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$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.

FitchRatings

Fitch Rates San Antonio, TX Limited Tax Bonds 'AAA'; Outlook Stable

Fitch Ratings-Austin-28 July 2017: Fitch Ratings has assigned a 'AAA' rating to the following San Antonio, TX obligations:

--$101.1 million general improvement bonds, series 2017;
--$84 million combination tax and revenue certificates of obligation (COs), series 2017;
--$20.2 million tax notes, series 2017.

In addition, Fitch affirms the following ratings:
-- Issuer Default Rating (IDR) at 'AAA';
--$1.56 billion limited tax bonds at 'AAA';
--$550.4 million public facilities corporation (PFC) lease revenue bonds at 'AA+';
--$29.8 million municipal facilities corporation (MFC) lease revenue bonds at 'AA+';
--$20.1 million Starbright Industrial Development Corporation (Starbright Project) contract revenue refunding bonds, taxable series 2013 at 'AA+'.

The Rating Outlook is Stable.

The bonds, COs, and notes are scheduled to sell via negotiation on Aug. 1. Proceeds will be used for various public improvements.

SECURITY
The bonds, COs, and notes are supported by the taxing power of the city, limited to $2.50 per $100 assessed valuation (AV) for operations and debt service. The COs are additionally payable from a limited pledge of the city's parking system revenues. 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 [CPS]).

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 is 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. Steady population growth is fueled by favorable employment gains and ample developable land.

Revenue Framework: 'aaa' factor assessment
The diverse basket comprising 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. Recently realigned benefits for police officers are expected to help stabilize public safety spending pressure. 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 and overlapping issuers' growth needs is expected to be accompanied by commensurate growth in the area's resource base, allowing the liability burden to remain manageable. The city's net 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 material 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 80,000 military and civilian personnel. These facilities benefited from very large investments and additions to troop strength in past base realignments and include high-value missions such as the sole medical school for all military medical personnel.

Corporate headquarters located within the city include United Services Automobile Association (17,000 employees), Valero (IDR of 'BBB'), and Rackspace. The expansive employment base remains resilient in the face of low oil prices and sluggish exploration activity within the nearby Eagle Ford Shale. The city's unemployment rate has remained under 4% since 2015.

The MSA's median home prices have grown by a high compound annual average of 6% from 2011-2016, leading to a 2016 median of $201,817. Building permit values have exceeded $3 billion (2.7% of fiscal 2017 market value) annually since calendar year 2014. Property value appreciation and new construction have resulted in steady assessed valuation (AV) gains, averaging 8.6% over the last five years, including a 9.6% increase in fiscal 2017.

Revenue Framework
The city relies on a combination of utility revenues (32% of general fund revenues), property taxes (28%), and sales taxes (26%). 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+').

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.

Given the current total tax rate of $0.558, ample taxing margin remains under the $2.50 per $100 AV property tax cap for operations and debt service. If a proposed tax rate results in an 8% year-over-year levy increase (based on the prior year's values), the rate increase may be subject to election if petitioned by voters.

Utility revenue-raising flexibility is limited as CPS payments are capped at 14% of CPS's gross revenues per city ordinance and CPS's 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 to the general fund 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 18.6% 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 Sept. 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.

In 2016, the Texas 4th Court of Appeals granted the city's request to mediate the lawsuit for police, leading to a 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, employee health premiums are to escalate during evergreen periods. Fitch believes the agreement will help mitigate public safety spending pressures 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 as court-ordered mediation resulted in an impasse in April 2017. As a result, the city's five-year financial forecast assumes fire fighters' salaries and benefits remain in place at the current level.

Long-Term Liability Burden
The long-term liability burden, including overall debt and unfunded pension liabilities, is moderate at 17% of personal income and is comprised primarily of overlapping debt (61% of total). 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. The current offering represents the first installment ofan $850 million GO authorization approved by voters in 2017.The city expects to issue the remaining authorization by 2021, along with additional COs and tax notes, assuming reasonable AV growth assumptions. The city's debt model includes a similarly sized GO authorization in 2022. The 10-year principal amortization rate for all tax-supported obligations and appropriation debt is 48%.

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 administered by a separate board. The aggregate ratio of assets to liabilities equals a satisfactory 77.4% and declines to 72.8% based on Fitch's adjustment for a 6% rate of return assumption. At $1.46 billion, the Fitch-adjusted net pension liability equals 1.3% of personal income. 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 general fund 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. 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.

The fiscal 2016 audit posted an $11.6 million (1.1% of spending) operating surplus, increasing its unrestricted fund balance to $248 million or 23% of spending. Management projects balanced results for fiscal 2017 based on mid-year performance of revenues and expenditures.

In the wake of the last downturn, the city gradually increased its formal general fund balance policy from 9% of spending to 10% and increased its two-year budget reserve from 3% to 5% of spending. The city annually appropriates its two-year budget reserve to balance the budget but annual operating surpluses have precluded utilization of the reserve since fiscal 2013. The city's five-year financial forecast projects continued maintenance of an aggregate 15% fund balance based on assumptions of moderate growth in AV, utility revenues, and sales taxes.

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, are payable solely from CPS's 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 Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Additional information is available on www.fitchratings.com

Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017) (https://www.fitchratings.com/site/re/898466)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/1027188)
Solicitation Status (https://www.fitchratings.com/site/pr/1027188#solicitation)
Endorsement Policy (https://www.fitchratings.com/regulatory)

events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

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MOODY'S
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CREDIT OPINION
27 July 2017

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; Outlook Stable

Summary Rating Rationale

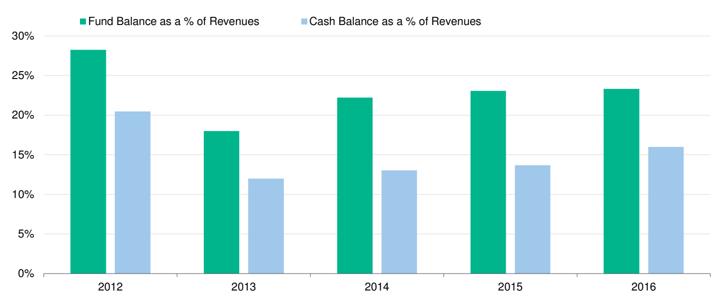
Moody's Investors Service has affirmed the Aaa on the City of San Antonio's, TX general obligation limited tax (GOLT) bonds. Moody's has also assigned the Aaa to Series 2017 of Combination Tax and Revenue Certificates of Obligation, General Improvement Bonds, and Tax Notes, totaling $205.4 million. Concurrently, Moody's has affirmed the Aa1 and Aa2 on $580.1 million in outstanding lease revenue bonds. Post sale, the city will have $1.76 billion in limited tax debt.

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 Aaa limited tax rating is the same as Moody's internal assessment of the hypothetical general obligation unlimited tax rating reflecting the city's taxing headroom, which offsets the lack of full faith and credit pledge, and inability of the council to override the statutory limitation.

The Aa1, and Aa2 lease revenue bond ratings reflect the risk of appropriation, with a distinction between the more essential and less essential projects.

Exhibit 1

Stabilized Operating Performance with Surpluses Increasing Reserves



Reflects Operating Funds including General and Debt Service
Source: City of San Antonio, TX Comprehensive Annual Financial Reports FY 2012 - 2016

Credit Strengths

- » Large and robust economy; regionally important economic center with defense, finance and tourism supporting professional and technical jobs
- » Strong employment growth reflects investments in metropolitan area
- » Positive demographic trends drive demand for homes, contributing to assessed valuation growth
- » Stabilized financial performance and conservative budgeting driving improved financial position
- » Sophisticated financial management includes monthly monitoring and multiyear budgeting with five year forecast indicating balanced operations

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 the expectation that strong financial management practices, stabilized operating performance, and a growing local economy will continue to support stable credit fundamentals and keep long term liabilities manageable.

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	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 70,681,199	$ 71,398,955	$ 74,612,066	$ 79,230,254	$ 89,341,511
Full Value Per Capita	$ 52,933	$ 52,537	$ 53,854	$ 56,037	$ 62,185
Median Family Income (% of US Median)	82.7%	82.8%	82.3%	81.8%	81.8%
Finances					
Operating Revenue ($000)	$ 1,048,409	$ 1,290,172	$ 1,165,471	$ 1,219,298	$ 1,253,010
Fund Balance as a % of Revenues	28.2%	18.0%	22.2%	23.1%	23.3%
Cash Balance as a % of Revenues	20.5%	12.0%	13.0%	13.7%	16.0%
Debt/Pensions					
Net Direct Debt ($000)	$ 1,724,485	$ 2,089,225	$ 2,177,180	$ 2,272,242	$ 2,483,775
Net Direct Debt / Operating Revenues (x)	1.6x	1.6x	1.9x	1.9x	2.0x
Net Direct Debt / Full Value (%)	2.4%	2.9%	2.9%	2.9%	2.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.3x	1.5x	1.7x	1.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.9%	2.3%	2.4%	2.5%	2.5%

City of San Antonio, TX Comprehensive Annual Financial Reports FY 2012 - 2016; Moody's Investors Service

Detailed Rating Considerations

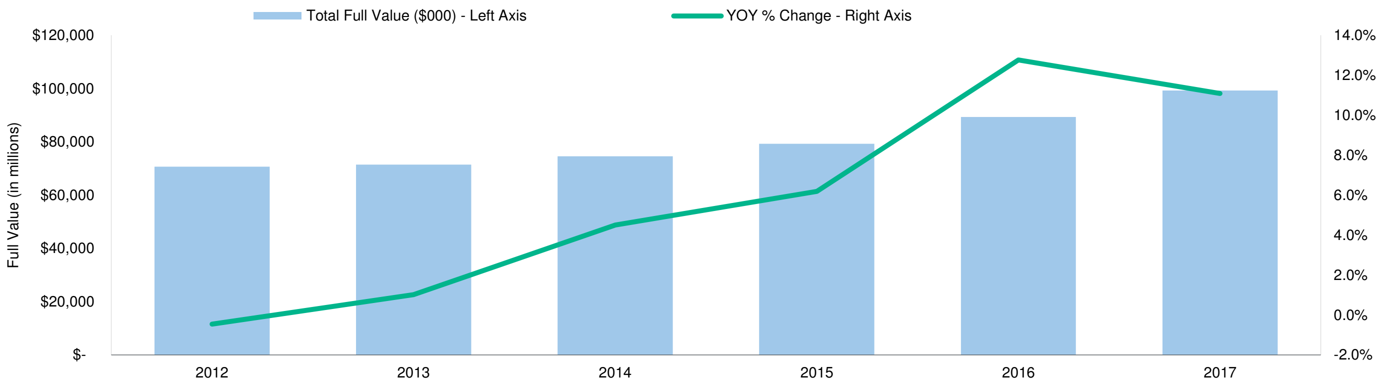
Economy and Tax Base: Strong Local Economy Continues to Drive Positive Assessed Valuation Performance; Low Wealth Indicators

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 the state. The local economy is anchored by three primary sectors (military, financial services and tourism), but continues to see investment in other sectors, particularly biomedical sciences. The city's May 2017 labor force of 710,469 is up 2.8% over the prior year, well surpassing its 2010 prerecession peak, and the unemployment rate remains low at 3.6%. 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, city estimates reflect an increase of 11% reaching 1.5 million residents. Despite the boost, the city's wealth indicators are below the average, reflective of high institutional presence and urban population. The 2015 median family income was significantly lower than peers at 81.8%, per the American Community Survey estimate.

The local economy continues to benefit from significant investment and redevelopment, its role as a tourism hub, and new employment opportunities. The city is pursuing plans to expand air service, grow professional sporting events, restore the Alamo Plaza, and maintain the five Missions including the Alamo, which have been designated World Heritage Sites and are expected to drive additional tourism. Convention and meeting space remains in high demand with bookings through 2025. In partnership with Bexar County (Aaa stable), CPS Energy (Combined Utility Enterprise, 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, driving job growth. Residential construction remains high, driven by strong population growth, and the city anticipates surpassing 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 7% annually over the past five years, well above its Aaa peers. Growth has peen particularly robust over the past two years, with the tax base increasing 12.8% in fiscal 2016 and 11.1% in 2017 to $99.2 billion. Preliminary estimates for fiscal 2018 reflect an increase of 6.9%, and the city anticipates growth of 4% in 2019, and 3% in each year after that through 2022. Longer term, Moody's Analytics, per the March 2017 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 Drives Improved Reserves; FY 2017 To Be Stable

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. 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 surpluses growing the total fiscal 2016 General Fund balance to $255.1 million (a healthy 23.4% of General Fund revenues), above the 15% requirement. Including the Debt Service Fund, total operations for the year resulted in a total balance of $299.4 million (23.9% of operating revenues).

The city's total operations in fiscal 2016 were supported primarily by revenues from property taxes (38.1%), two city owned utilities (27.6%), and sales taxes (21.9% - includes general and selective sales taxes). The city currently levies a total property tax rate of $5.58 per $1,000 of assessed values ($3.47 for operations, $2.12 for debt service) which is well below the statutory maximum of $25, providing significant flexibility. CPS Energy accounted for a majority (96%) of the utility revenues with $331.8 million. CPS revenues are based on a percent of CPS returns which can fluctuate due to weather patterns and energy prices but have averaged 2.2% growth annually over the past five years including fiscal 2016; revenues were down 1.3% in 2016 compared to the prior year. Sales tax performance has also been strong averaging 8.0% annual growth over the past five years; revenues increased 2.6% in fiscal 2016 and are up 4.4% year-to-date over the prior year.

For fiscal 2017, the city adopted a $1.14 billion budget, balanced with the use of $8 million of reserves. Year to date, officials report modestly stronger revenues than anticipated and an estimated $5.3 million in expenditure savings, primarily from low fuel prices. As of the March mid year estimate, the city projected a total General Fund balance of $255.6 million (a solid 22.6% of General Fund revenues), although officials anticipate actual results will be more favorable as was the case in 2016. 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 2016, operating cash and investments totaled $200.5 million (16% of operating revenues). During the year, General Fund cash was approximately $157 million (14.4% of General Fund revenues). In fiscal 2017, 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 2016, city officials report a combined total of $66 million.

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

San Antonio's elevated debt profile is a weakness in the rating category but fixed costs will remain affordable supported by ongoing tax base growth and conservative debt management practices. The city's debt profile is significantly elevated compared to similarly rated peers with a direct debt burden at 2.6% on the fiscal 2017 valuation. Ongoing conservative debt management and a descending debt service schedule 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 and includes a comprehensive debt model. The CIP includes plans for future debt issuances in order to meet ongoing capital needs, largely for streets and drainage while maintaining a level debt service rate and healthy debt service reserve position. Voters authorized $850 million of GOLT bonds in May 2017, and the city currently has $850 million in 2022 and $590 million in 2027 included for planning purposes as capacity allows. Additional tax notes and certificates of obligation will also support the city's capital needs.

DEBT STRUCTURE

The majority of the city's debt is fixed rate and amortizes over the long term. In December 2016, the city privately placed $47 million of variable rate certificates of obligation that are in an initial term mode through January 31, 2020, at a fixed rate of 2.64%.

The GOLT debt service schedule is descending with the maximum annual debt service (MADS) in fiscal year 2018 at $211 million. Principal payout is below the national median with 60.7% 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.

Included in the city's debt profile is $580.1 million in lease revenue bonds secured by legally available funds of the city subject to annual appropriation. The Aa1 rating affects $29.7 million, and reflects the more essential nature of the projects (municipal building, and an emergency dispatch center). The Aa2 affects $550.4 million and reflects the less essential nature of the convention center, although it is notably an important project to the city's economy. The city historically has and intends to continue to pay for the convention center bonds with hotel occupancy tax (HOT) revenues. Additionally, the city has three contingency funds that totaled $66 million at fiscal year end 2016, which would smooth out any HOT revenue volatility.

DEBT-RELATED DERIVATIVES

The city is not party to any interest rate swap or derivative agreements.

PENSIONS AND OPEB

Budgetary pressures due to the city's participation in two pension plans are expected to remain manageable in the near term. 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. For the year ended September 30, 2016, the city recognized pension expense of $89.2 million or 7.1% of operating revenues, which was equal to the actuarially determined contribution, and net of self supporting contribution.

The city's fiscal 2016 contribution rate was below the Moody's calculated “tread water” level of $94.4 million by $5.2 million, a modest 0.4% of total operating revenues. 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.

As reported, the city's net pension liability for the Municipal, and Fire and Police plans was approximately $865 million. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $2.7 billion in fiscal year 2016, net of self supporting contribution. The three year average ANPL is a manageable 1.8 times of operating revenues (2.3% of the 2017 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.

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 2016, the city contributed $6.4 million to the plan. The public safety plan is pre-funded as required per state statute, and in fiscal 2016, the city contributed $25.9 million to the plan. At fiscal year end, the city reported a total unfunded liability of $732.5 million for both plans. The civilian plan had an actuarial unfunded liability of $270.5 million, all of which is unfunded. The public safety plan had an actuarial liability of $799.3 million, with $337.2 million in assets.

In fiscal 2016, total fixed cost including debt, pensions, and OPEB totaled $338.8 million or a somewhat high 27% of operating revenues.

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

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.

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.

Texas Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes, one of the sector's major revenue sources are subject to a cap, which cannot be overriden. However, the cap of $25 per $1,000 of assessed values with no more than $15 allocated for debt,still allows for significant revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Texas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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

The proceeds will be used to fund city wide infrastructure needs.

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 estimates the current population at 1.48 million residents.

Methodology

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the lease rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 4

San Antonio (City of) TX

Issue	Rating
Combination Tax and Revenue Certificates of Obligation, Series 2017	Aaa
Rating Type	Underlying LT
Sale Amount	$84,060,000
Expected Sale Date	08/01/2017
Rating Description	General Obligation Limited Tax
General Improvement Bonds, Series 2017	Aaa

Rating Type	Underlying LT
Sale Amount	$101,135,000
Expected Sale Date	08/01/2017
Rating Description	General Obligation Limited Tax
Tax Notes, Series 2017	Aaa
Rating Type	Underlying LT
Sale Amount	$20,205,000
Expected Sale Date	08/01/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

REPORT NUMBER 1081783

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