Presentation to City of San Antonio

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Head of Public Finance
Managing Director
Coastal Securities, Inc.

Overview of Coastal Securities, Inc.

- Independent Broker Dealer headquartered in Houston, Texas
- With over $600 Million in total assets, $75 Million in total capital, employs more than 100 individuals in Houston, San Antonio, Austin and Dallas
- Coastal Securities is a major regional securities firm and has functioned as financial advisor to numerous entities throughout the State of Texas.

Overview of Coastal Securities, Inc.

- Coastal Securities, Inc. acts as Co-Financial Advisor to the City of San Antonio
- Coastal Securities, Inc. is a fiduciary agent of the City of San Antonio
- Coastal Securities, Inc. has structured all debt issuances for the City of San Antonio
- Coastal Securities represents the City of San Antonio before all three of the major rating agencies

Mr. Jorge Rodriguez — Head of Public Finance
Managing Director

- Mr. Rodriguez has over 30 years of financial industry experience
- Holds FINRA Series 7, Series 63 and Series 53 Municipal Securities Principal licenses

Scope of Engagement

- To review the underlying general obligation bond ratings of the City of San Antonio and assess the potential impact of the Fire & Police Pension Fund Proposed Legislative Package upon such underlying ratings

Review

- Reviewed in excess 40 professional reports from various rating agencies
- Reviewed Fire & Police Pension Fund Proposed 2015 Legislative Package
- Individual review of the past five years of rating agency reports from Moody's Investors Service, Fitch Ratings and Standard & Poor's
- Reviewed rating agency rating criteria from all three rating agencies
- Reviewed industry reports on pension liabilities

Credit Agency Observations

In order to obtain and preserve San Antonio's "Aaa" rating, the City has had To overcome economic challenges relating to per capita wealth.

> "The city's socioeconomic profile is depressed. Per the 2010 American Community Survey, the city's median family and per capital incomes were 82.4%, and 79.8% of national levels." *Moody's Investors Service Global Credit Research – 24 Jul 2014.*

> "Assignment of the 'Aaa' rating reflects the sizeable economy that is driven by diverse industries and anchored by an expanding military presence, but challenged by somewhat depressed socio demographic indicators" *Moody's Investors Service Global Credit Research – 26 Jul 2012*

Findings

Financial Constraints:

For the past 20 years, the City of San Antonio has operated under a self-imposed financial constraint of maintaining and not increasing the ad valorem tax rate.

Debt Management Plan Considerations:

- Maintenance of Debt Service Tax Rate
- Limit Issuance to 20 year Amortization
- Limit Average Life to 10 years

LEGISLATIVE PROPOSAL

The Fire and Police Pension Fund Proposed 2015 Legislative Package includes several proposals. Among these proposals are:

1. 100% COLA to all members who retired between Oct. 1, 1999 and Sept. 30, 2003
2. Board discretion to adjust the date for a 100% COLA
3. Reduce disability pension from 50% to 47.5%
4. Max years allowed for BackDROP from 34 to 33 years
5. Reduce City Contribution rate from 24.64% to 23.25%
6. Changes to the Uniform Pension Benefit Formula

Relative Key Statistics

Key Statistics*	San Antonio	Austin	Dallas	Houston
Moody's 3 year ANPL/Full Value	2.47%	3.04%	6.07%	5.01%
Moody's 3 year ANPL/Operating Revenues	1.44%	2.88%	4.52%	3.99%
Net Direct Debt/Full Value	2.73%	1.70%	2.00%	1.84%
Net Direct Debt/Operating Revenues	1.59%	1.66%	1.49%	1.46%
Moody's Rating	"Aaa"	"Aaa"	"Aa1"	"Aa2"

* Compiled from Moody's Investor Service Ratings Reports for the respective municipalities.

Management

"Guided by a strong and experienced management team, the city's financial management incorporates the use of multiyear budgeting practices which has become institutionalized, and five year financial forecasting." *Moody's Investors Service, City of San Antonio, Texas Rating Report, August 14, 2014*

"San Antonio's management conditions are very strong, in our view with 'strong' financial practices under our Financial Management Assessment (FMA) methodology, indicating practices are, in our opinion, strong, well embedded and likely sustainable." *Standard & Poor's Rating Service, City of San Antonio, Texas Rating Report, Dec.1, 2014.*

Ability to Plan

"The Aaa rating reflects the city's expected improved financial position at fiscal year end 2014 as well as a fiscal year 2015 budget that is anticipated to be balanced. The rating also incorporates the city's financial management that includes multiyear budgeting practices and conservative budget assumptions, strengthened financial policies, and financial flexibility that incorporates additional reserves outside the General Fund and ample taxing margin." *Moody's Investors Service, City of San Antonio, Texas Rating Report, July 24, 2014.*

Recent Rating Agency Observations

"The City's management team has designed a long term capital improvement planning (CIP) program that is updated annually. The CIP included plans for future debt issuances in order to meet ongoing capital needs…

"…Typically, the city's practice is to schedule debt retirement within 20 years of the issuance. We note that this practice is favorable and consistent with the "Aaa" rating. Ongoing conservative debt management should allow the city to layer in future debt without negatively impacting the direct debt burden." *Moody's Investors Service, City of San Antonio, Texas, July, 24, 2014.*

Recent Rating Agency Observations

"Moody's focus is the evaluation of credit risk of rated debt obligations. Because pensions represent material financial commitments that affect a government's financial risk profile, we have always incorporated pensions into our credit analysis where we have been aware of significant unfunded liabilities. As pension stress began to be a driving factor in a number of government rating downgrades over the past few years, we recognized a need to bring greater transparency and comparability to the pension measures used in our analysis." *Moody's Investors Service, Cross Sector Rating Methodology. Adjustment to US State and Local Government Reported Pension Data, April 17, 2013.*

Recent Rating Agency Observations

"Right now, the city faces a $27.4 million gap in fiscal year 2015 that is expected to be closed with the combination of department cuts and savings from the ongoing negotiations with the public safety group. While the anticipated 2014 results are positive, a demonstrated trend of structurally balanced operations is needed to remove the negative outlook." *Moody's Investors Service, City of San Antonio, Texas, July, 24, 2014.*

Conclusions

A determination as to the impact of the proposed legislative changes to the Fire and Police Pension Fund upon the underlying general obligation bond ratings of the City of San Antonio must be viewed through the context of the existing ratings and status of each of the respective rating agencies.

- The current Negative Outlook assigned by Moody's Investors Service represents challenges to the City, even before consideration of the proposed legislative changes.
- While the increase to unfunded liability and years to amortize unfunded liability alone should not lead to rating changes, they will place additional pressure on calculated measures.
- Any legislative action which allows any third party to obligate the City of San Antonio to additional financial considerations will be regarded as inconsistent with the Managerial Control principals' characteristic of a "Aaa," "AAA," "Aaa" rated city.

Conclusions

- The inability of the City of San Antonio to unilaterally control COLAs, while extending the number of years to amortize the unfunded liability raises the risk of adversely affecting budgets, fund balance or a combination thereof, thereby adversely affecting credit quality.
- The lack of predictability in forecasting financial obligations is inconsistent with the City of San Antonio's long-term financial planning techniques which are a significant consideration for the rating agencies in determining the "Aaa," "AAA," "Aaa" ratings.

It is our belief that given the current rating environment, the adoption of such proposed changes may result in the downgrade of the City of San Antonio's "Aaa," "AAA," "Aaa" rating by one or more of the major municipal bond rating agencies.