STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

San Antonio, Texas; Appropriations; General Obligation

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Table Of Contents

Summary:

San Antonio, Texas; Appropriations; General Obligation

Credit Profile		
US$339.615 mil gen imp and rfdg bnds ser 2015 dtd 07/01/2015 due 02/01/2035		
Long Term Rating	AAA/Stable	New
US$43.94 mil comb tax and rev certs of oblig ser 2015 dtd 07/01/2015 due 02/01/2035		
Long Term Rating	AAA/Stable	New
US$36.93 mil comb tax and rev certs of oblig ser 2015 dtd 07/01/2015 due 02/01/2035		
Long Term Rating	AAA/Stable	New
US$4.845 mil tax nts ser 2015 dtd 07/01/2015 due 02/01/2018		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to San Antonio, Texas' series 2015 general improvement and refunding bonds, series 2015 combination tax and revenue certificates of obligation, taxable series 2015 combination tax and revenue certificates of obligation, and series 2015 tax notes. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's general obligation (GO) debt outstanding and its 'AA+' rating and SPUR on San Antonio Municipal Facilities Corp. debt, issued for the city. The outlook is stable.

The bonds, certificates, and notes are secured by the city's levy of an annual ad valorem tax on all taxable property in the city. The maximum allowable rate in the state of Texas is $2.50 per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to $1.50. The city's levy is well below the maximum, at 56.569 cents, 21.15 of which is dedicated to debt service. Additional security for the certificates is provided by a pledge of the city's surplus net revenues from its municipal parks system not to exceed $1,000. Proceeds from the four issuances will be used primarily to fund various capital projects.

The ratings reflect our assessment of the following factors of the city:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2014, which closed with an operating surplus in the general fund but an operating deficit at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash of 24.4% of total governmental fund expenditures and

1.9x governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability position, with debt service carrying charges of 13.0% of expenditures and net direct debt that is 159.4% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider San Antonio's economy strong. The city, with an estimated population of 1.4 million, is located in Bexar and Medina counties in the San Antonio-New Braunfels, Texas MSA, which we consider to be broad and diverse. The city also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 84.0% of the national level and per capita market value of $56,977. Overall, the city's market value grew by 6.9% over the past year to $79.8 billion in 2015. The weight-averaged unemployment rate of the counties was 4.6% in 2014.

With more than 1.4 million residents, San Antonio is Bexar County's seat and the nation's seventh-largest city. The major military installations in the city continue provide a stabilizing presence for the economy. The city continues to experience sustained growth in the manufacturing, tourism, and services sectors. More than 4,700 new jobs have been added during the past year. During the past few years, several new companies have moved to and around the city to participate in the Eagle Ford Shale play, which has boosted both taxable values and jobs for the city. Even with the recent declines in oil prices, the city is not expecting a negative impact as it expects to reabsorb any jobs lost into other areas around the city.

City officials reported that permitting activity continues to increase and that construction is ongoing. 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; at this point, more than 4,000 units have been completed. The first major grocery store for downtown is due to open December 2015, which will likely help this growth to continue. The city has also been in the process of a $325 million expansion and renovation of its convention center downtown, with construction expected to be completed by spring 2016.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are 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 of budget-to-actual results during the year, monthly budget-to-actual 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.

Strong budgetary performance

San Antonio's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 3.5% of expenditures, but a deficit result across all governmental funds of 5.4% in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could improve from 2014 results in the near term.

We have adjusted the city's total governmental revenues and expenditures for significant one-time items such as the spending-down of previously deposited bond proceeds. Depending on the level of capital spending from year to year, the budgetary flexibility tends to fluctuate. Currently for fiscal 2015, the city is conservatively projecting a surplus in the general fund and no significant drawdown in the total governmental funds (net of bond proceed spending). As such, we expect the city's budgetary performance to be strong. 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 city plans to adopt the fiscal 2016 budget, which it expects to be balanced, by September.

The general fund continues to rely on contributions from the city's electric provider, City Public Service Energy; these utility revenues are the largest source of general fund revenue and accounted for about one-third of total general fund revenues in fiscal year 2014. Although 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.

Very strong budgetary flexibility

San Antonio's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 17% of operating expenditures, or $165.2 million.

The city conservatively projects ending fiscal 2015 with an available general fund balance of about $173 million, or about 17% of operating expenditures; however, city officials indicated that this estimate was very preliminary. 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 flexibility will deteriorate.

Very strong liquidity

In our opinion, San Antonio's liquidity is very strong, with total government available cash of 24.4% of total governmental fund expenditures and 1.9x governmental debt service in 2014. In our view, the city has exceptional access to external liquidity if necessary.

We expect the city's liquidity to remain very strong, based on the city's lack of plans to spend down cash and cash equivalents. While the state does allow for investments that we consider to be somewhat permissive, the city's investments all have maturities of less than one year, which we view as conservative.

Weak debt and contingent liability profile

In our view, San Antonio's debt and contingent liability profile is weak. Total governmental fund debt service is 13.0% of total governmental fund expenditures, and net direct debt is 159.4% of total governmental fund revenue.

The city currently has several future bond issuances planned for the next year, all of which are expected to be revenue bonds.

San Antonio's combined pension and otherpostemployment benefit (OPEB) contributions totaled 3.6% of total governmental fund expenditures in 2014. Of that amount, 1.8% represented contributions to pension obligations and 1.8% represented OPEB payments. The city made 100% of its annual required pension contribution in 2014.

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, 2014, was $209.9 million, which represented a 92.9% funded ratio. The city's UAAL related to the TMRS was $169.5 million as of Dec. 31, 2014, equivalent to an 87.8% funded ratio. The city also provides other postemployment health benefits to most retired employees through two programs, which it funds on a pay-as-you-go basis: one for civilian employees and uniform employee retiring prior to Sept. 30, 1989, and the other for those retirees eligible for Medicare. In addition, the city has an OPEB program for fire and police who retired after Sept. 30, 1989; this program has a funded ratio of 40.9%.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

San Antonio's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above the Sovereign: Corporate and Government Ratings--Methodology and Assumptions," U.S. local governments are considered to have moderate sensitivity to country risk. The city's general obligation pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the city. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management and no history of government intervention. San Antonio has considerable financial flexibility, as demonstrated by the very high fund general balance as a percentage of expenditures, as well as very strong liquidity.

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 continue to address its capital needs and meet growing service delivery needs. We do not expect to change the ratings within the two-year outlook time frame, given the continued diversification of the city's economic and employment base, coupled with the city's strong financial management practices. While unlikely, a material decrease in the city's economic indicators, or a decline in budgetary performance or flexibility, could place downward pressure on the ratings.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- USPF Criteria: Electric And Gas Utility Ratings, Dec. 16, 2014

- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments

Ratings Detail (As Of July 23, 2015)		
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed
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		
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.

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.

San Antonio, Texas

Limited Tax Bonds and Notes

New Issue Report

Ratings

New Issues

General Improvement and Refunding Bonds, Series 2015	AAA
Combination Tax and Revenue Certificates of Obligation, Series 2015	AAA
Combination Tax and Revenue Certificates of Obligation, Taxable Series 2015	AAA
Tax Notes, Series 2015	AAA

Outstanding Debt

Limited Tax Bonds	AAA

Rating Outlook

Stable

Related Research

Fitch Affirms San Antonio (TX) Water System CP Notes Series A at 'F1' and Series B at 'F1+' (July 2015)

Fitch Rates San Antonio (TX) Airport Special Facility Bonds 'BBB+'; Outlook Stable (July 2015)

Fitch Rates San Antonio (TX) Airport Revs 'A+'; Outlook Stable (July 2015)

Fitch Rates San Antonio, TX's Elec and Gas System Revenue Refunding Bonds 'AA+'; Outlook Stable (June 2015)

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New Issue Details

Sale Information: $339,615,000 General Improvement and Refunding Bonds, Series 2015, $36,930,000 Combination Tax and Revenue Certificates of Obligation, Series 2015, $43,940,000 Combination Tax and Revenue Certificates of Obligation, Taxable Series 2015, and $4,845,000 Tax Notes, Series 2015, via negotiated sale the week of July 27.

Security: An annual property tax levy, limited to $2.50 per $100 taxable assessed valuation. Certificates of obligation (COs) additionally payable from a nominal pledge of net revenues of San Antonio's municipal parks system (not to exceed $1,000).

Purpose: To finance various capital projects city-wide, refund outstanding bonds for interest cost savings, and pay issuance costs.

Final Maturity: General improvement and refunding bonds, COs, and taxable COs: Feb. 1, 2035; tax notes: Feb. 1, 2018.

Key Rating Drivers

Strong Financial Flexibility: San Antonio's financial performance has been pressured in recent years, although its reserves have remained solid. General operations returned to a net surplus position in fiscal 2014, modestly improving fund balance. The city's recently enhanced reserve policies and its two-year budget strategy, which is part of a longer fiscal planning horizon, are positive credit factors.

Mixed Debt Profile: The city's debt profile is mixed, characterized by a high overall debt burden, balanced against 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 sizeable 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.

Expanding Economy, Tax Base: 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. Taxable assessed valuation (TAV) gains continue to strengthen.

Rating Sensitivities

Material Shift in Finances: The rating is sensitive to shifts in key credit characteristics including the city's strong financial reserves. 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	7/22/15
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

Related Criteria

Tax-Supported Rating Criteria (August 2012)

U.S. State 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 2015. 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.

Large 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 current 10% 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's rating assumes 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 are designated for the next year's spending (the two-year reserve), has expanded its planning horizon. $35 million of such reserve was budgeted for use in fiscal 2014, equal to 3.5% of spending. However, the year's strong 8.45% general fund revenue gain, largely attributable to increased CPS (the city's electric and gas utility) revenue and fueled by a very cold winter and a rate increase, allowed the city to fully offset the planned use of the reserve allocation as well as outpace the year's 3.8% expenditure growth.

Strong sales tax receipts, which were up by approximately 8% in fiscal 2014, or roughly $18.6 million over fiscal 2013 actuals, also added to the year's robust fiscal performance. Sales tax revenues exceeded the budget's 3.5% growth assumption above the fiscal 2013 budgeted levels. As a result, fiscal 2014 operations produced a net surplus of $33.4 million (3.4% of spending). The fiscal 2014 unrestricted fund balance strengthened modestly to $212 million, or 21.4% of operating expenditures and transfers out. The positive performance allowed the city to maintain a portion of this fund balance, $88.2 million, as the city's 9% reserve and increase its two-year reserve to $63.3 million (equal to 6.4% of spending).

General Fund Financial Summary

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

	2010	2011	2012	2013	2014
Revenues	857,493	890,262	898,162	917,522	994,636
Expenditures	816,690	863,882	885,578	923,543	958,703
Operating Surplus/(Deficit)	**40,803**	**26,380**	**12,584**	**(6,021)**	**35,933**
Transfers In/Other Sources	36,581	14,603	18,877	17,341	27,699
Transfers Out/Other Uses	(54,255)	(39,113)	(47,640)	(42,669)	(30,201)
Net Operating Surplus/(Deficit) After Transfers	**23,129**	**1,870**	**(16,179)**	**(31,349)**	**33,431**
Total Fund Balance	229,636	232,692	216,513	185,164	218,595
As % of Expenditures, Transfers Out, and Other Uses	26.4	25.8	23.2	19.2	22.1
Unreserved/Unrestricted Fund Balance	199,110	226,646	209,710	178,208	212,059
As % of Expenditures, Transfers Out, and Other Uses	22.9	25.1	22.5	18.4	21.4

Note: Numbers may not add due to rounding.

Fiscal Years 2015 and 2016 Budgets

Budgeted general fund appropriations in fiscal 2015 grew by a manageable 6% to $1.05 billion due to increased public safety spending and enhanced funding for streets and capital projects. The budget was funded at the existing property tax rate, assumed sales tax receipts growth of 2.8% and CPS transfers declined by 3.2%, as well as planned use of the entire two-year reserve of $63.2 million over fiscal years 2015–2016.

Unaudited fiscal 2015 performance points to a very modest $8 million general fund surplus after closing the year's $16.4 million (or 1.7% of spending) budget gap. These results are again largely aided by improved actual revenue trends (inclusive of sales taxes) year to date that exceed conservative projections in addition to modest cost savings. The city's financial cushion is projected to remain strong and stable at year end, inclusive of the city's enhanced 10% financial reserve ($103 million) as well as the two-year reserve ($32.6 million equal to 3% of spending).

The fiscal 2016 operating budget is under development and presently estimated at $1.09 billion. Growth of 2%–9% from fiscal 2015 midyear estimates is projected in the city's three key revenue streams (CPS payments, sales, and property taxes) in support of the year's increased spending. Budgeted sources also include full use of the aforementioned $32.6 million two-year reserve, although Fitch notes the city's historical outperformance of its initial projections. The city expects to further enhance its financial reserve to 15% by year end (about $164 million) while establishing its two-year reserve at $54.7 million, equal to 5% of spending, for fiscal 2017.

Large Capital Needs

Voters approved a $596 million GO bond authorization in May 2012, the largest in the city's history. The bond authorization is intended to address the 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. About $54 million in GO bond authorization remains after this issuance. 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 generally declining debt service schedule expected to be maintained with this issuance, above average pay-out rate, and expansive, growing tax base. But the city's overall debt burden remains elevated at approximately $5,700 per capita and 8.8% of fiscal 2015 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 61%.

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). Structural and actuarial changes to TMRS's valuation methodology approved at the state level significantly boosted the city's funded position in recent years, which remained sound and stable at 88% as of actuarial date Dec. 31, 2014. TMRS's valuation is based on a 7% discount rate which Fitch considers reasonable. Fire fighters and police participate in a single employer defined benefit pension plan which was similarly well-funded at an estimated 88.1% as of Oct. 1, 2014 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 fire fighters and police have been financed on a pre-funded basis since 1989, resulting in a notable funded position of 41% as of Oct. 1, 2014. The combined carrying costs for the city's tax-supported debt, pension, and other post-employment benefit obligations totaled a moderate 17.4% of fiscal 2014 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

Recent employment gains have been led by the professional/business services and construction sectors. The city's job base was also expanded by energy sector employment from oil and gas activity within the nearby Eagle Ford Shale, although this has tapered recently given reduced activity as a result of lower oil prices. Nonetheless, the city's unemployment rate remained a low 3.5% in March 2015, which was down from the 4.8% level recorded a year prior. The city's unemployment rate compares favorably to state and national averages of 4.2% and 5.6%, 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. TAV rebounded with increases of approximately 5% and 7% in fiscal 2014 and 2015, respectively. Another strong 9.5% TAV gain is anticipated for fiscal 2016. Included in this assumption are the city's projections of annual new construction increasing taxable values from 1.5%–3.0% annually over fiscal years 2016–2020 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.

MOODY'S INVESTORS SERVICE

New Issue: Moody's affirms City of San Antonio's, TX GOLT Aaa; revises outlook to stable

Global Credit Research - 21 Jul 2015

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
Combination Tax and Revenue Certificates of Obligation, Taxable Series 2015		Aaa
Sale Amount	$43,940,000	
Expected Sale Date	07/28/15	
Rating Description	General Obligation Limited Tax	
General Improvement and Refunding Bonds, Series 2015		Aaa
Sale Amount	$339,615,000	
Expected Sale Date	07/28/15	
Rating Description	General Obligation Limited Tax	
Tax Notes, Series 2015		Aaa
Sale Amount	$4,845,000	
Expected Sale Date	07/28/15	
Rating Description	General Obligation Limited Tax	
Combination Tax and Revenue Certificates of Obligation, Series 2015		Aaa
Sale Amount	$36,930,000	
Expected Sale Date	07/28/15	
Rating Description	General Obligation Limited Tax	

Moody's Outlook STA

NEW YORK, July 21, 2015 --Moody's Investors Service has affirmed the City of San Antonio's, TX Aaa rating on its general obligation limited tax (GOLT) bonds. At the same time, we have assigned the Aaa to four new GOLT issues totaling $425 million. The outlook has been revised to stable from negative. We have also affirmed the Aa1, and Aa2 on outstanding lease revenue bonds. Post sale, the city will have $1.6 billion in limited tax obligations, and $581.7 million in lease revenue bonds.

SUMMARY RATING RATIONALE

The Aaa reflects the strong and vibrant economy, anchored by diverse sectors including military, financial services, and tourism. The rating also reflects growth in taxable values driven by residential and commercial construction, a return to balanced operations with positive performance in fiscal year 2014, and expected positive performance in fiscal year 2015. Additional considerations include elevated but affordable debt burdens, funding of the annual required contribution, and revenue raising flexibility with significant margins under the statutory cap.

The Aa1, and Aa2 lease revenue bond ratings reflect the General Fund (GF) appropriation risk, and the limited impact of debt service on the city's GF. The Aa1 rating affects $31.3 million, and reflects the essentiality of the projects (municipal building, and an emergency dispatch center). The Aa2 reflects the 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 manage volatility in the revenue streams.

OUTLOOK

The stable outlook revision reflects the city's return to structurally balanced operations following a two year period of negative performance in the General Fund. It also incorporates our expectation that the financial position will remain stable given positive FY 2015 results (preliminary) and continued stable operations based on the city's five year forecast.

WHAT COULD MAKE THE RATING GO UP

-N/A

WHAT COULD MAKE THE RATING GO DOWN

-Weakened economic profile that results in significant contraction of taxable values

-Negative trends in operating performance

STRENGTHS

-Strong and vibrant regional economy with development fueling taxable value growth

-Strong financial results guided by an experienced management team; FY 2015 expected to yield surplus operating results

-Ample revenue raising flexibility with total tax rate of $5.66 per $1,000 of assessed values, well under the $25 statutory cap

-History of voter support for infrastructure improvements

-Financial management includes multiyear budgeting and five year forecasting models; forecasts indicate positive operating performance will continue

-Annual funding of pension ARC for civilian and public safety employees

CHALLENGES

-Operating pressures associated with nearly 70% of expenditures for public safety, indicative of a large population and demand for services

-Dependence on potentially volatile revenue streams such as utility transfers and sales taxes

-High fixed costs

-High concentration of military in a time of fiscal austerity, potentially limiting growth

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE; STRONG REGIONAL ECONOMY DRIVES TAXABLE VALUE

San Antonio is the seventh largest city in the nation, and the second most populous metropolitan area in Texas (Aaa, stable outlook). The local economy is anchored by the military, financial services and tourism sectors. Other economic drivers include healthcare, aeronautical services, and energy. The government sector employs almost 20% of the city's workforce, largely due to the military presence. San Antonio benefitted from the Base

Realignment and Closure (BRAC) in 2005, with $3.2 billion in construction, and an economic impact of about $8.3 billion. However, Moody's Analytics reported in March that longer term prospects for the large military presence is moderately negative. The Army announced that it intends to cut about 90,000 jobs nationally, and as many as 6,000 could occur in San Antonio. Nevertheless, since military medical care, training and research remain some of the main activities, San Antonio is expected to remain a priority and its funding is not expected to diminish as quickly as that of other missions. Tourism is expected to benefit from the $325 million expansion of the Henry B. Gonzales Convention center which will continue to allow San Antonio to remain competitive. Current bookings reflect several major conventions through 2022. Other notable nonresidential construction include an upgrade of the Westside Transit Center, major hotel projects, and the expansion of the Children's Hospital.

Net migration into the metropolitan area is positive, fueling residential construction. Current population is estimated at 1.4 million, an increase of about 6% since the 2010 US Census. The demand has driven an increase in home sales, and reduced the inventory of unsold homes to 3.6 months. Consistent with other metropolitan areas with heavy institutional presence, median family and per capita incomes are below average at 82.7% and 80.4% of national levels, respectively, per the 2010 American Community Survey. The March 2015 unemployment rate of 3.5% was well below both the state's 4.2%, and the nation's 5.6%, taken during the same time period.

The strong local economy has contributed to gains in the tax base, following the modest contraction (about 3% total) in fiscal years 2011, and 2012. In the three years since then, values have grown 1%, 4.6% and 6.9% to $79.8 billion in fiscal year 2015. Preliminary results for fiscal year 2016 reflect a subsequent increase of 9.5% for fiscal year 2016 as economic development continues within the city. City officials project that total values will grow 6.5% in fiscal year 2017, 4.5% in fiscal year 2018, and 3% each year after that, through fiscal year 2020. Over the longer term, Moody's Analytics estimates that above average population gains, the presence of significant energy resources in nearby areas, low costs of doing business, relatively high housing affordability, and an increasing manufacturing presence should contribute to above-average overall performance.

FINANCIAL OPERATIONS AND RESERVES; POSITIVE OPERATING RESULTS IN FY 2014 EXPECTED TO CONTINUE IN 2015

The city's financial profile was recently challenged with negative operating results in fiscal years 2012 and 2013, a deviation from its otherwise positive history. Driven in part by an increased demand for public services, expenses outpaced revenues in the two year period, resulting in a total General Fund balance of $185.2 million (19.8% of revenues) at fiscal year end 2013. Since then, the city has taken several steps to return to balanced operations. Reserve policies were strengthened, requiring an available General Fund of 15% of expenditures, and an absolute minimum of 10%. The city also implemented contingencies ($1 million for general needs, and $3 million for capital needs) within its budget on an annual basis. On the expenditure side, public safety costs, which consumes about 66% of the general fund budget have increased an annual average of 4.8% between 2010 and 2013 per the comprehensive annual financial report (CAFR). City officials expect to keep public safety costs at no more than 66% of the general fund budget. Officials continue to negotiate with public safety employees, with the expectation of realigning benefits with peer cities in the near future.

Fiscal year 2014 results were positive, driven by higher than anticipated revenues from more conservative budget assumptions. At the end of the year, the General Fund reported a $33.4 million surplus, growing the balance to $218.6 million (a favorable 21.4% of revenues). Total operating funds, including the Debt Service Funds reported a balance of $265.4 million (22.8% of revenues), also at fiscal year end. At the start of fiscal year 2015, the budget reflected a structural gap of $16.4 million (about 2%). However, midyear results through March, reflect an increase of $2.4 million. The city's return to balanced operations is key to the outlook revision. The five year financial forecast demonstrates the city's commitment to fiscal health as operations are expected to be stable.

The city's general fund operations are supported primarily by revenues from the city's utility systems which contributed 34.1% of the general fund revenues in fiscal year 2014. The city's electric utility, CPS Energy (Combined Utility Enterprise, Aa1 senior lien revenue rating) accounted for a majority of the city's revenues with $335.9 million (total revenue from utilities was $348.5 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 28.6% while sales taxes (including general and selective sales tax) comprised 25% of total General Fund revenues. Currently, the city levies a total property tax rate of $5.66 per $1,000 of assessed values which is well below the statutory maximum of $25 ($10 for operations, and $15 for debt), providing significant flexibility. Of the $5.66, $3.54 was allocated to operations, and $2.12 allocated to debt service. In fiscal year 2014, CPS revenues were up by 13.8%, while sales taxes were up 12.7%, and property taxes were up 4.4%. The strong performance is expected to continue given customer demand for utilities, and population growth.

Liquidity

General Fund cash and investments totaled about $106 million (10.4% of revenues) at fiscal year end 2014. Total operating cash, including the General and Debt Service funds, equaled $151.9 million (13% of revenues).

The city maintains additional liquidity outside the General Fund, which augments reserve levels. At fiscal year end 2014, city officials report a combined total of $76 million.

DEBT AND PENSIONS; ELEVATED BUT AFFORDABLE DEBT LEVELS

Inclusive of the current issue, the city's direct debt burden is elevated, when compared to the national Aaa median, at 2.8% (10.1% overall) on a fiscal year 2015 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 national median with 60% 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. Additionally, the city maintains significant margins under the tax cap with a current debt service tax rate of $2.12 per $1,000 of assessed values, which is well below the $15 allowable by the Attorney General's office.

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 an average of $632.5 million every five years to fund capital; the last authorization was received in fiscal year 2012.

Debt Structure

All of the city's debt is fixed rate. Current general obligation debt is on a descending schedule with the maximum annual debt service (MADS) scheduled for fiscal year 2016.

Included in the city's debt profile is $581.7 million in lease revenue bonds secured by legally available funds of the city subject to annual appropriation. As mentioned above, the one and two notch distinctions 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 6.6% of General Fund revenues in fiscal year 2014. Additionally, the city has three contingency funds that totaled $76.5 million at fiscal year end 2014, 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 ($31.4 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 2016, and accounted for 0.3% of fiscal year 2014 General Fund revenues.

Debt-Related Derivatives

The city is not party to any derivative agreements.

Pensions and OPEB

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 a strong history of making 100% of its annual required contribution for both plans. Current contribution rates are sufficient to cover the city's normal cost and amortize the unfunded liability as a level percentage of pay very rapidly for both plans. Based on the last actuarial report (October 1, 2014 for public safety, and December 31, 2014 for the employee system), the unfunded liability for the public safety plan is scheduled to be fully amortized in about 6.2 years, with the employee plan fully amortized in 18.5 years.

As reported, the city's unfunded actuarial accrued liability (UAAL) for the Municipal, and Fire and Police plans were

$174.8 million, and $304.6 million with a funded ratio of 86.9%, and 89.8% respectively. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was approximately $2 billion in fiscal year 2014. The ANPL is slightly overstated as it does not include self supporting contribution. The three year average ANPL is a manageable 1.59 times of operating revenues, including the General and Debt Service funds. The ratio is also a moderate 2.64% 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.

MANAGEMENT AND GOVERNANCE

Texas cities have an institutional framework score of "Aa" or strong. Cities rely on moderately stable property taxes (30% - 40%) as well as economically sensitive sales taxes (25% -35%) for their operating revenues, however cities maintain ample flexibility under the state mandated cap to raise property taxes. Expenditures are largely predictable and cities do have great flexibility in reducing expenditures given no union presence.

The city is governed by an 11 member city council with 10 council members from single member districts, and the mayor elected at large, each serving two year terms, limited to four full terms of office as required by charter.

Guided by an experienced team, strong management is demonstrated by multiyear budgeting practices, and five year financial forecasting, with the capital planning going out further. Additionally, the city recently increased its reserve policy to maintain available reserves equal to 15% of revenues, with 10% as the minimum. Other requirements include a $1 million general contingency and a $3 million capital contingency built into the budget. Management also monitors finances monthly, with quarterly updates presented to councils.

KEY STATISTICS

-FY 2015 Full Value: $79.8 Billion

-FY 2015 Full Value Per Capita: $56,614

-2012 MFI (as % of US median): 82.7%

-FY 2014 Operating Fund Balance as% of Revenues: 22.77%

-5 Year Dollar Change in Fund Balance as % of Revenues: -4.64%

-FY 2014 Cash Balance as % of Revenues: 13.03%

-5 Year Dollar Change in Cash Balance as % of Revenues: -8.30%

-Institutional Framework: Aa

-5 Year Average of Operating Revenues/Operating Expenditures: 1.07x

-Net Direct Debt/Full Value: 2.80%

-Net Direct Debt/Operating Revenues: 1.91 x

-3 Year Average of Moody's Adjusted Net Pension Liability/Full Value: 2.32%

-3 Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 1.59x

OBLIGOR PROFILE

The City of San Antonio is the seventh largest city in the US, and the county seat of Bexar County with a population of 1.3 million. The local economy is anchored by various industries including military, financial services, and tourism.

LEGAL SECURITY

The bonds are secured by a continuing and direct annual ad valorem tax, levied against all taxable values within the limits prescribed by law.

USE OF PROCEEDS

Proceeds from the sale (new money portion is about $207 million) will fund several capital needs in line with the city's capital improvement plan. Proceeds from the sale (refunding portion is about $195.7 million) will refund certain maturities for an expected net present value savings of 7.5%, and no extension of final maturity.

PRINCIPAL METHODOLOGY

The principal methodology used in rating the general obligation debt was US Local Government General Obligation Debt published in January 2014. The principal methodology used in rating the lease-backed debt 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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