S&P Global
Ratings

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Summary:
San Antonio, Texas; Appropriations; General Obligation; Note

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Credit Profile		
US$388.75 mil gen imp & rfdg bnds ser 2019 dtd 08/01/2019 due 08/01/2040		
Long Term Rating	AAA/Stable	New
US$38.19 mil comb tax & rev certs of oblig ser 2019 dtd 08/01/2019 due 08/01/2039		
Long Term Rating	AAA/Stable	New
US$34.93 mil tax nts ser 2019 dtd 08/01/2019 due 08/01/2022		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to San Antonio, Texas' series 2019 general improvement and refunding bonds, combination tax and revenue certificates of obligation, and tax notes. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's existing general obligation (GO) debt and its 'AA+' long-term rating on San Antonio Municipal Facilities Corp.'s debt, San Antonio Public Facilities Corp.'s debt, and Starbright Industrial Development Corp.'s debt issued on behalf of the city. The outlook is stable.

The rating reflects our view of San Antonio's strong economy and a history of strong budgetary performance and very strong reserves. Partly offsetting the above strengths, in our view, is the general fund's reliance on revenues from CPS Energy and the expected impact of recent legislative changes that will reduce ad valorem tax and telecom revenues. In addition, pending arbitration with the city's fire union adds uncertainty regarding its financial performance. However, we expect the city will be able to adjust to these pressures given its very strong management policies and practices.

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, the city has a predominantly locally derived revenue base, with 67% of general fund revenue derived from local taxes, and independent taxing authority, and we believe that pledged revenue supporting debt service on the bonds has a limited risk of negative sovereign intervention.

Security

The GO bonds, certificates of obligation, and tax notes are secured by the city's revenue from 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. In fiscal 2019, the city levies 55.827 cents per $100 of AV, 21.150 cents of which is dedicated to debt service.

Additional security for the certificates is provided by the city's surplus net revenue from its municipal parks system (not to exceed $1,000). Given the de minimis pledge, we rate the certificates based on the city's GO pledge.

We do not differentiate between the city's limited-tax GO debt and its general creditworthiness given that the ad valorem tax is not derived from a measurably narrower tax base and that there are no limitations on the fungibility of resources.

San Antonio Municipal Facilities Corp.'s series 2010 and 2011 lease revenue bonds are secured by lease payments based on the city's annual appropriation from legally available general fund revenue as an ongoing obligation for the lease term.

San Antonio Public Facility Corp.'s series 2012 bonds are secured by and payable from the trust estate, which consists primarily of lease payments to be made by the city to the corporation pursuant to the sublease. The city's obligation to make lease payments is a current expense, payable solely from funds annually appropriated by the city for such use. The sources of payment for the lease payments include primarily hotel occupancy tax receipts and any other lawfully available funds to the extent necessary.

Starbright Industrial Development Corp.'s series 2013 contract revenue refunding bonds are secured by San Antonio's portion of revenue received from City Public Service (CPS). The revenue transfers from CPS to the city are subject to the availability of excess CPS funds, but according to the bond ordinance the utility is required to transfer funds as long as it has debt outstanding. The transfer of funds has occurred since 1963, and the city relies on these funds for operations. The maximum amount that CPS is required to transfer to the city is 14% of gross revenue less the city's costs for usage of gas and electric services from CPS.

The one-notch difference on the San Antonio Municipal Facilities Corp.'s series 2011 and 2012 bonds, San Antonio Public Facility Corp.'s series 2012 bonds, and the Starbright Industrial Development Corp.'s series 2013 bonds reflects the annual appropriation risk.

Use of proceeds

Proceeds from the bonds will refund a portion of the city's debt outstanding for savings and will fund a variety of improvements, including streets, drainage, parks and recreation, public safety, and libraries. Proceeds from the certificates will be used to fund infrastructure improvements and to purchase property and build and improve city facilities. The tax note proceeds will fund technology and street improvements.

Credit overview

The rating reflects our opinion of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area and a local stabilizing institutional influence;
- Very strong management, with strong financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 21% of operating expenditures;

- Very strong liquidity, with total government available cash at 20.3% of total governmental fund expenditures and 137.1% of governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability position, with debt service carrying charges at 14.8% of expenditures and net direct debt that is 141.2% 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 County in the San Antonio-New Braunfels metropolitan statistical area, which we consider 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 81.4% of the national level and per capita market value of $76,973. Overall, the city's market value grew by 8.5% over the past year to $114.7 billion in 2019. The county's unemployment rate was 3.3% in 2018.

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 diversify the area economy, which has historically been anchored by the military and tourism sectors.

San Antonio is expected to grow by approximately 1 million people by 2040. Given these projections, city leadership engaged local citizens, local governments, businesses, the military, and advocacy groups in a collaborative process to address key aspects of sustainable growth such as transportation, housing, education, infrastructure, sustainability, economic diversification, workforce development, and business attraction and retention.

One of the sectors the city actively targets in its economic development efforts is the health care and bioscience industry, one of its leading economic generators. Eight financial institutions' national headquarters are in San Antonio, as are four financial institutions' 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.

Redevelopment of the city's downtown has been a major project, with a goal of having 7,600 housing units in the greater downtown area by 2020. The project is ahead of schedule; to date, more than 7,200 units have been completed. Another major initiative, the San Pedro Creek Culture Park improvement project, is under construction and will create 2,100 housing units. Once completed, the project is estimated to have a $1.5 billion economic impact over 10 years from an increase in property value, additional tax revenue, and additional jobs created downtown.

Another major initiative, the Alamo Plaza, is projected to add 4,100 jobs when completed in 2024. The Alamo Master Plan, approved in 2017, seeks to recapture the historical footprint of the Alamo, remove vehicular traffic, reclaim the plaza courtyard, and build a new visitor center and museum. The project will be funded with a combination of city, state, and private endowment funds, and is projected to generate $9.5 million in city revenue and $17.1 million in state revenue annually.

Over the past year, the city has added 4,674 new jobs in targeted industries to its employment base, including finance, information technology, and health care.

Officials report that permitting activity continues to increase and that construction is ongoing. In 2018, 85,500 permits were issued with a total value of $3.3 billion. In January to June of 2019, permits were up slightly compared with the prior-year period, with a total of 51,700 permits totaling $2 billion.

The city's tax base has increased steadily since fiscal 2013 following two consecutive declines in fiscal years 2011 and 2012. Given the significant construction, combined with redevelopment and appreciation of existing values, we anticipate that tax base growth will continue and that the city's economy will remain strong.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our financial management assessment methodology, indicating our view that 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 use of a statistical model given that management bases its revenue forecasts on historical trends.

Management prepares monthly budget reports, 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 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. The city utilizes a comprehensive financial analysis and computer modeling in its debt management plan. The plan incorporates numerous variables such as sensitivity to interest rates, changes in assessed value, annexations, ad valorem tax collection rates, self-supporting debt, and fund balances.

Strong budgetary performance

San Antonio's budgetary performance is strong, in our opinion. The city had operating surpluses of 5.8% of expenditures in the general fund and of 6.6% across all governmental funds in fiscal 2018. Our assessment accounts for our expectation that budgetary results could moderate somewhat from 2018 results in the near term.

We have adjusted the city's total governmental revenue and expenditures for recurring transfers and one-time items such as spending-down of previously deposited bond proceeds.

Depending on the level of capital spending from year to year, the budgetary flexibility tends to fluctuate. The adopted fiscal 2018 budget projected a small, 1.2% general fund deficit as a result of increased spending on streets and other priorities per city council direction, but the year ended with a surplus as a result of sales tax, property tax, and utility revenue coming in above budget, as well as salary and benefits savings.

The general fund continues to rely on contributions from the city's electric provider, City Public Service Energy; this utility revenue is the largest source of general fund revenue and accounted for about one-third of total general fund revenue in fiscal 2018, followed by property taxes (28%) and sales taxes (24%). Although the utility operates in a deregulated environment, we believe that its favorable and competitive position mitigates the risks with the city's dependence on these payments.

The adopted fiscal 2019 budget projected a drawdown of 2.5%, incorporating the council's priorities, such as increased spending for streets and affordable housing. The estimated ending unassigned general fund balance was projected to decrease by more than $40 million. Officials report that, as a result of mild weather and lower fuel prices due to increased oil production in west Texas, CPS revenue is below budget and, as a result, transfers to the general fund will be lower than expected. The city decided to use available funds in excess of budgeted reserves in its workers' compensation and health care fund for a one-time adjustment to the general fund, and now expects to end the year with a higher fund balance than originally forecast. In addition, the city's budgetary assumptions are fairly conservative and its budget-to-actual variances are generally favorable. Therefore, we expect the city's budgetary performance to remain strong.

The city budgets on a two-year basis and maintains a five-year financial forecast. The five-year financial forecast shows the city maintaining at least 15% in general fund reserves, in line with its policy. While the forecast shows expenditures exceeding revenue in fiscal years 2020 and 2021, the city usually projects budget gaps and work throughout the year to close them and maintain its historically strong financial position.

The forecast incorporates state legislative changes, including Senate Bill 2, which will limit annual ad valorem revenue growth to 3.5% from existing value beginning in fiscal 2021. For more information on Senate Bill 2, please see our commentary titled "Texas Local Governments Could Face Budget Headwinds--And Credit Quality Strain--From Property Tax Reform", published June 12, 2019, on RatingsDirect. The city's forecast also incorporates changes in the right-of-way telecom compensation, which are expected to result in $7 million of lost revenue. In addition, the city recently adopted a homestead exemption, effective in fiscal 2020, with an estimated revenue loss of $3.6 million.

On the expenditure side, the general fund forecast reflects the annual projected expenditures required to sustain the current levels of service. The growth in expenditures over the forecast period is primarily due to increases in contractual requirements such as the police collective bargaining agreement, mandated operational costs associated with the completion of capital projects, inflationary increases, health care costs, and the continuation of the civilian pay plan with regular step increases in a 1% cost-of-living adjustment.

The city council has identified street maintenance and affordable housing as priorities for the next few years. The five-year financial forecast identifies funds potentially available for such policy issues. Hence, the city could utilize a portion of available fund balance. However, any draws would occur only after satisfying the policy to maintain a 15% available fund balance. Given San Antonio's strong fiscal discipline, we don't expect the planned draws to have a material impact on its finances.

Very strong budgetary flexibility

San Antonio's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 21% of operating expenditures, or $243.8 million.

The city has a history of conservative budgeting practices, demonstrating a broad and well-embedded culture of fiscal discipline, and has historically exceeded budgeted projections.

Actual operating results for fiscal 2018 reflect a nominal increase in reserves. After adjustments for recurring transfers and one-time capital expenditures, reserve levels increased slightly to 21.4% of expenditures per the audited results.

Given the estimated fiscal 2019 results, coupled with a formal 10% reserve policy and a target of at least 15%, as well as historically conservative budgeting, we expect the city's flexibility to remain very strong.

However, we note that the city could face financial pressures in the future stemming from a recent charter amendment, known as Proposition C, championed by the firefighters' association and approved by voters in a November 2018 election.

The amendment allows the firefighters' association to unilaterally declare an impasse in negotiations and requires San Antonio to enter into binding arbitration. The fire union invoked the provisions of this amendment on July 2, 2019, and arbitration is expected to conclude within approximately two months. For more information on the ballot initiative, see our commentary titled "Ballot Initiatives Emerge As A Union Bargaining Tool In Texas", published July 11, 2019.

We believe that any outcome that imposes additional costs on the city could have significant ramifications for its budget and its financial position. We will monitor the outcome of the arbitration and will assess the impact on the city's finances as needed.

Very strong liquidity

In our opinion, San Antonio's liquidity is very strong, with total government available cash at 20.3% of total governmental fund expenditures and 137.1% of governmental debt service in 2018.

Our calculations include liquid investments with maturities of less than one year.

In our view, the city has exceptional access to external liquidity if necessary, supported by its regular annual issuances of tax-supported debt and utility revenue debt. 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. San Antonio investments include obligations of the U.S., money market funds, and state-pooled investments, which we do not consider aggressive, given the portfolio diversification. We expect the city's liquidity to remain very strong given management's demonstrated ability to maintain balanced operations.

The city has several series of privately placed debt that is fixed, with no acceleration or events of default that could pressure its liquidity. In December 2016, the city also entered into a variable-rate transaction that 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 multimodal conversion flexibility at the end of the initial three-year interest rate period. The variable-rate obligations, with an approximate par amount outstanding of $47 million, account for only 1% of the city's direct debt, while all privately placed debt totals $60 million and accounts for 2% of total direct debt. We don't view these obligations as a potential contingent liquidity risk.

We note that our view of the city's liquidity could weaken if, as a result of mandatory arbitration, new contract with the fire union requires the city to make any large one-time payments, such as retroactive pay to account for lost cost-of-living adjustments.

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 14.8% of total governmental fund expenditures, and net direct debt is 141.2% of total governmental fund revenue.

After this issuance, the city will have $331 million of authorized but unissued debt from its 2017 bond election. Over 67% of voters approved a total of $850 million in bonds, with no expected tax rate impact. Officials plan on issuing approximately $331 million of additional new debt in fiscal years 2020 and 2021. We do not anticipate that these additional issuances will have a material impact on San Antonio's debt profile, as it is the city's practice to issue amounts roughly equal to debt amortizing over the same period.

San Antonio's required pension and actual other postemployment benefits (OPEB) contributions totaled 10.8% of total governmental fund expenditures in 2018, with 8.9% representing required contributions to pension obligations and 1.9% representing OPEB payments. The city made its full annual required pension contribution. 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 a nontraditional, joint contributory, hybrid defined benefit pension plan. Under state law governing the TMRS, an actuary determines the contribution rate annually. The city has historically made its full required contributions. The plan recorded a net pension liability of $422.4 million as of Dec. 31, 2017, the most recent actuarial valuation date reflected in the city's fiscal 2018 audit. The plan reported a funded ratio of 77.9%, assuming a 6.75% discount rate, which is an increase from the funded ratio of 72.8% at Dec. 31, 2016. The plan's fiscal 2018 audit, which will be reflected in the city's fiscal 2019 financial statements, shows an increase in net pension liability to $581.9 million and a funded ratio of 71%.

The Fire and Police Pension Fund is a single-employer defined benefit retirement plan administered by the San Antonio Fire and Police Pension Fund. The plan is funded in accordance with state statutes and contributions are not actuarially determined. The plan recorded a net pension liability of $349.3 million as of Jan.1, 2018, the most recent actuarial valuation date. The plan reported a funded ratio of 90.1%, assuming a 7.25% discount rate, which is an increase from the funded ratio of 83.1% at Jan. 1, 2017. The plan's fiscal 2018 audit, which will be reflected in the city's fiscal 2019 financial statements, shows an increase in net pension liability to $741.1 million and a funded ratio of 80.3%.

Plan provisions include a backwards deferred retirement option plan (BackDROP), which provides a lump-sum benefit. On retirement, retirees who choose the BackDROP will receive a lump-sum payment for a number of full months of service elected by the member that does not exceed the lesser of the number of months of service credit the member had in excess of 20 years, or 60 months and a reduced annuity payment.

The city also provides other postemployment health benefits to most retired employees through two plans, which it funds on a pay-as-you-go basis.

The Retiree Health Benefits Fund covers civilian employees and uniform employees retiring prior to Sept. 30, 1989. The unfunded liability for the plan was $306.1 million as of Sept. 30, 2018 measurement period and the plan was unfunded.

Fire and police personnel retiring after Sept. 30, 1989 are covered under the Fire and Police Retiree Health Care Fund. The unfunded liability for the plan was $595.8 million as of Jan. 1, 2018 measurement date and the plan was 38.7% funded.

Given the funded status of the city's pension plans and strategies to manage future costs, we do not believe pension and OPEB liabilities present material risk to its debt and contingent liability profile.

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 meet its capital and 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 a very strong financial profile and that its economy will continue to prosper. However, a material deterioration of its budgetary performance resulting in a reduction of available fund balance to levels no longer comparable with those of peers, or a weakening of its key economic indicators, could place pressure on the ratings.

The rating could also come under pressure if the terms of the city's collective bargaining agreement with the firefighters' association mandated by the pending arbitration significantly increase the city's public safety expenditures or require large lump-sum payments. These potential pressures are a source of uncertainty and could affect the city's budgetary flexibility and liquidity, and thus we will assess any potential credit impact as more information emerges.

Related Research

- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of July 30, 2019)		
San Antonio		
Long Term Rating	AAA/Stable	Affirmed
San Antonio		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of July 30, 2019) (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 GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO nts		
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 Pub Facs Corp, Texas		
San Antonio, Texas		
San Antonio Pub Facs Corp (San Antonio) (convention ctr 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

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

Fitch Ratings-Austin-24 July 2019: Fitch Ratings has assigned a 'AA+' rating to the following city of San Antonio, TX obligations:

--$389 million general improvement and refunding bonds series 2019;
--$38 million combination tax and revenue certificates of obligation (COs) series 2019;
--$35 million tax notes series 2019.

In addition, Fitch has affirmed the following ratings that are linked to the city:

--Issuer Default Rating (IDR) at 'AA+';
--$1.8 billion limited tax bonds at 'AA+';
--$544.7 million public facilities corporation (PFC) lease revenue bonds at 'AA';
--$26.5 million municipal facilities corporation (MFC) lease revenue bonds at 'AA';
--$18.2 million Starbright Industrial Development Corporation (Starbright Project) contract revenue refunding bonds, taxable series 2013 at 'AA'.

The Rating Outlook is Stable.

The bonds are scheduled for a negotiated sale during the week of Aug. 12, 2019. Proceeds will be used for various public improvements and to refund outstanding debt for interest cost savings.

SECURITY

The bonds, COs, and notes are payable from an annual property tax levy, limited to $2.50 per $100 assessed valuation (AV) for operations and debt service. The COs are additionally payable from a limited pledge of certain city park system revenues. 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.

ANALYTICAL CONCLUSION

The 'AA+' IDR and limited tax rating reflect strong revenue growth prospects, superior financial resilience, and a moderate long-term liability burden that is expected to remain in this category despite large recent and planned voter authorizations. The 'AA+' also reflects the city's diminished expenditure flexibility triggered by a 2018 voter-approved city charter amendment that permits firefighters to call for binding arbitration during collective bargaining agreement (CBA) negotiations that result in an impasse. Firefighters recently invoked the binding arbitration process and an arbitration panel is expected to be convened this summer. Even if the results of the current binding arbitration are favorable to the city, Fitch believes longer term workforce controls are materially weaker under a binding arbitration framework.

Economic Resource Base
San Antonio is the second largest city in the state and the 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 a favorable employment environment and ample developable land.

KEY RATING DRIVERS

Revenue Framework: 'aaa'
Diverse resources include utility revenues, property taxes, and sales taxes that support the city and are expected to yield continued strong gains due to rapid population growth and economic expansion. The city's independent legal ability to raise property tax revenues, fees, charges for services, and other locally controlled revenues provide ample flexibility.

Expenditure Framework: 'a'
The city's adequate expenditure flexibility is derived from management's prudent budgeting practices and strong controls over workforce hiring and firing, balanced against limited flexibility to control rapidly growing public safety compensation levels driven by costly benefits. Fire fighters' unilateral ability to invoke binding arbitration upon a CBA impasse represents a material degree of uncertainty and lack of control in budgeting one of the city's largest expenditures.

Long-Term Liability Burden: 'aa'
Addressing the city's sizeable capital needs related to deferred maintenance and growth are expected to be accompanied by commensurate growth in the area's resource base, allowing the liability burden to remain moderate. The city consistently funds its pensions at actuarially determined levels.

Operating Performance: 'aaa'
The combination of the city's ample revenue flexibility, minimal expected revenue volatility, moderate carrying costs, and large reserves leaves it well positioned to address cyclical downturns. The city has demonstrated a commitment to prudent fiscal practices.

RATING SENSITIVITIES

Rising Liability Burden and Fixed Cost Burden: The IDR and bond ratings are sensitive to large and sustained increases in the city's long-term liability burden and carrying costs. Additionally, unfavorable binding arbitration results that further reduce the city's spending flexibility could result in downward rating pressure.

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 presence, which remains a major economic factor. Lackland Air Force Base, Randolph Air Force Base, and Fort Sam Houston account for nearly 76,000 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.

Large corporations that are headquartered within the city include United Services Automobile Association (over 17,000 employees), Valero (IDR BBB), and H-E-B supermarket chain (22,000 employees). The expansive employment base remained resilient during the 2015-2016 downturn in drilling activity in the nearby Eagle Ford Shale. Drilling activity in the Eagle Ford Shale has settled to a level of about one-quarter of previous peaks. The unemployment rate remains below state and national averages.

Located 150 miles from the U.S. - Mexico border, President Trump's proposal to renegotiate the North American Free Trade Agreement (NAFTA) has created uncertainty for the area's established economic structure. A new trade agreement, the United States Mexico Canada Agreement (USMCA) has been signed by the respective presidents but must still be ratified by each country's legislative branch.

In its current form, the USMCA should reduce key uncertainties for trade among the three countries. However, failure to ratify the USMCA or ratification of a materially different revised agreement could have major economic implications for local economies in the U.S.- Mexico border region. Immigration policies may also threaten the ratification of the USMCA as evidenced by the Trump administration's recent consideration of U.S. tariffs on Mexican goods. For additional details, please see the following research at www.fitchratings.com:

--"Fitch Ratings: US Tariffs on Mexico May Threaten USMCA, Corporate Cash Flow" (June 3, 2019);
--"NAFTA Replacement USMCA Settles Key Trade Uncertainties" (Oct. 2, 2018);
--"NAFTA Termination Could Hit Upper Midwest, Border State Economies Hard" (April 11, 2018);
--"Fitch Focus on Munis: Trade in the Time of Trump -Part 1, Select U.S. Regions Could Feel Pinch if NAFTA Trade Policy Changes Dramatically" (Aug. 30, 2017);
--"Trade in the Time of Trump -Part 2, Border Blues: Is Uncertainty over NAFTA Impacting Border Cities" (Nov. 15, 2017).

The city's population has expanded by nearly 14% from 2010-2017, exceeding both state and national averages. Building permit values have exceeded $3 billion (2.7% of fiscal 2018 market value) annually since 2014. Property value appreciation and new construction have resulted in steady AV gains, averaging nearly 5% over the last 10 years, including a nearly 9% increase in fiscal 2019. Per capita personal income levels remain below average due to both an elevated poverty level and the prevalence of large institutions in the higher education and military sectors.

Revenue Framework
The city relies on a combination of utility revenues (33% of fiscal 2018 general fund revenues), property taxes (29%), and sales taxes (24%). Utility revenues are primarily from City Public Service (CPS; senior lien bonds rated AA+), the electric utility, plus a modest amount from the San Antonio Water System (SAWS; senior lien bonds rated AA+).

Fitch expects the city's revenues to continue along a strong trajectory due to the rapidly expanding employment base and strong demographic trends. For the 10-year period through fiscal 2018, the city's general fund revenues grew by a property tax rate-adjusted CAGR of 4.3%, above the level of inflation and U.S. GDP growth.

San Antonio's fiscal 2019 tax rate of approximately $0.56 per $100 of TAV provides ample capacity below the statutory cap of $2.50. However, the Texas legislature recently approved (and signed into law by the governor) Senate Bill 2 (SB2), which makes a number of changes to local governments' property tax rate setting process. Most notably, SB2 will reduce the rollback tax rate (now the 'voter approval tax rate') from 8% to 3.5% for most local taxing units, starting with the fiscal 2021 budget, and require a ratification election (replacing the current petition process) if any local taxing unit exceeds its voter approval rate. The tax rate limitation in SB2 excludes new additions to tax rolls and allows for banking of unused margin for up to three years. Remaining control over other local revenues such as fines, fees, and charges for services is sufficient to generate still ample revenue-raising flexibility relative to Fitch's assessment of expected modest revenue volatility in a typical downturn. The revenue cap does not apply to debt service tax levies.

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 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

Typical of municipalities, public safety leads as the city's largest expenditure. It is the city's goal and practice to cap public safety spending at 66% of expenditures and transfers out in order to avoid the crowd-out of other services. In the fiscal 2019 budget, police and fire spending account for approximately 37% and 26% of general fund appropriations, respectively, for a total of about 63%.

The pace of spending growth absent policy actions is likely to be in line with or marginally above the natural pace of revenue growth as the city expands its service levels to accommodate a rapidly growing population and costly public safety health insurance benefits. The longer-term trajectory of spending is dependent on the results of future labor agreements.

The city's expenditure flexibility is adequate, aided by prudent management and strong controls over workforce hiring and firing but partially offset by limited control over public safety compensation (discussed below). The fixed cost burden is moderate, with carrying costs for debt, pensions and OPEB equal to about 21% of fiscal 2018 governmental expenditures. Fitch expects the growth in debt service to cause overall carrying costs to increase over time but remain manageable given the city's goal and practice to maintain a level debt service tax rate to fund its capital plans.

City Charter Amendment Impacts Structure of Fire Fighter Collective Bargaining Agreement

In November 2018, city voters approved two city charter amendments affecting employee compensation that were placed on the ballot via voter initiative. Proposition C provides the local fire fighter union the authority to require the city to participate in binding arbitration on all issues in the event of an impasse during future CBA negotiations. Fitch believes this proposition further constrains the city's spending flexibility over what Fitch already considered to be limited due to long evergreen clauses. Unlike non-public safety compensation, management can't control pay hikes and benefit levels for police officers and fire fighters, which must be established through a CBA.

CBA negotiations with the police and fire associations stalled in 2014 as the city attempted to realign the costly benefits for police and fire employees and their dependents. As a result, when the CBAs for police and fire expired in September 2014, both groups operated under an evergreen clause whereby the terms of the expired agreements (excluding across the board pay hikes) were automatically renewed through September 2024.

In 2016, the city and police negotiated 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 over fiscal years 2017-2021. Additionally, employee health premiums are allowed to escalate during evergreen period. Through fiscal 2021, these terms are projected to result in pay hikes that are $5.5 million more than the healthcare cost savings, resulting in a modest net increase in expenditures for the city. Unlike the fire fighters, CBA negotiations for the police are not subject to binding arbitration. However, the police CBA does include a "me too" provision that requires police compensation levels to mirror fire fighter compensation levels if they exceed the terms agreed to in the 2016 police CBA.

After the voter approval of Proposition C in Nov. 2018, the city and the firefighters entered into negotiations in February 2019. Citing a lack of progress, the firefighters declared an impasse and invoked binding arbitration on July 2. Although the fire fighters' compensation levels and benefits are far more generous than the state's other large urban cities, which could argue for a favorable outcome for the city under binding arbitration, the new CBA framework for fire fighters represents a source of uncertainty in determining one of the city's largest expenditures. Additionally, the provisions of Proposition C allow the arbitration board to consider the financial impact of a CBA during negotiations, but once approved, there is no provision for annual reopeners in the event of economic declines.

Long-Term Liability Burden

The long-term liability burden, including overall debt and unfunded pension liabilities, is moderate at almost 18% of personal income and is comprised primarily of overlapping debt (60% of total). It is the city's goal to maintain a flat debt service tax rate as the city addresses its large capital needs with measured debt issuance. Voters approved an $850 million GO authorization in 2017 of which over $331 million will remain unissued after the current offering. 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 $950 million in GO bond authorizations in 2022 and 2027 which Fitch considers modest relative to nearly $3 billion in direct debt outstanding. Fitch expects increases in overall debt levels will be accompanied by continued gains in the resource base, keeping the overall liability burden moderate.

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 nearly 86% but declines to 74% based on Fitch's adjustment for a 6% return assumption on investments. At $1.6 billion, the Fitch-adjusted net pension liability equals approximately 2.7% of personal income. Annual pension payments consistently meet the actuarially determined contribution.

Operating Performance

The city's strong financial resilience is derived from a combination of ample revenue flexibility, conservative budgeting, minimal general fund revenue volatility, and large reserves. These credit strengths are expected to keep the issuer's reserve levels well above the amount needed for a '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 2018 audit posted a nearly $66 million (5.8% of spending) operating surplus, increasing the unrestricted fund balance to $341 million or 30% of spending. Management projects another net general fund surplus for fiscal 2019.

In the wake of the last downturn, the city gradually increased its formal general fund balance policy from 9% of spending to 10% of spending and increased its two-year budget reserve from 3% to 5% of spending. The city annually appropriates its two-year budget reserve but annual operating surpluses have resulted in no utilization of the reserve since fiscal 2013. The adopted fiscal 2019 budget continues this pattern which Fitch expects will lead to balanced or surplus operations for the general fund. 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 plus continuation of current fire fighter compensation and benefits per the expired CBA under the evergreen clause. The results of binding arbitration with the firefighters are likely to impact forecast results.

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' payments to the city's general fund. Coverage from pledged revenues on contract revenue bond debt service 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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Additional information is available on www.fitchratings.com

Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
https://www.fitchratings.com/site/re/10024656

MOODY'S INVESTORS SERVICE

CREDIT OPINION
30 July 2019

Rate this Research

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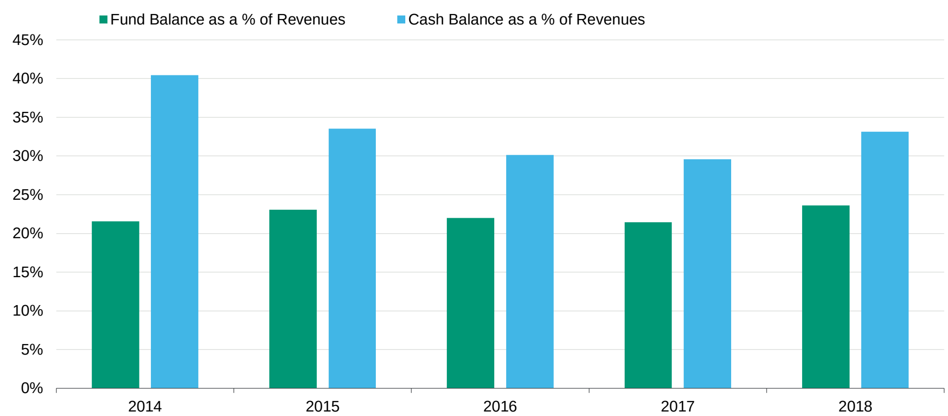
San Antonio (City of) TX

Update to credit analysis

Summary

The City of San Antonio's, TX (Aaa stable) credit profile is supported by a growing and vibrant economy, anchored by dynamic sectors that have spurred stable employment trends and strong in-migration. The city also benefits from a solid financial profile (see Exhibit 1) stemming from steady operating performance, and strong financial management policies. Income levels in the city are low, reflective of its expansive urban nature and also consistent with areas that have high institutional presence. The credit profile is challenged by high debt loads, driven by increasing demand for goods and services, a byproduct of strong population performance. Pensions are also moderately elevated but fixed costs remain manageable and affordable.

Exhibit 1
Available operating fund balances remain above 20% over the past four years; cash balances remain healthy



Operating fund metrics include general, debt service, and all special revenue funds
Source: City of San Antonio, TX Comprehensive Annual Financial Reports FY 2014 - 2018

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 residential demand, contributing to tax base growth

» Strong financial performance and conservative budgeting yielding an improved financial position

» Sophisticated financial management includes monthly monitoring, multiyear budgeting with five year forecast, and reserve policies

Credit challenges

» Elevated debt and pension liabilities

» Low income indices

» 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 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

» Not applicable

Factors that could lead to a downgrade

» Negative trends in operating performance and material deterioration of reserves

» 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

San Antonio (City of) TX	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$74,612,066	$79,230,254	$89,341,511	$98,190,156	$105,670,285
Population	1,385,438	1,413,881	1,439,358	1,461,623	1,461,623
Full Value Per Capita	$53,854	$56,037	$62,070	$67,179	$72,297
Median Family Income (% of US Median)	82.3%	81.8%	81.9%	81.3%	81.3%
Finances					
Operating Revenue ($000)	$1,703,262	$1,720,400	$1,802,620	$1,936,045	$2,035,167
Fund Balance ($000)	$367,113	$396,808	$396,711	$415,473	$480,871
Cash Balance ($000)	$688,704	$576,992	$542,957	$572,864	$674,555
Fund Balance as a % of Revenues	21.6%	23.1%	22.0%	21.5%	23.6%
Cash Balance as a % of Revenues	40.4%	33.5%	30.1%	29.6%	33.1%
Debt/Pensions					
Net Direct Debt ($000)	$2,248,390	$2,340,062	$2,548,080	$2,607,939	$2,804,596
3-Year Average of Moody's ANPL ($000)	$1,978,959	$2,343,651	$2,677,376	$3,087,935	$3,408,428
Net Direct Debt / Full Value (%)	3.0%	3.0%	2.9%	2.7%	2.7%
Net Direct Debt / Operating Revenues (x)	1.3x	1.4x	1.4x	1.3x	1.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.7%	3.0%	3.0%	3.1%	3.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.2x	1.4x	1.5x	1.6x	1.7x

Operating fund metrics include general, debt service, and all special revenue funds
Source: City of San Antonio, TX Comprehensive Annual Financial Reports FY 2013 - 2018, Moody's Investors Service

Profile

San Antonio, the county seat of Bexar County (Aaa stable) 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 1.5 million residents.

Detailed credit considerations

Tax base and economy: strong economic profile drives assessed valuation growth

San Antonio's economy will continue to perform favorably, driven by strong commercial and residential developments and favorable in-migration trends. The local economy is anchored by three primary sectors - military, financial services and tourism. However, the city is experiencing investment in other sectors such as biomedical sciences, increasing its economic vitality. Availability and accessibility of jobs has spurred population growth and corresponding increases in labor force participation yielding an unemployment rate of 2.6%, which was lower than the state's and nation's, as of May 2019. The city's income indicators are below median but consistent with large and urban areas, particularly those with high institutional presence. The 2017 median family income equalled 81.3% of the nation's, and has remained stable over the past decade.

Driven by continued residential and commercial development, as well as appreciation in existing property, assessed valuation has grown at an annual average of 9% over the past five years. In fiscal 2019, assessed values grew 8.5% to $114.7 billion. Preliminary indicators from the appraisal district reflect a 5.4% increase in values in fiscal 2020. Beyond 2020, city officials project an increase of 5% annually through 2024, and then 3% for 2025. However, these numbers are likely conservative given the demand the city enjoys and solid building permit activity. Total building permits reached a new high in fiscal 2018 of 85,500 resulting in a corresponding permit valuation of $3.3 billion, one of the strongest permit years reported for the city within the past decade. In fiscal 2019, through May, city officials report that permit counts are up 11.4% over the prior year, and valuation is slightly up $2 billion, compared to $1.8 billion in the prior year. Longer term, continued investments, low cost of doing business, as well as an expanding labor market, should allow the city to continue to yield solid economic performance.

Financial operations and reserves: stable operating performance and strong policies maintain healthy reserves

San Antonio's financial position will continue to remain healthy supported by the city's conservative budgeting and management practices. The city's conservative budgeting assumptions, regular monitoring of revenues and expenditures, and multi-year forecasting enables the city to remain flexible to adapt to lower property tax revenue raising ability due to recent statewide legislation beginning in fiscal 2021 and potential expenditure pressures. Following an impasse declaration by the firefighter union in collective bargaining negotiations, the city is in the midst of binding arbitration proceedings as dictated by a 2018 voter approved charter amendment. An inability to maintain strong operating performance if arbitration results in significant cost pressures or if other expenditure pressures arise could weaken the credit profile.

Five consecutive operating surpluses have grown reserves at a faster rate than revenues. As a result, the available general fund balance has improved from $178 million (19.1% of revenues) in fiscal 2013 to $341 million (28.3% of revenues) in fiscal 2018. In fiscal 2018 which ended September 30, 2018, the general fund posted a very strong $66 million surplus, well outperforming the midyear projected draw of $6.6 million, driven in part by unusually strong transfers from the city's utilities.

The city's operating funds for our analysis include the general fund, debt service fund, and all special revenue funds, reflecting nearly the entirety of the city's operations and resources that support debt service and pension contributions. Performance in the operating funds fluctuates depending on the levels of transfers out to capital projects funds. Over the last two years, the operating funds have added to reserves with a $113 million surplus most recently in fiscal 2018. Total operating fund balance is $741 million or a healthy 36.4% of revenues and includes some funds restricted for specific operating or capital needs. Available operating fund balance totaled $481 million or a solid 23.6% of revenues.

Operations are primarily supported by property taxes (34.6% in fiscal 2018), contributions from two city owned utilities (19.1%), and sales taxes (19.1%). CPS Energy (Combined Utility Enterprise, Aa1 stable) accounted for a majority (95%) of the utility revenues, while San Antonio Water System (SAWS) (Aa1 stable) accounted for the rest. The city receives 14% of gross revenues from CPS per city ordinance, and although revenues can fluctuate due to weather patterns and energy prices, the revenue has averaged an increase of 4.7% annually over the past five years. Sales tax performance has also been strong averaging a 5.6% annual increase over the past five years.

For fiscal 2019, the city adopted a $1.2 billion general fund budget, balanced with the use of $32.7 million of general fund reserves. As of the mid year budget update, city officials projected a draw of $32 million (2.6% of budgeted fiscal 2019 general fund revenues), largely due to milder weather driving lower transfers from CPS and SAWS. City officials anticipate actual results will be more favorable as has been the case over the past few years, with final results typically exceeding mid-year projections by at least $20 million. The city has identified several expenditure cuts and potential revenue streams to bolster operations through the rest of the year and moving forward. Any material deterioration of the city's reserves could weaken the credit profile but the city will likely maintain strong performance relative to budget.

LIQUIDITY

The city's liquidity position is solid. In fiscal 2018, operating cash and investments totaled $675 million (33.1% of operating revenues). Of the total, $255.6 million (21.2% of general fund revenues) was recorded in the general fund. In fiscal 2019, the cash position is expected to remain stable in line with budgetary performance.

Debt and pensions: elevated but affordable debt and pensions

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 compared to the full value is significantly elevated compared to similarly rated peers with a direct debt burden at 2.6% (8.3% overall) on the fiscal 2019 valuation. A portion of the debt is supported by various other revenue streams including drainage fees and hotel occupancy taxes as well as the city's enterprises. 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. The city has $331 million authorized but unissued from a 2017 election. Bond issuance will likely occur annually in line with debt capacity and until the authorization is exhausted. The city currently has $950 million planned for a bond referendum in 2022 and 2027 but the amounts will change 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 final maturity slated for fiscal 2046. Principal amortization is below the national median with 62% 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 $571.2 million in lease revenue bonds secured by legally available funds of the city subject to annual appropriation. The Aa1 rating affects $26.5 million, and reflects the more essential nature of the projects (municipal building, and an emergency dispatch center). The Aa2 affects $544.7 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 $80.2 million at fiscal year end 2018, which would smooth out any HOT revenue volatility, and are included in the total operating fund balance.

Also included in the debt profile are $52.9 million in drainage utility revenue bonds (Aa2) and $181.7 million convention center and hotel corporation bonds (A3 stable), and $18.2 million industrial development center revenue bonds (Aa1 stable), all of which are supported by revenues other than property taxes.

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 fiscal 2018, the city contributed $112.2 million or 5.5% of operating revenues, which was equal to the actuarially determined contribution, and net of self-supporting contributions from the enterprise funds.

The city's fiscal 2018 contribution rate for TMRS was below the Moody's calculated “tread water” level by 0.9% of revenues; tread water cannot yet be calculated for the fire and police plan. 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.

As reported, the city's net pension liability for the Municipal, and Fire and Police plans was $688 million, net of the enterprise support, using 6.75% (TMRS) and 7.25% (Fire and Police) discount rates. Moody's adjusted net pension liability (ANPL) for the city, using a 3.6% discount rate, was $3.7 billion in fiscal year 2018, net of enterprise support. The three year average ANPL is a manageable 1.7 times of operating revenues.

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 2018, the city contributed $7.4 million to the plan. The public safety plan is pre-funded as required per state statute, and in fiscal 2018, the city contributed $29.8 million to the plan. The city's adjusted net OPEB liability based using our methodology for adjusting liabilities is $1.6 billion or 0.8 times operating revenues.

In fiscal 2018, fixed cost including debt, pensions, and OPEB totaled $434 million or a manageable 21.3% of operating revenues, compared to 22.2% if the city had made its contributions to TMRS based on tread water.

Management and governance: experienced management team guided by fiscal policies

The city demonstrates good governance guided by an experienced team. The city's fiscal practices includes multiyear budgeting, and five year financial forecasting, with the capital planning going out further. The general fund reserve policy is to maintain a minimum ending balance of 15% of revenues. Other requirements include an additional $1 million general contingency and a $3 million capital contingency built into the budget, as well as maintenance of reserves in other non operating funds. Additionally, the city recently implemented new policies to ensure annual consideration of property tax rates and other fees/charges in light of the lower property tax revenue raising flexibility moving forward. 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 strong. The sector's major revenue sources (property taxes and sales taxes) account for about a third of revenues each and are subject to a cap; the remaining third is derived from other fees and is not subject to a cap. Property taxes, are subject to a statutory cap of $25 per $1,000 of assessed values, with no more than $15 allocated for debt. Most cities are well under the cap, and on an annual basis can increase their property tax revenues by 8% on existing property without voter approval. Most cities are at the sales tax cap for operating purposes. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures and are primarily debt service expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

San Antonio (City of) TX

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$114,652,833	Aaa
Full Value Per Capita	$78,442	Aa
Median Family Income (% of US Median)	81.3%	A
Notching Factors:[2]		
Institutional Presence		Up
Regional Economic Center		Up
Finances (30%)		
Fund Balance as a % of Revenues	23.6%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	7.4%	A
Cash Balance as a % of Revenues	33.1%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-3.1%	Baa
Notching Factors:[2]		
Other Analyst Adjustment to Finances Factor: Five year changes and operating history are understated given significant transfers out for capital		Up
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.6%	A
Net Direct Debt / Operating Revenues (x)	1.5x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	3.0%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.7x	A
Notching Factors:[2]		
Standardized Adjustments [3]: Secured by statute		Up
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology dated December 16, 2016.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs Updated for 2019 publication
Source: City of San Antonio, TX Comprehensive Annual Financial Reports FY 2013 - 2018 & 2019 Preliminary Official Statement, Moody's Investors Service, US Census Bureau

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