San Antonio, Texas

Limited Tax Bonds
New Issue Report

Ratings

New Issue

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

Rating Outlook

Stable

Related Research

San Antonio, Texas (July 2014)

San Antonio City Public Service, Texas (November 2014)

San Antonio, Texas (July 2013)

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New Issue Details

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

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

Purpose: To refund outstanding debt for interest cost savings.

Final Maturity: Feb. 1, 2025.

Key Rating Drivers

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

Mixed Debt Profile: The city's debt profile is mixed, characterized by a high overall debt burden, balanced against moderately rapid limited tax bond amortization and ample and growing debt service capacity within the current tax rate. The city's capital plan is aggressive but will allow the city to address its sizable deferred capital needs.

Military Remains Key Sector: Although the local economy has diversified notably, the military remains a major economic factor. This is evidenced by very large recent investments and additions to troop strength resulting from base realignment and closure decisions that have benefited the city.

Stable Economy: The recessionary contraction of the local economy has reversed course, and the city's unemployment rate continues to be well below state and national averages. Population growth remains rapid, aided by affordable home prices and ample developable land.

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

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

Rating Sensitivities

Shift in Fundamentals: The rating is sensitive to shifts in fundamental credit characteristics, including the city's strong, albeit reduced, financial reserves. Additional significant reductions in reserves, even if planned, could result in negative rating pressure.

Rating History — Limited Tax Bonds

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	11/13/14
AAA	Affirmed	Stable	7/24/14
AAA	Affirmed	Stable	7/3/13
AAA	Affirmed	Stable	5/29/13
AAA	Affirmed	Stable	10/3/12
AAA	Affirmed	Stable	7/23/12
AAA	Affirmed	Stable	3/22/12
AAA	Affirmed	Stable	7/8/11
AAA	Affirmed	Stable	3/17/11
AAA	Affirmed	Stable	6/11/10
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	3/1/10
AA+	Affirmed	Stable	6/16/03
AA+	Upgraded	—	10/26/99
AA	Assigned	—	10/13/92

Rating History — MFC Lease Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	11/13/14
AA+	Affirmed	Stable	7/24/14
AA+	Affirmed	Stable	7/3/13
AA+	Affirmed	Stable	5/29/13
AA+	Affirmed	Stable	10/3/12
AA+	Affirmed	Stable	7/23/12
AA+	Affirmed	Stable	3/22/12
AA+	Affirmed	Stable	7/8/11
AA+	Affirmed	Stable	3/17/11
AA+	Affirmed	Stable	6/11/10
AA+	Revised	Stable	4/30/10
AA	Affirmed	Stable	3/1/10
AA	Affirmed	Stable	6/16/03
AA	Upgraded	—	10/26/99
AA–	Assigned	—	10/13/92

Rating History — Starbright IDC Contract Revenue Bonds

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

Rating History — PFC Lease Revenue Bonds

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

Related Criteria

Tax-Supported Rating Criteria (August 2012)

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

Credit Profile

San Antonio is the second largest city in the state and seventh largest in the U.S., with an estimated population of 1.4 million for 2014. Prominent sectors in the local economy are military and government employment, domestic and international trade, convention and tourism, medical and healthcare, financial services and telecommunications.

Solid Financial Reserves

The city's financial profile remains solid, as evidenced by the maintenance of unreserved or unrestricted fund balances in excess of 18% of spending since fiscal 2006, well above its 9% fund balance policy level. Additions to fund balance had been enabled by strong sales tax growth and positive CPS payment trends, along with management's aggressive cost controls in the form mainly of annual personnel reductions. However, in recent years, the moderate planned use of reserves to balance budgets has reduced the city's financial cushion. Fitch expects any future planned drawdowns to be more modest.

Two-Year Budget Strategy

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

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

Fiscal 2014 and Current Year's Budget

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

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

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

General Fund Financial Summary

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

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

Note: Numbers may not add due to rounding.

Large Capital Needs

Voters approved a $596 million general obligation bond authorization in May 2012, the largest in the city's history. The bond authorization is intended to address the city's substantial deferred capital needs. According to management, all future debt will be sized and timed to maintain the city's current debt service tax rate assuming modest tax base growth. The city plans to issue about $160 million of its remaining $214 million bond authorization in summer 2015. The city plans to seek similarly sized authorizations every five years.

Overall Debt Profile Pressured

The impact of the 2012 bond program on the city's direct debt profile should be manageable given its declining debt service schedule, above-average payout rate and expansive tax base. But the city's overall debt burden remains elevated at $5,844 per capita and 8.9% of market value due to the presence of 12 overlapping school districts. The 10-year principal amortization rate for property tax-supported bonds is above average at 64%.

Starbright Bonds' High Coverage Levels Expected

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

Debt Statistics

($000)

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

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

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

PFC Lease Revenue Bond Differential

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

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

Well-Funded Pension Plans

Civilian and certain public safety employees participate in an agent multiple-employer defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). Recent changes to TMRS's valuation methodology and the elimination of automatic repeating cost-of-living adjustments increased the pension's funded ratio to a high 86.9% as of Dec. 31, 2013. TMRS's valuation is based on a 7% discount rate, which Fitch considers reasonable. Firefighters and police participate in a single-employer defined benefit pension plan that was similarly well funded at an estimated 87% as of Oct. 1, 2013, using a Fitch-adjusted 7% investment return assumption.

Retiree health benefits for civilians are provided by the city and are funded on a pay-as-you-go basis. Retiree health benefits for firefighters and police have been financed on a prefunded basis since 1989, resulting in a notable funded position of 40% as of Oct. 1, 2013. The combined carrying costs for the city's tax-supported debt, pension and other post-employment benefit obligations totaled a moderate 17.3% of fiscal 2013 governmental expenditures. Fitch notes that a healthcare and benefits taskforce has recommended that the city review public safety healthcare and retirement benefits for potential cost savings.

Military Still Key Within Broad Economy

Although the local economy has diversified notably, the military remains a major economic factor. This is evidenced by very large recent investments and additions to troop strength resulting from base realignment and closure decisions that have benefited the city. Recent employment gains have been led by the professional/business services and construction sectors. Energy sector employment has also expanded considerably due to surging oil and gas activity within the nearby Eagle Ford Shale. As a result, the city's unemployment rate declined to 4.7% in September 2014, down from the 5.9% level recorded a year prior. The city's unemployment rate compares favorably with state and national averages of 5.0% and 5.7%, respectively, for the same period.

Property Value and Sales Tax Trends

($000, Fiscal Years Ending Sept. 30)

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

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

After posting strong annual gains through fiscal 2009, the city's taxable values remained flat through fiscal 2013 as new improvement values were offset by reappraisal losses on existing properties. AV rebounded with increases of 5.3% and 6.1% in fiscal years 2014 and 2015, respectively. The city projects annual new construction will increase taxable values from 1.8%–2.5% annually over the next five years, which Fitch considers reasonable.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.