STANDARD & POOR'S

# PRESALE ANALYSIS

PUBLIC FINANCE

THE AUTHORITY ON CREDIT QUALITY

## SAN ANTONIO, TEXAS

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**RATING ASSIGNED**

**OUTLOOK: STABLE**

LONG TERM

**NEW ISSUE**

$178 million hotel occupancy tax revenue bonds series 1996

Rating: A+

Sale date: March 12, 1996

Investment banker: Smith Barney Inc.

**RATIONALE** The rating on San Antonio, Texas' bonds reflects:

- A strong and diverse regional economy ('AA' G.O. debt; stable outlook);
- A historically rapidly growing hotel occupancy tax base, with anticipated new hotel construction over the next five years, increasing the tax base more than 25%;
- Adequate legal provisions highlighted by an additional bonds test requiring 1.5 times (x) coverage of maximum annual debt service on existing and proposed debt and a reserve account funded at $15.5 million;
- Strong debt service coverage, with pledged revenues of $25.6 million for the 12 months ending Nov. 30, 1995, providing 1.65x coverage of maximum annual debt service.

**Table 1**
**San Antonio, Texas hotel occupancies and average daily room rates**

| Year | Room count | % change | Room rate ($) | % change | Hotel occupancy rate (%) |
|---|---|---|---|---|---|
| 1987 | 18,622 | N.A. | 48.51 | N.A. | 60.7 |
| 1988 | 19,662 | 5.58 | 50.17 | 3.4 | 67.8 |
| 1989 | 19,764 | 0.52 | 54.08 | 7.8 | 68.8 |
| 1990 | 19,973 | 1.06 | 59.14 | 9.4 | 69.7 |
| 1991 | 19,973 | 0.00 | 60.83 | 2.9 | 70.1 |
| 1992 | 20,362 | 1.95 | 65.50 | 7.7 | 73.4 |
| 1993 | 20,974 | 3.01 | 71.41 | 9.0 | 72.8 |
| 1994 | 21,841 | 4.13 | 73.63 | 3.0 | 71.1 |
| 1995 | 22,800 | 4.39 | 75.63 | 3.2 | 67.2 |

N.A.—Not applicable.

The bonds are secured by a pledge of 7.25% of the city's 9% hotel occupancy tax. Proceeds will be used to double the size of the existing Henry B. Gonzales Convention Center in downtown San Antonio on the River Walk. Exhibit space will increase from 240,000 square feet to 440,000 square feet. The expansion will provide facility to retain the existing customer base and accommodate larger national conventions requiring greater space. The facility is within walking distance of hotels with 7,500 rooms, a regional mall, and various restaurants and shops in the downtown area and along the River Walk.

**OUTLOOK** The outlook anticipates the city's continuing commitment and support of the convention industry and related growth in pledged revenues. Legal provisions and solid debt service coverage provide additional comfort.

**CONVENTION CENTER** The Henry B. Gonzales Convention Center was originally built as part of the 1968 World's Fair Hemisfair in San Antonio. Subsequent expansions and renovations in 1977 and 1987 increased exhibit space to 242,000 square feet. The facility consists of two exhibit halls, two banquet halls, supporting meeting spaces and the Lila Cockrell Theater.

The goal of the expansion project is to maintain the center's existing customer base; whose growth requirements in space require greater contiguous exhibition space, and to attract larger groups currently being served by larger facilities. The expansion also will encourage the growth of San Antonio's $3.1 billion a year tourism industry.

Once completed, the expansion will bring San Antonio in direct competition with other midsize facilities in terms of space available. The total area of the facility, which includes exhibit space, meeting, banquet and ballroom space will increase from 540,000 square feet to 1.2 million square feet. Construction of the new section is expected to be completed by April 1999, at which point renovation of the existing space will begin. The entire project is scheduled to be complete by January 2001.

**ECONOMY** With a population of over 960,000, San Antonio is the third-largest city in Texas and ninth in the nation. The economy encompasses a large military, regional retail center, tourism, and growing construction industries. Within Texas, San Antonio's population growth is only second behind Austin. Over the past decade about 8,000 jobs have been created annually, mostly in the

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rapidly expanding service sector. An estimated $1 billion in corporate investment has occurred over the past four years. Following tax base declines from 1989-1993, renewed residential and commercial expansion resulted in a strong three-year assessed valuation growth trend including 11.1% in fiscal 1996.

**Table 2**
**San Antonio, Texas convention statistics**

| Year | Annual conventions | Room nights |
|---|---|---|
| 1987 | 852 | 534,065 |
| 1988 | 897 | 685,320 |
| 1989 | 1,089 | 728,641 |
| 1990 | 1,128 | 797,055 |
| 1991 | 1,205 | 784,448 |
| 1992 | 1,362 | 834,202 |
| 1993* | 1,656 | 1,008,378 |
| 1994 | 1,659 | 942,359 |
| 1995 | 1,535 | 982,051 |

*Calendar year 1993 was an exception to the growth trend as a result of three major conventions, requiring about 115,500 room nights. Adjusting the 1993 room nights by 115,500 would result in a yearly total of 892,878 room nights.

The military presence continues to play a leading role in the city's economy but will experience some near-term dislocation with Kelly Air Force Depot facilities expected to lose 9,000 of its 20,000 jobs by 2001. Of the remaining 11,000 jobs, 5,000 will be privatized, and the city hopes to attract 10,000 additional commercial and aerospace private sector jobs as the base transitions to a "world-class industrial park". Two other military bases located in Bexar County were spared, accounting for 34,000 jobs.

The city's proximity to Mexico and location on Highway I-35 provide favorable conditions for international business relations in agriculture, tourism, and manufacturing and distribution industries. San Antonio is a popular tourist destination for Mexicans living in Texas and the U.S. Tourist attractions including Fiesta Texas (Six Flags), Sea World, Fiesta Week, the Alamo, and the River Walk add to the city's appeal. The North American Free Trade Agreement has shown signs of strengthening these relationships and broadening San Antonio's economy. San Antonio felt minimal effects from the peso devaluation in early 1995.

**PLEDGED REVENUES** Hotel occupancy tax revenues have demonstrated solid growth, increasing an average annual rate of 8.6% from 1990-1995. This growth can be attributed to the regions solid economic growth, a booming convention trade, related hotel/motel construction, and room rate increases. Since 1990, the city's total room count increased 14%, from 19,973 to 22,800 in 1995. The average daily room rate also increased to $75.73 (*see table 1*) in 1995 from $59.14 in 1990. These relatively low room rates contributed to the city's success in attracting conventions. The city's hotel occupancy rate of 67.2% for 1995 is slightly below 1990's 69.7%. New hotel/motel construction continues, however, with the announced development of 6,600 new rooms planned over the next five to six years. Much of the anticipated development is in limited service hotel/motels, which charge below average rates. The addition of these facilities, however, should considerably boost the hotel tax base.

Offsetting the above factors, some concentration exists in the tax base. The top 10 hotels within the city represent about 20% of total rooms available, and 44% of the city's hotel occupancy tax receipts for fiscal 1995. Most of the these hotels are located along or near the city's River Walk. The announced development plans for the next five years, however, should help to diversify the concentration as many of the limited service facilities are being built in suburban areas.

Growth in annual conventions also has been strong. In 1990, the city hosted 1,128 (*see table 2*) conventions, accounting for 797,055 room nights. These numbers for 1995 increased to 1,535 conventions and 982,051 room nights. It is anticipated that the number of annual conventions will increase marginally through the convention center construction period, and then demonstrate greater growth after project completion in 2001.

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# Fitch

**Public Finance**
**Tax Supported**

***New Issue***

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# San Antonio, Texas

## Rating

Hotel Occupancy Tax Revenue Bonds,
Series 1996* ..... A
Credit Trend ..... Stable

*The bonds are expected to be insured by Financial Guaranty Insurance Co., whose claims-paying ability is rated 'AAA' by Fitch.

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## New Issue Details

Approximately $178,000,000 Hotel Occupancy Tax Revenue Bonds (Henry B. Gonzalez Convention Center Expansion Project), Series 1996, were expected to sell March 12 by a syndicate led by Smith Barney, Inc. The bonds are currently structured as current interest serial bonds maturing Aug. 15, 2000–2010, capital appreciation bonds maturing Aug. 15, 2011–2020, and current interest term bonds maturing Aug. 15, 2021–2026. Optional redemption features are to be determined.

***Security:*** The bonds are secured by the 2.00% expansion hotel occupancy tax, 5.25% (of the 7.00%) general hotel occupancy tax, and interest earnings on bond funds.

***Purpose:*** Bond proceeds will finance the costs of the Phase I expansion and renovation of the Henry B. Gonzalez Convention Center.

## Outlook

*The 'A' rating reflects the adequate coverage provided by pledged revenues, satisfactory security features, and the strength of the underlying tourist economy. Although hotel occupancy receipts are inherently volatile, San Antonio's actual receipts for the past five years demonstrate stability, reflective of the city's popularity as a tourist and convention destination. The series 1996 bonds have been structured so that the pledged expansion hotel occupancy tax (HOT) will be sufficient to cover debt service, assuming a 5.00% annual increase. In addition, the bonds are secured by a 5.25% pledge of the 7.00% general HOT. The 1.93 times (x) average coverage of proposed debt service by 1995 expansion HOT revenues is adequate and provides margin for a significant decline in revenues. Since pledged hotel occupancy taxes will rise with hotel prices, future growth is likely. In addition, the city has had a significant number of new hotel rooms constructed in the last year and more are currently being built, increasing potential revenues. Future dilution of coverage is moderated by the 1.25x additional bonds test. The credit trend is stable.*

## Rating Considerations

The bonds are secured by the 2.00% expansion HOT and a pledge of 5.25% of the 7.00% general HOT. The expansion HOT was first levied in 1994. This issue has been structured so that the pledged expansion

March 13, 1996

**FITCH**
ESTABLISHED 1913

HOT will be sufficient to cover debt service, assuming a 5.00% annual increase in expansion tax receipts. For comparative purposes, total tax receipts of the general HOT grew by 39.20% between 1991–1995 and have declined on an annual basis only once in the last 20 years. The 1.93x coverage of proposed average debt service by 1995 pledged revenues is adequate, as is the estimated maximum annual debt service (MADS) coverage at 1.65x. Although the sensitivity of tax receipts to tourism trends is a concern, San Antonio has demonstrated a consistent and year-round appeal as a tourist and convention destination. While significant new construction and expansion of hotel rooms are under way, the additions, to date, have not led to excess capacity and price cutting.

## Strengths

— Sound debt service coverage.
— Demonstrated tourism and convention demand.
— Strong underlying economic base.
— Hotel tax increased to support these bonds.

## Risks

— Potential volatility of the pledged revenue stream given the general sensitivity of tax receipts to tourism.
— Dependence of convention center on excess pledged revenues for operations.

## Expansion Project

The Henry B. Gonzalez Convention Center is located in the city's downtown area within walking distance of 7,500 rooms and the River Walk, San Antonio's popular tourist and retail center. The convention center was originally built as part of the 1968 World's Fair held in San Antonio; its first expansion was completed in 1977 and the last in January 1987. The facility, with 242,000 square feet, currently ranks an estimated 22nd in the U.S. in size. The city projects that, without this expansion project, the convention center's ranking would fall to 28th. While the opening of the Alamodome in May 1993 added another 160,000 square feet of exhibit space to the city's inventory, helping the city meet an unmet demand for servicing large assembly groups and midsize trade shows, this exhibit space is not contiguous with the convention center. In addition, the existing convention center lacks supplemental function space, such as ballrooms, which is necessary to service large national trade shows.

The expansion of the convention center is planned in two stages and designed to allow the convention center to book larger conventions as well as retain its existing customer base. The first stage of this plan calls for the expansion of the convention center to 440,000 from 242,000 square feet of contiguous exhibition space. The construction schedule calls for construction to begin November 1996 and be completed by April 1999. The total construction schedule for the first stage of the plan is currently $187.8 million, with construction overruns to be reconciled through contingencies in the construction budget. Once completed, the convention center will use the new space for convention functions and will begin improvements and upgrades to the existing facilities. This second stage of the expansion project is scheduled to be completed by January 2001.

Both stages will be completed as separate projects, allowing the other section of the convention center to operate at full capacity. Thus, any potential loss of facility or hotel revenue due to ongoing construction at the convention center is mitigated. Upon completion of stage two of the expansion, all exhibit space at the center will be contiguous. In addition, the city recently has renovated the adjoining Hemisphere Park and plans to extend its popular River Walk to connect it to the convention center. Finally, the city has a five-year downtown strategic plan that includes providing adequate parking for new development. Even with this expansion, the convention center likely will compete primarily with regional convention centers in the Southwest, not national ones. The city may expand the convention center to 750,000 square feet in another 10 years, depending on demand.

## Legal Structure

***Security:*** Pursuant to the ordinance, as long as the series 1996 bonds and parity bonds are outstanding, the city has covenanted to levy a 9.00% HOT on the cost of occupancy on qualified hotel rooms. Of the 9.00%, 2.00% represents the expansion HOT pledged to the payment of the bonds and 7.00% represents the general HOT, of which three quarters (5.25%) is pledged to the payment of the bonds. The 2.00% expansion HOT is limited by law to fund expansion of an existing convention facility and pay debt service for such purpose. Bonds have a first lien on these revenue sources.

***Debt Service Reserve Fund:*** A debt service reserve fund equal to MADS will be fully funded from bond proceeds.

***Additional Bonds Test:*** The city can issue additional parity debt if tax revenues for 12 consecutive months out of the 18 preceding months are equal to at least 1.25x MADS on outstanding and prospective debt. Subordinate debt is permitted and may be issued as long as tax revenues for 12 consecutive months equal at least 1.00x on all outstanding and prospective debt, including subordinated debt.

***Flow of Funds:*** The 2.00% expansion HOT revenues are deposited into the expansion HOT fund and transferred first to pay debt service, then to the reserve fund, if needed, then to pay the subordinate lien obligation, and finally to the facilities fund.

The 7.00% general HOT revenues are deposited into the general HOT fund, of which 5.25% is allocated to the pledged account to be used to pay debt service on the

### Historical Performance — General Hotel Occupancy Tax

| Fiscal Years | Total Revenue ($000) | Tax Rate (%) | % Change | Hotel Occupancy Rate (%) |
|---|---|---|---|---|
| 1985 | 8,828 | 6.0 | — | 67.0 |
| 1986 | 8,594 | 6.0 | (2.6) | 63.1 |
| 1987 | 10,246 | 7.0 | 19.2 | 60.7 |
| 1988 | 12,102 | 7.0 | 18.1 | 67.8 |
| 1989 | 14,486 | 7.0 | 19.7 | 68.8 |
| 1990 | 16,145 | 7.0 | 11.5 | 69.7 |
| 1991 | 16,774 | 7.0 | 3.9 | 70.1 |
| 1992 | 18,572 | 7.0 | 10.7 | 73.4 |
| 1993 | 22,065 | 7.0 | 18.8 | 72.8 |
| 1994 | 22,662 | 7.0 | 2.7 | 71.1 |
| 1995 | 24,241 | 7.0 | 7.0 | 67.2 |
| Five-Year % Change | — | — | 43.1 | (3.4) |
| Five-Year Average Growth Rate | — | — | 8.6 | 70.9 |
| 10-Year Average Growth Rate | — | — | 10.9 | 68.5 |
| Projected Rate | — | — | 5.0 | 71.5 |

outstanding bonds ($3.0 million series 1988 certificates of obligation), then to pay debt service on the series 1996 bonds, then to restore, if needed, the reserve fund, and finally transferred to the city's general account to be used for any lawful purpose.

## Pledged Revenue and Debt Service Coverage

The general HOT was first levied in 1974 and historically has been applied toward the operating expenses of the city's convention facilities departments. The 2.00% expansion-HOT was first levied by the city in 1994 to be pledged specifically toward this project. All taxes are collected by the state. Pledged revenues for the 12 months ended Nov. 30, 1995 were $25.6 million, which, based on an estimated MADS of $15.5 million, provides 1.65x coverage of MADS. The bonds are structured with ascending debt service through 2012 and approximately level debt service from 2013–2026. Surplus fund balances may be used to call some of the bonds. This issue has been structured so that the pledged expansion HOT plus debt service fund and surplus fund earnings will be sufficient to cover debt service, assuming a 5.00% annual increase in expansion tax receipts. This scenario assumes that HOT revenues will grow at an annual rate of 2.00% during the Phase I construction period. The general HOT has generated annual growth of less than 5.00% only four times over the last 20 years and has declined only once during that period. The general HOT has increased an average of 8.60% and 9.20% annually over the last five and 10 years, respectively (with annual inflation averaging approximately 3.50%). Further growth is expected for fiscal 1996, the result of strong tourist and business activity, including the National League of Cities conference and the National Basketball Association All-Star game.

San Antonio is a favored southwestern destination for conventions and tourism, its second largest industry. The convention center's proximity to the historic River Walk district adds to the facilities' attractiveness for discretionary and repeat business, as well as nondiscretionary business. Although the sensitivity of tax receipts to tourism trends is a concern, San Antonio has demonstrated a consistent and year-round appeal as a tourist and convention destination. National and international conventions hosted by the city have grown by nearly 80.2% since 1987. The city's current hotel room supply exceeds 23,500, with total projected rooms approaching 30,900. The top 10 hotels make up 19.9% of total rooms available and approximately 44.2% of the city's HOT receipts for fiscal 1995. Annual hotel occupancy rates have averaged 71.5% over the last five years.

While significant new hotel construction is under way and existing facilities are expanding, this trend reflects demand and, to date, has not led to excess capacity and price cutting. An additional 4,200 hotel rooms are in the planning stage, which, if developed quickly, could have a significant effect on hotel occupancy rates. However, it is likely that this planned development will be phased in over the next five years, allowing the convention center and local hotels to use the center's additional capacity without the need for immediately increasing hotel room supply.

## Economy

San Antonio's economy has exhibited steady growth since the 1980s, continuing its evolution into a major urban center. Employment in the metropolitan statistical area (MSA), including Bexar, Comal, and Guadalupe counties, has been especially strong relative to the dramatic losses in other Texas cities and recessionary declines elsewhere in the U.S. Unemployment rates in San Antonio at 5.4% in 1994 compare favorably with those of the state and U.S. at 6.4% and 6.1%, respectively. Preliminary data for September 1995 indicate a 4.7% unemployment rate in San Antonio versus 4.6% in September 1994.

The MSA's civilian labor force continues to rise, reflecting the strong underlying economy and job base. In the yearly periods ending September 1994 and September 1995, job gains increased by 3.3% and 4.4%, respectively. Between September 1992–September 1995, MSA non-agricultural employment saw growth in every major sector, especially in construction, which rose 33.0%. Service sector employment accounts for 29.0% of MSA jobs and includes em-

## Projected Debt Service Coverage — Base Case

| Fiscal Years | Total Pledged $0.0725 HOT ($000) | $0.02 HOT Revenues* ($000) | Annual % Growth | Total Revenue Coverage (x)* | Total Revenue MADS Coverage (x)** | $0.02 HOT Revenue Coverage (x)* | $0.02 HOT Revenue MADS Coverage (x)** |
|---|---|---|---|---|---|---|---|
| 1997 | 27,056 | 8,665 | — | 3.56 | 1.74 | 1.14 | 0.56 |
| 1998 | 28,658 | 9,164 | 5.76 | 3.77 | 1.84 | 1.21 | 0.59 |
| 1999 | 29,875 | 9,585 | 4.59 | 3.93 | 1.92 | 1.26 | 0.62 |
| 2000 | 31,174 | 10,051 | 4.86 | 3.47 | 2.01 | 1.12 | 0.65 |
| 2001 | 32,677 | 10,523 | 4.70 | 3.48 | 2.10 | 1.12 | 0.68 |
| 2003 | 36,842 | 11,799 | 6.15 | 3.53 | 2.37 | 1.13 | 0.76 |
| 2005 | 41,485 | 13,229 | 5.54 | 3.55 | 2.67 | 1.13 | 0.85 |
| 2012 | 58,776 | 16,214 | 5.10 | 3.78 | 3.78 | 1.21 | 1.21 |

*Includes surplus fund earnings and interest earnings in the debt service reserve fund. **Maximum annual debt service of $15.5 million in 2012 and beyond.

## Projected Debt Service Coverage — Stress Test

(No Revenue Growth after Five Years)

| Fiscal Years | Total Pledged $0.0725 HOT ($000) | $0.02 HOT Revenues* ($000) | Annual % Growth | Total Revenue Coverage (x)* | Total Revenue MADS Coverage (x)** | $0.02 HOT Revenue Coverage (x)* | $0.02 HOT Revenue MADS Coverage (x)** |
|---|---|---|---|---|---|---|---|
| 1997 | 27,056 | 8,665 | — | 3.56 | 1.74 | 1.14 | 0.56 |
| 1998 | 28,658 | 9,164 | 5.76 | 3.77 | 1.84 | 1.21 | 0.59 |
| 1999 | 29,875 | 9,585 | 4.59 | 3.93 | 1.92 | 1.26 | 0.62 |
| 2000 | 31,174 | 10,051 | 4.86 | 3.47 | 2.01 | 1.12 | 0.65 |
| 2001 | 31,174 | 10,051 | 0.00 | 3.32 | 2.01 | 1.07 | 0.65 |
| 2012 | 31,174 | 10,051 | 0.00 | 2.01 | 2.01 | 0.65 | 0.65 |

*Includes surplus fund earnings and interest earnings in the debt service reserve fund. **Maximum annual debt service of $15.5 million in 2012 and beyond.

ployment at the city's more than dozen hospitals as well as private health care providers. The city also has seven colleges and universities. Manufacturing represents only 8.0% of wage and salary employment, although Levi Strauss & Co., Sony Microelectronics, and Diamond Shamrock all have significant operations in the city.

Government employment, constituting a significant 21.4% of total nonfarm employment, includes various military installations and facilities. In June 1995, the Defense Base Closure and Realignment Commission voted to close Kelly Air Force Base by 2001, reducing personnel to 11,000 from 19,000 in 1995. The city established a committee to develop strategies for the redevelopment of Kelly. The long-term plan includes privatization of defense-related operations by aerospace industries and the development of civilian and commercial manufacturing, warehouses, and aircraft maintenance facilities, which are projected to attract 10,000 new jobs to the area.

San Antonio continues to strengthen its position as a finance and trade center. The city is the corporate headquarters of USAA Insurance, with Citicorp and NationsBank Corp. having large operations as well. The city has strong cultural and economic ties with Mexico. Of total trade between the U.S. and Mexico, 50% of export and 35% of import goods travel through the city. More than 350 area companies do business with Mexico, and 30 Mexican-based businesses have locations in the city. The North American Development Bank — a binational institution funded by the U.S. Congress — is headquartered in San Antonio and began issuing loans in December 1995 to help finance environmental infrastructure projects along the U.S./Mexico border. Further enhancing its international relations, the city has established inland port and foreign trade zones and maintains Mexican trade offices in Monterrey, Guadalajara, and Mexico City.

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# Moody's Municipal Credit Report

San Antonio, Texas — March 11, 1996

| | New Issue | General Obligation/Special Tax |
|---|---|---|
| **sale:** | $183,920,000 | Hotel Occupancy Tax Revenue Bonds, Series 1996 |
| **date:** | Expected through negotiation March 12 | |

**Moody's rating: A**
**Hotel Tax Revenue**

**credit comment:** Moody's has assigned an **A** rating to the City of San Antonio's Hotel Occupancy Tax Revenue Bonds. The rating incorporates the strength of this tourist destination, historical growth of pledged revenues and the amount of debt outstanding secured by this potentially vulnerable revenue stream.

### Continued Growth in Pledged Revenues and Adequate Debt Service Coverage

Hotel occupancy taxes have grown 50% since 1990 and provide adequate coverage of maximum debt service. Collections for the first quarter of 1996 have kept pace with the same period for 1995. No additional borrowing is planned for ten years.

### Importance of Tourism to Regional Economic Center of South-Central Texas

Dominant economic components remain the military, tourism, service and trade. NAFTA will add to diversification of the economy. Tourism is the second largest component of the economy after the military. Further investment by private industry continues.

### Vulnerability of Pledged Revenues To Downturns In The Economy

While hotel occupancy tax revenues have performed well historically, they are vulnerable to economic downturns. Challenges to continued growth, notably water supply issues and the closure of Kelly Air Force Base, could negatively impact this revenue stream.

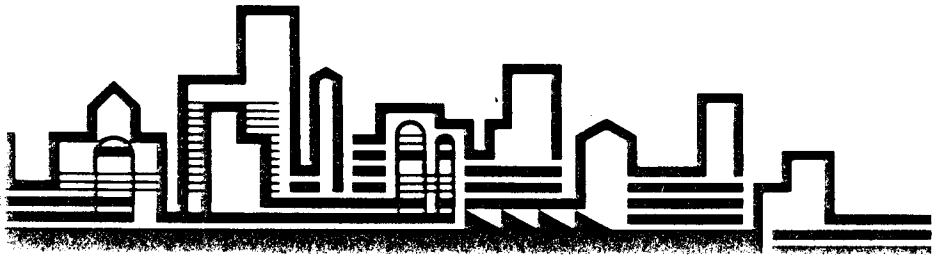
### Slow Payout Relative To Useful Life Of The Asset is Noted

Debt for this issue is retired at a rate below the practical useful life of the convention center, which was last upgraded in 1987. The city plans to shorten the final maturity by using surplus revenues collected from the 2% tax for early retirement of debt.

**key facts:**

**Security:** First lien on and pledge of a dedicated 2% hotel occupancy tax and a second lien on 75% of the city's 7% hotel occupancy tax, until prior lien bonds are retired in 2008.

| | |
|---|---|
| Hotel Occupancy Tax Bonds Outstanding: | $183,920,000 |
| Hotel Occupancy Tax Bonds, Payout Ten Years: | 9.4% |
| Fifteen Years: | 29.2% |
| Growth in Hotel Occupancy Tax Revenues, 1990-1995: | 50.1% |
| Coverage of Projected Maximum Annual Debt Service by 1995 Collections: | 1.62x |
| Debt Burden: | 5.4% |
| Median: | 3.8% |



# San Antonio, Texas

| | |
|---|---|
| Rate of Retirement, All Debt, | |
| In 10 Years: | 41.8% |
| In 15 Years: | 71.2% |
| Direct Net Debt as % of Overall Net Debt: | 63.0% |
| Average Annual Growth F.V., 1990-96: | 1.9% |
| Full Value per Capita, 1996: | $26,097 |
| Full Valuation, 1996: | $26,876,862,000 |
| Undesignated General Fund Balance as % of Total Operating Revenue, | |
| 1993: | 8.6% |
| 1994: | 12.0% |

| | |
|---|---|
| Per Capita Income, 1989, | |
| City: | $10,884 |
| State: | $12,904 |
| U.S.: | $14,420 |
| Population Growth/(Decline), | |
| 1970-80: | 24.3% |
| 1980-90: | 26.7% |
| Unemployment Rate, 1994: | 5.4% |
| 10/94: | 4.9% |
| 10/95: | 5.3% |
| Moody's Ratings, General Obligation Bonds: | **Aa** |

**analysis:**

## Continued Growth in Pledged Revenues and Adequate Debt Service Coverage

Hotel occupancy tax receipts continue to show steady growth as hotel occupancy rates remain stable and average daily room rates improve. The first quarter of fiscal 1996 shows hotel occupancy tax collections slightly ahead of the same period in 1995.

The city currently plans to use any excess funds collected from the 2% hotel occupancy tax to retire bonds. With current projections, the Series 1996 bonds would be retired in 2019 instead of 2026.

## Importance of Tourism to Regional Economic Center of South-Central Texas

Tourism is an important component of San Antonio's economy, second only to the military. The private sector is continuing to invest substantially in the tourism market. Over 3,600 new rooms have been added since 1990 with 691 under construction. Hotel occupancy rates have averaged 70% since 1991, even with a corresponding rise in average daily room rates from approximately $60 to over $75.

The convention business is an important component of the overall tourism industry in San Antonio. The convention center is being expanded to accommodate larger groups and retain certain clients that need additional space. The planned expansion will approximately double exhibit space. Planned revovation of existing space will take place subsequent to the opening of the expansion to avoid any interruption in service.

## Vulnerability of Pledged Revenues To Downturns In The Economy

There are ongoing lawsuits involving withdrawal of water from the Edwards Aquifer, the city's sole source of water. Proposed pumpage limitations on the aquifer could have an adverse material effect on the growth potential of the city.

The large military presence is an important economic component. The city has developed a reuse plan for Kelly Air Force Base, slated to begin closure in 1997. Successful implementation of this plan is key to the city's continued economic health.

# San Antonio, Texas

**sale information:**

**Legal Name of Issuer:** San Antonio, Texas.

**Date of Bonds:** March 1, 1996.

**Security:** First lien on and pledge of 2% Expansion Hotel Occupancy Tax and 75% of existing 7% Hotel Occupancy Tax.

**Use of Proceeds:** To fund an expansion of the convention center, renovate existing convention center and related facilities and to pay costs of issuance.

**Key Contacts:**

**Chief Financial Officer:** Nora Chavez, Director of Finance, (210) 299-8620.

**Co-Financial Advisor:** First Southwest Company, San Antonio, (210) 208-9700.

**Senior ManagingUnderwriter:** Smith Barney, Inc., Dallas, (214) 720-5074

**Co-Bond Counsel:** Akin, Gump, Strauss, Hauer & Feld, L.L.P., San Antonio, (210) 270-0800.

**Auditor:** KPMG Peat Marwick, San Antonio, and Martinez, Mendoza & Company, P.C., San Antonio (FY 1994).

**Co-Financial Advisor:** Estrada Hinojos & Company, Inc., San Antonio, (210) 227-0800.

**Co-Bond Counsel:** Wicliff and Hall, Houston, (713) 740-3100.

**rating history:** Initial Rating, March 1996: **A**

**analyst: Kristen Reifsnyder**
**(212) 553-1419**

# San Antonio, Texas

**debt factors:**

**Debt Statement as of 03/04/96 ($000):**

| | Amount |
|---|---|
| Bonded debt outstanding | |
| Gas and Electric System Revenue Bonds | $2,501,853 |
| General Obligation Bonds | 744,593 |
| Water System Revenue Bonds | 586,625 |
| Airport System Revenue Bonds | 91,220 |
| Golf Course System Revenue Bonds | 5,960 |
| Current offering (3/12/96) | |
| Hotel Tax Revenue Bonds, Series 1996 | 183,920 |
| Gross bonded debt | $4,114,171 |
| Capital Leases | 1,428 |
| Gross direct debt | $4,115,599 |
| Less: | |
| Gas and Electric System Revenue Bonds | 2,501,853 |
| Water System Revenue Bonds | 586,625 |
| Airport System Revenue Bonds | 91,220 |
| Golf Course System Revenue Bonds | 5,960 |
| Self-supporting general obligation bonds | 20,250 |
| Net Direct debt | $909,691 |
| Overlapping debt | 534,816 |
| Overall net debt | $1,444,507 |

**Debt Ratios**

| Net Debt | Per Capita | Median [1] | % F.V. | Median (%) [1] |
|---|---|---|---|---|
| Direct | $ 883 | $ 822 | 3.4 | 2.0 |
| Overall | 1,403 | 1,476 | 5.4 | 3.8 |

[1] 1995 median for cities with population 500,000 and over.

**Rate of Retirement [1]**

| Principal Amount Due | Amount ($000) | % of Total |
|---|---|---|
| In 5 years | $157,190 | 21.2 |
| In 10 years | 370,039 | 49.9 |
| In 15 years | 605,843 | 81.7 |

[1] General obligation bonds only.

**Security:** Pledged revenues are (i) revenues from the 2% Expansion Hotel Occupancy Tax; (ii) revenues from the Pledged General Hotel Occupancy Tax, equal to 5.25%; (iii) investment income, and; (iv) certain other revenues.

**Flow of Funds:** Pledged revenues shall be deposited or transferred as follows:

1) The Expansion Hotel Occupancy Tax shall be deposited as received into the Expansion HOT Fund and transferred on or before the last business day of each month to the following funds in the following order of priority: (i) Debt Service Fund; (ii) Debt Service Reserve Fund; (iii) any funds created for payment of subordinate obligations and related reserves, if any; (iv) Facilities Fund.

2) The General Hotel Occupancy Tax shall be deposited as received to the General HOT Fund and immediately allocated as follows: 75% of the General HOT Fund to the Pledged Account and 25% to the General Account. Money in the General Account is not pledged and may be used for any lawful city purpose. Money in the Pledged Account may be used on a parity basis (A) to the extent of revenue derived from 1% of the General Hotel Occupancy Tax for the payment of the Outstanding Obligations and (B) for the payment of the Hotel Occupancy Tax Bonds, and

# San Antonio, Texas

related reserves. At least monthly prior to the last business day of the month, the city shall determine the amount necessary to from the Pledged Revenues to pay the Outstanding Obligations and the bonds. This determination will take into account available money in the Debt Service Fund and required deposits to the Debt Service Reserve Fund, if any. Funds in excess of this amount may be transferred to the General Account.

**Debt Service Reserve Fund:** The lesser of (i) 10% of original principal amount of the bonds, (ii) maximum annual debt service for all outstanding bonds or (iii) 125% of average annual debt service on all outstanding bonds. Will be fully funded with the delivery of the Series 1996 bonds, may be funded over 60 months for future series.

**Additional Indebtedness:** Additional parity bonds may be issued if, among other requirements, for the most recently completed fiscal year of any 12 month period out of the most recent 18 months, (i) pledged revenues are equal to at least 1.5 times maximum annual debt service on all bonds proposed to be outstanding and (ii) pledged revenues are equal to at least 1.0 times the combined maximum annual debt service on all bonds and subordinate lien obligations proposed to be outstanding.

Refunding bonds are not required to meet the above tests if maximum annual and the average annual debt service for all bonds to be outstanding, will not exceed the maximum annual and the average annual debt service in any fiscal years prior to the issuance of the additional bonds with respect to the maximum annual debt service and in the prior fiscal year with respect to the average annual debt service.

**CIP/Future Borrowing:** The city has a capital program that includes approximately $340 million through 2000. Almost half of the program is to fund improvements at the airport.

**Structure:** Overall, the city's debt is retired at an average rate with final maturity of all debt in fiscal 2015. Debt service increases from $67.1 million in fiscal 1996 to $74.0 million in fiscal 2002. It then declines through final maturity.

### Rate of Retirement ($000) [1]

| Principal Amount Due | Amount ($000) | % of Total |
|---|---|---|
| In 5 years | $ 1,385 | 0.8 |
| In 10 years | 17,315 | 9.4 |
| In 15 years | 53,655 | 29.2 |

[1] Convention Center Bonds.

### Sources and Uses of Funds ($000s)

| Sources | ($ 000) | Uses | ($ 000) |
|---|---|---|---|
| Bond Issue Amount: | | Project Costs | $187,830 |
| Current Interest Bonds | $154,090 | Costs of Issuance | 3,809 |
| CABs | 29,830 | Debt Service Reserve Funds | 15,541 |
| Interest Earned During Construction | 18,993 | OID | 5,971 |
| Cash | 10,239 | Accrued Interest | 824 |
| Accrued Interest | 824 | Total Uses | $213,975 |
| Total Sources: | $213,976 | | |

# San Antonio, Texas

## Rate of Retirement ($000s) [1]

| Principal Amount Due | Amount ($000) | % of Total |
|---|---|---|
| In 5 years | $158,575 | 17.1 |
| In 10 years | 387,354 | 41.8 |
| In 15 years | 659,498 | 71.2 |

[1] Includes general obligation and convention center bonds.

## Trend of Pledged Revenues (fiscal years ended 9/30 $000s)

| Year | Value of 1% Hotel Occupancy Tax | % Change | Actual Amount Collected |
|---|---|---|---|
| 1985 | $1,471 | - | $ 8,828 |
| 1986 | 1,432 | -2.7 | 8,594 |
| 1987 | 1,464 | 2.2 | 10,246 |
| 1988 | 1,729 | 18.1 | 12,103 |
| 1989 | 2,069 | 19.7 | 14,486 |
| 1990 | 2,306 | 11.5 | 16,145 |
| 1991 | 2,396 | 3.9 | 16,774 |
| 1992 | 2,653 | 10.7 | 18,572 |
| 1993 | 3,152 | 18.8 | 22,065 |
| 1994 | 3,237 | 2.7 | 22,662 |
| 1995 | 3,463 | 7.0 | 24,240 |

## Debt Service Coverage Hotel Occupancy Tax ($000)

| | Last 3-Year Average [1] | Fiscal 1995 |
|---|---|---|
| Estimated Pledged Hotel Tax Revenues [2] | $23,809 | $25,107 |
| Maximum Annual Debt Service | 15,541 | 15,541 |
| Coverage by Pledged Revenues (x) | 1.53 | 1.62 |

[1] Fiscal years 1992-95.

[2] Estimate of 7.25% Hotel Occupancy Tax Based on the value of 1% Hotel Occupancy Tax. Excludes investment income.

**administrative factors:**

**Form of Government:** City council consists of the Mayor and ten council-members, each elected for a two-year term. Appointed city manager.

**Public Employees:** The city has approximately 8,525 employees.

# San Antonio, Texas

**property valuation and tax data:**

San Antonio

| Fiscal Year | Assessed Valuation ($000) | % Change | Tax Rate/ $1,000 A.V. | Levy ($000) | % Collected Current | % Collected Total |
|---|---|---|---|---|---|---|
| 1985 | $17,057,305 | 6.4 | $4.19 | $ 71,538 | 94.9 | 97.9 |
| 1986 | 21,575,296 | 26.5 | 4.10 | 88,459 | 95.7 | 98.4 |
| 1987 | 23,783,375 | 10.2 | 4.10 | 97,512 | 96.0 | 99.4 |
| 1988 | 25,364,328 | 6.6 | 4.10 | 103,994 | 95.8 | 98.2 |
| 1989 | 25,025,657 | -1.3 | 4.41 | 110,268 | 96.7 | 99.1 |
| 1990 | 23,997,762 | -4.1 | 4.77 | 114,492 | 96.1 | 98.2 |
| 1991 | 23,550,044 | -1.9 | 5.28 | 124,030 | 96.2 | 98.4 |
| 1992 | 22,567,235 | -4.2 | 5.83 | 131,465 | 96.6 | 98.9 |
| 1993 | 21,950,835 | -2.7 | 5.96 | 130,820 | 97.3 | 99.2 |
| 1994 | 22,480,585 | 2.4 | 5.96 | 133,978 | 97.3 | 99.2 |
| 1995 | 24,309,875 | 8.1 | 5.88 | 142,934 | 97.7 | 99.3 |
| 1996 | 26,876,862 | 10.6 | 5.80 | 155,812 | In process | In process |

| | | | |
|---|---|---|---|
| 1996 Full Valuation: | $26,876,862,000 | Average Annual Growth F.V., 1990-96: | 1.9% |
| 1996 Equalization Rate: | 100.0% | 1996 F.V. per Capita: | $26,097 |

| Largest Taxpayers [1] | Business | FY 1996 A.V. ($000) |
|---|---|---|
| Southwestern Bell Telephone Company | Telephone utility | $493,076 |
| United Services Automobile Association | Insurance | 357,569 |
| H. E. Butt Grocery Company | Grocery chain | 317,945 |
| Methodist Health Care System | Hospital/healthcare | 205,923 |
| Melvin Simon & Associates, Inc. | Shopping center | 133,782 |
| Property Trust of America | Multi-family residential | 130,436 |
| North Star Mall | Shopping mall | 112,418 |
| Marriott Corporation | Hotel chain | 111,502 |
| Hyatt Regency | Hotel chain | 108,547 |
| Wal Mart Corporation | Retail | 97,209 |

[1] Top ten taxpayers account for 7.7% of fiscal 1996 assessments.

# San Antonio, Texas

## San Antonio - Hotel Market Statistics

| Year | Number of Rooms | % Increase | Average Daily Room Rate | Occupancy Rate (%) |
|---|---|---|---|---|
| 1987 | 18,662 | - | $48.51 | 60.7 |
| 1988 | 19,662 | 5.4 | 50.17 | 67.8 |
| 1989 | 19,764 | 0.5 | 54.08 | 68.8 |
| 1990 | 19,973 | 1.1 | 59.14 | 69.1 |
| 1991 | 19,973 | 0.0 | 60.83 | 70.1 |
| 1992 | 20,362 | 1.9 | 65.50 | 73.4 |
| 1993 | 20,974 | 3.0 | 71.41 | 72.8 |
| 1994 | 21,841 | 4.1 | 73.63 | 71.1 |
| 1995 | 22,800 | 4.4 | 75.63 | 67.2 |
| 1996 [1] | 23,583 | 3.4 | - | - |

[1] Year-to-date.

## Top Ten Hotels 1995

| Hotels | Hotel Occupancy Tax Paid | Number of Rooms |
|---|---|---|
| Marriot River Center | 3,330 | 1,000 |
| Hyatt Regency | 1,994 | 633 |
| Hyatt Hill Country | 1,705 | 500 |
| Hilton Palacio Del Rio | 1,505 | 481 |
| Marriott Riverwalk | 1,491 | 502 |
| La Mansion Del Rio | 960 | 337 |
| Holiday Inn (Riverwalk) | 762 | 313 |
| Menger | 742 | 313 |
| Plaza San Antonio | 711 | 250 |
| Embassy Suites N.W. | 585 | 217 |
| Percent of Total | 56.9 | 19.9 |

**economic factors:**

## Population: San Antonio

| Year | Population | Area (sq. mi.) | Density | % Change City | % Change County | % Change State | % Change U.S. |
|---|---|---|---|---|---|---|---|
| 1970 | 654,153 | 184 | 3,555 | 11.3 | 20.9 | 16.9 | 13.3 |
| 1980 | 813,118 | 264 | 3,084 | 24.3 | 19.1 | 27.0 | 11.4 |
| 1990 | 935,933 | [1] 333 | 2,810 | 15.1 | 19.9 | 19.4 | 9.8 |

Source: U.S. Census Bureau.

[1] Land area in 1990 can indicate an area change without a boundary change due to new measurement technique.

**Location:** The county seat of Bexar County, San Antonio is located in south-central Texas approximately 75 miles south of Austin.

# San Antonio, Texas

## Population and Housing Characteristics: San Antonio

| | 1980 | 1990 | State 1990 | U.S. 1990 |
|---|---|---|---|---|
| **Population:** | | | | |
| Median age | 27.2 | 29.8 | 30.8 | 32.9 |
| % school age | 22.8 | 20.6 | 20.3 | 18.2 |
| % working age | 56.3 | 60.4 | 61.4 | 61.7 |
| % 65 and over | 9.2 | 10.5 | 10.1 | 12.6 |
| No. persons/household | 3.0 | 2.8 | 2.7 | 2.6 |
| **Income:** | | | | |
| Median family income | $15,859 | $26,885 | $31,553 | $35,225 |
| % below poverty level | 20.9 | 22.6 | 18.1 | 13.1 |
| % children below poverty level | | 32.5 | 24.3 | 18.3 |
| Per capita income | $5,763 | $10,884 | $12,904 | $14,420 |
| **Housing:** | | | | |
| % vacant | | 0.4 | 2.2 | 3.0 |
| % owner occupied | 59.5 | 54.0 | 60.9 | 64.2 |
| % built before 1939 | 14.1 | 8.6 | 7.1 | 18.4 |
| % built since last census | 25.9 | 25.5 | 29.7 | 20.7 |
| Owner occupied median value | $27,800 | $49,700 | $59,600 | $79,100 |
| Median gross rent | $209 | $369 | $395 | $447 |
| Occupied housing units | 258,984 | 326,761 | - | - |

Source: U.S. Census Bureau.

## Labor Market Characteristics: San Antonio

| Year | Labor Force | Total Employed | % Unemployed City | State | U.S. |
|---|---|---|---|---|---|
| 1991 | 446,647 | 414,953 | 7.1 | 6.6 | 6.7 |
| 1992 | 464,642 | 431,389 | 7.2 | 7.5 | 7.4 |
| 1993 | 478,255 | 448,185 | 6.3 | 7.0 | 6.8 |
| 1994 | 490,941 | 464,239 | 5.4 | 6.4 | 6.1 |
| 10/94 | 493,593 | 469,476 | 4.9 | 5.6 | 5.4 |
| 10/95 | 514,815 | 487,745 | 5.3 | 5.9 | 5.2 |

Source: Local Area Unemployment Statistics (LAUS), Bureau of Labor Statistics.

Monthly estimates are not seasonally adjusted.

LAUS estimates starting in January 1994 are conceptually different from those available for earlier periods.

## Per Capita Income: San Antonio

| Year | Income | % Change City | State | City as % of State | U.S. |
|---|---|---|---|---|---|
| 1979 | $ 5,763 | 138.0 | 158.0 | 80.0 | 79.0 |
| 1989 | 10,884 | 88.9 | 79.1 | 84.3 | 75.5 |

# San Antonio, Texas

**financial factors:** **Operating Funds Financial Performance (fiscal years ended 9/30 $000)** [1]

| | 1992 | 1993 | 1994 | % Change 1992-93 | % Change 1993-94 |
|---|---|---|---|---|---|
| Revenues | $385,346 | $427,242 | $416,210 | 10.9 | -2.6 |
| Expenditures | 396,671 | 388,821 | 423,873 | -2.0 | 9.0 |
| Operating surplus (deficit) [2] | (8,549) | 18,083 | 16,122 | - | - |

[1] General and Debt Service Funds. (modified accrual method of accounting).

[2] General Fund only.

| 1994 Sources of Revenue | % | 1994 Items of Expenditure | % |
|---|---|---|---|
| Property taxes | 32.3 | Public Safety | 48.7 |
| Revenues from utilities | 31.5 | Debt Service | 23.6 |
| Sales taxes | 22.7 | General Government | 8.7 |
| Charges for Services | 4.1 | Culture and Recreation | 7.9 |
| Gross Receipts Business Taxes | 3.1 | Health Services | 2.2 |
| Licenses and Permits | 1.8 | Streets and Roadways | 2.0 |
| Miscellaneous | 1.8 | Welfare | 1.7 |
| Fines and Forfeits | 1.6 | Economic Development and Opportunity | 0.9 |
| | | Sanitation | 0.6 |

**General Fund Financial Position (fiscal years ended 9/30 $000)**

| | 1992 | 1993 | 1994 |
|---|---|---|---|
| Cash and investments | $12,127 | $18,354 | $37,098 |
| Operating loans | - | - | - |
| Other current liabilities | 12,798 | 15,916 | 16,623 |
| Year-end cash surplus (deficit) | ($671) | $2,438 | $20,475 |
| Receivables | 20,953 | 35,422 | 31,668 |
| Fund balance | 23,591 | 41,674 | 57,796 |
| Undesignated fund balance | 18,982 | 36,630 | 49,932 |
| Fund balance as % of revenues | 7.3 | 11.9 | 15.9 |
| Undesignated fund balance as % of revenues | 5.8 | 10.5 | 13.8 |

# San Antonio, Texas

## Municipal Sales Tax Collections (calendar years ended 12/31 $000s)

| Year | Total Collections | Change |
|---|---|---|
| 1987 | $54,043 | - |
| 1988 | 58,682 | 8.6 |
| 1989 | 63,891 | 8.9 |
| 1990 | 65,973 | 3.3 |
| 1991 | 70,286 | 6.5 |
| 1992 | 74,976 | 6.7 |
| 1993 | 83,416 | 11.3 |
| 1994 | 91,874 | 10.1 |
| 1995 [1] | 97,564 | 6.2 |

[1] Projected annual collections based on collections through November 1995.

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