S&P Global Ratings

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Summary:

San Antonio, Texas; Appropriations; General Obligation; Note

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Credit Profile		
US$101.135 mil general imp bnds ser 2017 dtd 08/01/2017 due 08/01/2037		
Long Term Rating	AAA/Stable	New
US$84.0 mil comb tax and rev certs of oblig ser 2017 dtd 08/01/2017 due 08/01/2037		
Long Term Rating	AAA/Stable	New
US$20.205 mil tax nts ser 2017 dtd 08/01/2017 due 08/01/2020		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to San Antonio, Texas' series 2017 general improvement bonds, series 2017 combination tax and revenue certificates of obligation, and series 2017 tax notes. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's general obligation (GO) debt outstanding and 'AA+' long-term rating and underlying rating (SPUR) on San Antonio Municipal Facilities Corp.'s 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 67% of general fund revenue derived from local taxes, with independent taxing authority and our view that pledged revenue supporting debt service on the bonds has a 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 per $100 of AV, 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 2017 based on the strength of the city's GO profile. Proceeds from the three 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 2016, which closed with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 19.6% of total governmental fund expenditures and 149.8% of governmental debt service, and access to external liquidity that we consider exceptional;
- Weak debt and contingent liability position, with debt service carrying charges at 13.1% of expenditures and net direct debt that is 138.5% 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, TX 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 (EBI) of 82.2% of the national level and per capita market value of $67,266. Overall, the city's market value grew by 9.6% over the past year to $99.2 billion in 2017. The weight-averaged unemployment rate of the counties was 3.7% in 2016.

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 annually. 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, healthcare and bioscience industry is the city's leading economic generator. Eight financial institutions are headquartered in San Antonio, as are four regional headquarters. 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 3,800 new jobs to its employment base over the past year.

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 6,275 units have been completed. The downtown area's first major grocery store opened in December 2015 and will likely support ongoing growth.

The city's tax base has increased steadily since fiscal 2013, with AV increasing by an approximately 7.1% average annual rate. City officials report that, given the 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 (CIP) 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 5.6% of expenditures, but a deficit result across all governmental funds of negative 5.9% in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could improve from 2016 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 2017, 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 2018 budget, which it expects to be balanced, by September 2017.

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 2016. 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 a total available fund balance (assigned and unassigned fund balance) in fiscal 2016 of 19% of operating expenditures, or $198.6 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.

Actual operating results for fiscal 2017 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 20% of expenditures as per the audited results. At this time, officials expect to increase the available fund balance to roughly $211 million, or what we consider a very strong 18.5% of expenditures.

The fiscal 2017 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 2017 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 19.6% of total governmental fund expenditures and 149.8% of governmental debt service in 2016. 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, 2017, 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. The city has several series of privately placed debt that is fixed, with no acceleration or events of default that could pressure the rating. In December 2016, the city entered into a variable rate transaction which has a 30-year amortization. The certificates have a three-year fixed rate at 2.64% and a one-year call option as well as multi-modal conversion flexibility at the end of the initial three-year interest rate period. 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 13.1% of total governmental fund expenditures, and net direct debt is 138.5% of total governmental fund revenue.

San Antonio held a successful bond election in May 2017, with over 67% of voters approving an $850 million bond authorization with no expected tax rate impact. After this issuance, the city will have roughly $750 million of authorized, but unissued debt remaining. Officials plan to issue roughly $100 million of authorized GO debt in fiscal 2018. Despite this planned issuance, we do not anticipate that this will have a material impact on San Antonio's debt profile.

San Antonio's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.2% of total governmental fund expenditures in 2016. Of that amount, 5.5% represented required contributions to pension obligations, and 1.6% represented OPEB payments. The city made its full annual required pension contribution in 2016.

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 2015 was $467.5 million. The city contributed its full required contribution at the actuarially determined rate. TMRS maintained a funded level of 73%. 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.)

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 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. 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.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of July 25, 2017)		
San Antonio note		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of July 25, 2017) (cont.)		
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 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.

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.