San Antonio, Texas

General Obligation Bonds
New Issue Report

Ratings

New Issue

General Improvement Refunding Bonds, Series 2012	AAA
Outstanding Debt	
Limited Tax Bonds	AAA
Municipal Facilities Corporation Lease Revenue Bonds	AA+
Starbright Industrial Development Corporation Contract Revenue Bonds	AA+

Rating Outlook

Stable

Related Research

San Antonio City Public Service (Revenue Bonds), March 15, 2012

San Antonio, Texas (San Antonio Water System), Jan. 31, 2012

San Antonio, Texas (San Antonio Water System), Sept., 9, 2011

San Antonio, Texas, July 11, 2011

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New Issue Details

Sale Information: $39,965,000 General Improvement Refunding Bonds, Series 2012, are via negotiation the week of March 26.

Security: An annual property tax levy, limited to $2.50 per $100 assessed valuation.

Purpose: To refund outstanding debt for interest cost savings.

Final Maturity: Feb. 1, 2024.

Key Rating Drivers

Strong Financial Reserves: San Antonio's favorable financial performance has been aided by management's focus on increasing efficiency and conservative budgeting, enabling the city to preserve its progress in implementing enhanced financial reserve policies during the economic slowdown.

Large But Manageable Capital Plans: The city's favorable debt profile is characterized by its moderate overall debt burden, above-average pay out, and ample debt service capacity within the current tax rate. The city's capital plan is aggressive but will allow it to address its sizable deferred capital needs.

Essential Leased Assets: The legal provisions of the lease revenue bonds are sound and the leased assets are essential to city operations.

High Debt Service Coverage: Electric and gas utility payments provide very high debt service coverage for the Starbright Industrial Development Corporation's contract revenue bonds. Additionally, the bonds' contract terms and legal covenants are sound and no additional leveraging is planned.

Growing Population: The city's population growth remains rapid, aided by affordable home prices and ample developable land, which, until recently, has fueled solid property tax base growth.

Military Remains Key Sector: Although the local economy has diversified notably, the military remains a major economic factor as evidenced by very large ongoing investments and planned additions to troop strength resulting from base realignment and closure decisions that have benefited the city.

Stable Economy: The contraction of the local economy has begun to reverse course, enabling the city's unemployment rate to remain well below state and national averages.

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	3/22/12
AAA	Affirmed	Stable	7/8/11
AAA	Affirmed	Stable	3/17/11
AAA	Affirmed	Stable	6/11/10
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	3/1/10
AA+	Affirmed	Stable	11/21/08
AA+	Affirmed	Stable	10/14/08
AA+	Affirmed	Stable	7/1/08
AA+	Affirmed	Stable	11/11/07
AA+	Affirmed	Stable	10/31/06
AA+	Affirmed	Stable	3/28/05
AA+	Affirmed	Stable	11/29/04
AA+	Affirmed	Stable	3/10/04
AA+	Affirmed	Stable	6/16/03
AA+	Upgraded	—	10/26/99
AA	Assigned	—	10/13/92

Credit Profile

Large Financial Reserves

The city's financial profile remains solid as evidenced by the maintenance of unreserved fund balances in excess of 20% of spending since fiscal 2006, well above its 9% fund balance policy level. Additions to fund balance had been enabled by previously strong sales tax growth and positive CPS (electric and gas utility, rated 'AA+' with a Stable Rating Outlook by Fitch Ratings) payment trends, along with management's aggressive cost controls mainly in the form of annual personnel reductions.

General Fund Summary

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

	2007	2008	2009	2010	2011
Revenues	753,742	858,058	835,409	857,493	890,262
Expenditures	647,880	737,797	764,205	816,690	863,882
Net Change	**105,862**	**120,261**	**71,204**	**40,803**	**26,380**
Transfers In/Other Sources	15,972	18,720	13,750	36,581	14,603
Transfers Out/Other Uses	(123,620)	(93,730)	(83,995)	(54,255)	(39,113)
Net Income	**(1,786)**	**45,251**	**959**	**23,129**	**1,870**
Total Fund Balance	159,690	205,548	206,507	229,636	232,692
As % of Expenditures, Transfers Out, Other Uses	20.7	24.7	24.3	26.4	25.8
Unrestricted Fund Balance	142,960	190,775	190,407	199,110	226,646
As % of Expenditures, Transfers Out, Other Uses	18.5	22.9	22.4	22.9	25.1

Note: Numbers may not add due to rounding.

Two-Year Budget Strategy

The city has adopted a two-year budget strategy, which includes internally designating a portion of reserves in excess of its fund balance policy for next year's spending. A sizable $38.3 million of such reserves was budgeted for use in fiscal 2011, although actual results added modestly to fund balance. Performance for the year was aided by greater than projected sales tax receipts and CPS transfers. Sales tax receipts grew by 6.1% in fiscal 2011, exceeding the budget's modest 1.0% growth estimate and CPS payments increased moderately due to a very hot summer and a rate hike. As a result, the unrestricted fund balance totaled a strong $226.6 million, or 25.1% of operating expenditures and transfers out. A portion of this fund balance, $83.4 million, is designated as the city's 9.0% reserve.

Property Value and Sales Tax Trends

($000, Fiscal Year Ending Sept. 30)

Year	TAV	% Change	Sales Tax Receipts[a]	% Change
1998	29,422,285	—	118,992	—
1999	31,253,551	6.2	126,473	6.3
2000	33,315,479	6.6	135,130	6.8
2001	36,033,321	8.2	136,811	1.2
2002	39,587,584	9.9	140,084	2.4
2003	41,535,547	4.9	138,962	(0.8)
2004	44,536,796	7.2	148,500	6.9
2005	46,481,974	4.4	162,786	9.6
2006	49,868,955	7.3	177,806	9.2
2007	56,767,702	13.8	189,753	6.7
2008	65,954,867	16.2	196,306	3.5
2009	72,541,141	10.0	187,400	(4.5)
2010	72,743,220	0.3	188,741	0.7
2011	71,007,547	(2.4)	200,245	6.1
2012	71,239,470	0.3	199,500	(0.4)

[a]Fiscal 2012 sales tax receipts budgeted. TAV – Taxable assessed valuation.

Related Criteria

U.S. Local Government Tax-Supported Rating Criteria, Aug. 15, 2011

Tax-Supported Rating Criteria, Aug. 15, 2011

Current Year's Progress and 2013 Budget Gap

The fiscal 2012 budget is based on conservative revenue growth assumptions and includes the use of $76.9 million of the city's two-year budget reserve. The spending plan also designates the remaining $15.4 million of the two-year budget reserve for next year's spending. The use of the reserves in fiscal 2012 is projected to result in a still strong unrestricted fund balance of $150.0 million, or 15.9% of expenditures and transfers out. First quarter results for fiscal 2012 point to a modest revenue shortfall due to less than budgeted CPS transfers. Inclusive of the designation for next year's spending, current estimates indicate fiscal 2013's budget gap at a manageable $25.0 million.

Large Capital Needs

In May 2007, voters approved a $550.0 million general obligation bond authorization, the largest in the city's history, intended to address the city's large deferred capital needs. The city's remaining authorization from the 2007 election totals $98.6 million. In May 2012, the city will seek voter approval for a $596.0 million bond authorization. According to the city, all future debt will be sized and timed to maintain the city's debt service tax rate assuming modest tax base growth. Additionally, the city plans to draw down its large debt service fund balance to maintain level tax rates as part of its overall capital plan, with a target of $25 million–$30 million for its debt service fund balance; the balance at year-end fiscal 2011 was $64.1 million. The principal pay out rate is above average, with nearly 64% of principal retired in 10 years.

Manageable Debt Profile

The impact of the proposed debt plans on the city's overall debt profile should be manageable given its above average payout rate, ample debt service capacity within the existing tax rate, and expansive tax base. The brisk payout rate is reflected in sizable annual debt payments, which in fiscal 2011 were above average at 18.5% of general and debt service fund spending. The city's overall debt burden is manageable at $2,962 per capita and 4.9% of market value after adjusting for substantial state support of local school district debt.

High Coverage of Starbright Bonds

The contract revenue bonds, whose proceeds financed the acquisition and conveyance of the site for a Toyota manufacturing plant, comprise a modest part of the city's debt portfolio. The 'AA+' rating on these bonds

Debt Statistics

($000)

This Issue	33,965
Outstanding Debt	
General Obligation Bonds	884,080
Certificates of Obligation	347,775
Tax Notes	27,450
Municipal Facility Corporation	
Lease Revenue Bonds	36,750
Capital Leases	38,183
Hotel Occupancy Tax Bonds	15,275
Hotel Occupancy Tax	
Subordinate Lien Bonds	205,165
Starbright Industrial Development	
Corporation Contract Revenue Bonds	21,925
Less: Refunded Bonds	36,680
Less: Self-Support	61,837
Direct Debt	**1,512,051**
Overlapping Debt	2,534,949
Total Overall Debt	**4,047,000**
Debt Ratios	
Direct Debt Per Capita[a]	1,107
As % of MV[b]	1.8
Overall Debt Per Capita[a]	2,962
As % of MV[b]	4.9

[a]Population: 1,366,249 (2012). [b]Market value (MV): $82,838,364,000 (fiscal 2012). Note: Numbers may not add due to rounding.

reflects the strength of the revenue stream from which bond repayments are made, the very high debt service coverage, and the solid contract and legal covenants of the transaction. CPS's annual payment to the city's general fund is pledged for repayment of the contract revenue bonds. Audited fiscal 2011 pledged revenues totaled $297.6 million and covered the bond's MADS by a very high 179 times.

Military Still Key Within Broad Economy

San Antonio is the second largest city in the state and seventh largest in the U.S., with an estimated population of 1.3 million for 2012. Prominent sectors in the local economy are military and government employment, domestic and international trade, convention and tourism, medical and healthcare, financial services, and telecommunications. The city's unemployment rate improved modestly, declining to 6.5% in December 2011, down from the 6.8% level recorded in December 2010. The city's unemployment rate compares favorably to the state and national averages of 7.1% and 8.3%, respectively, for December 2011. The city's construction sector has benefited from several large projects, including the recent completion of the $3.1 billion San Antonio Military Medical Center, which is expected to bring 12,000 additional military personnel to the city. After posting strong annual gains through fiscal 2009, the city's taxable assessed value has since flattened as new improvement values have been offset by reappraisal losses in existing values.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

San Antonio, Texas; Appropriations; General Obligation

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San Antonio, Texas; Appropriations; General Obligation

Credit Profile		
US$33.965 mil gen imp rfdg bnds ser 2012 dtd 04/01/2012 due 02/01/2024		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to San Antonio, Texas' series 2012 general improvement refunding bonds.

In addition, Standard & Poor's affirmed its 'AAA' rating on the city's existing general obligation (GO) debt and its 'AA+' rating on the city's appropriation debt issued by the San Antonio Municipal Facilities Corporation. The outlook on all ratings is stable.

The ratings reflect our opinion of the city's:

- Deep and increasingly diverse economy, which has allowed management to maintain stable financial operations through recessionary cycles;
- Strong financial management policies, which include a comprehensive long-term financial and capital program;
- Very strong financial performance and position; and
- Moderately high overall debt burden.

A limited annual ad valorem tax secures the series 2012 refunding bonds. City officials will use the proceeds from the sale of the bonds to refund a portion of the city's current GO debt.

San Antonio, with approximately 1.4 million residents, is Bexar County's seat and the nation's seventh-largest city. San Antonio continues to experience sustained growth in the manufacturing, tourism, and services sectors. While the military continues to be a key sector of the local economy, the expansion of the production capacity at a Toyota Corp. manufacturing plant, along with several facilities in the IT and health care sectors, has contributed to a growing diversity in employment opportunities and a significantly deeper economic base. In addition, the recent expansion of drilling activity at the Eagle Ford Shale has also resulted in increased economic activity in San Antonio, as several energy companies have established satellite operations in the city. The increased economic activity is also reflected in the improvement of two factors that we consider key, from an economic standpoint: first, according to the Bureau of Labor Statistics, the San Antonio metropolitan area had an unemployment rate of 6.8% as of December 2011, which ranked it ninth among large metropolitan areas. Second, the city's taxable assessed valuation (AV) experienced a modest 0.33% increase in fiscal 2012, which was preceded by two consecutive years of declines in AV.

We believe that San Antonio's financial performance and position remain very strong. In fiscal 2011, the city reported an operating surplus in the general fund of $26.3 million, and an overall surplus (after $24.5 million in net transfers out to other funds) of $1.8 million. In our view, the year-end unassigned general fund balance of $170.7 million is very strong at 19.75% of expenditures, at fiscal year-end 2011. For fiscal 2012, projections based on the first quarter of actual results show a $14.9 million projected excess reserve that will be available to maintain a balanced budget in fiscal 2013. In addition, city officials expect to maintain available reserves well in excess of the formally approved budget reserve minimum of 9% of expenditures. We believe that the city's policy to produce five-year financial forecasts and the maintenance of a comprehensive two-year balanced budget strategy have enhanced officials' ability to anticipate and address potential budget gaps on a timely basis.

San Antonio's financial management practices are considered "strong" under Standard & Poor's financial management assessment (FMA) methodology, indicating practices are strong, well embedded, and likely sustainable. The city's use of extensive long-range financial and capital planning, coupled with the adoption of strict reserve and expenditure control measures, is key to the "strong" assessment.

We consider the city's overall net debt levels moderate at approximately $4,870 per capita and moderately high at 8.03% of market value. These figures include the city's overlapping debt, which consists primarily of school district debt that receives significant support for debt service payments from the state's supplemental aid programs. In our opinion, the city's debt service carrying charges are moderate at 12% of total governmental funds expenditures. In May 2007, the electorate approved by an ample margin San Antonio's $550 million bond program, which is the largest bond program the city has managed to date. The bulk of it has addressed street and drainage needs. The city currently has approximately $98.6 million of authorized and unissued bonds, which management plans to issue in various installments over the next few years. In addition, San Antonio is planning to hold a bond election on May 12, 2012, to seek approval for a $596 million bond program to fund improvements to streets, bridges, drainage and flood control systems, parks and recreation, libraries and museums, and public safety facilities. City officials expect that, if approved, this bond program will meet the city's capital needs through 2017.

Outlook

The stable outlook reflects our view of San Antonio's deep and increasingly diverse property tax base, solid financial performance, and very strong level of general fund reserves, which should allow management to successfully develop its capital program, and growing service delivery needs. We do not anticipate changing the rating in the next two years given the continued diversification of the city's economic and employment base, coupled with management's strong financial management practices.

Finances: Strong Performance, Growing Reserves

As it has been management's practice for the past three years, city staff prepared a two-year budget outlook, which includes fiscals 2012 and 2013. According to city officials, a $19.2 million increase in the available balance at year-end fiscal 2011 has mitigated the impact from a $3.8 million reduction in revenue in fiscal 2012, and is expected to result in an available fund balance at fiscal 2012 year-end that is approximately $15.4 million higher than budgeted. The fiscal 2013 forecast that city officials developed in September 2011 indicates a funding gap of approximately $40 million, not including potential pay increases, economic developing incentives, and the potential impact of other initiatives. The expected $15.4 million of excess reserves at year-end fiscal 2012 should reduce this funding gap to approximately $25 million (approximately 2.6% of fiscal 2012 general fund appropriations). While projections for fiscal 2013 through fiscal 2016 show a widening budget gap, we believe that these projected gaps are useful in identifying potential areas of future budget pressure, but do not necessarily reflect management's expectation of the city's future financial performance. We believe that city officials will continue to take action to close future budget gaps as they arise, and that management will remain committed to the maintenance of the 9% budget reserve.

The general fund continues to rely on contributions from the city's electric utility (San Antonio City Public Service; AA/Stable), which is the largest source of general fund revenue; officials project it to account for about 31% of total general fund revenues in fiscal 2012. While the utility has moved into a deregulated environment, we believe that its favorable and competitive position mitigates concerns over the city's dependence on these transfers. The maximum amount in cash to be transferred to the city's general fund from the net revenues of CPS Energy cannot exceed 14% of the gross revenues of the utility, less the value of gas and electric services used by the city for municipal purposes and street lighting system.

Capital Improvement Program: Needs Are Significant

Management has identified approximately $2.2 billion in capital needs to be funded over the next 15 years. The $550 million bond program authorized by the voters in May 2007 has addressed a portion of these needs without requiring a tax rate increase. City officials estimate that the projects included in the 2007 bond program will be substantially complete by May 2012.

City management has identified an estimated $596 million in projects that will be included in a bond election to be held in May 2012. The proposed bond program includes:

- $337.44 million for streets, bridges and sidewalks,
- $128.03 million for drainage and flood control,
- $87.15 million for parks, recreation, and open space,
- $29.03 million for library, museum and cultural arts facilities, and
- $14.35 million for public safety facilities.

Financial Management Assessment: 'Strong'

San Antonio's financial management practices are considered "strong" under Standard & Poor's FMA methodology, indicating practices are strong, well embedded, and likely sustainable.

State statutes and internally developed policies guide long-term financial and capital planning, debt management, and investing. In addition to its internal resources, San Antonio's revenue estimates for budget forecasting have been based on a number of outside data sources and economic forecasting firms. In addition, budget priorities incorporate considerable input from the city's residents, developed through open-budget sessions. Officials prepare monthly revenue and expenditure reports measured against the budget. In addition, city officials are implementing a new budget and financial operating system that will allow a more timely and efficient tracking of the city's financial operations. Management annually prepares a five-year financial forecast that is linked to the annual operating and capital budget. Investment of city funds is based on the city's investment policy, which complies with stringent state statutes. Dedicated staff monitor investments and generate reports monthly.

San Antonio's reserve policy requires the city to achieve reserves of at least 9% of general fund expenditures by fiscal 2010. While the city does not have a formal debt management policy, officials closely evaluate and monitor debt issuance. Management evaluates several key variables that guide its issuance of debt, including the tax rate's stability, a 20-year maturity profile, and an average life of between seven and nine years for debt.

The city has not entered into derivatives to hedge its GO debt outstanding, and management plans to develop a swap management policy before considering the use of derivatives.

Pension And OPEB Liabilities

San Antonio provides two pension benefit plans to its employees: the Texas Municipal Retirement System (TMRS) and the Fire and Police Pension Fund. The city conducts an annual actuarial valuation on both funds. Based on these actuarial valuations the unfunded actuarial accrued liability (UAAL) of the fire and police pension plan as of Oct. 1, 2011 was $242.7 million, which represented a 90.6% funded ratio. The city's UAAL related to the TMRS was $100.4 million as of Dec. 31, 2010, equivalent to a 90.6% funded ratio, which is significantly higher than the 73.3% funded ratio identified in the Dec. 31, 2009, actuarial valuation. An improving investment portfolio performance and the elimination of annual repeating cost of living adjustments are some of the reasons for the reduction in the city's unfunded pension liability. According to the TMRS' latest actuarial valuation, the city's expected contributions for fiscal 2012 will be reduced to 10.25% of covered payroll from 12.6% in fiscal 2011.

In addition to pension benefits, the city provides all retired employees with certain health benefits under two post-employment retirement benefit programs. The first program provides benefits for all non-uniformed City retirees, and for all pre-Oct. 1, 1989, uniformed (fire and police) retirees. Based on a review, certain changes were made to the retirement health plan and were approved on Sept. 7, 2006, as a component of the city's fiscal 2007 adopted budget. These changes resulted in a reduction of the UAAL from $581.3 million to approximately $400 million. Based on a recently completed actuarial valuation, as of Jan. 1, 2011, the UAAL was projected at $324 million.

The second program provides retirement healthcare benefits to the city's fire fighters and police officers who retired on or after Oct. 1, 1989. The benefits of this plan are financed on a prefunded basis. After legislative changes were made to the plan in 2007, the estimated UAAL as of Oct. 1, 2010, was $403.6 million and its funded ratio was 36.9%.

While House Bill 2365 gives local governments in Texas the option to not comply with GASB statement 45, management decided to adopt it and reported the unfunded OPEB liability as part of its financial reports.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

Ratings Detail (As Of March 22, 2012)		
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Ratings Detail (As Of March 22, 2012) (cont.)		
San Antonio Mun Facs Corp, Texas		
San Antonio, Texas		
San Antonio Mun Facs Corp (San Antonio) lse rev bnds (Pub Safety Answering Point Proj)		
Long Term Rating	AA+/Stable	Affirmed
San Antonio (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

Many issues are enhanced by bond insurance.