Tax Supported
New Issue

San Antonio, Texas

Ratings

New Issues

Taxable General Improvement Refunding Bonds, Series 2008	AA+

Outstanding Debt

General Improvement Bonds	AA+
Certificates of Obligation	AA+
(Starbright Industrial Development Corporation) Contract Tax Revenue Bonds	AA

Fitch issued an exposure draft on July 31, 2008 proposing a recalibration of tax-supported and water/sewer revenue bond ratings, which, if adopted, may result in an upward revision of this rating (see Fitch Research on "Exposure Draft: Reassessment of Municipal Ratings Framework"). Fitch has deferred its final determination on municipal recalibration due to market conditions and plans to revisit the recalibration in the first quarter of 2009 (see press release "Fitch Defers Final Determination on U.S. Municipal Ratings Recalibration," dated Oct. 7, 2008).

Rating Outlook

Stable

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New Issue Details

Sale Information: $10,170,000 Taxable General Improvement Refunding Bonds, Series 2008, via negotiation during the week of Oct. 20.
Security: Property tax levy limited to $2.50 per $100 of taxable assessed valuation.
Purpose: To refund all outstanding parking system revenue bonds.
Final Maturity: Aug. 1, 2024.

Related Research

- *San Antonio, Texas, July 3, 2008*
- *San Antonio, Texas (CPS Energy), May 30, 2008*

Rating Rationale

- San Antonio's financial practices are solid as evidenced by recent results and the implementation of enhanced financial reserve policies.
- The city's debt profile is positive as characterized by its low debt burden, rapid payout, and ample debt service capacity within the current tax rate.
- The trend of San Antonio's overall economic activity and diversification remains positive.
- Residential building activity has softened although commercial activity has remained stable.

Key Rating Drivers

- Designed to meet the city's sizable deferred capital needs, the city's aggressive capital plan may lead to burdensome debt levels, but will allow the quality of the infrastructure to keep pace with the rising expectations associated with ongoing high value investments in the city.

Credit Summary

San Antonio is the second largest city in the state and seventh largest in the U.S., according to census information, with an estimated population of 1.3 million for 2008. Prominent industries in the local economy are domestic and international trade, convention and tourism, military and government employment, medical and health care, financial services, and telecommunications.

The continued strong performance of sales tax revenues, which increased by more than 9% in fiscal years 2005–2006, led to substantial operating surpluses for the general fund during these two years of $20 million and $43 million, respectively. Fiscal 2007 marked a new administration's first full fiscal blueprint and was notable for its new and increased financial reserves, funded by additional City Public Service (CPS; electric and gas utility revenue bonds rated 'AA+' by Fitch Ratings) transfers. Although fiscal 2007 posted a modest operating deficit, the unreserved fund balance remained solid at $143.0 million, or 18.5% of spending, including an increased reserve for revenue loss of $48.1 million (or 6.2% of spending). The fiscal 2008 budget was balanced, based on conservative revenue growth estimates for sales taxes (4% over estimated fiscal 2007) and CPS transfers. As planned, the unaudited fiscal 2008 reserve for

Property Value and Sales Tax Trends

($000, Fiscal Years Ending Sept. 30)

	Taxable Assessed Valuation	% Change	Sales Tax Receipts	% 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[a]	65,970,484	16.2	197,343	4.0
2009[b]	72,891,817	10.5	202,770	2.8

[a]Unaudited. [b]Budgeted.

Rating History

Rating	Action	Outlook/ Watch	Date
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

revenue loss is projected to increase to $62.6 million (or 8% of spending). The fiscal 2009 budget is balanced, based on modest 2.75% sales tax growth, and adds $15.5 million to reserves, increasing the total cushion to 9% of spending. The city's goal is to increase its dedicated reserves to 10% of spending by fiscal 2010.

The city's finances also have benefited from solid growth in its taxable assessed valuation (TAV), increasing by a compound annual average of over 10% over the last five years. Fiscal 2009 TAV increased by more than 10%, or $6.9 billion, most of which was due to revaluation, although new construction also contributed a sizable $2.1 billion. The city's top 10 taxpayers compose a modest 5% of TAV. After growing rapidly in recent years, fiscal 2008 residential building permits are projected to post a large 44% decline, although commercial permits continue to grow impressively.

Debt Statistics

($000)

This Issue	10,170
Outstanding Debt:	
General Obligation Bonds	726,770
Combination Tax and Revenue Certificates of Obligation	294,410
Capital Leases	27,629
Municipal Facility Corp. Lease Revenue Bonds	11,700
Tax Notes	17,925
Hotel Occupancy Tax Bonds	207,272
Starbright IDC Bonds	24,685
Less: Refunding Portion of This Issue	(10,170)
Direct Debt	**1,310,391**
Overlapping Debt[a]	2,833,238
Total Overall Debt	**4,143,629**
Debt Ratios	
Direct Debt Per Capita ($)[b]	982
As % of TAV[c]	1.8
Overall Debt Per Capita ($)[b]	3,106
As % of TAV[c]	5.7

[a]Overlapping debt adjusted to reflect state support of local school district debt. [b]Population: 1,334,244 (2008). [c]Taxable assessed valuation (TAV): $72,891,817,000 (fiscal 2009).

General Fund Financial Summary

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

	2003	2004	2005	2006	2007
Revenues	596,151	612,336	672,509	738,993	753,742
Expenditures	521,696	535,875	580,772	617,421	647,880
Net Change	**74,455**	**76,461**	**91,737**	**121,572**	**105,862**
Transfers In/Other Sources	13,121	15,348	14,122	11,467	15,972
Transfers Out/Other Uses	(68,386)	(74,941)	(85,956)	(89,977)	(123,620)
Net Income/(Deficit)	**19,190**	**16,868**	**19,903**	**43,062**	**(1,786)**
Total Fund Balance	81,642	98,510	118,413	161,476	159,690
As % of Expenditures, Transfers Out, and Other Uses	13.8	16.1	17.8	22.8	20.7
Unreserved Fund Balance	74,410	90,410	107,490	149,610	142,960
As % of Expenditures, Transfers Out, and Other Uses	12.6	14.8	16.1	21.1	18.5
Unreserved, Undesignated Fund Balance	41,484	61,235	75,540	102,523	80,298
As % of Expenditures, Transfers Out, and Other Uses	7.0	10.0	11.3	14.5	10.4

Note: Numbers may not add due to rounding.

The current offering will refund all outstanding parking system revenue bonds, which were issued in 2000 for the construction of a large parking garage as part of the planned convention center hotel headquarters. Due to a change in plans, the parking garage was built by the hotel developer without assistance from the 2000 bonds. Because the parking system will continue to support the debt service on the refunded bonds, city officials do not anticipate any tax rate impact.

In late 2007, the city issued the first installment of a $550 million authorization approved by voters in May 2007, the largest in the city's history. Intended to address the city's large deferred capital needs, the administration is proposing to seek voter authorization for similar-sized programs every five years. All future debt will be sized to maintain the city's current debt service tax rate assuming modest tax base growth.

The impact of the proposed debt plans on the city's direct debt profile should be manageable given its low current levels, rapid payout rate, and expansive and growing tax base. However, the city's already high overall debt burden may become burdensome, even after adjusting for state support of local school district debt. The principal payout rate for property tax-backed debt is above-average at almost 70% in 10 years, and debt service payments represent an above-average 15% of combined general and debt service fund expenditures in fiscal 2007.

STANDARD & POOR'S

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City of San Antonio, Texas

Credit Profile		
US$10.17 mil Taxable General Improvement Refunding Bonds, Series 2008 dated 10/01/2008, due 08/01/2020		
Long Term Rating	AAA/Stable	New
Outstanding General Obligation Bonds, Various Series		
Long Term Rating	AAA/Stable	Upgraded
Outstanding General Obligation Bonds, Various Series		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its standard long-term rating and underlying rating (SPUR) on San Antonio, Texas' general obligation (GO) debt to 'AAA' from 'AA+', based on its maintenance of strong financial reserves, and continued diversification of the local economy.

In addition, Standard & Poor's assigned its 'AAA' standard long-term rating to the city's $10.2 million series 2008 taxable general improvement refunding bonds. The rating reflects the city's:

- Deep and increasingly diverse economy, which has allowed management to successfully manage the city's operations through previous economic cycles;
- Strong financial management policies, which include a comprehensive long-term financial and capital program,
- Very strong financial performance and position, and
- Moderate overall debt burden.

The city's ad valorem property pledge secures the bonds. The city will use series 2008 refunding bonds proceeds to refund the city's outstanding parking system revenue bonds.

San Antonio, with about 1.3 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 recent opening of a Toyota Corp. manufacturing plant, along with several facilities in the information technology and health care sectors, has contributed to a growing diversity in employment opportunities and a significantly deeper economic base. Assessed valuation (AV) growth remained strong in fiscal 2009, increasing by 10.4% over fiscal 2008 AV; total AV is now nearly $73 billion, up roughly 57% over the past five years. Despite the collapse of the housing market in other parts of the country, San Antonio's residential and commercial construction activity remains positive, albeit at a slower pace. In 2008, the city projects to issue roughly 2,810 residential construction permits, down from roughly 5,000 in 2007. For fiscal 2009 permits are budgeted to remain flat. Despite a deceleration in job growth in 2008 to 2.1% through June, San Antonio's unemployment rate of 4.1% remains below the national rate.

San Antonio's financial position remains very strong. In fiscal 2007, the city reported an operating surplus of roughly $105 million, and a small $1.7 million net change in the general fund balance after transfers. The unreserved general fund balance reached $142.9 million, or a very strong 22.1% of expenditures, at fiscal year-end 2007. City officials project a year-end fiscal 2008 unreserved general fund balance of roughly $154.5 million, which includes an undesignated general fund balance of $86.3 million, and emergency budget financial reserves of $68.2 million.

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.

Overall net debt is moderate at roughly $3,238 per capita and 5.15% 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. Debt service carrying charges are moderate at 11.5% of total governmental funds expenditures. In May 2007, the electorate approved by an ample margin the city's $550 million bond program, which is the largest bond program the city has managed to date. The bulk of the bond program will address street and drainage needs. The city plans to issue roughly $176.9 million in additional GO debt in fiscal 2009, including roughly $76 million of the remaining $440 million in authorized bonds. This issuance would increase the city's overall debt burden to a moderately high 5.6% of market value.

Outlook

The stable outlook reflects San Antonio's expanding and increasingly diverse property tax base, solid financial performance, and growing level of general fund reserves, which should allow management to successfully develop its capital program and growing service delivery needs. The continued diversification of the city's economic and employment base, coupled with a steady increase in household wealth and income levels provides additional stability to the rating.

Continued Employment Growth

San Antonio is in south-central Texas, about 75 miles south of Austin, Texas and 150 miles north of the Mexican border. According to the most recent estimate by the U.S. Census, San Antonio is the nation's seventh-largest city and the state's second-largest city. Employment growth in the city was strong during 2006 and 2007, but has slowed down in 2008. The San Antonio metropolitan statistical area (MSA) added 17,000 nonfarm jobs from August 2007 to August 2008. This resulted in a 2% growth, slightly below the state's average of 2.3, but significantly better than other major metropolitan areas in the country, many of which experienced employment declines over the same period. Global Insight Inc. projects employment growth in San Antonio to average roughly 1.9% annually over the next five years. Although wealth levels remain slightly below the national median, they have consistently increased faster than national levels. Median household effective buying income growth from 1999-2005 reached 7.8% compared with the state's 4.5% and the nation's 1.1%. Therefore, median household effective buying income is now 94% of the nation's average, up from 92% in 1998. To support this upward trend in income growth, management has focused its economic development efforts to attracting industries in the biotechnology and health care, aerospace, telecommunications, IT, logistics and transportation, tourism, and automotive manufacturing sectors.

Tax Base Growth, Economic Diversification Persist

San Antonio's property tax base is diversified with the 10 leading property taxpayers accounting for about 5.25% of total AV. H.E. Butt Grocery Co., the leading taxpayer, accounts for just 1% of total AV. Tax base growth has remained strong and has averaged 11.3% annually over the past five years. Growth has accelerated over the past two years and has averaged 13% annually. New improvements and construction, which have accounted for nearly $14 billion of AV growth since 1999, have driven much of this growth. Annexations to the city have accounted for an additional $2.2 billion of AV over the same period.

Tourism and convention traffic remain strong. The hospitality industry is one of the main components of San Antonio's economy, with roughly 20 million visitors a year, and an estimated effect of $10.5 billion and more than 100,000 jobs, with an annual payroll of roughly 1.8 billion, on the city. Hotel room nights per year reached 7.6 million in 2007, up from 6 million in 2004. San Antonio's access to Mexico promotes strong international trade and tourism, creating further economic diversity.

Government, specifically the military, remains a large component of the economy with four military bases in the city and one large Army medical center. San Antonio, a city with one of the largest military concentrations in the nation, was one of the beneficiaries of the 2005 base realignment and closures. City officials are expecting a net gain of approximately 4,800 new personnel, 9,000 additional students, and roughly $2.1 billion in construction of military facilities. The defense industry accounts for roughly 68,000 Department of Defense (DoD) military and civilian employees, in addition to roughly 44,000 defense contractors. In addition, there are an estimated 48,000 military retirees living in San Antonio. The manufacturing sector, which only accounts for 6% of total employment, is anchored by Toyota Motor Corp., which operates a $1.3 billion assembly plant in the southern portion of the MSA. The plant employs roughly 2,000 people, and is surrounded by 21 suppliers who employ another 2,000 workers. The plant has cut back production in response to lower demand for Toyota Tundra trucks. A new Texas A&M campus, which is expected to reach an enrollment of 25,000 students in 10 years, will also be located in the southern portion of the city. The A&M campus is expected to open in the fall of 2009, making San Antonio the only city in the state with a four-year campus for the state's two largest university systems, University of Texas and Texas A&M. Microsoft Corp. recently opened a $550 million data center that will support Microsoft's live and online services.

The center is expected to generate about 100 permanent jobs. In addition Boeing Corp., also recently announced the expansion of its San Antonio facility, adding approximately 400 new jobs.

Finances: Strong Performance, Growing Reserves

San Antonio's financial performance remains strong. The city has posted general fund surpluses in four of the past five fiscal years. Preliminary results for fiscal 2008 reflect general fund reserves of roughly $154.5 million, or roughly 18% of expenditures. These reserves include a contingency budget reserve of roughly $68.2 million, or about 8% of expenditures. In fiscal 2009, city officials expect to maintain contingency budget reserves of 9% of expenditures, based on a conservative projection of revenues and expenditures. The fiscal 2009 budget brings the city's contingency budget reserves a step closer to the city's policy to increase its contingency reserves to 10% of expenditures by the end of fiscal 2010. The $929 million fiscal 2009 general fund budget includes a one-half cent reduction in the property tax rate and assumes a continued softening of sales tax revenues, with projected growth of 2.75%, which is lower than the roughly 4% of the past year. 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, accounted for about 34% of total general fund revenues in fiscal 2007. The utility has not moved into a deregulated environment and its favorable and competitive position mitigates concerns over the city's dependence on this 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 roughly $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 will address a portion of these needs without requiring a tax rate increase. Management intends to fund the remainder of its identified capital needs through a combination of non-voter authorized certificates of obligation, and future potential bond elections.

The 2007 bond program will fund the following capital projects:

- $306.9 million for streets, Bridges and Sidewalks Improvements (43 projects);
- $152 million for drainage Improvements (26 projects);
- $79.1 million for parks, recreation, open space and athletics improvements (69 projects);
- $11 million for library improvements (11 projects); and
- $800,000 for public health facilities (2 projects).

City management anticipates issuing the remaining $440 million in authorized bonds over the next four years: $76 million in fiscal 2009, $115 million in fiscal 2010, $168 million in fiscal 2011, and $80.6 million in fiscal 2012. In addition, city officials plan to continue to supplement its bond program with the issuance of tax notes and certificates of obligation, including roughly $222 million through fiscal 2012, $57 million from fiscal 2013 through fiscal 2017, and $45 million for fiscal 2018 through fiscal 2022. The certificates of obligation will fund fire station improvements, streets, libraries, and other capital improvements.

Future bond elections are planned for fall 2012 (approximately $596 million), and Fall 2017 (approximately $550 million).

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 have implemented a new budget and financial operating system that allows for 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 monitors investments and generate reports monthly.

San Antonio's reserve policy requires the city to achieve reserves of at least 10% of general fund expenditures by fiscal 2010. The city utilizes a comprehensive long-term debt management plan that guides its issuance of debt. This comprehensive model includes variables such as 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: The City Will Adopt GASB 45

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, 2007, was $183 million. The Texas Municipal Retirement System's UAAL as of Dec. 31, 2007, was $317.7 million.

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 recently completed actuarial valuation, as of Jan. 1, 2006, the UAAL was projected at $581.3 million. 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 to approximately $400 million from $581.3 million. Further changes to eligibility requirement were made in fiscal 2008 that will reduce the city's unfunded liability.

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. A 2007 actuarial study indicated that the UAAL was $325 million. However, the program does not have a short-term financing problem. As of Sept. 30, 2007, the plan had net assets available for postemployment health benefits of $198 million while benefits payments for fiscal 2007 were $15 million.

While House Bill 2365 gives local governments in Texas the option to not comply with General Accounting Standards Board (GASB) 45, management has decide to adopt GASB 45 and will report its unfunded other postemployment benefits (OPEB) liability as part of its fiscal 2008 audit report.