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Summary: City of San Antonio, Texas

San Antonio Municipal Facility Authority

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Credit Profile
AFFIRMED
$13.420 mil. Lse Rev Bonds, Series 2001 dtd 05/15/2001 due 08/15/2002-2018 2020
AAA / AA (SPUR)

OUTLOOK:
STABLE

Rationale

Standard & Poor's Ratings Services affirmed its 'AA' Standard & Poor's underlying rating (SPUR), and stable outlook, on San Antonio Municipal Facility Corp., Texas' lease revenue bonds, supported by the city of San Antonio, Texas.

The rating reflects:

- The general creditworthiness of the city of San Antonio ('AA+' GO debt rating),
- The lease payments to be made from the annual appropriation of the city,
- A stable and diversified economic base, and
- The strong project essentiality.

Ongoing lease payments by the city of San Antonio to the municipal facilities corp., a not-for-profit corporation, secure the bonds. A debt service reserve funded at one-half of the average annual debt service on the bonds provides further bond security. Lease payments will be made based on an annual appropriation of the city from legally available general fund revenues as an ongoing obligation of the city for the lease term. Bond proceeds will be used to fund the acquisition and construction of a municipal office facility to be known as the One Stop Development Services Center, which will provide information and services to private-sector entities.

San Antonio's 'AA+' rating reflects the city's:

- Continued strong economy despite slowing property tax base growth for fiscal 2003,
- Strong management with good long-term planning,
- Historically good financial management and position despite a significant general fund balance reduction for fiscal 2002, and
- Moderate debt burden with manageable capital needs.

Located in Bexar County, about 75 miles south of Austin, Texas, the San Antonio MSA's population of 1.3 million ranks it among the 10 leaders nationally. Despite a slowing in the 2003 total assessed value (AV) growth to 3.1% from the 7.0% average of the previous five years, overall economic growth continues. Total AV is now more than $41 billion. The strongest growth continues to be in the services and trade sectors. The medical and biomedical industries, which contribute $8.1 billion to the area as a whole, now account for the largest part of the city's economy. Expansions continue at South Texas Medical Center, which is the city's leading employer with almost 26,000 employees. With five military bases in the city, government, specifically the military, remains a large component of the economy. Kelly Air Force Base officially closed as a military installation in July 2001; but the city continues to work on its privatization efforts there, which have so far resulted in a slight net

gain of jobs. The city also worked with Brooks Air Force Base to create Brooks City-Base. Brooks City-Base is a collaborative effort between the city and the U.S. Air Force that was established to retain jobs at Brooks Air Force Base by improving the facility's effectiveness. Unemployment in San Antonio has risen to roughly 5.5%; it, however, remains below state and national levels.

Outlook

The stable outlook reflects the expectation that city management will take the necessary actions to keep its budget balanced and work to build reserves given slowing AV growth and reduced sales tax revenues. Management's inability to do this could result in Standard & Poor's taking a rating action.

San Antonio's Finances/Debt

Finances.

San Antonio's financial performance suffered in fiscal 2002 as the general fund balance declined to $55 million, or 9% of expenditures. Nearly flat revenues due to slowing tax base growth, coupled with reduced sales tax receipts and significantly increased expenditures, primarily for public safety, resulted in the general fund balance reduction. Therefore, the unreserved general fund balance was reduced by roughly $33.2 million at fiscal year-end 2002. The city continues to exceed its goal of maintaining at least 5% of expenditures in the fund, and $23 million in general fund reserves that are dedicated only for potential revenue declines provide additional flexibility. These reserve funds did not decline during fiscal 2002. The city's 2003 budget process resulted in a $42.4 million budget shortfall. To balance the budget, city management has implemented across-the-board departmental cuts that are primarily administrative. City management expects services provided by San Antonio to be minimally affected. Given the adjustments made to balance the budget, the city also expected to maintain the fiscal 2003 total general fund balance at a level similar to fiscal 2002. The city's sales tax revenues for fiscal 2002 were below the projected 3.5% increase; it, however, did exceed the 2001 level by 2.6%.

Debt.

Overall net debt is moderate at roughly $2,400 per capita but high at more than 7% of market value. To some extent, these figures are elevated because they include the city's overlapping debt, which is substantially comprised of school district debt; a large portion of debt service will be paid from the state's instructional facilities allotment program.

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