S&P Global
Ratings

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Summary:

San Antonio, Texas; Appropriations; General Obligation; Note

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Summary:

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Credit Profile		
US$211.94 mil gen imp and rfdg bnds ser 2016 dtd 08/01/2016 due 02/01/2036		
Long Term Rating	AAA/Stable	New
US$98.385 mil comb tax and rev certs of oblig ser 2016 dtd 08/01/2016 due 02/01/2036		
Long Term Rating	AAA/Stable	New
US$29.165 mil tax nts ser 2016 dtd 08/01/2016 due 02/01/2019		
Long Term Rating	AAA/Stable	New
US$24.85 mil comb tax and rev certs of oblig (Taxable) ser 2016 dtd 08/01/2016 due 02/01/2036		
Long Term Rating	AAA/Stable	New
Starbright Indl Dev Corp, Texas		
San Antonio, Texas		
Starbright Indl Dev Corp (San Antonio) (Starbright Proj)		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to San Antonio, Texas' series 2016 general improvement and refunding bonds, series 2016 combination tax and revenue certificates of obligation, taxable series 2016 combination tax and revenue certificates of obligation, and series 2016 tax notes. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's general obligation (GO) debt outstanding and 'AA+' long-term rating and SPUR on San Antonio Municipal Facilities Corp. debt, issued for the city. The outlook is stable.

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" (published Nov. 19, 2013, on RatingsDirect), the city has a predominantly locally derived revenue base, with 70% of general fund revenue derived from local taxes with independent taxing authority and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention.

The GO bonds, certificates of obligation, and tax notes are secured by the city's levy of an annual ad valorem tax on all taxable property in San Antonio. The maximum allowable rate in Texas is $2.50 per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to $1.50 per $100 of AV. The city's levy is well below the maximum, at 55.827 cents, 21.150 cents of which is dedicated to debt service. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge, given the city's flexibility under the levy limit. 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). Despite the dual pledge, we rate the series 2016 certificates based on the strength of the city's GO profile. Proceeds from the four issuances will be used primarily to fund various capital projects.

The series 2011 lease revenue bonds are secured by lease payments that are made based on an annual appropriation of the city from legally available general fund revenues as an ongoing obligation of the city for the lease term.

The rating reflects our opinion of the following credit factors for 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 2015, which closed with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 25.5% 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 at 13.2% of expenditures and net direct debt that is 143.1% 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 1.5 million, is located in Bexar and Medina counties in the San Antonio-New Braunfels 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 85.5% of the national level and per capita market value of $62,325. Overall, the city's market value grew by 14.3% over the past year to $90.6 billion in 2016. The weight-averaged unemployment rate of the counties was 3.8% in 2015.

With more than 1.5 million residents, San Antonio is Bexar County's seat and the nation's seventh-largest city. The major military installations in the city continue to provide a stabilizing presence for the economy. Tourism also thrives in the city, with attractions (such as the San Antonio Riverwalk) that draw millions of visitors each year. The growing presence of the finance industry, as well as medical and biomedical companies, has helped to diversify the area economy, which was historically anchored primarily by the military and tourism sectors. According to the city, the finance industry is the city's leading economic generator, with an annual estimated economic impact of more than $21 billion. Eight financial institutions are headquartered in San Antonio, as are four regional headquarters. As of November 2015, the finance industry employed more than 84,000 in the San Antonio area. The medical and biomedical industry has an economic impact of $30.6 billion and employed 164,537 in 2013. The key components of the health care industry are three major medical centers: the South Texas Medical Center, the San Antonio Military Medical Center, and the Southwest Foundation for Biomedical Research. The city has added more than 4,000 new jobs to its employment base over the past year.

Toyota Motor Corp. operates a truck manufacturing facility in San Antonio with about 6,958 jobs. Toyota and its 23 on-site suppliers have an annual economic impact of $1.7 billion. In recent years, oil and gas activities in the Eagle Ford Shale have added a significant number of jobs and helped stimulate the city's economy. With oil prices dropping, activities have slowed; however, city officials report that they have no concerns at this point with the largest related taxpayers and employers.

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, with a goal of having 7,500 housing units downtown by 2020; at this point, more than 4,600 units have been completed. The first major grocery store for downtown opened in December 2015, which will likely support ongoing growth.

The city's tax base has increased steadily since fiscal 2012, with AV increasing by an approximately 6.5% average annual rate. City officials report that, given a significant amount of new construction and an active revaluation process of existing properties, continued tax base growth is expected. As such, we expect the city's economy to remain strong.

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.

San Antonio's city council has adopted a comprehensive set of financial and budgeting policies. Highlights of the city's financial policies include: a minimum fund balance requirement for the general fund; limits on the use of reserve funds; and using a statistical model, as management bases its revenue forecasts on historical trends.

Management prepares monthly budget reports and provides budget status reports to the council, and amends the operating budget as needed. The council annually adopts a five-year rolling capital improvement plan and forecasts ongoing operational costs linked to the operating budget. Management also prepares five-year financial forecasts that it presents annually to the city council. The council has adopted an investment policy that it reviews annually, and management provides the council with quarterly investment reports on holdings and returns.

Strong budgetary performance

San Antonio's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 2.5% of expenditures, but a deficit result across all governmental funds of negative 7.2% in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could improve from 2015 results in the near term. General fund operating results of the city have been stable over the past three years, with a result of 3.5% in 2014 and 1.2% in 2013.

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 2016, 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 2017 budget, which it expects to be balanced, by September 2016.

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 2015. 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 2015 of 18% of operating expenditures, or $182.7 million.

The city has a history of conservative budgeting practices and has historically exceeded budgeted projections. The city has a predominantly locally derived revenue base, has demonstrated a broad and well-embedded culture of fiscal discipline, and has very little dependence on the federal government for revenue composition.

Despite the deficit budget adopted for fiscal 2016, actual operating results reflected an increase in the nominal level of reserve; however, after adjustments for recurring transfers and one-time capital expenditures, reserve levels have remained at about 15% of expenditures as per the audited results.

The fiscal 2016 budget is trending better than budgeted year-to-date. The city has reduced the tax rate every year since fiscal 2007 to 55.827 cents per $100 of AV for fiscal 2016 from 57.854 cents per $100 of AV. Due to the city's historically conservative budgeting practices and practice of spending down reserves in excess of its reserve policy for one-time expenditures, we expect reserve levels to remain very strong.

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 to deteriorate.

Very strong liquidity

In our opinion, San Antonio's liquidity is very strong, with total government available cash at 25.5% of total governmental fund expenditures and 1.9x governmental debt service in 2015. In our view, the city has exceptional access to external liquidity if necessary.

San Antonio's exceptional access to external liquidity is supported by its regular annual issuances of tax-supported debt and utility revenue debt. Currently, all of its investments comply with Texas statutes and the city's internal investment policy. The city's investments are not aggressive, in our view, and are available and liquid within a year. As of March 31, 2016, the city's investments included obligations of the United States, money market funds, and state-pooled investments, which we do not consider aggressive, given the portfolio diversification.

San Antonio does not have any current contingent liabilities that could lead to an unexpected deterioration from its currently very strong levels. It has historically had what we consider very strong cash balances and, given management's demonstrated ability to maintain balanced operations, we do not believe its cash position will worsen.

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 13.2% of total governmental fund expenditures, and net direct debt is 143.1% of total governmental fund revenue.

The city has no authorized, but unissued GO debt remaining after the issuance of the 2016 general improvement and refunding bonds. Officials plan to approach voters in May 2017 for a roughly $850 million bond program that would address the city's capital needs for the next five years. We do not believe these medium-term debt plans would negatively impact the city's debt profile.

San Antonio's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.7% of total governmental fund expenditures in 2015. Of that amount, 4.8% represented required contributions to pension obligations, and 2.9% represented OPEB payments. The city made its full annual required pension contribution in 2015.

San Antonio provides two pension benefit plans to its employees: the Texas Municipal Retirement System (TMRS) and the Fire and Police Pension Fund. The TMRS is an agent multiemployer, public-employee retirement system. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, the city's net pension liability as of December 2014 was $1.0 billion. The city contributed its full required contribution at the actuarially determined rate. TMRS maintained a funded level of 77.8%. 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 42.2%. (For additional details on GASB Nos. 67 and 68, see the report, "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria", published Sept. 2, 2015, on RatingsDirect.)

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our view of San Antonio's very strong budgetary flexibility and liquidity, which is supported by very strong management. The stable outlook is further supported by San Antonio's broad and diverse economy and strong budgetary performance, which will likely allow management to continue to address its capital needs and meet its growing service delivery needs.

We do not expect to change the rating during the two-year outlook period because we believe the city will maintain very strong reserves, and that its economy will continue to prosper given its location as a MSA. While we do not expect to change the ratings within the two-year outlook horizon, a material reduction in the city's budgetary performance or a weakening of its key economic indicators could place downward pressure on the ratings.

Ratings Detail (As Of July 27, 2016)		
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of July 27, 2016) (cont.)		
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

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

FITCH RATES SAN ANTONIO, TX LIMITED TAX BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-Austin-29 July 2016: Fitch Ratings has assigned a 'AAA' to the following San Antonio, TX obligations:

--$211.9 million general improvement and refunding bonds, series 2016;
--$98.4 million combination tax and revenue certificates of obligation, series 2016;
--$24.9 million combination tax and revenue certificates of obligation, taxable series 2016;
--$29.2 million tax notes, series 2016

In addition, Fitch has affirmed the following ratings:
--San Antonio's Issuer Default Rating (IDR) at 'AAA';
--$1.49 billion limited tax bonds at 'AAA';
--$550.4 million public facilities corporation (PFC) lease revenue bonds at 'AA+';
--$31.3 million municipal facilities corporation (MFC) lease revenue bonds at 'AA+';
--$20.9 million Starbright Industrial Development Corporation (Starbright Project) contract revenue refunding bonds, taxable series 2013 at 'AA+'.

The Rating Outlook is Stable.

SECURITY
The limited tax bonds are supported by the taxing power of the city, limited to $2.50 per $100 assessed valuation (AV) for operations and debt service. The PFC and MPC lease revenue bonds are payable from annual appropriations by the city. The contract revenue bonds are special obligations of the Starbright Industrial Development Corporation (IDC) and are payable from pledged contract payments from the city comprised of payments from its electric and gas utility (City Public Service).

KEY RATING DRIVERS

The 'AAA' IDR and GO rating reflect the city's strong revenue flexibility and growth prospects, minimal revenue volatility, and superior financial resilience. These metrics offset the more moderate assessment of the city's expenditure framework that's driven by rapidly rising public safety spending.

Economic Resource Base
San Antonio is the second largest city in the state and seventh largest in the U.S. Prominent sectors include: military and government, domestic and international trade, convention and tourism, medical and healthcare, and telecommunications. Employment gains remain steady despite the contraction of the energy sector that services the nearby Eagle Ford Shale. Steady population growth is fueled by affordable housing prices and ample developable land.

Revenue Framework: 'aaa' factor assessment
The diverse basket comprised of utility revenues, property taxes, and sales taxes that support the city are expected to yield continued solid and steady gains due to rapid population growth. The city's independent legal ability to raise property tax revenues provides ample flexibility.

Expenditure Framework: 'aa' factor assessment

The city's solid expenditure flexibility is derived from management's prudent budgeting practices and moderate carrying costs, balanced against rapidly growing public safety spending driven by costly benefits. The city has demonstrated a solid ability to cut spending during times of economic and revenue decline.

Long-Term Liability Burden: 'aa' factor assessment
Addressing the city's sizeable deferred capital needs may cause an increase in the liability burden but Fitch expects it to remain manageable. The city's unfunded pension liability is moderate and consistent funding of pensions at actuarially determined levels should keep it at this level.

Operating Performance: 'aaa' factor assessment
The combination of the city's expenditure cutting flexibility, revenue raising authority, and minimal revenue volatility leaves it well positioned to address cyclical downturns. The city has demonstrated a commitment to prudent fiscal practices.

RATING SENSITIVITIES
Shift in Fundamentals: The IDR and bond ratings are sensitive to materials change in the city's strong revenue and expenditure flexibility and operating performance, which Fitch expects the city to maintain throughout economic cycles.

CREDIT PROFILE

The local economy continues to expand rapidly with continued sector development in high technology, medical and healthcare, higher education, and financial services, providing diversity beyond the military, which remains a major economic factor. Lackland Air Force Base, Randolph Air Force Base, and Fort Sam Houston account for over 90,000 military and civilian personnel. These facilities benefited from very large investments and additions to troop strength in past base realignments. They also include high-value missions such as the sole medical school for all military medical personnel.

Corporations that are headquartered within the city include: United Services Automobile Association (17,000 employees), Valero (IDR rated 'BBB'), and Rackspace. The expansive employment base remains resilient in the face of low oil prices and stalled exploration activity within the nearby Eagle Ford Shale. The city's unemployment rate declined modestly to a low 3.2% in May 2016 from 3.4% a year prior, aided by a 2.9% gain in employment.

Revenue Framework
The city relies on a combination of utility revenues (31% of general fund revenues), property taxes (27%), and sales taxes (25%). Utility revenues are primarily from City Public Service (CPS; senior lien bonds rated 'AA+') plus a modest amount from San Antonio Water System (SAWS; senior lien bonds rated 'AA+'). CPS revenues have trended upward but are subject to some volatility due to swings in weather and natural gas prices. The relative stability of AV during downturns has provided steady property tax revenues. Sales tax revenues perform in line with the overall economy. Overall general fund revenues have exhibited minimal volatility.

Historical revenue growth has been above the level of inflation and U.S. GDP growth. The city's revenues are projected to continue this trend given the rapidly expanding employment base and strong demographic trends. The city's AV increased by strong 13.5% in fiscal 2016 due primarily to reappraisal gains. A 6.6% gain in median home values over the last 12 months will likely lead to additional AV growth in the near term.

Ample taxing margin remains under the $2.50 per $100 AV property tax cap for operations and debt service.

Utility revenue raising flexibility is limited as CPS payments are capped at 14% of CPS' gross revenues per city ordinance and CPS' master indenture. City council does, however, approve rate increases. Under the flow of funds for CPS utility revenue bonds, distribution of the 14% of gross revenues is the fifth priority, preceded by operations and maintenance expenses, payment of parity bonds and reserves, payment of inferior lien obligations and a distribution to the repair and replacement account.

Expenditure Framework

Public safety is the city's primary responsibility (66% of general fund spending). It is the city's goal to cap public safety spending at this level in order to avoid the crowd-out of other services.

The pace of spending growth absent policy actions is likely to be moderate but pressured by a growing population and costly public safety health insurance benefits. Public safety spending is exceeding general revenue growth.

The city's fixed cost burden is moderate, with carrying costs for debt, pensions and OPEB equaling 18.5% of governmental expenditures.

The framework for collective bargaining agreements (CBA) in Texas gives management control over police/fire hiring and firing and staffing patterns but requires that pay hikes and benefit levels be determined via CBAs. The CBAs for police/fire expired in Sept. 2014, causing both groups to operate under an evergreen clause whereby the terms of the expired agreement (excluding pay hikes) are automatically renewed through Sep. 2024.

Talks with the police and fire associations stalled as the city attempted to realign the costly benefits for police/fire employees and their dependents. Subsequently, the city filed a lawsuit claiming the expired CBA's 10-year evergreen clause is unconstitutional due to its long term. The city lost at the local level but it has appealed to the district court of appeals. No wage hikes are awarded during the evergreen period but all else remains the same including health benefits. The lack of wage hikes in fiscal years 2015 & 2016 nearly offset the cost of the contested health insurance benefits.

More recently, the Texas 4th Court of Appeals granted the city's request to mediate the lawsuit for police, leading to a tentative five-year CBA that includes employee contributions for healthcare, a reduction in the evergreen clause to eight years from 10 years, and a 17% pay increase from fiscal years 2017 - 2021. Additionally, health premiums are to escalate during evergreen periods. The mediated settlement agreement is pending approval from the police association and the city council which is expected in September 2016. Fitch believes the tentative agreement enhances spending flexibility but does note that it lacks a provision for annual reopeners in the event economic conditions decline. The evergreen lawsuit against the fire fighters remains before the courts.

Long-Term Liability Burden

The long-term liability burden, including overall debt and unfunded pension liabilities, is moderate at 17.3% of personal income. Given the city's goal to maintain a flat debt service tax rate, Fitch expects the liability burden to remain moderate as the city addresses its large deferred capital needs with measured debt issuances. With the current offering, the city has exhausted its bond authorization and plans to seek voter approval for $850 million of GO bonds in 2017.

Civilian and certain public safety employees participate in an agent multiple employer defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). Fire fighters and police participate in a single-employer defined benefit pension plan.

Annual pension payments consistently meet the actuarially required contribution.

Operating Performance

The city's financial resilience is derived from a combination of revenue and expenditure flexibility and minimal revenue volatility. These credit strengths are expected to keep the issuer's reserve levels well above the 'aaa' financial resilience assessment during an economic downturn.

The fiscal 2015 audit posted a $24.9 million operating surplus, increasing its unrestricted fund balance to $235.9 million or 22.8% of spending. Management projects balanced results for fiscal 2016 based on mid-year performance of revenues and expenditures.

In the wake of the last downturn, the city gradually increased its formal fund balance policy from 9% to 10% of spending and increased its two-year budget reserve from 3% to 5% of spending. The fiscal 2016 budget is balanced, reduced the O&M rate by 0.75?, and is based on conservative utility revenue and sales tax growth of 2% and 4.5%, respectively, over fiscal 2015 budget levels.

Appropriation Debt
The payment of debt service on the PFC and MFC lease revenue bonds and the Starbright IDC contract revenue bonds requires an annual appropriation by the city. The contract revenue bonds, unlike other appropriation debt, is payable solely from CPS' payments to the city's general fund. Fitch is not concerned with the sufficiency of pledged revenues to cover contract revenue bond debt service as coverage is very high.

Pursuant to an economic development contract between the city and the IDC, the city is unconditionally obligated to pay debt service on the contract revenue bonds. The payments are not subject to reduction, and the corporation covenants it will maintain the contract in full force as long as bonds are outstanding. Although no additional leveraging is planned, Fitch notes that additional bonds are allowed under the indenture.

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In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478

MOODY'S INVESTORS SERVICE

CREDIT OPINION
26 July 2016

New Issue

Rate this Research

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City of San Antonio, TX

New Issue: Moody's affirms City of San Antonio's, TX Aaa GOLT; affirms Aa1/Aa2 on lease revenue; stable outlook

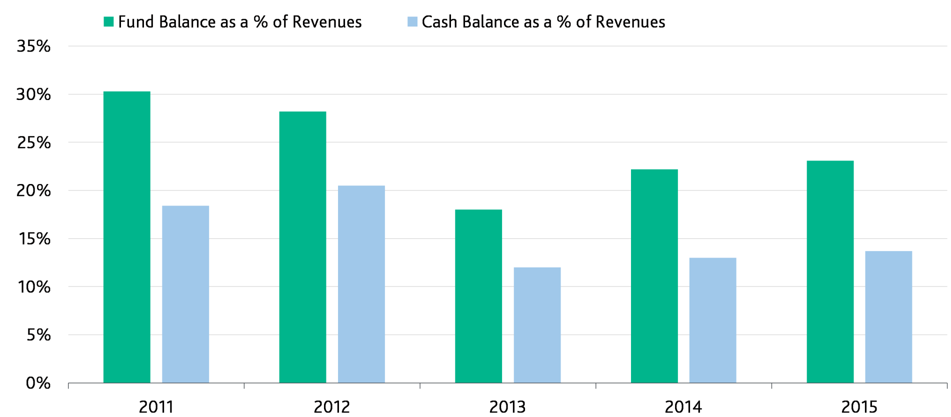
Summary Rating Rationale

Moody's Investors Service has affirmed the Aaa on the City of San Antonio's, TX general obligation limited tax (GOLT) bonds. We have also assigned the Aaa to four new GOLT issues totaling $364.3 million, and affirmed the Aa1, and Aa2 on outstanding lease revenue bonds. Post sale, the city will have $1.6 billion in limited tax debt, and $551.7 million in lease revenue bonds.

The Aaa reflects the strong and vibrant economy, anchored by diverse sectors, and stabilized financial operations with significant revenue raising flexibility. Additional considerations include low wealth indicators, an elevated debt profile, and manageable pension burdens with a track record of annual funding of the required contribution.

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 operations. The notching distinction also takes into consideration, the essentiality of the projects.

Exhibit 1
Stabilized Operating Performance with Surpluses Increasing Reserves in FY 2014 and 2015



Source: City of San Antonio, TX Comprehensive Annual Financial Reports FY 2011 - 2015

Moody's is currently evaluating comments we received on our proposed, methodological revisions to rating state and local government lease-backed, annual appropriation, and moral obligations. Our comment period closed on December 2, 2015, and the publication of the final revised methodology could affect the city's lease-backed obligation rating.

Credit Strengths

» Large and robust economy; regionally important economic center with defense, finance and tourism supporting professional and technical jobs

» Employment performance is positive reflective of investments in metropolitan area

» Positive demographic trends drive demand for homes, contributing to assessed valuation growth

» Stabilized financial performance; five year forecast reflects operations will remain stable

» Ample revenue raising flexibility

» Financial management includes multiyear budgeting with five year forecast indicating balanced operations

» Annual funding of the required amount for civilian and public safety employees

Credit Challenges

» High fixed costs

» Low wealth indices

» Population growth drives increased demand for services

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

Rating Outlook

The stable outlook reflects stabilized operating performance in fiscal 2015 that is expected to continue, supported by a strong and growing local economy, and the city's five year projection.

Factors that Could Lead to an Upgrade

» N/A

Factors that Could Lead to a Downgrade

» Negative trends in operating performance

» Weakened economic profile; contraction in assessed valuation

» Growth in unfunded pension liability resulting in budgetary pressure

» Increasing debt levels absent corresponding taxable value growth

Key Indicators

Exhibit 2

San Antonio (City of) TX	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 71,007,547	$ 70,681,199	$ 71,398,955	$ 74,653,142	$ 79,230,253
Full Value Per Capita	$ 54,074	$ 52,933	$ 52,537	$ 53,884	$ 56,231
Median Family Income (% of US Median)	82.1%	82.7%	82.8%	82.3%	82.3%
Finances					
Operating Revenue ($000)	$ 1,056,806	$ 1,048,409	$ 1,290,172	$ 1,165,471	$ 1,219,298
Fund Balance as a % of Revenues	30.3%	28.2%	18.0%	22.2%	23.1%
Cash Balance as a % of Revenues	18.4%	20.5%	12.0%	13.0%	13.7%
Debt/Pensions					
Net Direct Debt ($000)	$ 1,515,101	$ 1,586,784	$ 2,163,680	$ 2,258,405	$ 2,087,922
Net Direct Debt / Operating Revenues (x)	1.4x	1.5x	1.7x	1.9x	1.7x
Net Direct Debt / Full Value (%)	2.1%	2.2%	3.0%	3.0%	2.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.3x	1.3x	1.5x	1.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.9%	2.3%	2.4%	2.5%

Source: City of San Antonio, TX Comprehensive Annual Financial Reports FY 2011 - 2015; Moody's Investors Service

Detailed Rating Considerations

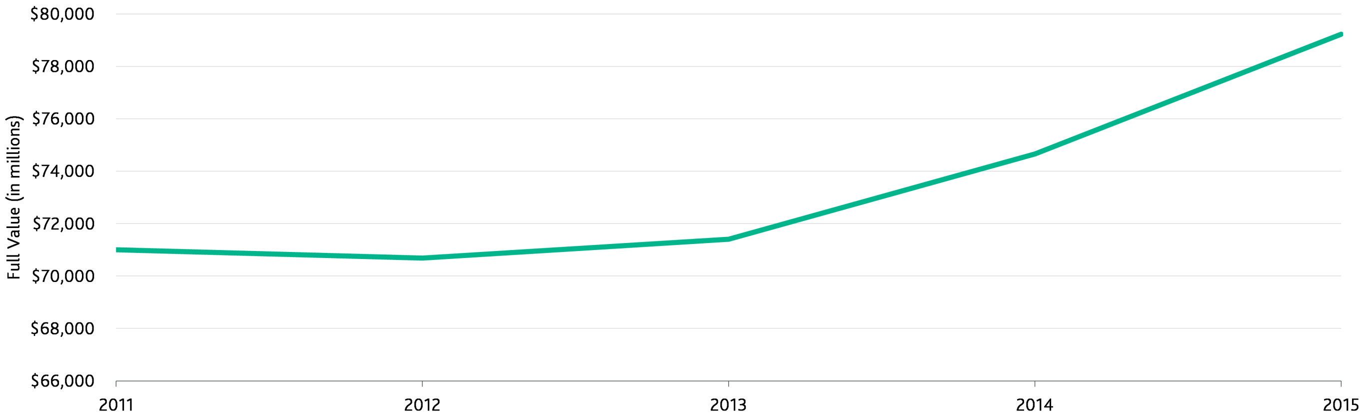
Economy and Tax Base: Strong Local Economy Continues to Drive Positive Assessed Valuation Performance; Low Wealth Indicators

San Antonio's economy will continue to perform favorably, driven by strong commercial and residential developments, as well as favorable in-migration trends. 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 three primary sectors: military, financial services and tourism. However, the city is experiencing growth in the biomedical sciences, and continuing investments in other sectors, contributing to an overall solid economic performance. The city's exposure to the energy sector is modest, and the impact of prolonged decrease in oil prices is muted. Year over year change in employment is positive growing 2.6% over the prior year, leaving the unemployment rate at a low 3.2% (April 2016). Additionally, the city's April 2016 labor force of 686,668 surpasses its 2010 prerecession peak. Favorable growth in the labor force has been fueled by strong migration patterns. In 2010, the US Census reported a 16% increase over the prior year. Since then, estimates reflect an increase of 8% reaching 1.4 million residents. Despite the boost, the city's wealth indicators are below the average, reflective of high institutional presence. The 2014 median family income was significantly lower than peers at 82.3%, per the American Community Survey estimate.

San Antonio remains the benefactor of a plethora of investments. The completion of the expansion of the $325 million Henry B. Gonzalez Convention Center allows the city to remain competitive in the meeting and convention space with current bookings through 2023. The city is also pursuing plans to expand airport capacity, grow professional sporting events, restore the Alamo Plaza, and maintain the five Missions including the Alamo, which have been designated World Heritage Sites. In partnership with Bexar County (Aaa, stable), CPS Energy (Aa1/stable sr., Aa2/stable jr.), and San Antonio Water System (SAWS) (Aa1/stable sr., Aa2/stable jr.), the Economic Development Foundation remains successful in its mission to assist businesses and industries in locating and expanding in the San Antonio area. Within the past year alone (June 2015 through May 2016), San Antonio added 4,063 jobs. Residential construction remains high, driven by strong population growth, and the city is well on its way to meet its 2020 goal of 7,500 housing units in downtown, in addition to other city-wide projects.

The strong local economy has fueled gains in the tax base, with assessed values growing an average of 5% over the past five years, well above its Aaa peers. In fiscal 2016 alone, assessed values grew 14.3% to $90.6 billion, more than doubling the 6.1% reported in fiscal 2015. Preliminary estimates for fiscal 2017 reflect an increase of 7.5%, and the city anticipates growth of 4% in 2018, and 3% in each year after that through 2021. Longer term, Moody's Analytics, per the March 2016 report, expects above average population gains, low cost of doing business, and relatively high housing affordability should contribute to above-average overall performance.

Exhibit 3
Tax Base Growth Remains Strong



Source: City of San Antonio, TX Preliminary Official Statements

Financial Operations and Reserves: Stabilized Operating Performance; FY 2016 Should be Relatively Flat Compared to the Prior Year Despite Slightly Softening Revenues

San Antonio's financial position should continue to remain healthy supported by the city's conservative budgeting and management practices, and significant flexibility to raise property taxes, one of its largest revenues source. Despite weaker than anticipated revenues in fiscal 2016, the expected ending fund balance remains in line with peers. The city's financial profile has stabilized, and reserve levels have improved following the draws in fiscal 2012, and 2013 stemming from increased demand for public safety. Since then, the General Fund posted favorable results with an operating surplus totaling $58.3 million, growing the fiscal 2015 General Fund balance to $243.5 million (a healthy 23% of General Fund revenues), above the 15% requirement. Including the Debt Service Fund, total operations for the year resulted in a balance of $288.9 million (23.7% of operating revenues).

The city's total operations in fiscal 2015, were supported primarily by revenues from propery taxes (38.3%), two city owned utilities (28.6%), and sales taxes (21.9%); sales taxes include general and selective sales taxes. CPS Energy (Combined Utility Enterprise, Aa1 senior lien/Aa2 junior lien revenue rating) accounted for a majority (96.4%) of the utility revenues with $336.3 million. CPS revenues are based on a percent of CPS returns which can fluctuate due to weather patterns and energy prices. Despite the volatility, CPS revenues have averaged 3.5% growth annually over the past five years including fiscal 2015; revenues were flat in 2015 compared to the prior year. Sales tax performance has also been strong averaging 8.7% growth over the past five years; revenues increased 4.4% in fiscal 2015. During the year, the city levied 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. The tax rate was reduced in fiscal 2016 to $5.58 total with $3.47 for operations, and $2.12 for debt service.

In fiscal 2016, the city adopted a $1.1 billion balanced budget. Year to date, officials report softer than anticipated revenue performance with sales taxes currently trending 3.5% above the prior year, compared to the budgeted 4%. CPS Energy revenues are also down due to a milder winter, and cooler summer, contributing to a total revenue shortfall of $11 million. Positively, the city estimates $7.4 million in expenditure savings, primarily from low fuel prices, partly offsetting the projected shortfall. As of the March mid year estimate, the city projected a total General Fund balance of $226.5 million (a still solid 20.6% of General Fund revenues), although officials anticipate actual results will be more favorable. Longer term, the city anticipates balanced operations will continue as outlined in the five year forecast.

LIQUIDITY

The city's liquidity position is satisfactory. In fiscal 2015, operating cash and investments totaled $166.7 million (13.7% of operating revenues). During the year, General Fund cash was approximately $122 million (11.5% of General Fund revenues). In fiscal 2016, the cash position is expected to remain stable in line with budgetary performance.

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 $79.8 million.

Debt and Pensions: Elevated But Affordable Debt Profile; Annual Funding of Pension Requirement

The city's debt profile is significantly elevated compared to similarly rated peers with a direct debt burden at 2.7% (9.8% overall) on a fiscal 2016 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 62.5% of principal retired within 10 years. Typically, the city's practice is to schedule debt retirement within 20 years of the issuance, which is a favorable practice, 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 providing additional debt management flexibility.

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, largely for streets and drainage. Within the plan, the city intends to approach voters for an average of $750 million every five years to fund capital. The last authorization was received in fiscal year 2012, and the city anticipates a bond referendum in 2017.

DEBT STRUCTURE

The debt service schedule is descending with the maximum annual debt service (MADS) in fiscal year 2017.

Included in the city's debt profile is $551.7 million in lease revenue bonds secured by legally available funds of the city subject to annual appropriation. The Aa1 rating affects $31.3 million, and reflects the essentiality of the projects (municipal building, and an emergency dispatch center). The Aa2 affects $520.4 million and reflects the non-essentiality of the convention center, although we consider the center an important project to the city's economy.

In addition to appropriation risk and the essentiality of the projects, the one and two notch distinctions between the lease revenue bonds and the general obligation bonds also consider the limited impact of debt service on the city's General Fund. A majority of the lease 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 5.2% of operating expenditures in fiscal year 2015. Additionally, the city has three contingency funds that totaled $79.8 million at fiscal year end 2015, which would smooth 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 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 2018, and accounted for 0.2% of fiscal year 2015 operating expenditures.

DEBT-RELATED DERIVATIVES

All of the city's debt is fixed rate, and the city is not party to any derivative agreement.

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. Budgetary pressures due to the city's participation in the plan are expected to remain manageable in the near term. For the year ended September 30, 2015, the city recognized pension expense of $90.1 million or 7.6% of operating expenditures, which was equal to the required contribution, and net of self supporting contribution.

The city's fiscal 2015 contribution rate was above the Moody's calculated “tread water” level of $84.3 million. The “tread water” indicator measures the annual government contribution required to prevent the reported net pension liability from growing, under reported assumptions. Contributions above this level cover all net pension liability interest plus pay down some principal; this is stronger from a credit perspective compared to contributions below this level. Ratios comparing government contributions to the “tread water” level and “tread water” costs to government revenues shed light on budgetary fixed cost burdens. Based on the last actuarial report (October 1, 2015 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 10.7 years, with the employee plan fully amortized in 23 years.

As reported, the city's unfunded actuarial accrued liability (UAAL) for the Municipal, and Fire and Police plans was approximately $464 million. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $2.2 billion in fiscal year 2015, net of self supporting contribution. The three year average ANPL is a manageable 1.6 times of operating revenues (2.83% of the 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.

The city provides other post-employment benefits (OPEB) in the form of retiree health care to both civilian and public safety employees. The civilian plan is currently funded on a pay as you go basis, and in fiscal 2015, the city contributed $7.2 million to the plan. The public safety plan is pre-funded as required per state statute, and in fiscal 2015, the city contributed $26.2 million to the plan. At fiscal year end, the city reported a total liability of $784 million for both plans. The civilian plan had an actuarial liability of $340.6 million; all of which was unfunded. The public safety plan had an actuarial liability of $751.1 million, with $307.2 million in assets.

In fiscal 2015, total fixed cost including debt, pensions, and OPEB totaled $326.9 million or a somewhat high 27.3% of operating expenditures.

Management and Governance: Strong and Stable Management Team Guided by Financial Policies

Texas cities have an institutional framework score of “Aa,” or strong. Cities rely on stable property taxes for 30%-40% of their operating revenues, while 25%-35% comes from economically sensitive sales taxes, resulting in moderate predictability overall. Cities maintain moderate flexibility under the state-mandated cap ($25 per $1,000 of AV, with no more than $15 for debt) to raise property taxes as most cities are well below the cap. Expenditures primarily consist of personnel costs, which are highly predictable. Cities have high flexibility to reduce 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 budgeted 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 City Council. As part of its financial monitoring, the city also takes measures to smooth CPS Energy revenue projections and match potential non-recurring spikes to one-time capital projects.

Legal Security

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

Use of Proceeds

A majority of the proceeds will be used to fund city wide infrastructure needs, while the remainder will be used to refund certain maturities of the city's outstanding debt for an expected net present value savings.

Obligor Profile

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 three primary sectors: military, financial services and tourism. The city's population is estimated at 1.4 million residents (2015). The 2014 median family income is low at 82.3%, per the American Community Survey estimate.

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 revenue debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 4

San Antonio (City of) TX

Issue	Rating
Tax Notes, Series 2016	Aaa
Rating Type	Underlying LT
Sale Amount	$29,165,000
Expected Sale Date	08/02/2016
Rating Description	General Obligation Limited Tax
Combination Tax and Revenue Certificates of Obligation, Taxable Series 2016	Aaa
Rating Type	Underlying LT
Sale Amount	$24,850,000
Expected Sale Date	08/02/2016
Rating Description	General Obligation Limited Tax
General Improvement and Refunding Bonds Series 2016	Aaa
Rating Type	Underlying LT
Sale Amount	$211,940,000
Expected Sale Date	08/02/2016
Rating Description	General Obligation Limited Tax
Combination Tax and Revenue Certificates of Obligation, Series 2016	Aaa
Rating Type	Underlying LT
Sale Amount	$98,385,000
Expected Sale Date	08/02/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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