S&P Global
Ratings

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Summary:

San Antonio, Texas; Appropriations; General Obligation; Note

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Credit Profile		
US$155.855 mil gen imp bnds ser 2018 due 08/01/2038		
Long Term Rating	AAA/Stable	New
US$136.91 mil combination tax and rev certs of oblig ser 2018 due 08/01/2038		
Long Term Rating	AAA/Stable	New
US$28.93 mil tax nts ser 2018 due 08/01/2020		
Long Term Rating	AAA/Stable	New
US$8.57 mil taxable combination tax and rev certs of oblig ser 2018 due 08/01/2038		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to San Antonio, Texas' series 2018 general improvement bonds, combination tax and revenue certificates of obligation, taxable combination tax and revenue certificates of obligation, and tax notes. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's existing general obligation (GO) debt, its 'AA+' long-term rating and SPUR on San Antonio Municipal Facilities Corp.'s debt, its 'AA+' long-term rating and SPUR on San Antonio Public Facilities Corp.'s debt, and its 'AA+' long-term rating on Starbright Industrial Development Corp.'s debt issued on behalf of the city. The outlook is stable.

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 on RatingsDirect, 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. 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 2018, 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.

Based on the application of our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Jan. 22, 2018, 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 hotel occupancy tax receipts, sales and use tax collections that are not for a dedicated purpose, utility transfers, ad valorem tax collections not levied for GO debt payments, and any other lawfully available funds.

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 is reliant on these funds for operations. The maximum amount 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.

Proceeds from the four issuances will fund various capital projects.

The rating reflects our opinion of the following credit factors for the city:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 21.3% of total governmental fund expenditures and 1.5x governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability position, with debt service carrying charges at 14% of expenditures and net direct debt that is 140% 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 MSA, 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 82.1% of the national level and per capita market value of $73,247. Overall, the city's market value grew by 9.6% over the past year to $107.6 billion in 2018. The county's unemployment rate was 3.5% in 2017.

With about 1.5 million residents, 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 7,500 housing units in the greater downtown area by 2020. The project is ahead of schedule; to date, more than 6,500 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 more than 4,000 new jobs in targeted industries to its employment base, including USAA (1,500), Ernst & Young (600), and Credit Human (485).

Officials report that permitting activity continues to increase and that construction is ongoing. In 2017, 84,400 permits were issued with a total value of $3.4 billion. In January to May of 2018, permits were up slightly compared with the prior-year period, with a total of 36,000 permits totaling $1.3 billion.

The city's tax base has increased steadily since fiscal 2013, with AV increasing by an average of 8.6% annually in fiscal years 2013 to 2018. Given the significant amount of new construction and an active revaluation process of existing properties, 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 FMA 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 (CIP) 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 values, annexations, current 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 2.6% of expenditures in the general fund and of 2.2% across all governmental funds in fiscal 2017. General fund operating results of the city have been stable over the past three years, with a result of 1.1% in 2016 and a result of 2.4% in 2015.

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. The city projects that revenue will be approximately 0.5% ($5.5 million) higher than the adopted budget. Given the positive revenue trends, combined with expenditure savings, the city anticipates that the draw will be much smaller at about 0.5%. Given a lack of projections for significant drawdown across total governmental funds (net of bond proceed spending), 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; it has no plans to significantly draw down its reserves or materially alter its budget practices. It is common practice for the city to project budget gaps and work throughout the year to close them and maintain its historically strong financial position.

The forecast fiscal 2019 general fund budget is structurally balanced.

According to the city's fiscal 2019-2023 financial forecast, general fund revenue is expected to grow annually at rates ranging from 2.6% to 3.3%, including 3.3% in fiscal 2019.

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.

During a recent work session, the city council identified street maintenance as a priority along with other priorities over 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.

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 2017, followed by property taxes (29%) 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.

Very strong budgetary flexibility

San Antonio's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 19% of operating expenditures, or $212.9 million.

The city has a history of conservative budgeting practices and has historically exceeded budgeted projections. The city has a predominantly locally derived revenue base, has demonstrated a broad and well-embedded culture of fiscal discipline, and has very little dependence on the federal government for revenue composition.

Actual operating results for fiscal 2017 reflected an increase in the nominal level of reserve, but after adjustments for recurring transfers and one-time capital expenditures, reserve levels have remained at about 20% of expenditures per the audited results.

Fiscal 2018 results are trending ahead of budget. Officials expect a slight decrease in the available fund balance of about $6.7 million, in line with its practice of spending down reserves in excess of its reserve policy for one-time expenditures.

Given the city's projections, 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 potential financial pressures in the future stemming from public safety costs and recent events as described in more detail below.

The Texas Supreme Court has recently refused to hear San Antonio's lawsuit against the firefighters' association. The city sought to overturn the "evergreen clause" included in the expired collective bargaining agreement (CBA). The evergreen clause effectively keeps in place terms from the expired CBA, including compensation provisions, for a period of 10 years following the CBA's expiration in 2014. The city filed the lawsuit after the association declined to negotiate a new CBA that would include changes to benefits, such as requiring firefighters to pay health care premiums for themselves or their dependents. The firefighters currently do not contribute toward their health care costs. The city was successful in mediating a CBA with its police force in 2016, and this resulted in cost savings for the city, including an estimated $87.5 million in health care cost avoidance. This enabled the city to keep public safety spending under 66% of general fund expenditures. However, the city is fairly close to this self-imposed limit at about 64.3% in fiscal 2018. This is significantly higher than that of peers across the nation, and a major contributing factor is the historically generous public safety benefits. While we believe that the city will be able to manage these expenditures in the near term, escalating benefit costs could begin to crowd out other essential services and result in budgetary pressure.

Another potential source of budgetary pressure is three recent charter amendment petitions submitted by the firefighters' association. One seeks to limit the city manager's office term to eight years and compensation to 10x the salary of the lowest-paid city employee. Another seeks to significantly change the referendum process, reducing the number of required signatures to repeal a city ordinance to 20,000 residents from 70,000 residents; increasing the time to collect said signatures to 180 days from 40 days; and expanding topics eligible for referendum that may include utility rates, the city budget, and zoning. A third petition seeks to require binding arbitration in the case of an impasse in collective bargaining negotiations. If voters approve the proposed changes to the city's charter in the upcoming November 2018 election, we believe the changes to the referendum process in particular could have a material negative impact on the city's finances, as such initiatives could effectively limit San Antonio's ability to manage its budget.

Very strong liquidity

In our opinion, San Antonio's liquidity is very strong, with total government available cash at 21.3% of total governmental fund expenditures and 1.5x governmental debt service in 2017. 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. As of March 31, 2018, the city's investments included 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 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.

San Antonio has no contingent liabilities that could lead to an unexpected deterioration from its very strong levels.

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% of total governmental fund expenditures, and net direct debt is 140% of total governmental fund revenue.

After this issuance, the city will have roughly $580 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 to issue a total of about $670 million in additional debt in fiscal years 2019 and 2020. We do not anticipate that this planned issuance will have a material impact on San Antonio's debt profile, as it is roughly equal to debt amortizing over the same period.

San Antonio's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.7% of total governmental fund expenditures in 2017, with 6.0% representing required contributions to pension obligations and 1.7% representing OPEB payments. The city made its full annual required pension contribution in 2017.

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 $494.6 million as of Dec. 31, 2016, the most recent actuarial valuation date. The plan reported a funded ratio of 72.8%, assuming a 6.75% discount rate, which is a slight decline from the funded ratio of 72.9% at Dec. 31, 2015.

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 $577.2 million as of Dec. 31, 2016, the most recent actuarial valuation date. The plan reported a funded ratio of 83.1%, assuming a 7.25% discount rate, which is a slight increase from the funded ratio of 79.7% at Dec. 31, 2015.

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 (1) the number of months of service credit the member had in excess of 20 years, or (2) 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 $288.9 million as of Oct. 1, 2016, the most recent actuarial valuation date, 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 $595.1 million as of Jan. 1, 2017, the most recent actuarial valuation date, and the plan was 37% funded.

Given the current 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.

Related Research

2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of July 26, 2018)		
San Antonio note		
Long Term Rating	AAA/Stable	Affirmed
San Antonio taxable revolving installment delivery nts ser 2017 due 08/01/2024		
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		
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

Ratings Detail (As Of July 26, 2018) (cont.)		
San Antonio Pub Facs Corp, Texas		
San Antonio, Texas		
San Antonio Pub Facs Corp (San Antonio) (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