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San Antonio Still Determining New Rating's Effect on Bond Program.

Fitch Ratings downgrades city to AA+ rating, city has $580.5M left to issue

SAN ANTONIO – In the middle of its largest-ever municipal bond program, the City of San Antonio is still calculating how much a downgraded rating will cost it.

After nine years of perfect AAA bond ratings from Fitch Ratings, one of the three major credit rating agencies, the City of San Antonio was downgraded to a AA+ rating. The change would affect the interest rates the city is able to get when borrowing money, including for the lion's share of its current $850 million bond program.

The other two agencies, Moody's and Standard & Poor's Global Ratings, reaffirmed their AAA ratings for the city.

"The city has remaining $580.5 million in bonds left to issue for the 2017 bond program," Chief Financial Officer Ben Gorzell said in in emailed statement. "We will be evaluating and assessing the potential cost impact of this split bond rating on our future bond issues to include what is remaining to be issued for the 2017 bond program."

The city blamed the rating change on the passage of propositions B and C during the November election. The two changes to the city charter limit the city manager's term and compensation and allow the fire union to call for binding arbitration while negotiating with the city, respectively.

Fitch cited Proposition C in November in its decision to lower the city's bond rating, saying it would affect the city's "expenditure flexibility." And the amendment's effects on the bond ratings may not be over.

"It will depend on exactly what happens when they start using this arbitration power," said Professor David MacPherson, chairman of Trinity University's Department of Economics.

MacPherson believes Proposition B, which concerns the city manager position, could also play a role. Should the pay limits result in lower-quality candidates, the city may not be as well-managed, he said, which could also affect its ratings.

The city is planning on selling $24.5 million worth of General Improvement Refunding Bonds next month to refund an existing loan.

Gorzell said that, in respect to those bonds, "we expect the impact to be minimal, if any, which is primarily due to the small size of the bond issue, its term of 7 years and current financial market conditions."

Even with a split rating, MacPherson said, the downgrade is certain to result in higher interest rates, which will affect normal San Antonians in one of two ways.

“When the city starts paying those higher interest rate payments, they’re going to feel it through higher taxes or reduced services — one or the other,” MacPherson said. “Some way, that money is going to have to be made up somehow.”

Others are anticipating blowback, too. Jenna Saucedo-Herrera, CEO of the San Antonio Economic Development Foundation, said the new rating will affect the group’s ability to lure businesses to the Alamo City.

“Because we have been for nine years the largest city that’s maintained that AAA bond rating, that’s been a significant selling point for us that we’ll now have to adjust,” she said.

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