# San Antonio, Texas

## Limited Tax Bonds
## New Issue Report

### Ratings

**New Issues**

| | |
|---|---|
| General Improvement and Refunding Bonds, Series 2014 | AAA |
| Tax Notes, Series 2014B | AAA |

**Outstanding Debt**

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

### Rating Outlook

Stable

### Related Research

San Antonio City Public Service (June 2014)

San Antonio, Texas (July 2013)

San Antonio, Texas (October 2012)

### Analysts

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## New Issue Details

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

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

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

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

## Key Rating Drivers

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

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

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

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

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

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

## Rating Sensitivities

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

## Rating History — Limited Tax Bonds

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

## Rating History — Municipal Facilities Corporation Lease Revenue Bonds

| Rating | Action | Outlook/ Watch | Date |
|---|---|---|---|
| AA+ | Affirmed | Stable | 7/24/14 |
| AA+ | Affirmed | Stable | 7/3/13 |
| AA+ | Affirmed | Stable | 5/29/13 |
| AA+ | Affirmed | Stable | 10/3/12 |
| AA+ | Affirmed | Stable | 7/23/12 |
| AA+ | Affirmed | Stable | 3/22/12 |
| AA+ | Affirmed | Stable | 7/8/11 |
| AA+ | Affirmed | Stable | 3/17/11 |
| AA+ | Revised | Stable | 4/30/10 |
| AA | Assigned | Stable | 3/1/10 |

## Rating History — Starbright Industrial Development Contract Revenue Bonds

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

## Rating History — Public Facilities Corporation Lease Revenue Bonds

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

### Related Criteria

Tax-Supported Rating Criteria (August 2012)

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

## Credit Profile

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

## General Fund Summary

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

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

Note: Numbers may not add due to rounding.

### Solid Financial Reserves

The city's financial profile remains solid as evidenced by the maintenance of unreserved fund balances in excess of 20% of spending since fiscal 2006, well above its 9% fund balance policy level. Additions to fund balance had been enabled by strong sales tax growth and positive CPS payment trends, along with management's aggressive cost controls, mainly in the form of annual personnel reductions. However, in recent years, the moderate planned use of reserves to balance budgets has reduced the city's financial cushion. Fitch expects any future planned drawdowns to trend downward.

### Two-Year Budget Strategy

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

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

## Property Value and Sales Tax Trends

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

| Fiscal Year | Taxable Assessed Valuation | % Change | General Fund Sales Tax Receipts[a] | % Change |
|---|---|---|---|---|
| 1998 | 29,422,285 | — | 118,992 | — |
| 1999 | 31,253,551 | 6.2 | 126,473 | 6.3 |
| 2000 | 33,315,479 | 6.6 | 135,130 | 6.8 |
| 2001 | 36,033,321 | 8.2 | 136,811 | 1.2 |
| 2002 | 39,587,584 | 9.9 | 140,084 | 2.4 |
| 2003 | 41,535,547 | 4.9 | 138,962 | (0.8) |
| 2004 | 44,536,796 | 7.2 | 148,500 | 6.9 |
| 2005 | 46,481,974 | 4.4 | 162,786 | 9.6 |
| 2006 | 49,868,955 | 7.3 | 177,806 | 9.2 |
| 2007 | 56,767,702 | 13.8 | 189,753 | 6.7 |
| 2008 | 65,954,867 | 16.2 | 196,306 | 3.5 |
| 2009 | 72,541,141 | 10.0 | 187,415 | (4.5) |
| 2010 | 72,743,220 | 0.3 | 188,741 | 0.7 |
| 2011 | 71,007,547 | (2.4) | 200,245 | 6.1 |
| 2012 | 70,681,198 | (0.5) | 219,648 | 9.7 |
| 2013 | 71,419,599 | 1.0 | 231,000 | 5.2 |
| 2014 | 75,198,528 | 5.3 | 243,600 | 5.5 |

[a]Fiscal 2014 sales tax receipts are projected.

### Current Year's Progress and Fiscal 2015 Budget

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

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

### Large Capital Needs

Part of the current offering represents the third installment of the $596 million general obligation bond authorization approved by voters in May 2012. As the largest bond authorization in the city's history, it is intended to address the city's substantial deferred capital needs. According to management, all future debt will be sized and timed to maintain the city's current debt service tax rate assuming modest tax base growth. The city plans to seek similarly sized authorizations every five years.

## Overall Debt Profile Pressured

The impact of the 2012 bond program on the city's direct debt profile should be manageable given its declining debt service schedule, average payout rate and expansive tax base. The city's overall debt burden remains elevated at $5,861 per capita and 9.5% of market value. After this issuance of $160 million in new money bonds, the city's remaining bond authorization totals $238 million. The city does not anticipate issuing additional new money bonds in the next 12 months.

### Debt Statistics

($000)

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

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

## Starbright Bonds' High Coverage Levels Expected

The contract revenue bonds, whose proceeds financed the acquisition and conveyance of the site for a Toyota manufacturing plant, comprise a modest part of the city's debt portfolio. The 'AA+' rating on these bonds reflects the strength of the revenue stream from which bond repayments are made, the very high debt service coverage and the solid contract and legal covenants of the transaction. CPS's annual payment to the city's general fund is pledged for repayment of the contract revenue bonds.

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

## PFC Lease Revenue Bond Differential

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

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

## Well-Funded Pension Plans

Civilian and certain public safety employees participate in an agent multiple-employer defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). Recent changes to TMRS's valuation methodology and the elimination of automatic repeating cost-of-living adjustments increased the pension's funded ratio to a high 91.7% as of Dec. 31, 2012. TMRS's valuation is based on a 7% discount rate, which Fitch considers reasonable. Firefighters and police participate in a single-employer defined benefit pension plan that was similarly well funded at an estimated 87% as of Oct. 1, 2013, using a Fitch-adjusted 7% investment return assumption.

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

## Solid Employment and Tax Base Trends

Recent employment gains have been led by the leisure/hospitality and construction sectors. Energy sector employment has also expanded considerably due to surging oil and gas activity within the nearby Eagle Ford Shale. As a result, the city's unemployment rate declined to 4.7% in May 2014, down from the 5.8% level recorded in May 2013. The city's unemployment rate compares favorably with state and national averages of 5.1 % and 6.1%, respectively, for the same period.

After posting strong annual gains through fiscal 2009, the city's taxable values remained flat through fiscal 2013 as new improvement values were offset by reappraisal losses on existing properties. AV rebounded with a 5.3% increase in fiscal 2014 and preliminary AV results for fiscal 2105 point to a solid 5.8% gain. The city projects annual new construction will increase taxable values from 1.8%–2.5% annually over the next five years, which Fitch considers reasonable.

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

STANDARD & POOR'S
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McGRAW HILL FINANCIAL

# RatingsDirect®

Summary:

# San Antonio, Texas; Appropriations; General Obligation

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## Table Of Contents

Summary:

# San Antonio, Texas; Appropriations; General Obligation

| Credit Profile | | |
| --- | --- | --- |
| US$230.65 mil gen imp and rfdg bnds ser 2014 dtd 07/01/2014 due 02/01/2034 | | |
| *Long Term Rating* | AAA/Stable | New |
| US$8.12 mil tax nts ser 2014B dtd 07/01/2014 due 02/01/2021 | | |
| *Long Term Rating* | AAA/Stable | New |

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to San Antonio, Texas' series 2014 general improvement and refunding bonds and series 2014B tax notes. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's outstanding general obligation (GO) debt and its 'AA+' rating and SPUR on San Antonio Municipal Facilities Corp. debt issued for the city. The outlook is stable.

The ratings reflect our view of the city's:

- Strong economy that is part of a broad and diverse metropolitan statistical area, with a stabilizing presence provided by the major military installations;
- Very strong management conditions with strong financial practices;
- Very strong budgetary flexibility;
- Very strong liquidity, with total government available cash providing strong coverage of both total governmental expenditures and debt service;
- Strong budgetary performance, with reserves at more than 15% of operational expenditures; and
- Adequate debt and contingent liabilities position.

The bonds are secured by a limited ad valorem tax levied on all taxable property located within the city, which is considered to be a GO pledge.

### Strong economy

San Antonio's local economy is strong, in our view, with per capita market value at roughly $56,300 and projected per capita effective buying income at 87% of the national average. With more than 1.4 million residents, San Antonio is Bexar County's seat and the nation's seventh-largest city. The city continues to experience sustained growth in the manufacturing, tourism, and services sectors. Over the past few years, several new companies have moved in and around the city to participate in the Eagle Ford Shale play, which has boosted both taxable values and jobs for the city. The city is broad and diverse, in our opinion, and the major military installations in the city provide a stabilizing presence for the economy. Redevelopment of the city's downtown has been a major project for the city, with a goal of having 7,500 housing units downtown by 2020. The first major grocery store for downtown is due to open in the spring of 2015, which will likely help to spur this growth. The city has also been in the process of expanding and renovating its convention center downtown; conventions are a major economic driver for the city. According to the Bureau of Labor Statistics, the Bexar County unemployment rate for 2013 was 6.0%, which we consider low.

### Very strong management

San Antonio's management conditions are very strong, in our view, with "strong" financial practices under our Financial Management Assessment (FMA) methodology, indicating practices are, in our opinion, strong, well embedded, and likely sustainable. Strengths of the assessment, in our opinion, include the city's use of conservative revenue and expenditure assumptions in its budgeting process, strong oversight in terms of monitoring its progress against the budget during the year, monthly reporting to the city council, ability to amend the budget as needed, formal investment policy with quarterly updates to the council, five-year rolling capital improvement plan, and extensive five-year financial plan. The city recently revised its formal reserve policy to require the maintenance of at least 10% of operating expenditures (up from 9%) in reserve.

### Very strong budgetary flexibility

San Antonio's budgetary flexibility is very strong, in our opinion, with available reserves at approximately $138.6 million, or 15% of operating expenditures, at the end of fiscal 2013. The city conservatively projects to end fiscal 2014 with a total general fund balance of about $190.8 million. Given the city's projections, coupled with a formal 10% reserve policy and a target of at least 15%, we do not expect the city's budgetary performance will deteriorate.

### Very strong liquidity

In our view, very strong liquidity supports San Antonio's finances, with total government available cash at 23% of total government fund expenditures and at 181% of debt service coverage. Based on past debt issuances, which include the frequency of issuance and the type of debt issuance, we believe that the issuer has exceptional access to capital markets to provide for liquidity needs if necessary.

### Strong budgetary performance

We view San Antonio's budgetary performance to be strong overall, with a surplus of 1.2% for the general fund and a deficit of 3.5% for the total governmental funds in fiscal 2013, after adjusting for the spending-down of previously deposited bond proceeds as well as additional nonrecurring expenditures. The city's projections for fiscal 2014 indicate a surplus of about 4.2% in the general fund. The city budgets on a two-year basis and currently has no plans to significantly draw down on its reserves or materially alter its budget practices. It is common practice for the city to project budget gaps and work throughout the year to close them and maintain its historically strong financial position.

The general fund continues to rely on contributions from the city's electric provider, City Public Service Energy (AA/Stable); these transfers are the largest source of general fund revenue and accounted for about 33% of total general fund revenues in fiscal year 2013. While the utility has moved into a deregulated environment, we believe that its favorable and competitive position mitigates the risks with the city's dependence on these payments.

### Adequate debt and contingent liabilities

In our view, San Antonio's debt and contingent liabilities profile is adequate. Total governmental fund debt service is 12.8% of total governmental funds expenditures, and net direct debt is 106.4% of total governmental funds revenue. Approximately 70% of the debt is repaid within 10 years, which we view as a credit strength. We understand that the city may issue additional GO refunding bonds this fall.

San Antonio provides two pension benefit plans to its employees: the Texas Municipal Retirement System (TMRS) and the Fire and Police Pension Fund. The city conducts an annual actuarial valuation on both funds. Based on these actuarial valuations, the unfunded actuarial accrued liability (UAAL) of the fire and police pension plan as of Oct. 1, 2013, was $232.9 million, which represented a 91.8% funded ratio. The city's UAAL related to the TMRS was $174.8 million as of Dec. 31, 2013, equivalent to an 86.9% funded ratio, which is significantly higher than the 73.3% funded ratio identified in the Dec. 31, 2009, actuarial valuation. Management attributes the reduction in the city's unfunded pension liability partly to an improving investment portfolio performance and the elimination of annual repeating cost-of-living adjustments. The combined annual required contribution pension costs and other postemployment benefit pay-as-you-go costs for fiscal 2013 were less than 10% of expenditures, and the city does not anticipate that these costs will increase substantially in the near term.

### Strong institutional framework

We consider the institutional framework score for Texas cities as strong. See Institutional Framework score for Texas.

## Outlook

The stable outlook reflects our view of San Antonio's broad and diverse economy, strong budgetary performance, and very strong budgetary flexibility, which will likely allow management to successfully develop its capital program and meet growing service delivery needs. We do not expect to change the ratings within the next two years given the continued diversification of the city's economic and employment base, coupled with the city's strong financial management practices.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

### Related Research

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

| Ratings Detail (As Of July 24, 2014) | | |
|---|---|---|
| San Antonio GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| San Antonio GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| **San Antonio GO** | | |
| *Unenhanced Rating* | AAA(SPUR)/Stable | Affirmed |
| **San Antonio Mun Facs Corp, Texas** | | |
| San Antonio, Texas | | |

| Ratings Detail (As Of July 24, 2014) (cont.) | | |
|---|---|---|
| San Antonio Mun Facs Corp (San Antonio) (Pub Safety Answering Point Proj) | | |
| *Long Term Rating* | AA+/Stable | Affirmed |
| San Antonio (Mun Facs Corp) (Dev and Bus Svcs Ctr Proj) | | |
| *Long Term Rating* | AA+/Stable | Affirmed |
| **San Antonio Mun Fac Corp lse rev bnds** | | |
| *Unenhanced Rating* | AA+(SPUR)/Stable | Affirmed |
| **San Antonio Pub Facs Corp, Texas** | | |
| San Antonio, Texas | | |
| San Antonio Pub Facs Corp (San Antonio) (Convention Center Refinancing and Expansion Proj) | | |
| *Long Term Rating* | AA+/Stable | Affirmed |
| **Starbright Indl Dev Corp, Texas** | | |
| San Antonio, Texas | | |
| Starbright Indl Dev Corp (San Antonio) | | |
| *Long Term Rating* | AA+/Stable | Affirmed |
| Starbright Indl Dev Corp (San Antonio) (Starbright Proj) | | |
| *Long Term Rating* | AA+/Stable | Affirmed |

Many issues are enhanced by bond insurance.

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Moody's INVESTORS SERVICE

# New Issue: Moody's affirms City of San Antonio's TX, GOLT Aaa; outlook remains negative

Global Credit Research - 24 Jul 2014

**Affirms Aa1, and Aa2 in lease revenue bonds**

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

**Moody's Rating**

| ISSUE | | RATING |
|---|---|---|
| General Improvement and Refunding Bonds, Series 2014 | | Aaa |
| **Sale Amount** | $230,650,000 | |
| **Expected Sale Date** | 07/29/14 | |
| **Rating Description** | General Obligation Limited Tax | |
| Tax Notes, Series 2014B | | Aaa |
| **Sale Amount** | $8,120,000 | |
| **Expected Sale Date** | 07/29/14 | |
| **Rating Description** | General Obligation Limited Tax | |

**Moody's Outlook** NEG

**Opinion**

NEW YORK, July 24, 2014 --Moody's Investors Service has affirmed the City of San Antonio's TX Aaa rating on its general obligation limited tax bonds. At the same time, we have assigned the Aaa to the two new GOLT issues. The outlook remains negative. We have also affirmed the Aa1, and Aa2 on outstanding lease revenue bonds. Including the current sale, the city has a total of $1.5 billion in general obligation limited tax bonds, and $584.8 million in lease revenue bonds.

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 expected improved financial position at fiscal year end 2014 as well as a fiscal year 2015 budget that is anticipated to be balanced. The rating also incorporates the city's financial management that includes multiyear budgeting practices and conservative budget assumptions, strengthened financial policies, and financial flexibility that incorporates additional reserves outside the General Fund and ample taxing margin. The rating continues to reflect a strong and vibrant economy, growing taxable values, and depressed socioeconomic indicators partly due to institutional presence. Additionally the rating reflects slightly elevated debt burdens for the rating category, and; given current plans for pension adjustments, manageable long-term liabilities for pension and OPEB.

The Aa1, and Aa2 lease revenue bond ratings reflects the General Fund (GF) appropriation risk, and the limited impact of debt service on the city's GF. The Aa1 rating affects $34.4 million, and reflects the essentiality of the projects (municipal building, and an emergency dispatch center). The Aa2 reflects thethe non-essentiality of the convention center, although we consider the center an important project to the city's economy. The rating on the Public Facilities Corporation (PFC's) bonds which currently total $550.4 million in outstanding obligations, 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 is maintained as expected improvement in financial performance in fiscal year 2014 will mark one year of a return to balanced operations, and a demonstrated trend of solid financial performance is needed to remove the negative outlook.

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; FY 2014 expected to yield surplus operating performance

Strengthened financial policies

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 nearly 70% of expenditures for first responder indicative of a large population and demand for services

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

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

DETAILED CREDIT DISCUSSION

DIVERSE AND VIBRAND REGIONAL ECONOMY REMAINS STRONG

The city's strong economy is expected to continue thriving over the medium term with ongoing public private investments that should bolster capital projects. 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. Since then, population has grown an estimated 6.4% to 1.4 million people. The city's economy is vibrant with diverse industries including military, hospitality, financial, healthcare, education, and aerospace amongst others. Despite the growth, unemployment has historically tracked well below national levels and slightly below state levels. The May 2014 rate of 4.7% was less than the state's 5.1%, and the nation's 6.1% taken during the same time period. 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 2005 Base Realignment and Closure (BRAC) continues to benefit the city. With investments made, the city maintains a strong presence of military medical care. Activity in the Eagle Ford Shale also provides jobs and bolsters the local economy. 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 March 2014 Moody's Economy.com report expects the city's expansion to strengthen in 2014, lifted by gains in housing, manufacturing and development in the Eagle Ford Shale. Longer term, above average population gains, the presence of significant energy resources in nearby areas, low cost of doing business, relatively high housing affordability, and an increasing manufacturing presence is expected to contribute to an above average overall performance.

TAXABLE VALUES EXPECTED TO EXHIBIT POSITIVE TRENDS IN THE MEDIUM TERM

Driven by economic initiatives, the city's taxable values have grown an annual average of 0.5% over the past five years following modest decreases in fiscal years 2011 and 2012. Since then, values have grown 1% and 5.3% to a total of $75.2 billion in fiscal year 2014. Preliminary indications for fiscal year 2015 reflect an increase of 5.8%. Officials project 3.5% in the next two years, and then 3% in fiscal year 2018 and 2019. 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.

FY 2014 EXPECTED TO RESULT IN SURPLUS FOLLOWING DRAWS IN THE PRIOR TWO YEARS

The city's financial profile has historically been marked with trends of strong operating performance with surpluses that bolstered reserve levels. However in fiscal years 2012 and 2013, the financial position was weakened by draws totaling $47.5 million largely due to operating needs, resulting in a General Fund balance of $185.2 million (19.8% of General Fund revenues). The General Fund performance, as well as the financial picture at the time reflected annual draws over the next five years that were unsustainable and inconsistent with the Aaa rating. However, since then, the city has taken several steps to return to structural balance and maintain its fiscal health. However, year to date, officials report strong revenue collections have closed the gap, and revised expectations to a surplus of almost $10 million. The budget process for fiscal year 2015 is underway. Right now, the city faces a $27.4 million gap in fiscal year 2015 that is expected to be closed with the combination of department cuts and savings from the ongoing negotiations with the public safety group. While the anticipated fiscal year 2014 results are positive, a demonstrated trend of structurally balanced operations is needed to remove the negative outlook. Future credit reviews will focus on the city's ability to exhibit structurally balanced operations and grow reserves.

The city's general fund operations are supported primarily by revenues from the city's utility systems which contributed approximately 32.9% of the general fund revenues in fiscal year 2013. The city's electric utility, CPS Energy (Aa1 senior lien revenue rating) accounted for a majority of the utility system revenues with $295.3 million (total revenue from utilities was $307.3 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 29.9% while sales taxes (including general and selective sales tax) comprise 25.3% of total General Fund revenues. In fiscal year 2013, CPS revenues were up by 1.1%, while sales taxes were up 10.8%, and property taxes were up 1.2%. The strong performance is expected to continue given customer demand, and population growth.

STRENTHENED FINANCIAL POLICIES; STRONG FISCAL MANAGEMENT

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 recently strengthened its financial policy to maintain a minimum reserve of 10%, up from the 9% previously adopted. Additionally, the financial policy calls for a budget reserve of between 1% and 3% for the second year in the budget cycle, as well as a $1 million General contingency and a $3 million capital contingency. As such, the city expects to maintain a minimum target of 15% in reserves. Management also monitors finances monthly, with a quarterly update presented to council. In the medium term, although projects still reflect draws which has been moderated, officials expect currently negotiated contract changes for the public safety group will generate recurring savings, which coupled with careful expenditure control will be sufficient to align revenues with expenditures. Resolution of the negative outlook will depend on the city's ability to right size operations. Failure to return and maintain structural balance will result in downward rating action.

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. Within the plan, the city intends to approach voters for about $630 million every five years to fund capital; the last authorization was received in fiscal year 2012.

Inclusive of the current issue, the city's direct debt burden remains moderate at 2.9% (10.8% overall) on a fiscal year 2014 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 60.8% of principal retired 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 $584.8 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 projects to the city's economy. Majority of the lease ($550.4 million) reflects the lease revenue associated with the expansion of the Henry B. Gonzalez convention center. Although secured by legally available revenues, the city historically has and intends to continue 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 7.2% of General Fund revenues in fiscal year 2013. Additionally, the city has three contingency funds that totaled $71.5 million at fiscal year end 2013, 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. The remaining portion ($34. million) was used to fund a municipal facility, as well as an emergency dispatch center. The MADS of $2.9 million is scheduled for fiscal year 2015, and accounted for 0.3% of fiscal year 2013 General Fund revenues.

The city participates in two retirement systems: the Texas Municipal Retirement System (TMRS) for all employees, and the San Antonio Fire and Police Pension Plan for public safety employees. The city has historically made 100% of its annual required contribution (ARC). As reported, the city's unfunded actuarial accrued liability (UAAL) for the Municipal, and Fire and Police plans were $98.6 million, and $214.7 million with a funded ratio of 91.7%, and 91.4% respectively. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is a total of $2.3 billion in fiscal year 2013. The three year average ANPL is a manageable 1.47 times of operating revenues, including the General and Debt Service funds. The ratio is also a moderate 2.47% of the city's full valuation. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported contribution information, or the reported liability information of the statewide cost-sharing plans, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, governments, and other entities across the globe please visit Moody's on Pensions at www.moodys.com/pensions.

OUTLOOK

Despite anticipated improvements in fiscal year 2014, the negative outlook is sustained reflecting our expectation that a demonstrated trend of improvement is needed to remove the outlook.

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

Strong fiscal year 2014 results; structurally balanced fiscal year 2015 results

Ability to maintain balanced operations going forward

WHAT COULD MAKE THE RATING GO DOWN

Failure to return to structurally balanced operations depleting GF 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

FY 2014 Full Value: $75.2 billion

FY 2014 Full Value Per Capita: $54,341

2013 ACS Median Family Income as a % of the US: 82.70%

FY 2013 Available Operating Fund Balance as a % of Operating Revenues: 14.68%

5 Year Dollar Change in Fund Balance as a % of Operating Revenues: -8.32%

FY 2013 Available Operating Cash Balance as a % of Operating Revenues: 11.71%

5 year Dollar Change in Cash Balance as a % of Operating Revenues: -6.13%

Institutional Framework: Aa

Operating History: 5 Year Average of Operating Revenues/Operating Expenditures: 1.06x

Net Direct Debt/Full Value: 2.73%

Net Direct debt/Operating Revenues: 1.59x

3 year Average of Moody's Adjusted Net Pension Liability/Full Value: 2.47%

3 year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 1.44x

RATING METHODOLOGY

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the lease backed rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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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