San Antonio, Texas

Limited Tax Bonds
New Issue Report

Ratings

New Issues

General Improvement and Refunding Bonds, Series 2013	AAA
Combination Tax and Revenue Certificates of Obligation, Series 2013	AAA
Outstanding Debt	
Limited Tax Bonds	AAA
Municipal Facilities Corporation Lease Revenue Bonds	AA+
Public Facilities Corporation Lease Revenue Bonds	AA
Starbright Industrial Development Corporation Contract Revenue Bonds	AA+

Rating Outlook
Stable

Related Research
San Antonio, Texas (May 2013)
San Antonio, Texas (October 2012)
San Antonio, Texas (August 2012)
San Antonio, Texas (July 2012)
San Antonio, Texas (March 2012)
San Antonio, Texas (January 2012)

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New Issue Details

Sale Information: $188,650,000 General Improvement and Refunding Bonds, Series 2013, and $15,215,000 Combination Tax and Revenue Certificates of Obligation, Series 2013, selling the week of July 15 via negotiation.

Security: The bonds and certificates of obligation (COs) are secured by an annual property tax levy, limited to $2.50 per $100 taxable assessed valuation (TAV). The COs are additionally payable from a limited pledge of net revenues of San Antonio's (the city) municipal parks system.

Purpose: For various public improvements and to refund outstanding bonds for interest cost savings. CO proceeds will be used for street light improvements and the replacement of a fire station.

Final Maturity: Bonds — Feb. 1, 2033; COs — Feb. 1, 2028.

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. Fitch Ratings favorably views the city's two-year budget strategy, which has expanded its planning horizon.

Large Capital Plans: The city's debt profile is mixed, characterized by a high overall debt burden balanced against moderately rapid limited tax bond amortization and ample debt service capacity within the current tax rate enabled by a declining debt service schedule. The city's capital plan is aggressive but will allow it to address its sizable deferred capital needs.

High Starbright Debt Service Coverage: Central Public Service (CPS; electric and gas system revenue bonds rated AA+ by Fitch) payments to the city provide very high debt service coverage for the Starbright Industrial Development Corporation's (IDC) contract revenue bonds. Additionally, the sources of the electric and gas payments to the city are considered strong, the bonds' contract terms and legal covenants are sound and no additional leveraging is planned.

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

Stable Economy: The recessionary contraction of the local economy has reversed course, enabling the city's unemployment rate to remain well below state and national averages. The city's population growth remains rapid, aided by affordable home prices and ample developable land.

Rating Sensitivities

Shift In Fundamentals: The rating is sensitive to shifts in fundamental credit characteristics, including the city's strong financial management practices. The city's history of maintaining solid reserves while addressing operating and capital needs indicates continued rating stability.

Rating History — Starbright IDC Contract Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	7/3/13
AA+	Affirmed	Stable	5/29/13
AA+	Affirmed	Stable	10/3/12
AA+	Affirmed	Stable	7/23/12
AA+	Affirmed	Stable	3/22/12
AA+	Affirmed	Stable	7/8/11
AA+	Affirmed	Stable	3/17/11
AA+	Revised	Stable	4/30/10
AA	Affirmed	Stable	10/14/08
AA	Affirmed	Stable	10/31/06
AA	Assigned	Stable	3/20/03

Rating History — Limited Tax Bonds

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	7/3/13
AAA	Affirmed	Stable	5/29/13
AAA	Affirmed	Stable	10/3/12
AAA	Affirmed	Stable	7/23/12
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

Rating History — Municipal Facilities Corporation Lease Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	7/3/13
AA+	Affirmed	Stable	5/29/13
AA+	Affirmed	Stable	10/3/12
AA+	Affirmed	Stable	7/23/12
AA+	Affirmed	Stable	3/22/12
AA+	Affirmed	Stable	7/8/11
AA+	Affirmed	Stable	3/17/11
AA+	Affirmed	Stable	4/30/10
AA+	Assigned	Stable	3/1/10

Related Criteria

Tax-Supported Rating Criteria (August 2012)

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

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+ by Fitch) payment trends, along with management's aggressive cost controls, mainly in the form of annual personnel reductions.

Two-Year Budget Strategy

The city's two-year budget strategy, in which a portion of reserves in excess of its fund balance policy are internally designated for the next year's spending (the two-year reserve), has expanded its planning horizon. A sizable $76.9 million of such reserves was budgeted for use in fiscal 2012, equal to 8.2% of spending, although greater-than-projected sales tax receipts and significant budget carry-forwards allowed the city to utilize only $16.1 million (a large 79% reduction) of the allocation.

Sales tax receipts grew by a strong 9.7% in fiscal 2012, exceeding the budget's 6.0% growth estimate. In contrast, CPS payments decreased modestly due to a relatively mild summer. As a result of the partial use of the two-year reserve, the unrestricted fund balance declined to a still-strong $209.7 million, or 22.5% of operating expenditures and transfers out. A portion of this fund balance, $83.4 million, is designated as the city's 9% reserve. Another $68.9 million of the fiscal 2012 fund balance is designated as the city's two-year reserve.

General Fund Summary

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

	2008	2009	2010	2011	2012
Revenues	858,058	835,409	857,493	890,262	898,162
Expenditures	737,797	764,205	816,690	863,882	885,578
Net Change	**120,261**	**71,204**	**40,803**	**26,380**	**12,584**
Transfers In/Other Sources	18,720	13,750	36,581	14,603	18,877
Transfers Out/Other Uses	(93,730)	(83,995)	(54,255)	(39,113)	(47,640)
Net Income/(Loss)	**45,251**	**959**	**23,129**	**1,870**	**(16,179)**
Total Fund Balance	205,548	206,507	229,636	232,692	216,513
As % of Expenditures, Transfers Out and Other Uses	24.7	24.3	26.4	25.8	23.2
Unrestricted Fund Balance	190,775	190,407	199,110	226,646	209,710
As % of Expenditures, Transfers Out and Other Uses	22.9	22.4	22.9	25.1	22.5

Note: Numbers may not add due to rounding.

Current Year's Progress and Fiscal 2014 Budget

The fiscal 2013 budget, aided by the appropriation of $68 million of the two-year budget reserve (equal to 6.8% of appropriations), is balanced at a level property tax rate and is based on a modest sales tax growth projection of 1.0% above actual fiscal 2012 receipts. Sales tax receipts for the first eight months are 6.4% above the year prior. Although the city still projects it will utilize the majority ($57 million) of the two-year budget reserve, Fitch recognizes that the city typically outperforms its projections. In the event the projected amount of the two-year reserve is needed, the resulting unrestricted fund balance would total a still-strong $152.7 million, or 15.6% of spending.

Property Value and Sales Tax Trends

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

Fiscal Year	Taxable Assessed Valuation	% Change	General Fund 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	187,415	(4.5)
2010	72,743,220	0.3	188,741	0.7
2011	71,007,547	(2.4)	200,245	6.1
2012	70,698,850	(0.4)	219,648	9.7
2013	71,836,927	1.6	221,837	1.0

[a]Fiscal 2013 sales tax receipts projected.

The preliminary fiscal 2014 budget allocates the remaining $6.8 million of the two-year reserve, reducing the projected budget gap to $35 million–$50 million, equal to a manageable 3.6%–5.1% of planned fiscal 2014 expenditures. The city expects the projected budget gap to narrow as the fiscal year advances, which Fitch considers reasonable given past experience. Despite the sound reserves, Fitch would be concerned if the city relied on fund balance for annual spending to more than a modest degree given the high rating level.

Large Capital Needs

In 2012, the city issued the first installment of the $596 million general obligation bond authorization approved by voters in May 2012. As the largest bond authorization in the city's history, it is intended to address the city's substantial deferred capital needs. Part of the current offering represents the second installment of the 2012 authorization. According to management, all future debt will be sized and timed to maintain the city's current debt service tax rate, assuming modest tax base growth.

Overall Debt Profile Pressured

The impact of the 2012 bond program on the city's direct debt profile should be manageable given its declining

Debt Statistics

($000)

These Issues	203,865
Outstanding Debt	
General Obligation Bonds	972,245
Certificates of Obligation	328,400
Tax Notes	27,710
Municipal Facility Corporation	
Lease Revenue Bonds	35,845
Starbright Industrial Development	
Corporation Contract Revenue Bonds	20,890
Public Facility Corporation	
Lease Revenue Bonds	550,374
Less: Self Support	57,144
Less: Refunding	70,200
Direct Debt	**2,011,985**
Overlapping Debt	6,341,558
Total Overall Debt	**8,353,543**
Debt Ratios	
Direct Debt Per Capita ($)[a]	1,451
As % of Market Value[b]	2.4
Overall Debt Per Capita ($)[a]	6,025
As % of Market Value[b]	10.0

[a]Population: 1,386,547 (estimated 2013). [b]Market value: $83,636,807,000 (fiscal 2013). Note: Numbers may not add due to rounding.

debt service schedule, favorable payout rate and expansive tax base. The moderately rapid payout rate, at 62% of limited tax bond principal retiring in 10 years, is reflected in sizable annual debt payments, which in fiscal 2012 were above average, at 13.5% of total government spending (net capital outlays).

However, current offerings further increase the city's overall debt burden to a high $6,025 per capita and 10 % of market value, without consideration of state support for school district debt. Based on preliminary fiscal 2014 AV, Fitch notes that overall debt to market value falls back below 10%. After this issuance, the city's remaining bond authorization totals $398 million. The city does not anticipate issuing additional new money bonds in the next 12 months.

Starbright Bonds' High Coverage Levels Expected

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 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' annual payment to the city's general fund is pledged for repayment of the contract revenue bonds.

Audited fiscal 2012 pledged revenues totaled $288.1 million and covered the bond's maximum annual debt service by a very high 173.0x. Because the city relies on CPS payments (accounting for 30.9% of expenditures and transfers out in fiscal 2012) for operations, Fitch expects coverage to be very high regardless of pledged revenue performance.

Well-Funded Pension Plans

Civilian and certain public safety employees participate in an agent multiple employer-defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). Recent changes to TMRS' valuation methodology and the elimination of automatic repeating cost of living adjustments increased the pension's funded ratio to a high 91.7% as of Dec. 31, 2012. TMRS' valuation is based on a 7% discount rate, which Fitch considers reasonable. Firefighters and police participate in a single employer-defined benefit pension plan that was similarly well-funded, at 83% as of Oct. 1, 2012, using a Fitch-adjusted 7% investment return.

Annual contributions for both pension plans comprised a manageable 6.5% of governmental spending (net capital outlays) in fiscal 2012. Retiree health benefits for civilians are also provided through TMRS and are funded on a pay-as-you-go basis. Retiree health benefits for firefighters and police have been financed on a prefunded basis since 1989, resulting in a notable funded position of 37.7% as of Oct. 1, 2012.

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 1.4 million in 2013. 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 ongoing recovery from the last recession has been aided by recent employment hikes in the leisure/hospitality and construction/mining sectors, fueled by surging oil and gas activity at the nearby Eagle Ford Shale. Aided by considerable growth in energy sector jobs, the city's unemployment rate declined to 5.7% in April 2013 from 6.3% in April 2012.

The city's unemployment rate compares favorably to state and national averages of 6.1 % and 7.1%, respectively, for the same period. The city's construction sector has benefited from several large projects, including the recent completion of the $3.2 billion San Antonio Military Medical Center, which was accompanied by approximately 12,500 additional military personnel to the city. The effect of federal sequestration on civilian employment in the military appears modest, although its impact on local military contracts is still unfolding.

After posting strong annual gains through fiscal 2009, the city's taxable values have flattened through fiscal 2013 as new improvement values have been offset by reappraisal losses in existing values. Preliminary indications for the fiscal 2014 AV point to a modest 2.0% increase. The city projects annual new construction will increase taxable values by 1.5%–2.5% annually over the next five years, which Fitch considers reasonable.

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

STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Summary:

San Antonio, Texas; Appropriations; General Obligation

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Summary:

San Antonio, Texas; Appropriations; General Obligation

Credit Profile		
US$188.65 mil gen imp & rfdg bnds ser 2013 dtd 07/01/2013 due 02/01/2033		
Long Term Rating	AAA/Stable	New
US$15.215 mil certs of oblig ser 2013 dtd 07/01/2013 due 02/01/2028		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to the City of San Antonio, Texas' series 2013 general improvement and refunding bonds and series 2013 combination tax and revenue certificates of obligation.

At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on San Antonio's general obligation (GO) debt outstanding and its 'AA+' rating and SPUR 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 view of the city's:

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

The bonds and certificates are secured by a limited ad valorem tax levied on all taxable property located within the city, which is considered to be a GO pledge. City officials will use bond proceeds to fund various capital improvements in the city and to refund a portion of the city's outstanding GO debt for savings purposes. Certificate proceeds will be used primary to fund the city's LED Streetlights Project and a new fire station facility.

San Antonio, with more than 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 and tourism continue to be key sectors of the local economy, major industries including financial services, information technology, health care and bioscience, and aerospace have grown during the past several years. The most recent economic driver for the city has been the booming oil and gas production from the Eagle Ford Shale. In addition to adding several hundred new jobs either directly in the oil and gas sector or indirectly in related or supporting fields, the shale has attracted several companies to establish sites 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 Federal Reserve Bank of Dallas, the San Antonio metropolitan area had an unemployment rate of

6.3% as of April 2013, which was below both the state's and national rates of 6.4% and 7.5%, respectively. Second, the city's taxable assessed valuation increased modestly in fiscal year 2013, by 1.6%, to approximately $71.84 billion. Income levels for the city remain adequate, in our view, with per capita effective buying income at 81% of the national average.

The city recently completed the extension of the San Antonio Riverwalk, which serves as a major tourist attraction. Downtown redevelopment efforts have continued to be a major focus for the city, with the addition of numerous multifamily housing and mixed-use development projects in and around the downtown area. Redevelopment of the HemisFair Park area (the site of the 1968 World's Fair), also in downtown San Antonio, is underway. Upon completion, the project is planned to include items such as park space and mixed-use development. The city is also in the process of undergoing a major expansion of its convention center, which is estimated to be completed by spring 2016.

We believe that San Antonio's financial performance and position remain very strong. In fiscal year 2012, the city reported an overall drawdown in the general fund of $16.18 million (after $43.8 million in net transfers out to other funds). In our view, the fiscal year end 2012 total available general fund balance of $162.7 million was very strong, at 18% of operational expenditures. For fiscal year 2013, city officials estimate adding approximately $13.4 million to the general fund balance by the fiscal year end. The city is currently in the process of developing the fiscal 2014 budget, but city officials plan to maintain the same level of reserves. 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 of producing five-year financial forecasts and maintenance of a comprehensive two-year balanced budget strategy have enhanced officials' ability to anticipate and address potential budget gaps on a timely basis.

The general fund continues to rely on contributions from the city's electric utility (San Antonio Public Service Authority, AA/Stable), which are the largest source of general fund revenue and are projected to account for about 29% of total general fund revenues in fiscal year 2013. While the utility has moved into a deregulated environment, we believe that its favorable and competitive position mitigates the risks with the city's dependence on these 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 its street lighting system.

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. Highlights of the city's practices include the city's use of extensive long-range financial and capital planning, as well as the adoption of strict reserve and expenditure control measures.

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, 2012 was $214.7 million, which represented a 91.9% funded ratio. The city's UAAL related to the TMRS was $98.6 million as of Dec. 31, 2012, equivalent to a 91.7% 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.

In addition to pension benefits, the city provides all retired employees with certain health benefits under two postemployment retirement benefit programs.

The first program provides benefits for all nonuniformed 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 year 2007 adopted budget. These changes resulted in a reduction of the UAAL to approximately $400 million from $581.3 million. Based on the most recently completed actuarial valuation, performed Jan. 1, 2011, the UAAL was reported at $324.5 million.

The second program provides retirement health care 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, 2012 was $413.7 million.

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

We consider the city's overall net debt levels moderate on a per capita basis, at approximately $4,922, and moderately high as a percent of market value, at 9.4%. 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 in fiscal 2012 were moderate, at 13.5% of expenditures. We understand that the city may issue one series of revenue notes and one series of revenue bonds in summer 2013 and summer 2014, respectively.

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 will likely allow management to successfully develop its capital program and meet growing service delivery needs. We do not expect to change the ratings within the next two years given the continued diversification of the city's economic and employment base, coupled with management's strong financial management practices.

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 July 12, 2013)		
San Antonio GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio GO		

Ratings Detail (As Of July 12, 2013) (cont.)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
San Antonio Mun Facs Corp, Texas		
San Antonio, Texas		
San Antonio Mun Facs Corp (San Antonio) (Pub Safety Answering Point Proj)		
Long Term Rating	AA+/Stable	Affirmed
San Antonio (Mun Facs Corp) (Dev and Bus Svcs Ctr Proj)		
Long Term Rating	AA+/Stable	Affirmed
San Antonio Mun Fac Corp lse rev bnds		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
San Antonio Pub Facs Corp, Texas		
San Antonio, Texas		
San Antonio Pub Facs Corp (San Antonio) imp and rfdg lse rev bnds (Convention Center Refinancing and Expansion Proj)		
Long Term Rating	AA+/Stable	Affirmed
Starbright Indl Dev Corp, Texas		
San Antonio, Texas		
Starbright Indl Dev Corp (San Antonio)		
Long Term Rating	AA+/Stable	Affirmed
Starbright Indl Dev Corp (San Antonio) (Starbright Proj)		
Long Term Rating	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.