service reserve.

AMPLE DEBT SERVICE COVERAGE

Drainage fee revenues have increased annually over the last three years as new residential and commercial construction continues with these revenues providing solid coverage of debt service requirements. Total revenues have grown 7% over the past four years from $39.6 million in fiscal year 2009 to $42.3 million in fiscal year 2012. In fiscal year 2012, the system's total revenues of $42.3 million provided strong coverage of 5.79 times the debt service of $7.3 million. Conservatively, net revenues (before transfers) provided coverage of 1.54 times of the debt service. The maximum annual debt service (MADS) is scheduled for 2017, and fiscal year 2012 gross revenues provided ample coverage of 6.44 times debt service (1.71 times net coverage). The system has not increased rates since fiscal year 2008 when rates were increased by 8.24% (effective October 1, 2007), and there are no current plans for an increase. Projections provided by the city include gross coverage in excess of 5.90 times over the next five years. Despite the absence of planned increases, Moody's believes coverage levels will remain strong given demonstrated prudent fiscal management and historically strong coverage.

MANAGEABLE DEBT PROFILE

The system has capital needs totaling $80 million in local projects and $270 million in regional projects over the next 10 - 15 years. Over the next 5 years, officials report needs totaling $10 million largely for drainage rehabilitation projects, which are expected to be cash funded. Given the size of the system's cash reserve equal to $29.9 million (70.8% of total revenues in fiscal year 2012), we expect the projects will have manageable impact on reserves. Payout is average with 58.43% of debt retired in 10 years. The current issue largely refund the Series 2003 and 2005 bonds, with the exception of two maturities. Moody's believes the system's debt profile will remain affordable over the long term with current debt management practices.

LARGE AND DIVERSE SERVICE AREA

The strength of the service area is reflected in the sizable and diverse tax base of $71.8 billion (fiscal year 2013) for the City of San Antonio (G.O. rated Aaa/negative) fueled by strong population growth, and a diverse economy. Over the last five years, the tax base has grown an average of 1.7% annually. San Antonio Waterworks System (senior lien revenue bonds rated Aa1/STA) provides water and wastewater services to approximately 1.3 million people in and around Bexar County (G.O. rated Aaa/negative).

WHAT COULD MAKE THE RATING GO UP

Strengthened liquidity; increased coverage levels

WHAT COULD MAKE THE RATING GO DOWN

Decline in debt service coverage; decline in liquidity

KEY STATISTICS

Fiscal 2012 debt service coverage (gross revenues): 5.8 times

Fiscal 2012 debt service coverage (net revenues, before transfers): 1.54 times

Fiscal 2012 MADS debt service coverage (gross revenues): 6.44 times

Payout of principal (10 years): 58.43%

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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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Analysts

Adebola Kushimo
Lead Analyst
Public Finance Group
Moody's Investors Service

Keaton Hoppe
Backup Analyst
Public Finance Group
Moody's Investors Service

Lauren Von Bargen
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

MOODY'S
INVESTORS SERVICE