FIVE YEAR FINANCIAL FORECAST

City of San Antonio ~ FY 2007 - 2011

A current and long-range assessment of financial conditions and costs for City service delivery plans

CITY OF SAN ANTONIO

FIVE YEAR FINANCIAL FORECAST

FY 2007 – FY 2011

Prepared by
The Office of Management & Budget

Peter Hill Zanoni, Director

Pouy J. Angulo
Kevin Ayarzagoitia
Edward Belmares
Ron C. Campos
Marc Castro
Elizabeth Flores
Robert Hammond
Joel Jenks
Bryan Layton
Jamie Nieto
Robert M. Perez
Monica Ramos
Carlos F. Terrazas
Delfina Tovar
Chad Tustison
Nicole Vasquez
Tad G. Wille

JUNE 14, 2006

CITY OF SAN ANTONIO

FIVE YEAR FINANCIAL FORECAST

FY 2007 - FY 2011

TABLE OF CONTENTS

TITLE	PAGE

CITY OF SAN ANTONIO
P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

June 14, 2006

To the Honorable Mayor and City Council:

I am pleased to provide you the City of San Antonio's Five Year Financial Forecast covering Fiscal Year 2007 through Fiscal Year 2011. The Financial Forecast provides a current and long-range assessment of financial conditions and costs for City financial reserve policies and service delivery plans under certain defined assumptions. Included within this document is a set of budget strategy recommendations for the forecast period. The Forecast also examines the local and national economic conditions that have an impact on the City's economy and ultimately its budget. The Forecast has served as a guide in the development of the City's Annual Budget since 1991.

One objective of the Forecast is to provide the City Council with early financial projections and to identify significant issues that need to be addressed in the FY 2007 budget development process. The Forecast's focus is the City's General Fund. Also included within the Forecast are the Environmental Services and Community & Visitor Facilities Funds.

The General Fund Financial Forecast includes a projected positive ending balance in FY 2007 of $20.92 million. Included in the FY 2007 Forecast is a $15 million Budget Stabilization Reserve that is projected to be used in FY 2008 allowing a positive ending balance over a two-year period. The positive ending FY 2007 balance is achieved through higher than estimated ending balances in FY 2005 (totaling $23.0 million) and higher revenues in the FY 2006 Re-Estimates (totaling $52.2 million). Added CPS revenue above budget has been realized as a result of unusual weather conditions and higher than forecasted natural gas prices. San Antonio's expanding local economy is allowing the City to continue realizing strong sales tax receipts. Development activity and stronger property values are also adding to the overall positive revenue outlook for the City.

Factors that contributed to the increased FY 2005 ending balance and the FY 2006 Estimates are not projected to reoccur as aggressively in the five year forecast period. Additionally, recurring base expenditures and added costs for policy option recommendations and mandates in FY 2007 become recurring base expenditures in the remaining forecast periods.

While the FY 2007 projected ending balance is $20.92 million, the Forecast assumes that the FY 2007 current projected ending balance is completely used as a beginning balance in FY 2008 to address the projected gap between current revenues and total expenditures. Even with the $20.92 million in beginning balance, the Forecast projects a gap in current revenues to planned expenditures of $14.90 million that is addressed by the use of the Budget Stabilization Reserve of $15.00 million.

Beyond FY 2007, there exists a shortfall in each of the fiscal years that will need to be strategically addressed beginning in the FY 2007 budget process. In FY 2008, the General Fund shortfall is projected to be $40.19 million. The gap in revenue to expenditures begins to close after FY 2008 with the projected shortfall of $38.77 million and $32.52 million in FY 2010 and FY 2011 respectively.

The General Fund Forecast continues to add resources to the Reserve for Revenue Loss and recommends two additional reserve funds—a Budget Stabilization Reserve and a Contingency Fund. The Forecast includes the recommendation of adding $3 million, $4 million, and $5 million in FY 2007, FY 2008, and FY 2009 respectively to attain the 5% of General Fund expenditures reserve goal by FY 2009. The 5% goal is maintained through the remaining years of the Forecast.

The Forecast also includes a recommended strategy to establish a Budget Stabilization Reserve. This Reserve would allow the City to maintain stable revenue to expenditure balance should revenues unexpectedly not meet budgeted levels or if expenditures should dramatically spike due to extraordinary unforeseen costs. In FY 2007, a total of $15 million is set aside within the Stabilization Reserve. While the Forecast schedules the use of this Reserve in FY 2008 to balance revenues and expenditures, the Budget Stabilization Reserve recommended policy would be to use better than estimated ending balances in FY 2006 and FY 2007 to mitigate the use of the Stabilization Funds in FY 2008.

Finally, the Forecast includes a Contingency Fund to be established in FY 2007 that would allow City Council to fund unforeseen request for services through the fiscal year. The Contingency Fund, initially set at 0.3% of the General Fund expenses in FY 2007, or $2 million, would reach 0.5% of General Fund expenses ($4.5 million) in three years, or in FY 2009, and increase to 1% of General Fund expenses, or $8.5 million, by FY 2011.

With respect to the City's Environmental Services Fund (which is related to the City's solid waste collection and environmental service programs), the Five Year Forecast projects negative ending balances beginning in FY 2006. When assuming current service delivery practices and collection frequencies, the Forecast projects a negative ending balance in FY 2007 of $8.9 million. The FY 2007 Proposed Budget development process will include analysis and policy options regarding collection frequencies, automation implementation, service delivery practices, and rate analysis that may allow a current projected $2.29 monthly rate increase for FY 2007 to be minimized.

The FY 2007 ending balance for the Community and Visitor Facilities Fund is projected to be $2.37 million. This positive balance results primarily from strong Hotel Occupancy Tax (HOT) revenue projections totaling $47.13 million in FY 2007. The FY 2007 projection is approximately 15% higher than the FY 2006 budgeted amount. The fund continues to show a positive ending balance over the remaining four years of the Forecast with a remaining balance of $6.37 million in FY 2011. This positive balance includes an annual contribution to Arts and Cultural Programming of 12% of HOT revenues over the forecast period as well as a Budget Stabilization Reserve totaling $8.60 million after five years.

City staff looks forward to working with the Mayor and City Council in the upcoming months to meet the short and long term service delivery needs of the community, as well as developing strategic financial reserve policies which take into consideration the fiscal conditions outlined in the Forecast.

Respectfully submitted,

Sheryl Sculley

Sheryl Sculley
City Manager

GENERAL FUND FORECAST

INTRODUCTION

Presented in this section is the forecast of revenues and expenditures for the General Fund. The economic data and projections discussed in the Economic Perspective & Outlook section of the Forecast are incorporated into the projection strategy of developing revenue and expenditures in the General Fund over the next five years.

The General Fund Forecast includes a schedule forecasting revenues and expenditures from FY 2007 through FY 2011, accompanied by analysis and discussion of structural imbalance. Structural imbalance is one of having sufficient annual current revenue to fund annual City services without relying on beginning balance resources. Next is a discussion of current year and projected General Fund revenues; recent revenue experience and economic assumptions are used to develop these figures. This section is followed by a presentation of base budget expenditures required to sustain the current (FY 2006) level of services throughout the Forecast period. These projections are based in part on the assumed rate of inflation. Finally, this chapter ends with a discussion of Other Expenditures, including the impact to the General Fund from the anticipated creation of a new Development Services/Planning Special Revenue Fund, Mandated Service Delivery Costs, and Financial Reserve Funds.

The forecast table on the following page combines projected General Fund resources, base budget expenditures, other added costs including new contingency and budget stabilization funds, and mandated service delivery costs to illustrate the financial impact to the General Fund ending balance. The net result of this schedule highlights the level of adjustments necessary over the forecast period to maintain a balanced budget as required by State law.

General Fund Forecast Schedule
($ in Millions)

	FY 2006 Budget	FY 2006 Estimate	FY 2007 Projection	FY 2008 Projection	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection
RESOURCES							
Beginning Balance (Excluding Reserves)	$52.54	$75.54	$75.11	$20.92	$0.10	$0.00	$0.00
Current Revenues*							
CPS Energy	197.20	224.96	214.74	221.19	227.82	234.66	241.70
Additional CPS Energy Transfer	2.15	8.44	7.30	8.34	8.59	8.84	9.11
Property Taxes [Current, Delinquent & Penalties]	182.83	182.93	195.75	203.64	210.52	217.67	225.22
Sales Tax	165.77	173.43	180.80	189.03	197.91	206.42	214.36
Other	135.34	143.55	116.41	121.02	121.78	123.33	124.39
TOTAL RESOURCES	**735.83**	**808.85**	**790.11**	**764.14**	**766.72**	**790.92**	**814.78**
EXPENDITURES							
Base Budget	730.27	728.23	734.44	769.94	798.70	824.47	842.66
Contractual Street Maintenance (Incremental)	0.00	0.00	10.00	0.00	0.00	0.00	0.00
Mandated Service Delivery Costs (Incremental)	0.00	0.00	4.75	4.10	1.71	1.92	1.64
Contingency Fund (Incremental)	0.00	0.00	2.00	1.00	1.50	2.00	2.00
Reserve for Hurricane Disaster Relief (Incremental)	0.51	0.51	0.00	0.00	0.00	0.00	0.00
Budget Stabilization Reserve (Incremental)	0.00	0.00	15.00	0.00	0.00	0.00	0.00
Reserve for Revenue Loss (Incremental)	5.00	5.00	3.00	4.00	5.00	1.30	1.00
TOTAL EXPENDITURES	**735.78**	**733.74**	**769.19**	**779.04**	**806.91**	**829.69**	**847.30**
ENDING BALANCE / ADJUSTMENT REQUIRED	***$0.05***	***$75.11***	***$20.92***	***($14.90)***	***($40.19)***	***($38.77)***	***($32.52)***
USE OF BUDGET STABILIZATION RESERVE	0.00	0.00	0.00	15.00	(0.00)	0.00	0.00
REMAINING BALANCE AFTER USE OF BUDGET STABILIZATION RESERVE	***$0.05***	***$75.11***	***$20.92***	***$0.10***	***($40.19)***	***($38.77)***	***($32.52)***
RESERVES SUMMARY							
Contingency Funds	0.00	0.00	2.00	3.00	4.50	6.50	8.50
Reserve for Hurricane Disaster Relief	0.51	0.51	0.00	0.00	0.00	0.00	0.00
Budget Stabilization Reserve	0.00	0.00	15.00	0.00	0.00	0.00	0.00
Reserve for Revenue Loss	28.17	28.17	31.17	35.17	40.17	41.47	42.47

*Excludes revenues associated with the Development Services/Planning Special Revenue Fund.

The General Fund Forecast Schedule is organized in the following manner:

- "Beginning Balance" reflects the amount of funds available for use at the beginning of the fiscal year. The balance is the result of the net prior year-end revenues-to-expenditures, except in years projected to have a negative ending balance. The Beginning Balance does not include the City's Reserve for Revenue Loss, Budget Stabilization Reserve, Contingency Funds, or Reserve for Hurricane Disaster Relief/Non-reimbursables.

- "Current Revenue" highlights the major sources of current revenue–CPS Energy, Property Taxes and Sales Tax–and all other sources including potential future annexation revenue, less revenues related to the creation of a Development Services/Planning Special Revenue Fund, as projected for each fiscal year.

- "Total Available Resources" is the sum of the Beginning Balance and Current Revenues.

- “Base Budget” shows the aggregate annual projected expenditures required to sustain the current FY 2006 level of services throughout the Forecast period. In addition, it includes future Municipal Election costs, exchanged Fire Pumper apparatus purchase funds, and potential annexation costs, less expenditures related to the creation of a Development Services/Planning Special Revenue Fund.

- "Contractual Street Maintenance (Incremental)” reflects the incremental cost of an annual transfer from the General Fund to the Streets Maintenance Fund to cover the cost of street maintenance projects on a contractual basis. This funding mechanism is in lieu of utilizing Certificates of Obligation as discussed in the FY 2006 Adopted Budget.

- “Mandated Service Delivery Costs (Incremental)” are the incremental recurring and one-time mandated expenditures required each year.

- “Contingency Fund (Incremental)” reflects the incremental appropriation of funds that may be set aside to cover necessary expenditures that were unforeseen during the Budget Development Process.

- “Budget Stabilization Reserve (Incremental)” reflects the incremental amount of funding that may be set aside to help financially stabilize the General Fund in the event of significant revenue shortfalls and/or service delivery costs.

- “Reserve for Revenue Loss (Incremental)” reflects the incremental amount that may be set aside to provide services in case of a catastrophic event affecting revenues and/or service delivery costs.

- “Total Expenditures” is the sum of the Base Budget, Contractual Street Maintenance (Incremental), Mandated Service Delivery Costs (Incremental), Contingency Fund (Incremental), Budget Stabilization Reserve (Incremental), and Reserve for Revenue Loss (Incremental) expenditures.

- “Ending Balance / Adjustment Required” represents the difference between Total Available Resources and Total Expenditures, but does not include the City’s Reserve for Revenue Loss, Budget Stabilization Reserve or Contingency Funds. A revenue and/or expenditure adjustment is required in those years when this balance is negative.

- “Use of Stabilization Reserve” reflects the use of Budget Stabilization Reserve funds in years when the ending balance is negative and when Stabilization Reserve funds are available.

- “Remaining Balance after use of Stabilization Reserve” reflects the projected ending balance subsequent to the use of Budget Stabilization Reserves. Additional revenue and/or expenditure adjustments are required in those years when this balance is negative.

- “Contingency Funds” is the total amount of appropriated funds that may be set aside each year of the Forecast period to cover necessary expenditures that were unforeseen during the Budget Development Process.

- “Budget Stabilization Reserve” is the total amount of reserve funds that may be set aside to help financially stabilize the General Fund in the event of significant revenue shortfalls and/or service delivery costs.

- “Reserve for Revenue Loss” is the total amount of reserve funds that may be set aside to provide services in case of a catastrophic event affecting revenues and/or service delivery costs.

ANALYSIS OF REVENUES AND EXPENDITURES

The table on page 4 shows a **positive ending balance for FY 2007.** While no shortfall is projected in FY 2008, subsequent to the use of the Budget Stabilization Reserve, significant shortfalls are projected from FY 2009 through FY 2011.

The positive forecast for FY 2007 can largely be attributed to the continued strong revenue received within the General Fund. San Antonio’s local economy is allowing the City to realize stronger receipts in sales tax projected through FY 2006 and across the Forecast period. Continued development and stronger property values together with significant added CPS Energy revenue have improved the revenue outlook for the City. Total FY 2006 estimated revenues are projected to exceed budgeted levels by 7.32%, or $50.02 million.

Although the projection for FY 2008 is neutral as a result of the Budget Stabilization Reserve, the General Fund is not structurally balanced. To be structurally balanced, current annual operating revenues of the fund would meet or exceed the current annual operating expenditures of the fund. The Forecast schedule on page 4 above represents the complete financial profile of the General Fund which accounts for use of the ending balance from the prior year to support services in the following year. Because FY 2005 had a net ending balance of $75.54 million, and current year revenues are estimated to be $733.31 million, total resources for FY 2006 are roughly $808.85 million. Based on current year expenditure commitments of $733.74 million, it is projected that the General Fund will have a FY 2006 ending balance of $75.11 million for use in FY 2007. However, as the aforementioned forecast schedule illustrates, the projected FY 2007 ending balance is $20.92 million, or 72.15% less than the ending balance in FY 2006, and by FY 2008 has been completely exhausted. The reason for this is that annual operating revenues are not covering the costs of providing City services. Essentially, the General Fund has relied upon prior year ending balances to help offset current and future operating expenses.

The structural analysis table below reflects only the respective current year operating revenues, excluding beginning balances, and current year expenditures in the General Fund over the Forecast period.

General Fund Structural Analysis
($ in Millions)
(Not Including Development Services/Planning Special Revenue Fund Revenues/Expenditures FY 2007 - FY 2011)

	FY 2006 Budget	FY 2006 Estimate	FY 2007 Projection	FY 2008 Projection	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection
Total Operating Revenues	683.29	733.31	715.00	743.22	766.62	790.92	814.78
Total Operating Expenditures	735.78	733.74	769.19	779.04	806.91	829.69	847.30
Net Operating Balance (Structural Imbalance)	(52.49)	(0.43)	(54.19)	(35.82)	(40.29)	(38.77)	(32.52)

In order to achieve positive ending balances in the forecast period, the City will need to examine ways to structurally balance the General Fund. Options for achieving this balance include a reduction and/or redirection in services guided by the City Council's priorities, an increase in the property tax rate, increases in other various fees and charges, or not addressing the added costs to the base budget expenditures.

Any proposed service reductions will need to be examined in the context of the Budget Priorities to be established by the City Council. Staff will identify service reductions, redirections, and efficiencies which have the least adverse impact to the City Council's Budget Priorities for inclusion in the FY 2007 Proposed Budget.

REVENUES

Included herein is an updated projection of revenue receipts for all General Fund revenues from the current fiscal year through the Forecast period. The current year estimates are based primarily on current year activity while future projections are developed through various methods. Operating Departments responsible for administering the services and/or collecting the associated revenues work with the Office of Management & Budget to develop their revenue projections based on an analysis of factors to include historical trends, forecasted natural gas prices, projected economic and building activity, and known future factors such as contracts and interlocal agreements. A regression analysis is utilized to project those revenues that are impacted by economic factors. Sales Tax and Liquor by the Drink Tax are projected using current year activity as the base and utilizing a blend of national and regional economic indicators (U.S. Consumer Price Index, San Antonio Gross Metro Product, and San Antonio Area Unemployment) to run the regression analysis. Revenue projections over the Forecast period account for changes in activity and do not assume changes to rates. Specific rate changes or new revenue sources are addressed through the Budget process.

As the table on the following page indicates, total FY 2006 General Fund revenue is anticipated to be $50.02 million or 7.32% over FY 2006 budgeted levels. Over the Forecast period, these revenues are expected to increase at an average annual rate of 3.04%, with annual rates of change ranging from a low of 1.58% in FY 2007 (over the FY 2006 Estimate) to a high of 4.00% in FY 2008 (over the FY 2007 Projection). Below is a description of General Fund revenue categories to include projected fiscal year rates of change, current year activity, and assumptions on future projections.

General Fund Forecast of Current Revenue
($ in Millions)
(Includes revenues associated with the Development Services/Planning Special Revenue Fund)

	FY 2006 Budget	FY 2006 Estimate	FY 2007 Projection	FY 2008 Projection	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection
Revenue							
CPS Energy	$197.20	$224.96	$214.74	$221.19	$227.82	$234.66	$241.70
Additional CPS Energy Transfer	2.15	8.44	7.30	8.34	8.59	8.84	9.11
Property Taxes - Current	178.84	178.37	191.03	198.75	205.46	212.44	219.80
Property Taxes - Delinquent & Penalties	3.99	4.56	4.72	4.89	5.06	5.23	5.42
Sales Tax	165.77	173.43	180.80	189.03	197.91	206.42	214.36
Charges for Current Services	33.94	35.76	36.57	37.47	38.22	39.18	39.94
Business and Franchise Taxes	24.08	25.54	25.01	24.35	23.77	23.25	22.79
Licenses and Permits	20.09	21.61	23.15	24.30	25.49	26.67	27.76
Transfers from Other Funds	18.69	17.08	17.31	17.76	18.25	18.72	18.71
Miscellaneous Revenue	11.68	15.07	14.65	14.41	14.25	14.42	14.53
Fines	11.22	11.55	11.67	11.78	11.90	12.02	12.14
San Antonio Water System	7.54	8.96	8.52	9.03	9.30	9.58	9.84
Liquor by the Drink Tax	4.56	4.89	5.17	5.39	5.60	5.84	6.06
Other Agencies	3.21	3.09	3.17	3.23	3.28	3.34	3.40
Annexation	0.34	0.00	1.09	4.79	5.26	5.71	6.07
Total Revenue	**$683.30**	**$733.31**	**$744.90**	**$774.71**	**$800.16**	**$826.32**	**$851.63**
Increase from Prior Year	**N/A**	**$50.01**	**$11.59**	**$29.81**	**$25.45**	**$26.16**	**$25.31**
Percent Increase from Prior Year	**N/A**	**7.32%**	**1.58%**	**4.00%**	**3.29%**	**3.27%**	**3.06%**

City Public Service Energy (CPS Energy) Payment to the City

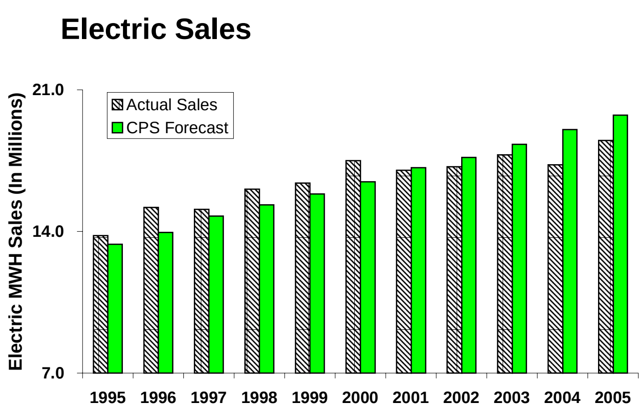
Projected Annual Rates of Change
FY 2007: -4.54% FY 2008: 3.00% FY 2009: 3.00% FY 2010: 3.00% FY 2011: 3.00%

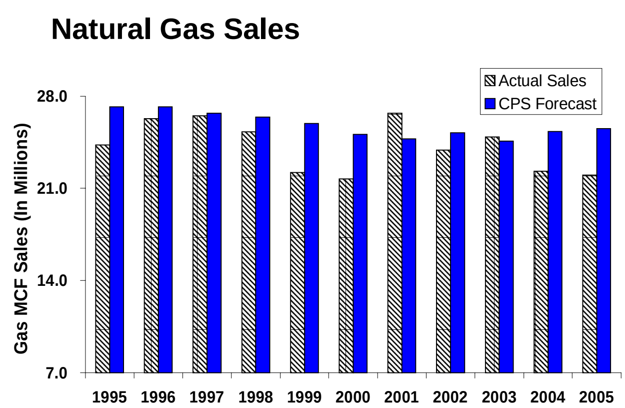
The City's payment from CPS Energy represents the largest source of revenue to the General Fund accounting for 27.0% of Budgeted FY 2006 General Fund revenues. Fourteen percent of CPS Energy gas and electric customer revenue is paid to the City as a return on investment. The estimated revenue of $224.96 million for FY 2006 is $27.76 million or 14.08% above budgeted levels. The forecast for FY 2007 of $214.74 million is $10.22 million or 4.54% lower than the FY 2006 Estimate. The forecasted amounts for FY 2008 through FY 2011 are based the FY 2007 projection adjusted by a conservative growth rate of 3.00% annually.

The payment to the City from CPS Energy can fluctuate significantly from year to year. Revenue from CPS Energy is one of the most difficult to project due to a number of variables that can significantly impact CPS Energy revenues and consequently, the City's payment. Therefore, as has been the case for the past several years, the forecasted amount of $214.74 million for FY 2007 is conservative. City staff utilized the CPS Energy forecast as a basis for the development of the forecasted amount. CPS Energy forecasted demand (growth) assumptions were partially discounted and adjustments to forecasted natural gas prices were made. The resulting forecast assumes a normalized weather pattern, discounted forecasted demand, and does not assume continuation of conditions such as very high natural gas prices. The forecast was also developed with consideration for a multi-year forecast outlook, managing the City's reliance on revenues from CPS Energy, as well as the current level of reserves within the City's General Fund.

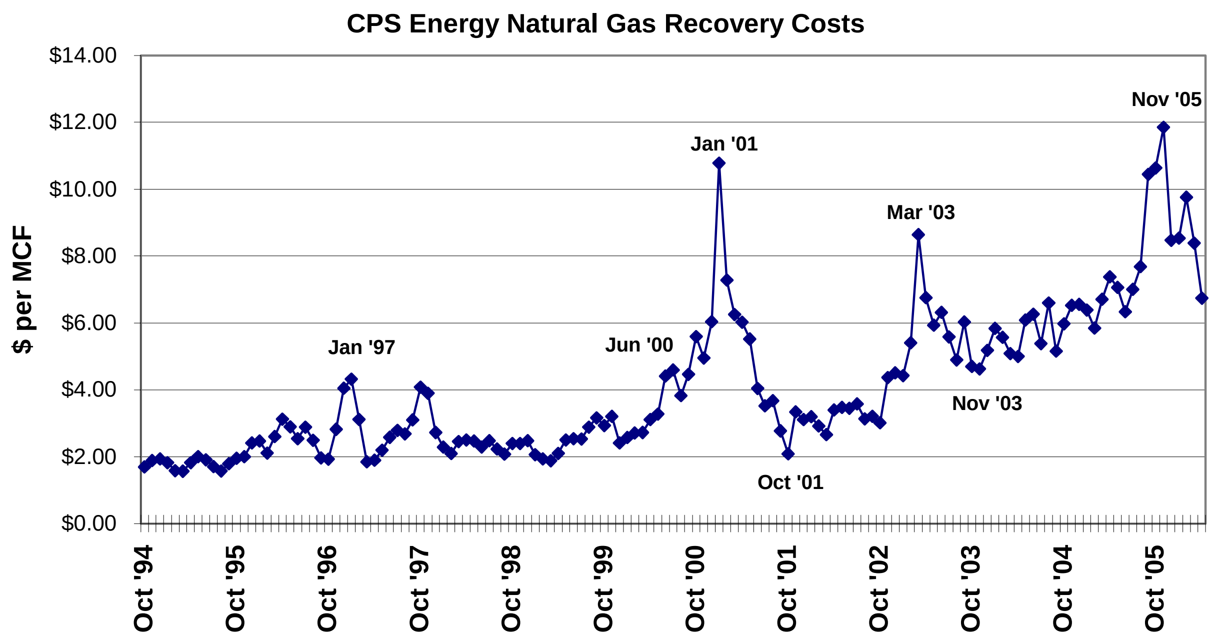
Accurately forecasting the CPS Energy payment revenue is challenged by a number of variables such as the weather, growth of the system, fuel prices, generation mix, and unscheduled maintenance on generation plants. For the past several years, instability in natural gas prices, coupled with fluctuations in demand due to weather, have resulted in significant variances in the City's payment from CPS Energy from year to year.

To illustrate the fluctuations in demand, the graphs below reflect CPS Energy's historical electric and gas sales (excluding off-system sales) as compared to the forecast. CPS Energy's electric sales increased steadily from FY 1995 to FY 2001. While the electric system has continued to experience growth, electric sales have fluctuated to a greater degree from FY 2002 to FY 2005 primarily related to the weather. With respect to natural gas sales, actual sales have fluctuated significantly over the 10 year period largely dependent on the weather in the winter months.



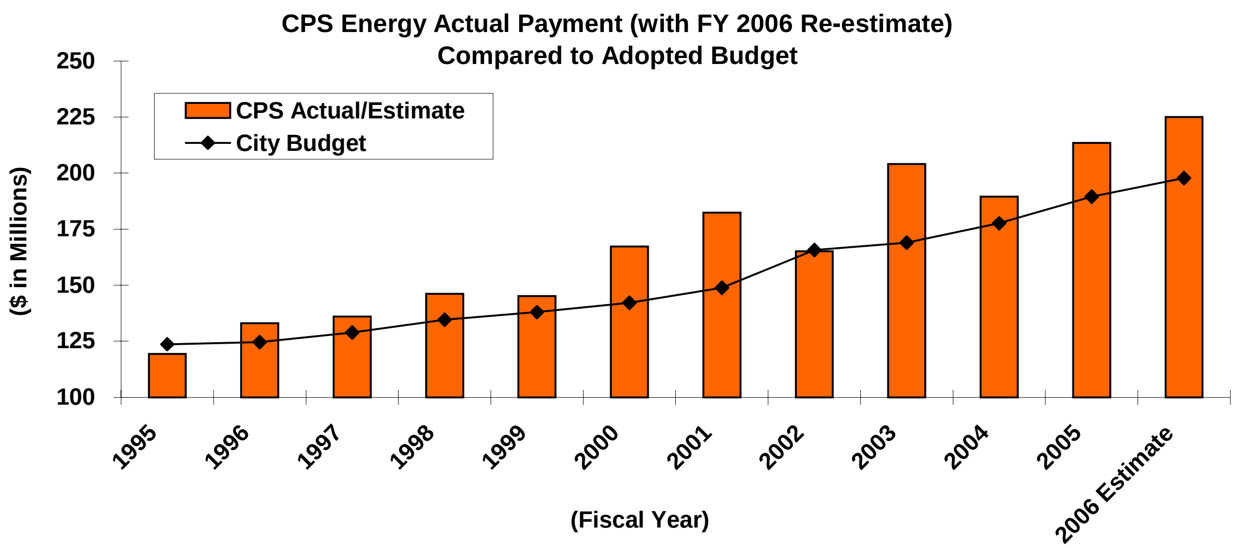


Natural gas costs are a component of CPS Energy fuel costs which are a pass-through to ratepayers in CPS Energy electric and gas rates and can also significantly affect the City's payment from CPS Energy. The following line graph reflects CPS Energy historical natural gas prices recovered through its rates as a pass-through.



As illustrated in the graph above, natural gas prices have become much more volatile since June 2000. Natural gas costs recovered by CPS Energy increased in June of 2000 to $4.41 per MCF (Thousand Cubic Feet) and continued to rise reaching a high of $10.78 per MCF in January of 2001. Subsequently, nine months later natural gas costs recovered fell to a low of $2.08 per MCF in October 2001 and remained under $4.00 per MCF until November of 2002. Natural gas prices recovered by CPS Energy rose again to a high of $8.64 per MCF in March of 2003 falling back to $4.74 in November 2003 and have continued to fluctuate since that time. These natural gas costs are included in CPS Energy fuel costs which are passed on to ratepayers through the electric and gas rates. Such significant fluctuations can dramatically affect the City's payment from CPS Energy.

Fluctuations in demand, natural gas costs, and the other aforementioned factors result in the corresponding impacts to the City's total payment from CPS Energy. The graph below reflects the total actual payment from CPS Energy as compared to the adopted budget for the past ten years, including the FY 2006 Estimate.



A review of the electric and natural gas sales and natural gas costs graphs in conjunction with the graph on City payment demonstrate the correlation between significant fluctuations in the City's payment from CPS Energy and these primary factors. Consequently, the City's projections of the payment from CPS Energy remain conservative. The projections over the five year period do not assume continuation of conditions such as high natural gas prices, but do take into consideration other factors such as a multi-year forecast outlook, managing the City's reliance on revenues from CPS Energy, and the current level of reserves within the City's General Fund.

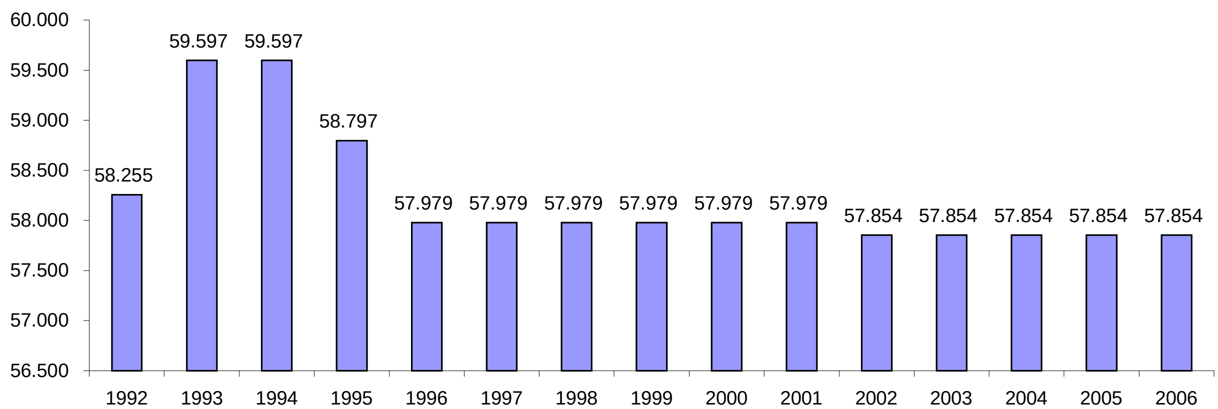
Property Tax Revenue—Maintenance & Operations

Projected Annual Rates of Change
FY 2007: 7.10% FY 2008: 4.04% FY 2009: 3.38% FY 2010: 3.40% FY 2011: 3.46%

Property Tax revenue accounts for 24.6% of total Budgeted FY 2006 General Fund revenues. This revenue category is comprised of Current Property Tax revenues only. Additional Property

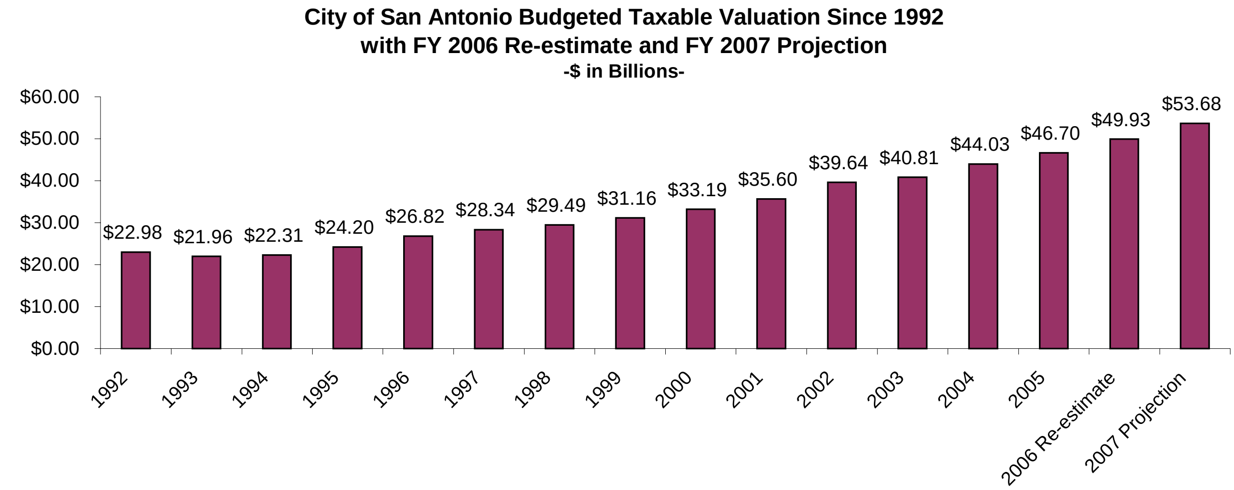
Tax revenues collected by the City include Delinquent Property Tax and revenues from penalties and interest on delinquent property taxes. Property Tax revenue is generated from the City's ad valorem tax rate levied against taxable values as determined by Bexar Appraisal District in conformance with State Law. The Property Tax revenue projections used in the budget and over the Forecast period are derived from taxable value less exemptions and freezes such as the Over-65 and Disabled Homestead exemptions/freezes, Tax Abatement/Phase-Ins, and other limitations. The revenue generated through the Forecast period assumes the current total property tax rate of 57.854 cents per $100 of taxable valuation. The General Fund maintenance and operation portion is 36.704 cents with the remaining 21.150 cents used to support the City's debt service requirements. As the chart below indicates, the City has not increased the property tax rate for thirteen years and has decreased it three times over that same period.

City of San Antonio Property Tax Rates Since 1992
-Cents per $100 Valuation-

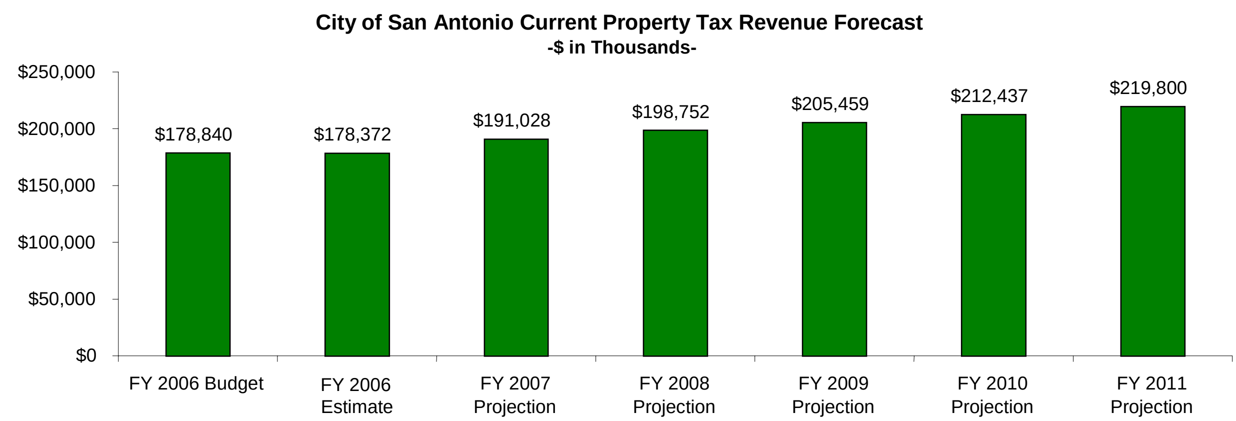


The projected growth in Property Tax revenue is based on anticipated growth in base taxable values, projected new property value improvements from major commercial developments and new residential growth, as well as anticipated annexations. Taxable valuations for FY 2006 are projected to decrease by 0.58% from the original budget of $50.22 billion. This change is due to final dispositions of litigation in District Court resulting in reduced appraised valuations as well as the filing of late residential exemption applications such as the Over-65 and Disabled Homestead exemptions which can be filed up to one year in arrears.

Taxable valuations for FY 2007 are projected to increase by 7.50% over the FY 2006 Estimate of $49.93 billion. This reflects a 4.50% base value increase and a 3.00% increase from new improvements. For each year after FY 2007, an annual increase of no higher than 4.25% is projected to account for increased valuations from conservative estimates of base value growth, new property improvements, and annexations. The chart on the following page details the City's adopted taxable value since 1992 and includes the re-estimated taxable value for FY 2006. The projected value for FY 2007 is based on Bexar Appraisal District's preliminary estimate as of June 4, 2006.



Based on the City's current Property Tax rate and the projected taxable valuations, the following graph illustrates the anticipated General Fund Property Tax revenue. In line with the reduced taxable valuations re-estimated for FY 2006, current year Property Tax revenue is expected to be $178.37 million or 0.26% less than budgeted. Over the Forecast period, however, this revenue source is expected to grow at an annual average rate of 4.27%.



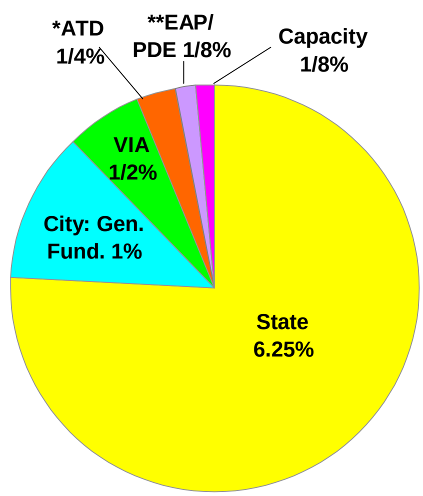
As briefly discussed above, the City's taxable value included in the forecast projections is net of all residential and commercial exemptions and freezes, special appraisals, and residence-homestead 10% limitations. In FY 2007, a total of 67,950 property owners are expected to qualify for the Over-65 Residence Homestead exemption. The estimated impact of this exemption is $3.9 billion in taxable value loss equating to $22.4 million in Property Tax revenue that will be exempted in FY 2007, assuming no change to the current ad valorem tax rate of 57.854 cents per $100 of taxable valuation. During this same period, an estimated 8,863 disabled property owners will qualify for the Disabled Residence Homestead exemption. The estimated impact of this exemption is $110.0 million in taxable value loss equating to $636,317 in Property Tax revenue that will be exempted in FY 2007, assuming no change to the current tax rate. Additionally, with the passage of Proposition 3 on the May 7, 2005 ballot, which freezes property taxes for elderly and disabled residents, the City will forego an additional $2.10 million in Property Tax revenue in FY 2007.

City Sales Tax Revenue

Projected Annual Rates of Change
FY 2007: 4.25% FY 2008: 4.55% FY 2009: 4.70% FY 2010: 4.30% FY 2011: 3.85%

Sales Tax revenue collected to support maintenance and operations for the General Fund within the FY 2006 Adopted Budget accounts for 22.8% of all Budgeted operating revenues. San Antonio's current sales tax rate is 8.125%. Several entities receive percentages of all sales tax proceeds as summarized in the chart below. Currently, one-eighth of a cent remains available before the State mandated cap of 8.25% is reached.

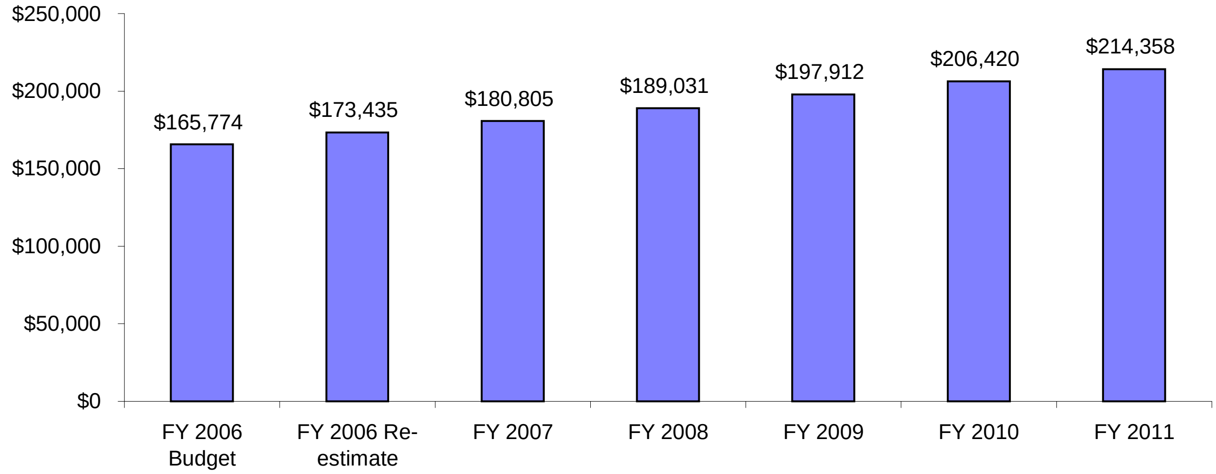
City of San Antonio – Sales Tax Rate Components



*ATD – Advanced Transportation District
**EAP – Edwards Aquifer Protection
**PDE – Parks Development & Expansion

Sales Tax collections have a strong correlation to national and local economic conditions. As described in the Economic Perspective & Outlook Section, both the local and national economies are continuing to show signs of growth. Local economic conditions, such as the unemployment rate and economic output, are projected to exceed national trends for every year throughout the Forecast period.

General Fund Sales Tax Revenue Forecast
-$ in Thousands-



As the graph above illustrates, actual Sales Tax collections for the current year are projected to be at $173.43 million. This amount is $7.66 million or 4.62% more than the $165.77 million budgeted in FY 2006 for Sales Tax revenue. These estimates and the projections for the Forecast period exclude the Sales Tax collected by the City for the Edwards Aquifer Protection and Parks Development & Expansion venues, and the City's share of the Advanced Transportation District. General Fund Sales Tax revenues in FY 2007 are projected to increase by 4.25%. Across the Forecast period, revenue levels from this source are expected to grow at an annualized rate of 4.33%. Future years' projections are based on a regression analysis utilizing U.S. Consumer Price Index, San Antonio Gross Metro Product, and San Antonio Area Unemployment.

Charges for Current Service

Projected Annual Rates of Change
FY 2007: 2.27% FY 2008: 2.46% FY 2009: 2.00% FY 2010: 2.51% FY 2011: 1.94%

This comprehensive category includes revenues related to recreation and culture such as the River Barge and Tower of America revenue contracts, Market Square lease revenues, and Library fines and fees; various general government service charges such as Municipal Court administrative fees associated with criminal cases tried in Municipal Court; Public Safety related revenues such as those generated by the City's wrecker service contract and the vehicle impoundment storage fee; Health revenues generated by birth and death certificates; and various development related fees and charges. Actual revenues for the current year are projected to be at $1.83 million or 5.39% above budgeted levels. Projected increases over the Forecast period are based on estimated increases in demand or known changes in revenue contracts.

Business and Franchise Taxes

Projected Annual Rates of Change
FY 2007: -2.08% FY 2008: -2.64% FY 2009: -2.38% FY 2010: -2.19% FY 2011: -1.98%

The Business and Franchise Tax revenue category is primarily comprised of telecommunication providers' rights-of-way access line fees and cable television franchise fees. The former is governed by State Law and is a monthly fee paid to the City on a quarterly basis for each business line ($3.72) and each residential line ($1.11). The Cable television franchise fee revenue, governed by Federal and State law, is comprised of 5.0% of a cable company's gross revenue, excluding Internet Service revenue. FY 2007 forecasted revenue from the City's largest cable television provider, Time Warner Cable (TWC), is projected to be $9.85 million. This is a 2.07% increase over the FY 2006 Estimate of $9.65 million.

Revenue derived from Certified Telecommunications Providers (CTPs) have been declining based on a decrease in actual line counts as reported by CTPs on a quarterly basis to the Public Utility Commission of Texas. Other Cities throughout Texas, both large and small, are experiencing similar CTP revenue declines. The FY 2007 forecasted CTP revenue of $13.7 million is $0.6 million or 4.20% lower than the FY 2006 Estimate of $14.3 million.

Licenses and Permits

Projected Annual Rates of Change
FY 2007: 7.13% FY 2008: 4.97% FY 2009: 4.90% FY 2010: 4.63% FY 2011: 4.09%

The FY 2006 Adopted Licenses and Permits budget totals $20.09 million. Of this amount, $4.00 million is generated from Licenses. This revenue category includes Alcoholic Beverage Licenses, Health Licenses such as Food Establishment Licenses issues by the City's Health Department, as well as professional and occupational licenses including Electrician Licenses, Downtown Peddler Licenses and Pet Shop Licenses. The Permits revenue category, totaling $16.09 million within the FY 2006 Adopted Budget, includes fees from Building Permits, Plumbing Permits, Heating and Air Conditioning Permits and Electrical Permits.

Licenses and Permits actual revenues for FY 2006 are projected to be at $21.61 million. This is $1.52 million or 7.57% above the FY 2006 Budget. The growth in this revenue category is directly attributable to the strength in the San Antonio Area housing/construction market. The projected rates of annual growth over the Forecast period are based on modest growth in license revenue and continued strong growth within the building community.

Revenue Transfers from Other Funds

Projected Annual Rates of Change
FY 2007: 1.35% FY 2008: 2.60% FY 2009: 2.76% FY 2010: 2.58% FY 2011: -0.05%

Authorized revenue transfers to the General Fund from other City funds are primarily based on charges for indirect costs. The City has an Indirect Cost Plan developed annually that uses number factors to determine the maximum recommended costs that can be assessed to Grant and Other Fund funds for General Fund central service support such as payroll, accounting, and legal services. An additional major source of revenue in this category is the Support for History and Preservation Transfer to the General Fund from the Community and Visitor Facilities Fund. The General Fund receives 15% of Hotel Occupancy Tax revenues to offset the General Fund's costs of maintaining tourist-related venues such as the Riverwalk. Because the rate of growth for the Transfers from Other Funds revenue source has varied from year to year, it is difficult to project this revenue source over the Forecast period with any consistency. With the exception of the Hotel/Motel Tax Fund, other transfer revenues are assumed to increase based on inflation or remain flat during the Forecast period.

Miscellaneous Revenue

Projected Annual Rates of Change
FY 2007: -2.79% FY 2008: -1.64% FY 2009: -1.11% FY 2010: 1.19% FY 2011: 0.76%

The Miscellaneous Revenue category includes revenues from interest earned on City revenue investments, the sale of City property including vehicles sold at auction, leases of City property, recovery of expenditures incurred by City forces on certain bond funded capital projects, capital programs administration charges, as well as grant-related recoveries. Current year revenues are projected to be approximately $15.07 million compared to the FY 2006 Budget of $11.68 million. This $3.39 million or 29.02% increase is largely attributable to significant impounded vehicle auction revenue, higher than anticipated interest on short-term investments, and increased recovery of expenditures. For FY 2007, total revenue in the Miscellaneous category is expected to be $420,000 or 2.79% below the FY 2006 Estimate. The lower revenue is in part the result of decreases in capital project administrative recoveries and conservative expectations for short-term money investments. Overall, Miscellaneous revenue growth is anticipated to decline at an average annual rate of 0.73%.

Municipal Court Fines

Projected Annual Rates of Change
FY 2007: 1.04% FY 2008: 0.94% FY 2009: 1.02% FY 2010: 1.01% FY 2011: 1.00%

Revenues in this category include fines for moving and parking violations and probation fees. In FY 2006, this source of revenue is anticipated to be $331,661 or 2.94% over budget. This revenue source is anticipated to increase conservatively at an average annual rate of 1.00%, slightly below the projected population growth throughout the Forecast period.

San Antonio Water System (SAWS) Payment

Projected Annual Rates of Change
FY 2007: -4.91% FY 2008: 5.99% FY 2009: 2.99% FY 2010: 3.01% FY 2011: 2.71%

The SAWS revenue payment to the City is based on 2.7% of SAWS' total projected revenue for each year of the Forecast period. Current year revenue is estimated to be $1.42 million or 18.83% over budgeted levels due to sustained drought conditions experienced over the last year. The forecasted FY 2007 revenue from SAWS is $8.52 million. This is a decrease of $444,339 from the FY 2006 Estimate of $8.96 million. Projections for the Forecast period are based on the historical revenue experience of SAWS for each of its core businesses.

Liquor Tax Revenue

Projected Annual Rates of Change
FY 2007: 5.73%   FY 2008: 4.26%   FY 2009: 3.90%   FY 2010: 4.29%   FY 2011: 3.77%

The Liquor by the Drink Tax revenue source (or Mixed Beverage Tax) represents the City's 10.7% portion of a 14.0% State tax imposed on gross receipts of the sale or service of mixed alcoholic and non-alcoholic beverages. This revenue source can be linked to the performance of the economy: a high correlation exists between this revenue source and various local economic indicators used to project future growth rates.

In FY 2006, actual revenues are anticipated to come in 7.24% or $335,302 above budgeted levels. Future years' projections are based on a regression analysis utilizing U.S. Consumer Price Index, San Antonio Area Unemployment, and San Antonio Gross Regional Product. The Mixed Beverage Tax future rates of growth are anticipated to follow the projected trend of these key economic indicators over the Forecast period.

Other Agencies' Revenue

Projected Annual Rates of Change
FY 2007: 2.59%   FY 2008: 1.89%   FY 2009: 1.55%   FY 2010: 1.83%   FY 2011: 1.80%

This category includes revenue primarily from interlocal agreements with Bexar County for Health and Library services provided to Bexar County residents not residing in the City of San Antonio. The level of contribution from Bexar County is set by agreement. Actual revenue received for FY 2006 is anticipated to be at $3.09 million. This amount is roughly $100,000 under budgeted levels due to a change in the anticipated policy of providing Fire services to the suburb of Hill Country Village offset by increased revenues from other agreements. Projected growth rates highlighted above are based on staff estimates as contracts are negotiated annually based on actual usage of services.

Annexation Revenue

Projected Annual Rates of Change
FY 2007: N/A   FY 2008: 339.45%   FY 2009: 9.81%   FY 2010: 8.56%   FY 2011: 6.30%

This category accounts for projected revenues related to the delivery of City services to areas under potential annexation as well as housing growth projected in these areas. Actual revenues received are accounted for in their respective revenue categories such as Charges for Current Services, Property Taxes, and Licenses and Permits. The annexation revenue projected throughout the forecast period is related to the possible annexation of five northern Bexar County areas referred to as Northside Areas 3 through 7 in the City's Three-Year Annexation Plan. The significant increase in projected revenue for FY 2008 is due to the realization of Property Tax revenues as the annexed area's real and personal property are included in the City of San Antonio's certified tax roll.

BASE BUDGET EXPENDITURES

This section of the Forecast projects expenditures based on current service levels. The FY 2006 Base Budget expenditure amount assumes that 99.72% of the expenditures approved in the FY 2006 Adopted Budget will be spent. The FY 2007 target assumes the removal of the one-time improvements included in the FY 2006 Adopted Budget and adjusts for costs annually modified for price changes.

The inflation rates used to project specific non-personal services expenditures were derived from the national Consumer Price Index (CPI) projections for each year from 2008 through 2011. These rates and their underlying assumptions are described in the Economic Perspective & Outlook chapter. Shown below are the assumed inflation rates for each year of the forecast period:

FY 2008	FY 2009	FY 2010	FY 2011
2.53%	2.30%	2.30%	2.30%

The following table represents the Base Budget projections. These projections include transfers to the Emergency Medical Services Fund, the Streets Maintenance and Improvement Fund, and the Animal Care Services Fund.

General Fund
Projected Base Budget Expenditures
($ in Millions)

FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
$734.44	$769.94	$798.70	$824.47	$842.66

OTHER EXPENDITURES

Contractual Street Maintenance

During the formulation of the FY 2006 Adopted Budget, City Council selected street maintenance as the highest priority to receive additional resources. As a result of Council's direction, an additional $10 million was added for contractual street maintenance. The increase brought the contractual street maintenance budget to $16.7 million for FY 2006. It is estimated that $16.7 million will yield 421 lane miles of contractual street maintenance.

Of the $10 million in funding added for FY 2006, $5 million was funded with recurring General Fund dollars and $5 million was funded with Certificates of Obligation. During the year, it was decided to replace the Certificates of Obligation with General Fund dollars. The logic behind the substitution was that long-term debt should not be issued for maintenance that only provides between 5-10 years of life to a street.

Although $10 million was added for contractual street maintenance in FY 2006, rising costs of materials and labor will certainly comprise a larger percentage of the allocation than it would have only 5 years ago. In an attempt to get more return for dollars invested, the Public Works Department solicited bids for a two-year street maintenance contract. The strategy behind the longer contract period (previously contracted on an annual basis) is that contractors could offer a lower cost for number of miles maintained. Consistent with the two-year plan, it is anticipated that $21.7 million will be invested into maintaining the City's existing infrastructure. Based upon City Council's direction, that number may fluctuate. The next two-year cycle will be for fiscal years 2008 and 2009.

Three-Year Annexation Plan

The City's Three-Year Annexation Plan identifies areas proposed for full purpose annexation and includes areas that have already been annexed for "Limited Purpose" prior to full purpose annexation. The Plan was adopted by City Council on September 19, 2002 and subsequently amended in December of 2002, July of 2004 and June of 2005.

Under Chapter 43 of the Local Government Code, the services to be provided upon full purpose annexation are presented at public hearings and are subject to mandated negotiations. The objective of the negotiated service plan is to ensure that areas proposed for annexation would receive a level of service that is comparable to the level of service available in other parts of the municipality. Once negotiation periods are complete, fiscal impacts of service delivery are determined.

Limited Purpose Annexation Property owners in areas annexed for limited purposes are not required to pay City taxes and are not eligible to receive all City services including fire and police services. City regulatory ordinances such as zoning, building permits, inspections, certificate of occupancy, some fire and safety ordinances, and code compliance are extended, and residents are allowed to vote for certain measures in City elections. Residents in limited annexed areas may not run for City Office nor vote on bond issues.

In each of the three years for which an area is annexed for limited purposes, the City must take steps toward the full purpose annexation of the area. By the end of the first year after the date the area was annexed for limited purposes, the City must develop a land use and intensity plan as a basis for services and capital improvements projects planning. By the end of the second year, the City must include the area in the City's long-range financial forecast and capital improvements program (CIP) to identify future capital improvements projects. By the end of the third year, the City must include in its adopted CIP the projects intended to serve the area and identify potential sources of funding.

Timberwood Park Area This area was placed on the City's Three-Year Plan on May 26, 2005 and annexed for Limited Purpose effective June 20, 2005. The Timberwood Park area covers 4,348 acres or roughly 6.79 square miles and is located in the north quadrant of Bexar County. This area is being studied for possible annexation effective June 2008.

Southside Study Area 7 This area was placed on the City's Three-Year Plan on July 22, 2004 and annexed for Limited Purpose effective August 1, 2004. Southside Study Area 7, commonly known as the Southside Expansion Area, covers approximately 4,080 acres or six square miles and is located north of South Loop 1604 between Highway 16 on the West and Pleasanton Road on the East, extending north to the City's southern border. This area was part of the original Southside balanced growth initiative and is being studied for possible annexation effective July 2007.

Development Services and Planning Special Revenue Fund

The City of San Antonio seeks to provide an efficient and effective development process that supports City growth and economic development. To this end, the City will create a special revenue fund to enable development service and planning revenues to be used in support of development expenses.

The creation of a new Development Services and Planning Special Revenue Fund will provide many benefits to the Departments and their customers. Benefits acquired by this new fund include:

- Greater trust by stakeholders and improved perception of the Department by assuring that all fees paid to Development Services will be used to provide stakeholders service
- Enhanced accountability by appropriately aligning revenue with expenses
- More flexibility in responding to economic trends
- Additional funding to help the departments achieve their goals as set forth by the Mayor and City Manager to include (1) improve cycle time for permitting, (2) ensure consistency and quality of plan review and inspections, and (3) enhance customer service philosophy

MANDATES

The following section projects the cost requirements of mandated expenditures over the FY 2007 – FY 2011 forecast period and their impact to the General Fund. All expenditures shown are incremental and are sorted by Service Delivery Category.

Mandate Title	Funding	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Capital Improvements Operations & Maintenance						
Hausman Branch Library	Recurring	$38,991	$512,699	$0	$0	$0
Hausman Branch Library	One-Time	6,500	0	0	0	0
Bob Ross Senior Center	Recurring	436,949	113,328	0	0	0
Bob Ross Senior Center	One-Time	67,050	0	0	0	0
New Animal Care Facility	Recurring	200,215	250,380	0	0	0
New Animal Care Facility	One-Time	90,125	0	0	0	0
Park Walking Trails Maintenance	Recurring	132,283	32,641	68,714	0	0
Park Walking Trails Maintenance	One-Time	269,034	0	27,364	0	0
Medina River Trail Maintenance	Recurring	50,928	92,424	0	0	0
Medina River Trail Maintenance	One-Time	35,714	0	0	0	0
Levi Strauss Bldg Community Center	Recurring	67,755	104,355	0	0	0
Levi Strauss Bldg Community Center	One-Time	81,803	0	0	0	0
Roosevelt Park Building	Recurring	7,378	12,057	0	0	0
Roosevelt Park Building	One-Time	13,706	0	0	0	0
Park Police Outer Districts	Recurring	178,852	94,585	61,004	61,004	61,004
Park Police Outer Districts	One-Time	98,717	50,294	50,294	50,294	50,294
Park Police Leon & Salado Trails	Recurring	136,281	80,651	59,504	103,608	71,948
Park Police Leon & Salado Trails	One-Time	94,395	39,779	39,779	54,617	39,779
Parks Headquarters	Recurring	115,246	104,250	0	0	0
Parks Headquarters	One-Time	81,347	0	0	0	0
Edwards Aquifer Acquisition Maintenance	Recurring	53,518	15,906	0	0	0
Edwards Aquifer Acquisition Maintenance	One-Time	32,045	50,500	0	0	0
Park Land and Facilities Maintenance	Recurring	451,677	146,479	23,388	59,684	15,969
Park Land and Facilities Maintenance	One-Time	107,079	38,330	0	27,465	0
Granados Park Adult & Senior Center	Recurring	71,635	121,891	0	0	0
Granados Park Adult & Senior Center	One-Time	55,210	0	0	0	0
SA River Channel Improvements	Recurring	0	188,068	167,260	155,958	58,944
SA River Channel Improvements	One-Time	0	79,198	0	12,968	0
Downtown Visitor Center Maintenance	Recurring	68,305	68,305	0	0	0
Emergency Operations Center	Recurring	0	265,350	0	0	0
Emergency Operations Center	One-Time	0	7,000	0	0	0
Capital Improvements O & M Subtotal		**$3,042,738**	**$2,468,470**	**$497,307**	**$525,598**	**$297,938**
Contract Requirement						
EMT Certification Pay	One-Time	$49,968	$0	$0	$0	$0
State Representation Services	One-Time	172,343	0	0	0	0
Bexar Appraisal District Contract	Recurring	130,448	342,777	0	0	0
Fire Longevity Pay	Recurring	293,212	257,147	225,261	199,581	243,800
EMS Longevity Pay	Recurring	76,353	84,217	76,806	66,437	75,953
Police Longevity Pay	Recurring	770,639	867,918	867,951	1,093,397	982,243
Streets Maintenance Program	Recurring	12,371	12,514	10,735	10,986	11,869
Contract Requirement Subtotal		**$1,505,334**	**$1,564,573**	**$1,180,753**	**$1,370,401**	**$1,313,865**
Federal/State Law Requirement						
Court Interpreters	Recurring	$74,599	$24,866	$0	$0	$0
Federal/State Law Requirement Subtotal		**$74,599**	**$24,866**	**$0**	**$0**	**$0**
Grant Match Requirement						
ReACT Grant Match (Auto Crime Prevention)	Recurring	$24,744	$38,651	$27,927	$28,034	$26,107
Grant Match Requirement Subtotal		**$24,744**	**$38,651**	**$27,927**	**$28,034**	**$26,107**
Annexed Areas Service Requirements						
Southside Annexation (January 5, 2006)	Recurring	$87,636	$966	$0	$0	$0
Northside Annexation (December 31, 2005)	Recurring	13,366	0	0	0	0
Annexed Areas Service Requirements Subtotal		**$101,002**	**$966**	**$0**	**$0**	**$0**
Total One-Time Costs		$1,255,036	$265,101	$117,437	$145,344	$90,073
Total Recurring Costs		$3,493,381	$3,832,425	$1,588,550	$1,778,689	$1,547,837
Overall Total		**$4,748,417**	**$4,097,526**	**$1,705,987**	**$1,924,033**	**$1,637,910**

Mandates are defined as programs which the City is required to support as stipulated by Federal, State, or Local Law, contractual obligation, or in order to support operations and maintenance costs for completed capital improvement projects. The mandated expenditures summarized in the previous page are shown below in greater detail.

Capital Improvements Operations & Maintenance

Hausman Branch Library The new Hausman (Igo) Branch Library will be under construction in FY 2007 at 7938 W. Hausman Road and is scheduled to open in December 2007. Funding for the construction of the new branch library was included in the 1999 Bond Program. This mandate will provide funding for personnel and non-personnel costs necessary to operate the library. Eighteen positions will be added over two fiscal years. Five positions will be added in FY 2007 and thirteen positions will be added in FY 2008 (see table below). The incremental cost for this mandate is $45,491 in FY 2007 and $512,699 in FY 2008.

		FY 2007	FY 2008	
	Position Type	**August**	**October**	**November**
Phase 1	Professional	**5**		
Phase 2	Paraprofessional & Circulation		**7**	
Phase 3	Aides & Custodial			**6**

Bob Ross Senior Center The 2003-2007 Bond Program provided funding for the acquisition, construction, and outfitting of a new community multi-service health center for the senior community. This center is located in City Council District 8, in the Medical Center area and will have 24,400 square feet. The center is scheduled for completion in December 2006.

This mandate is comprised of two components. The first component will host comprehensive services to Seniors age 60 and older, focusing on case management, health and wellness, education, social and cultural activities, and volunteer opportunities. This mandate will provide for the addition of six positions and equipment needed to effectively provide excellent care and service to Seniors. Personnel to be added include one Accountant I; one Assistant Multi-Service Center Supervisor; one Administrative Assistant II; one Nutrition Site Supervisor; one Chauffeur; and one Caseworker II. Total funding for this component of the mandate in 2007 (assuming 9 months of operation) is $371,901. This includes one-time funding of $19,650 for exercise equipment and computer equipment, and recurring funding of $183,313 for grounds/building maintenance, fees to contract therapy instructors, and transportation/travel expenses. The second year incremental costs will be $88,262.

The second component of the mandate will provide for the addition of two staff positions (one Nurse Practitioner with emphasis on chronic disease management and gerontology and one Health Program Specialist) to effectively staff the health service section of the Bob Ross Senior Center. These staff members will be responsible for providing health assessments, performing laboratory procedures, completing hearing and vision assessments, reviewing medication inventory, teaching the use of assistive devices, and administering immunizations including flu and pneumonic vaccine. Total funding for this component of the mandate in 2007 (assuming 9 months of operation) is $132,098, which includes one-time funding of $47,400 for computer equipment, computer software, tools, and examination tables. The second year incremental costs will be $25,066.

New Animal Care Facility Animal Care Services' new facility will be completed and tenantable in June of 2007. The new facility will expand total Animal Care facility space to 38,000 square feet (up from the current 24,000 square foot facility) on a nine acre site (up from the current 1.3 acre site). This mandate will provide for the addition of nine positions and equipment needed to effectively provide care and service to animals and the community. Personnel to be added include one Special Projects Officer (Community Outreach Coordinator); one Customer Service Representative; four Kennel Attendants; one Building Maintenance Supervisor; one Building Maintenance Mechanic; and one Building Custodian. Total funding for this mandate in 2007 (assuming four months of operation) is $290,340 which includes one-time funding for security cameras, telephone and fax machines, computer equipment, and grounds maintenance equipment. The second year incremental costs will be $250,380.

Park Walking Trails Maintenance As part of the Capital Improvement Program, the Parks Department acquired 19 new walking trails in FY 2006. This mandate, totaling $401,317 in FY 2007, provides one Gardener, one Maintenance Worker, one Senior Equipment Operator and one Equipment Operator II in FY 2007. An additional Gardener and Maintenance Worker are requested in FY 2009 along with the associated equipment. This mandate includes $269,034 in one time costs and an incremental cost of $32,641 in FY 2008.

Medina River Trail Maintenance This mandate, totaling $86,642 in FY 2007, will provide for the maintenance of nine miles of linear trail improvements along the Medina River which are scheduled for completion in the last quarter of FY 2007. This includes trails running east and north from Medina River Park to Mitchell Lake. This mandate will furnish three Maintenance Workers and one Maintenance Crew Leader, a truck, trailer and an ATV. This mandate includes $35,714 in one time costs and an incremental cost of $92,424 in FY 2008.

Levi Strauss Building Community Center In 2004, the City acquired the Levi Strauss facility and adjacent acreage. As part of the facility, a new community center will be developed which will consist of a large fitness room, exercise room, multi purpose room, office, storage and lobby areas. The center will be open to the public from 6 a.m. to 9 p.m. This mandate, totaling $149,558 in FY 2007, will provide one Sr. Community Center Leader, one Community Center Leader II, one Community Center Leader I, four part-time Recreation Assistants, two Temporary Recreation Attendants as well as additional furnishings/supplies in order to provide a program of activities for the public. This mandate includes $81,803 in one time costs and an incremental cost of $104,355 in FY 2008. The center is scheduled for completion in late Summer 2007.

Roosevelt Park Building A new, one-room building is being constructed at Roosevelt Park located next to the swimming pool. This building will be utilized for community programs, rentals and public meetings. This mandate, totaling $21,084 in FY 2007, will provide temporary services and furnishings for the facility. The facility is scheduled to be available for use in late Summer 2007. This mandate includes $13,706 in one time costs and an incremental cost of $12,057 in FY 2008.

Park Police Outer Districts This mandate, totaling $277,569 in FY 2007, will provide three additional Park Police Officers and one Park Police Supervisor to be added in FY 2007 and one officer for each of the subsequent years through FY 2011. These officers will patrol new and expanded parkland and facilities located outside of San Antonio's Downtown area. Many of these properties were acquired as part of the 2003 Bond Program. This mandate includes $98,717 in one time costs and an FY 2008 cost of $144,879 which includes an incremental cost of $44,169.

Park Police Leon & Salado Trails This mandate, totaling $230,676 in FY 2007, will provide for the improvement of a 57 mile hike and bike trail system with trail heads along Leon Creek, Salado Creek, and Medina River. The acquisition of an additional 1039 acres of parkland along Salado and Leon Creeks was funded through the 2000 Sales Tax Initiative and 43 additional acres along Medina River was funded through the 2003 Sales Tax Initiative. This mandate provides three additional Park Police Officers in FY 2007, one additional Officer for each of the subsequent years through FY 2011, and one Park Police Supervisor to be added in FY 2010. This mandate includes $94,395 in one time costs and an FY 2008 cost of $120,430 which includes an incremental cost of $31,735.

Parks Headquarters In 2004, the City acquired the Levi Strauss facility and adjacent acreage. The facility will be used to bring together various park divisions currently located throughout the City. This mandate, totaling $196,593 in FY 2007, will provide four Maintenance Workers, one Building Maintenance Mechanic, various furnishings and an automobile. This mandate includes $81,347 in one time costs and an incremental cost of $104,250 in FY 2008. The building is scheduled for completion in late summer of 2007.

Edwards Aquifer Acquisition Maintenance Proposition 1 passed in May 2005, provides for the acquisition of land over the Edwards Aquifer from sales tax funds. It is projected that 700 acres of undeveloped property will be acquired with these funds. This mandate, totaling $85,563 in FY 2007, will provide for two Maintenance Workers, an automobile, and associated equipment which will be used to provide maintenance associated with these voter-approved property acquisitions. This mandate includes $32,045 in one time costs and an FY 2008 cost of $66,406 which includes an incremental cost of $15,906.

Park Land and Facilities Maintenance This mandate, totaling $558,756 in FY 2007, will provide for additional personnel and funding for contractual services, materials and equipment due to the addition of seven new parks, three new facilities and for development of approximately 27 new components such as dog parks, sports fields, gazebos, skate parks, rental of portable toilets, playgrounds, and 12 miles of exercise trails to existing parks. There is also an additional 1,039 acres of undeveloped, contiguous property adjacent to linear creek ways scheduled to come online in FY 2007, as well as an additional 143 undeveloped acres that has been donated from Holly Hills investments. This mandate will provide four Maintenance Workers for Park Maintenance; one Maintenance Crew Leader and two Maintenance Workers for Horticultural Services; and one Park Maintenance Crew Leader for Natural Areas. In addition, one Maintenance Worker for Natural Areas, one Landscape Irrigator and one Maintenance Worker to maintain additional irrigation systems will be provided in FY 2008. An additional Maintenance Crew consisting of one Landscape Irrigator and one Maintenance Worker will be added in FY 2010. This mandate includes $107,079 in one time costs and an FY 2008 cost of $184,809 which includes an incremental cost of $61,468.

Granados Park Adult and Senior Center A new building will be constructed at Granados Park which will be utilized to provide arts and crafts classes, fine arts classes, dance classes and will include a fully-functioning kitchen, meeting spaces, and multi use areas. This mandate, totaling $126,845 in FY 2007, will provide one Senior Community Center Leader, two Community Center Leader II, one Community Center Leader I, one Maintenance Worker as well as furnishings and equipment for the center. This mandate includes $55,210 in one time costs and an incremental cost of $121,891 in FY 2008. The facility is scheduled to be opened in late Summer 2007.

San Antonio River Channel Improvements The River Walk is to be expanded northward from Lexington Street adding approximately 11,000 linear feet (two miles). This mandate, totaling $267,266 in FY 2008, will provide additional personnel for security, landscaping, maintenance, plumbing and electrical work. This will include three Park Police Officers, one Park Police Sergeant, one Landscape Irrigator, one Plumber's Helper, one Gardener II, and one Electrician in FY 2008; one Maintenance Worker in FY 2009; and three Park Police Officers in FY 2010**.** This mandate includes $79,198 in one time costs and incremental costs in following years.

Downtown Visitor Center Maintenance This mandate provides maintenance and operations support for the Downtown Visitor Center being built at the Riverbend Garage that will provide 24-hour public restrooms. This mandate will include the cost of cleaning, security services, utilities, repairs and maintenance for the facility which will commence in spring of 2007. The recurring cost for FY 2007 will be $68,305 with an incremental mandate cost of $68,305 for FY 2008.

Emergency Operations Center This mandate would provide funding for building and maintenance operations for the City and County Emergency Operation Center (EOC) located at Brooks City-Base. The EOC will house and unify City, county, regional, state, and federal departments and personnel for the purpose of gathering, evaluating and distributing critical information and implementing responsive actions in the event of a natural or man-made emergency or disaster. The total cost for building and maintenance operations in FY 2007 would be $272,350. This includes a one-time cost of $7,000 for a building security access system.

Contract Requirements

EMT Certification Pay This mandate would reflect the incremental cost increase for basic Emergency Medical Technician (EMT) training as contractually stated in Article 22 Section 3 of the San Antonio Professional Firefighters Association Collective Bargaining Contract. Effective August 23, 2006, the cost for EMT training increased $48 per employee for the contract with the Texas Department of Health. This training provides testing and continuing education for Firefighters to receive and maintain EMT – Basic Certification. The cost for this incremental increase for FY 2007 is $49,968.

State Representation Services This mandate provides additional one-time funding for State lobbying contracts. Currently, the City of San Antonio contracts with six firms for State representation services for a total amount of $30,300 per month or $363,600 annually. The FY 2006 services budget for State representation services totals $191,257. This mandate provides an additional $172,343 in one-time funds for the two State lobbying contracts for FY 2007 which will terminate on Sept 30, 2007.

Fire Longevity Pay This mandate addresses contractually required increases in pay to compensate for firefighter's years of experience consistent with the San Antonio Firefighters Association contract, Article 13 Section 2. Firefighters receive $96 per year in longevity pay each year that is not a multiple of five. Every five years, a firefighter's base pay is increased by three percent to a maximum of thirty years. For example, a thirty-year veteran would receive an additional payment not to exceed eighteen percent. The cost for longevity for Fire Department personnel in FY 2007 is $293,212.

EMS Longevity Pay This mandate addresses contractually required increases in pay to compensate for firefighter's years of experience consistent with the San Antonio Firefighters Association contract, Article 13 section 2. Firefighters receive $96 per year in longevity pay each year that is not a multiple of five. Every five years, a firefighter's base pay is increased by three percent to a maximum of thirty years. For example, a thirty-year veteran would receive an additional payment not to exceed eighteen percent. The cost for longevity for Emergency Medical Services personnel in FY 2007 is $76,353.

Police Longevity Pay This mandate contractually requires an increase in pay as police officers increase their years of service. The Contract with the San Antonio Police Officers Association (SAPOA) states each officer's base pay shall increase by three percent for each five years of his/her longevity, to a maximum of thirty years. The cost of this mandate would be $770,639 for FY 2007.

Streets Maintenance Program This mandate addresses the added costs for disposal of waste materials generated by street maintenance operations under the terms of the City's solid waste disposal contract. Future projections in costs include an increase based upon the Consumer Price Index (CPI). The increased costs of this mandate will total $12,371 in FY 2007.

Federal/State Law Requirements

Court Interpreters This mandate will add two full-time Court Interpreter positions to perform daily Spanish language interpreting services for Spanish-speaking defendants within the City's Municipal Courts. The Texas Government Code requires that interpreter services be available in the Courts if requested by a party or witness in a civil or criminal proceeding in the court. The cost of this mandate will be $74,599 in FY 2007 for nine months of funding. In FY 2008 the full-year cost of this mandate will be $99,465, an incremental increase of $24,866.

Grant Match Requirements

ReACT Grant Match The Regional Auto Crimes Team (ReACT) program was established to perform proactive Auto Theft Prevention Programs such as conducting salvage inspections, surveillance of high auto theft and recovery areas, and giving seminars to civil groups on auto theft prevention. The base budget cash match for this project is $451,634. The incremental increase to the base cash match was $46,384 for FY 2006. The incremental increase needed for FY 2007 is $24,744. The mandate would cover the increased costs for City personnel and lease charges. The projected incremental increase is $38,651 for FY 2008.

Annexed Areas Service Requirements

Northside and Southside Annexed Areas During FY 2006, the City of San Antonio officially annexed four areas included within its Three-Year Annexation Plan. *Helotes Park Terrace/Park at French Creek* and *Kyle Seale/Loop 1604* were annexed effective December 31, 2005. *Southside Study Areas 1 and 2* were annexed effective January 5, 2006.

Funding in this mandate reflects the second year added incremental operating and maintenance costs for FY 2007 totaling $101,002. Included in this total are the non-personnel costs for full-year funding of various contractual services, EMS overtime, and maintenance supplies. These amounts reflect the needs identified during the FY 2006 Budget Process and will be further analyzed during the FY 2007 Budget Process as affected departments gain additional service delivery experience in the annexed areas.

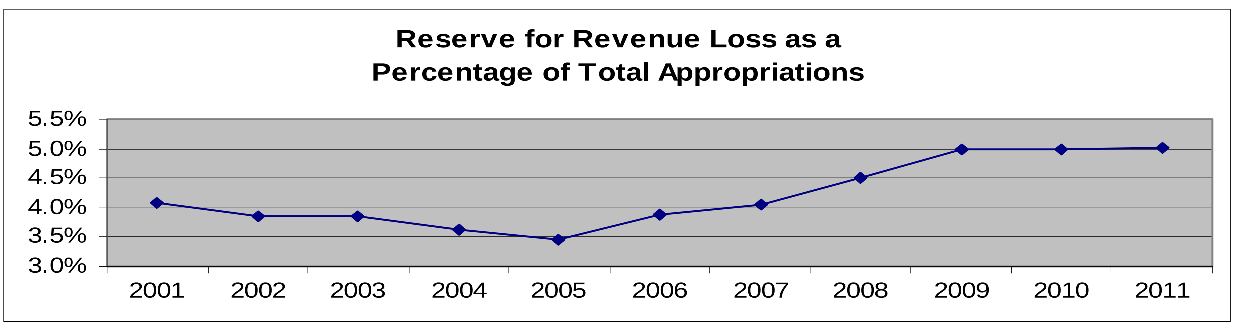
FINANCIAL RESERVE FUNDS

The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management. The FY 2007 – FY 2011 Financial Forecast proposes that new reserves be established with targets for specific levels of funding for each, respectively. To achieve these targets, funding for each of the reserves is proposed to be phased-in over the next five (5) years beginning with FY 2007. Following is a brief description of each reserve and its proposed level of funding:

Reserve for Revenue Loss The City of San Antonio established a Reserve for Revenue Loss in FY 1989. The Reserve was created and maintained each year in order to ensure payment for critical City service deliveries. The City of San Antonio established a goal of maintaining a Reserve for Revenue Loss at 5% of the total General Fund appropriations. The FY 2006 Adopted Budget included an increase in the Reserve for Revenue Loss of $5.0 million resulting in a reserve equal to 3.9% of General Fund Appropriations.

The FY 2007 – FY 2011 Forecast recommends allocating substantial funding to the reserve to reach the 5% goal by FY 2009. Subsequent to FY 2009 the Reserve for Revenue Loss will only require minimal funding to preserve the 5% reserve goal as shown in the tables below.

The Reserve for Revenue Loss should only be used in the event of an unforeseen or extraordinary occurrence such as a natural disaster, catastrophic change in the City's financial position, or the occurrence of a similar event. Funds should only be drawn from the reserve if absolutely necessary to address such an extreme occurrence. In the event reserve funds are utilized, the replenishment of these funds through the next Budget should be a priority.



Fiscal Year	Reserve (in Thousands)	Appropriations (in Thousands)	Percentage of Total	Amount Designated to reserve (in Thousands)
2011	$42,468	$847,300	5.0%	$1,000
2010	$41,468	$829,690	5.0%	$1,300
2009	$40,168	$806,910	5.0%	$5,000
2008	$35,168	$779,040	4.5%	$4,000
2007	$31,168	$769,190	4.1%	$3,000
2006	$28,168	$728,119	3.9%	$5,000
2005	$23,168	$673,171	3.4%	$0
2004	$23,168	$639,441	3.6%	$0
2003	$23,168	$601,387	3.9%	$0
2002	$23,168	$601,111	3.9%	$0
2001	$23,168	$569,317	4.1%	$2,300

Budget Stabilization Reserve Fund As part of an effort to establish and maintain adequate levels of financial reserves, the FY 2007 – FY 2011 Financial Forecast recommends creating a Budget Stabilization Fund in FY 2007. This Fund would assist the City in smoothing fluctuations in available General Fund resources from year to year and stabilizing the budget. Consequently, this fund will be a mechanism to manage resources in the context of recurring and one-time and as such, result in more continuity in service delivery levels.

The proposed target for the Budget Stabilization Reserve Fund is 3% of annual General Fund appropriations. With the FY 2007 budget, it is recommended that a Budget Stabilization Fund in the amount of approximately $15 Million, or 2% of General Fund appropriations, be established through the use of one-time revenues. This $15 Million initial budget stabilization balance will be utilized to meet General Fund requirements in FY 2008. In subsequent years, the Budget Stabilization Fund will be funded with a portion of the balance realized above the amount projected in the adopted budget for that year. Annually, the amount of funding for the Budget Stabilization Fund will be determined with a proposed target of 3% of annual General Fund appropriations.

Budget Stabilization Reserve Fund
FY 2007 - FY 2011
(in Thousands)

Fiscal Year	Amount of Reserve	Appropriations	Percentage of Total
2011	$0	$847,300	0.0%
2010	$0	$829,690	0.0%
2009	$0	$806,910	0.0%
2008	$0	$779,040	0.0%
2007	$15,000	$769,190	2.0%

Contingency Reserve Fund Beginning in FY 2007 the Forecast recommends establishing a Contingency Reserve Fund. Funds will be set aside from the total General Fund appropriations to cover unforeseen expenditures or new service needs that are identified after the Operating Budget has been adopted. The use of these funds will be authorized only after an analysis has been prepared by the City Manager and presented to the City Council that outlines the cost associated with the unanticipated expenditure.

The level of targeted funding annually for the contingency amount is 1% of the General Fund appropriations. On an annual basis, any unused contingency funds will become part of the unreserved fund balance. For FY 2007, a contingency in the amount of $2 Million or 0.3% of General Fund appropriations is proposed. Subsequently, the contingency reserve should reach $8.5 Million or 1% of all General Fund appropriations by FY 2011.

Reserve for Contingency
FY 2007 - FY 2011
(in Thousands)

Fiscal Year	Amount of Reserve	Appropriations	Percentage of Total
2011	$8,500	$847,300	1.0%
2010	$6,500	$829,690	0.8%
2009	$4,500	$806,910	0.6%
2008	$3,000	$779,040	0.4%
2007	$2,000	$769,190	0.3%

Total General Fund – Fund Balance The proposed target for the actual total General Fund – Fund Balance is 15-20% of total General Fund appropriations. This proposed target will be achieved as shown in the following table.

General Fund Financial Reserve Goals	
Type of Reserve	**Percent of Total**
Reserve for Revenue Loss	5% of General Fund Appropriations
Budget Stabilization Fund	3% of General Fund Appropriations
Other General Fund Reserves[1]	2 - 3% of General Fund Appropriations
Unreserved Fund Balance[2]	5 - 10% of General Fund Appropriations

Notes:

[1] The Other General Fund Reserves include Reserves for Encumbrances, Inventories, and Prepaid Expenditures as well as budget designations such as budget carry forwards.

[2] The unreserved fund balance is the accounting amount of fund balance allocated as available for appropriations.

One-Time Revenues As part of the annual budget process, an analysis of revenues will be performed to determine or identify one-time revenues. One-time revenues will be used to fund reserve funds or one-time expenditures whether operating or capital in nature. If unspent at the end of the fiscal year, these funds may be carried forward to future budget years. However, through the carry forward process, these funds should retain their one-time categorization and only fund expenditures which are one-time in nature.

ENVIRONMENTAL SERVICES FUND FORECAST

INTRODUCTION

The Environmental Services Enterprise Fund monitors and records all revenues and expenses associated with the operation and maintenance of the City's Solid Waste and Environmental Services programs. Operations are carried out by the Environmental Services Department. Revenues collected fund various Solid Waste functions including refuse collection, brush collection, recycling programs and collection of household hazardous waste materials. Also funded are various Environmental programs including the environmental risk assessment of City construction projects, property acquisitions and maintenance of closed City landfills. The Environmental Services Department is responsible for the collection of municipal solid waste generated by 330,000 homes within the City of San Antonio. Of these homes, 301,667 are serviced by City crews and 28,333 are serviced by contractors.

Although the City no longer operates active landfills, the City is required to monitor and maintains eight closed landfills that were previously operated by the City. Refuse disposal is currently provided through contractual agreements with private landfill operations. In keeping with this policy, all forecasted costs assume private landfill expenses. The City also contracts with private waste haulers to provide residential collection services to the 28,333 residences that are located in areas acquired through annexation.

For FY 2006, the Environmental Services Department planned and implemented many major City initiatives. The largest of these includes the implementation of the first year of a seven-year plan for automated garbage collection. In FY 2006, 31 new automated garbage trucks have been ordered. The arrivals of 14 trucks are due in September 2006 (FY 2006) and the remaining 17 are due in November 2006 (FY 2007). With the arrival of these new trucks in FY 2006, 15 automated collection routes will be in operation at the close of the fiscal year. By the end of FY 2007, the Environmental Services Department will have a total of 30 automated routes in operation.

Environmental Services Fund Forecast
($ In Thousands)

	FY 2006 Adopted	FY 2006 Estimate	FY 2007 Projection	FY 2008 Projection	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection
RESOURCES							
Beginning Balance	$5	($1,056)	($1,867)	$0	$0	$0	$0
Current Revenue	60,447	60,024	60,775	61,641	62,524	63,419	64,329
TOTAL RESOURCES	**60,452**	**58,968**	**58,908**	**61,641**	**62,524**	**63,419**	**64,329**
EXPENDITURES							
Base Budget	60,450	60,835	66,063	69,254	71,726	74,314	76,935
Mandates (Incremental)	0	0	835	880	824	888	963
Budget Stabilization Reserve (Incremental)	0	0	1,000	1,314	1,314	133	135
TOTAL EXPENDITURES	**60,450**	**60,835**	**67,898**	**71,448**	**73,864**	**75,335**	**78,033**
ENDING BALANCE / ADJ. REQUIRED	**$2**	**($1,867)**	**($8,990)**	**($9,807)**	**($11,340)**	**($11,916)**	**($13,704)**
RESERVES SUMMARY							
Budget Stabilization Reserve	0	0	1,000	2,314	3,628	3,761	3,896
Reserve as a % of Total Expenses	0.0%	0.0%	1.5%	3.3%	5.0%	5.0%	5.0%

ANALYSIS OF REVENUES AND EXPENDITURES

The Environmental Services Forecast Table represents a comparison of projected yearly revenue, projected current services expenditures and reserves, and resulting projected balances in the Environmental Services Fund over the forecast period. The forecast assumes current service delivery, methodologies, and collection frequencies. The remaining balance reflects the difference between beginning balance plus operating revenues less operating expenditures. As part of an effort to establish and maintain adequate levels of financial reserves, the Financial Forecast also includes a Budget Stabilization Reserve. The purpose of this reserve is to stabilize lower than projected revenues and or any unforeseen expenditures.

No increases in the Solid Waste Fee, the Brush Fee, or the Environmental Fee are assumed in the five-year forecast. A shortfall is projected in FY 2007 and continues throughout the forecast period if revenues and/or expenditures are not adjusted. The FY 2007 Proposed Budget will include analysis of FY 2007 proposed collection frequencies, automation implementation, service delivery methods, rate analysis, growth routes, and private sector contracts. This analysis may impact the projected shortfall in FY 2007 and the forecasted period.

REVENUES

The primary sources of revenue for the Environmental Services Fund are the Solid Waste Fee, the Brush Fee and the Environmental Fee. The fees are assessed and billed to the customer monthly within their CPS Energy (CPS) statement whether serviced by the City or a contracted hauling company. The Brush Collection Fee is assessed to each residential household in the City for the collection of brush and bulky items. In addition to residential households, the Environmental Fee is also charged to all commercial entities serviced by CPS. Base Revenues (excluding projected rate increases) are based on an estimate reflecting a 1.50% average annual rate of growth in homes beginning in FY 2007 and continuing through each year of the forecast period. The forecast assumes estimated revenues for FY 2006 as the starting point.

Below is a five year history of the monthly rates associated with the Environmental Services Fund:

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Solid Waste Fee	$9.20	$9.71	$9.71	$9.71	$10.16
Brush Collection Fee	1.20	1.20	1.20	1.20	2.53
Environmental Fee	1.30	1.30	1.30	1.30	1.30
Total	**$11.70**	**$12.21**	**$12.21**	**$12.21**	**$13.99**

The FY 2006 rate reflects a 14.6% increase (or $1.78 per month increase) from the FY 2005 rate.

During the past several years Environmental Services' revenues have remained static while expenditures have steadily increased. Consequently, in FY 2006 the Environmental Services' Enterprise Fund began to operate on a deficit of over a million dollars. Major expenses contributing to this deficit included increased costs for temporary labor, disposal, fleet costs for maintenance and repairs, fuel costs, and capital equipment. Additionally in FY 2006, revenues are not expected to meet projected amounts, thus increasing the beginning FY 2007 deficit to approximately $1.9 million.

In order to address the projected deficit in FY 2007, new rate increases are being evaluated for FY 2007 and through the forecasted period. These estimated rate increases are reflected in the following table:

FY 2007 Financial Forecast Estimated Monthly Rate Increases

FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Actual	Estimated	Estimated	Estimated	Estimated	Estimated
$ 1.78	$ 2.29	$ 0.21	$ 0.38	$ 0.14	$ 0.43

In the FY 2006 Adopted Budget, rates were projected to increase by $0.27 in FY 2007. This newly adjusted rate of $2.29 in FY 2007 is needed to correct the negative ending balance and establish a budget stabilization reserve.

The above rate increases above assume current service delivery, methodologies, and collection frequencies. For the FY 2007 Proposed Budget, an analysis of options will be conducted to evaluate the preferred recommendation of rate increases and/or service changes to align revenues within their service delivery costs.

BASE BUDGET EXPENDITURES

This section of the Forecast projects expenditures based on the current services level. The FY 2007 target budget assumes the removal of the one-time improvements included in the FY 2006 Adopted Budget and adjusts for costs annually modified for price changes.

The inflation rates used to project non-personal services expenditures were derived from the national Consumer Price Index (CPI) projections for each year from 2008 through 2011. These rates and their underlying assumptions were described in the Economic Perspective & Outlook section.

Below are the assumed inflation rates for each year of the forecast period:

FY 2008	FY 2009	FY 2010	FY 2011
2.53%	2.30%	2.30%	2.30%

MANDATES

The Environmental Services Fund Mandates Table summarizes the projected mandates for the Environmental Services Fund. Each of the mandated increases in service costs will be detailed in the following pages. The mandated costs shown below are included in the Five Year Forecast Projections.

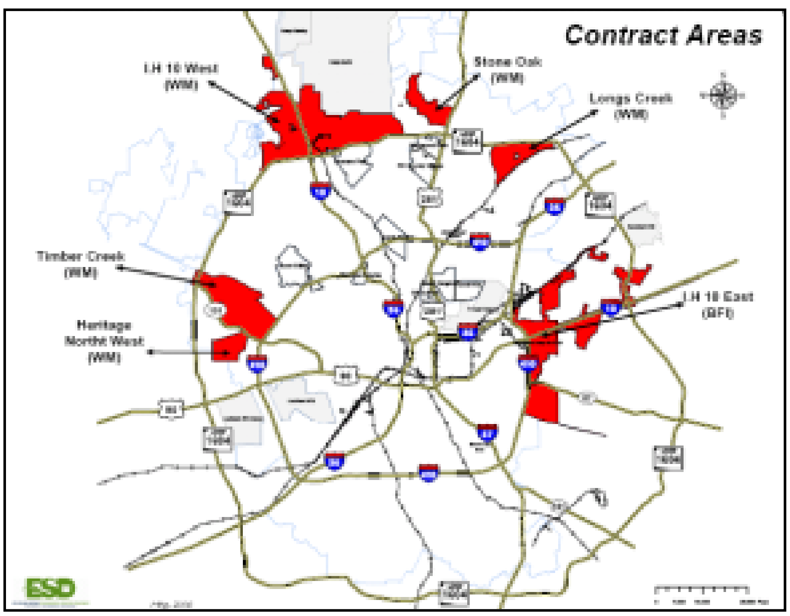
Environmental Services Fund Mandates
-Expenditures Shown Incrementally-
(In Thousands)

Service Delivery Plan	Mandate Title	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Contractual Requirement	Collection Contracts (Recurring)	$179	$63	$30	$14	$0
Contractual Requirement	Disposal Contracts (Recurring)	467	618	585	655	734
Contractual Requirement	Mo. Billing & Coll. Srvcs. (Recurring)	189	199	209	219	229
	TOTALS:	$835	$880	$824	$888	$963

Solid Waste Private Sector Collection Contract Increases

Solid Waste collection contracts that the City holds with the private sector are scheduled for mandated price increases based on contract requirements. The Environmental Services Department contracts with private sector companies to provide solid waste collection services. These contracts contain certain provisions calling for automatic fee increases in accordance with the Consumer Price Index (CPI). The City currently has private sector solid waste collection contracts with Waste Management (WMI) (consisting of five collection contracts) and Allied Waste/Browning Ferris Industries (BFI) (consisting of one collection contract). The Contract Areas Map indicates the six City areas that are serviced by the private sector. The six areas referenced below were annexed into the City of San Antonio under prior annexation plans. Dependant upon price efficiency, the City's procedure has been to either collect solid waste in the annexed areas or to contract with private contractors to collect on the City's behalf. The six collection contracts for these areas were awarded to private companies based on the determination that the cost of privatization was more efficient than the cost of the Environmental Services Department to provide the same service. As an example, a private contract for an area in the Great Northwest neighborhood came due at the end of March 2006. The City issued a Request for Bid (RFB), and the resulting private contractor bids came in with higher rates than the previous rate. It was then determined that the rate for service provided by the Environmental Services Department was less than that of the contractor bids, and Environmental Services began servicing the area.

The six collection contracts are estimated to increase due to inflation set forth by the CPI in the amount of $178,538 in FY 2007. A table showing forecasted monthly rate increases per household can be found on the following page.



Expiration of Contracts

Within the last twelve months, escalating costs in fuel, employee related benefits, and equipment costs have negatively impacted private solid waste contractors. During the latter part of FY 2005, rates for their services began to increase dramatically as contractors tried to recover their costs. These increasing costs have also affected the rates of the Environmental Services Department in providing their services.

As shown in the table below, in FY 2007 three contracts will expire on December 31, 2006. These contracts represent approximately 12,000 homes. The Environmental Services Department plans to prepare for the expiration of these contracts by issuing a Request for Bid (RFB) early this summer in order to anticipate contractors' increases. Once all Bids have been submitted, the Department will then determine whether it can provide services at a lower cost than the submitted bids. Should the Environmental Services Department determine that its rates for providing services for the contracted areas would be less than the contractors' bids, the Department will request appropriate funding in FY 2007 for equipment and personnel to take over the contracted areas. This added equipment and personnel may require added cost to the projected rate increases described in this forecast.

Solid Waste Private Sector Garbage Collection Services
Projected Contracted Rates/Expiration Dates

Contracted Company	Contracted Areas	Current Contracted Rates (Monthly per Household)	Contracted Rates/Expiration Dates				
			FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
WMI	IH 10 West	10.61	31-Dec				
WMI	Timber Ridge	9.13	31-Dec				
BFI	IH 10 East	8.29	31-Dec				
WMI	Heritage	9.74	10.10	31-Dec			
WMI	Longs Creek	9.28	9.62	31-Dec			
WMI	Stone Oak	10.85	11.25	11.81	12.25	31-Dec	

Disposal Contract Increases

Disposal contracts are scheduled for mandated price increases based on contract requirements. The Environmental Services Department contracts with companies providing for refuse disposal, and these contracts contain certain provisions calling for automatic fee increases in accordance with the Consumer Price Index (CPI). The Environmental Services Department currently has disposal contracts with Waste Management (WMI), Allied Waste/Browning Ferris Industries (BFI), and Texas Disposal Systems Landfill, Inc. (TDSL). The incremental cost for these mandated increases is $467,219 in FY 2007.

The following table describes the disposal contracts in more detail:

Company Ownership	Landfill Name	Term	Contract Beginning Date	Contract Ending Date
WMI	Covel Gardens Landfill	30 yrs	1995	2025
BFI	Tessman Landfill	20 yrs + seven one yr extensions	1998	2018
TDSL	Starcrest Transfer Station	32 yrs + five one yr extensions	1993	2025

Increases to the Billing and Collection Expense

The fees for collection services currently provided by CPS Energy associated with the monthly billing and collection of the Solid Waste, Brush and Environmental Fees are scheduled for a mandated increase based on contract renewal requirements. All collection costs will increase based on the Consumer Price Index (CPI) and to offset postage rate increases set by the U.S. Postal Service. The total cost of this mandate is $189,000 in FY 2007. The City currently has two Route Analysts to conduct audits of Solid Waste collection routes and to ensure that revenues are received for all services rendered.

Growth Routes

In addition to the prospect of picking up expiring contracted areas in FY 2007, the Environmental Services Department will need to expand its services in response to City growth. As the City grows, more households need to be serviced. The Environmental Services Department projects that, based on information from the City's Planning Department, San Antonio will grow at a rate of 1.5%. Using these estimates, additional routes for growth will result in the need for two garbage collection routes and one recycling route in FY 2007. The last time a growth route was added was in FY 2006. If additional growth routes are added, this may require added cost to the projected rate increases described in this forecast.

Cleaner Fuel Burning Engines

Beginning in 2007, new cleaner fuel burning engines will begin to be built by manufacturers of garbage collection trucks. The 2007 engines will contain an EGR (exhaust gas recirculation) system which will return hot exhaust gases to the engine. The engines will also contain PM (particulate matter) filters used to trap particles and reduce the amount introduced into the atmosphere. The City will begin to purchase these vehicles in 2007. To-date there has been no 2007 cleaner fuel burning engine models built, and therefore there has been no definitive price increase announced for the engines. Manufacturers are estimating that once the 2007 cleaner fuel burning engines are built, the increased incremental cost over the current engines will amount to between $5,000 and $10,000 per engine. Any additional incremental costs are hard to identify at this time, but may include the cost of more frequent filter changes and alternative oil types.

Ultra Low Sulfur Diesel (ULSD)

Ultra Low Sulfur Diesel (ULSD) is a new Environmental Protection Agency (EPA) standard requiring the lowering of sulfur content in diesel fuel sold in the United States beginning in 2006. This standard will apply to all diesel fuel sold for use in on-road vehicles. The future allowable 15 ppm sulfur content is a fraction of the previous U.S. standard allowing 500 ppm. This change results in numerous benefits including the reduction of particulate matter emissions by 10%, lessening the incidence of sulfur corrosion of engine components, lowering the acidity levels of engine lubricants, and enabling the use of emissions control technology previously incompatible with higher sulfur content fuels. A federal mandate requiring the use of USLD is scheduled to begin nationwide on October 1, 2006. Due to proactive efforts on part of the City to curb toxic emissions, 100% use of ULSD compliant fuel at all City fueling dispensing locations was implemented January 1, 2005. The incremental cost in moving to the new fuel in FY 2005 was an increase of $0.11 per gallon. By continuing the use of pre-mandate compliant USLD fuels, the City should not experience further incremental cost differences for diesel fuel for FY 2006 to FY 2007 that are due to changes in price per gallon for ULSD. Currently, the City's requirements for USLD fuel are being supplied under a contract with Valero providing Texas Low Emissions Diesel (TxLED) which is a ULSD fuel.

Energy Conservation

The Environmental Services Department continues the work of updating the energy plan for the City of San Antonio. The City has utilized its strong partnership with CPS Energy to provide the City with a comprehensive energy audit of 36 City facilities. First step efforts have consisted of energy audits of City facilities to include light fixture retrofits, heating/air/ventilation retrofits, and building energy management control systems. This summer, CPS staff will complete their recommendations for building upgrades and will assist the City with the procurement process and provide rebate processing.

The City has also utilized the expertise of CPS Energy to design an energy conservation ordinance for the City of San Antonio. The energy ordinance will help to place energy conservation at the forefront of the City's priorities. The ordinance will adopt the most up-to-date International Energy Code and incorporate a high performance building standard for all new City facilities. This ordinance is anticipated to be adopted in late FY 2006.

COMMUNITY AND VISITOR FACILITIES FUND FORECAST

INTRODUCTION

The Community and Visitor Facilities Fund was established in FY 2004 to account for revenues and expenditures generated from all convention, tourism, sports and entertainment related activities. In order to increase efficiency, the Community and Visitor Facilities Fund combines the resources of the Alamodome, Nelson W. Wolff Stadium, Hotel Occupancy Tax (HOT) and Convention Facilities to fund the operations of the Alamodome, Wolff Stadium, Convention Facilities, Convention and Visitors Bureau, Cultural Affairs Office, and the protocol unit of the International Affairs Department. The fund also supports various visitor related activities such as maintenance of the Riverwalk, HemisFair Park, and La Villita through a transfer of a portion of its HOT revenues to the General Fund under History and Preservation.

Community and Visitor Facilities Fund Forecast
($ In Thousands)

	FY 2006 Budget	FY 2006 Estimate	FY 2007 Projection	FY 2008 Projection	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection
RESOURCES							
Beginning Balance	2,976	3,549	5,137	2,374	991	1,809	3,555
Current Revenues							
Hotel Occupancy Tax Revenue	40,954	44,237	47,138	50,128	53,404	56,492	59,758
Other Revenue	17,509	18,406	15,142	15,425	15,848	16,153	16,591
TOTAL RESOURCES	**61,439**	**66,191**	**67,417**	**67,927**	**70,244**	**74,454**	**79,903**
EXPENDITURES							
Base Budget	59,319	61,054	62,171	64,540	66,062	68,038	70,089
Arts and Cultural Program Funding (Incremental)			835	359	393	370	392
Mandated Service Delivery Costs			737	837	680	591	75
Convention Center Expansion Study			100	0	0	0	0
Budget Stabilization Reserve			1,200	1,200	1,300	1,900	3,000
TOTAL EXPENDITURES	**59,319**	**61,054**	**65,043**	**66,936**	**68,435**	**70,899**	**73,556**
ENDING BALANCE / ADJUSTMENT REQUIRED	**2,120**	**5,137**	**2,374**	**991**	**1,809**	**3,555**	**6,347**
RESERVE SUMMARY							
Budget Stabilization Reserve*	0	0	1,200	2,400	3,700	5,600	8,600
Budget Stabilization Reserve as a % of Total Expenses	0.0%	0.0%	1.9%	3.7%	5.5%	8.1%	12.2%

* Goal is to achieve a Budget Stabilization Reserve equal to two months of Operating Expenses

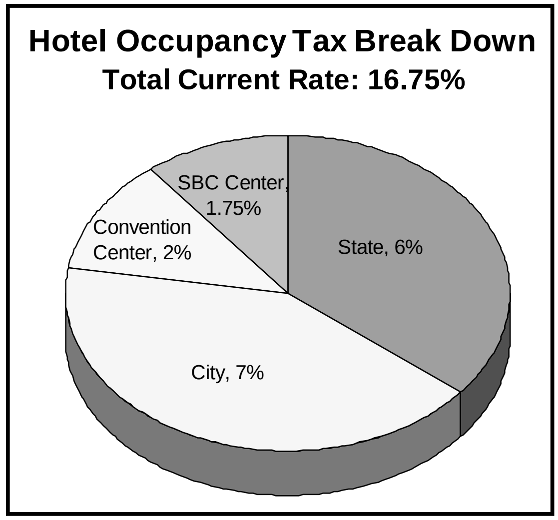
ANALYSIS OF REVENUES AND EXPENDITURES

The Community and Visitor Facilities Forecast Table represents a comparison of projected yearly revenue, projected current services expenditures, projected mandates and resulting projected balances in the Community and Visitor Facilities Fund over the forecast period. The ending balance reflects the difference between beginning balance plus operating revenues and operating expenditures. One goal of the Community and Visitor Facilities Fund (CVF) is to achieve a reserve for revenue loss equal to $8.6 million within five years. This represents an estimated two months of operating expenses as a reserve against unforeseen disruptions in revenue flow and/or unanticipated price spikes.

As shown in the above table, there are no projected shortfalls in FY 2007 through FY 2011. However, it should be noted that the expenditures projections for the fund do not factor in any potential improvements in the calculation of required adjustments.

REVENUES

The CVF Fund is comprised of revenue from the HOT, Convention Center, Municipal Auditorium, Alamodome and Wolff Stadium.



The current Hotel Occupancy Tax rate of 16.75% levied on every room night charge is comprised of 6% for the State, 7% for the City, 2% for the Convention Center Expansion Debt Service and future Convention Center Projects and 1.75% for the SBC Center arena.

HOT revenue projections are based upon an analysis of anticipated lodging demand, projected number of room nights sold, projected average daily room rates, estimated hotel room supply, and the projected inflation rate discussed in the Economic Perspective & Outlook section of the forecast.

HOT revenue is estimated to be $44.24 million for FY 2006, which is 10.3% higher than the FY 2005 actual collections. HOT revenues are projected to increase at annual rates of 6.6% (FY 2007), 6.3% (FY 2008), 6.5% (FY 2009), 5.8% (FY 2010) and 5.8% (FY 2011) during the forecast period years. The primary reason for the current year growth in HOT revenue is the continued strength in local convention business which is up approximately 4% over the prior year. Additionally, leisure travel continues to support the overall growth as San Antonio is the number one leisure destination in Texas.

The dedicated 2% HOT collection of revenues for the Convention Center Expansion is recorded within a separate fund and is not reflected in HOT revenue projections within the CVF fund. However, should an event occur which would slow the collection of the 2% tax to the extent that the costs of the Convention Center Expansion debt could not be covered, such as the unlikely onset of a severe economic downturn, the City would be required to transfer up to 5.25% of all HOT collections from the CVF Fund to support the Convention Center Expansion shortfall. Such a transfer would only occur should the anticipated 2% dedicated tax revenue stream not produce the expected revenue amounts.

The primary sources of revenue for the Convention Center and Municipal Auditorium are facility rentals, catering commissions, reimbursable expenses, and various event-related fees.

The primary sources of revenue for the Alamodome and Wolff Stadium are facility rentals, food and beverage concessions, parking revenue, reimbursable expenses, and various event-related fees. Revenues for both facilities are based on event mix projections for each of the years in the forecast period.

The forecast for the Community and Visitor Facilities Fund assumes an estimate of revenues for FY 2006 as the starting point.

BASE BUDGET EXPENDITURES

This section of the Forecast projects expenditures based on the current services level. The FY 2007 target assumes the removal of the one-time improvements included in the FY 2006 Adopted Budget and adjusts for costs annually modified for price changes.

The inflation rates used to project non-personal services expenditures were derived from the national Consumer Price Index (CPI) projections for each year from 2008 through 2011. These rates and their underlying assumptions were described in the Economic Perspective & Outlook chapter. Shown below are the assumed inflation rates for each year of the forecast period:

FY 2008	FY 2009	FY 2010	FY 2011
2.53%	2.30%	2.30%	2.30%

MANDATES

CVB Hosting Obligations This mandate will fund costs associated with the annual contractual obligations incurred by the departments of the CVF Fund to support major conventions, meetings and/or events. Every year the departments negotiate with various nationally prominent organizations to successfully ensure the selection of San Antonio as the destination for their annual meetings, conventions and/or special events. Some of the events currently planned for FY 2007 include the Southern Baptist Convention, IBM Conference, and the Texas Music Educators Association. In FY 2007, these hosting obligations are estimated to be $386,215. According to Convention and Visitors Bureau (CVB) analysis, total convention delegates scheduled for FY 2007 are expected to spend more than $450 million in San Antonio.

NCAA Event Hosting Obligations The City of San Antonio will host several sports events with the National Collegiate Athletic Association (NCAA). In 2007, the City will contribute $350,500 towards hosting the Men's Regional Basketball Championship. The highlight event will occur in 2008 when San Antonio will host the NCAA Men's Final Four Basketball Championship with an expected contribution of $426,500 coming from the City. Finally, the 2010 Women's Basketball Championship will also be hosted by San Antonio with a projected hosting obligation of $158,500. All of these costs are associated with contractual obligations to the NCAA to support meetings and events, pipe and drape, electrical expenses for each event, seating and signage.

Community and Visitor Facilities Fund Mandates
-$ In Thousands-
-Expenditures Shown Incrementally-

Department	Mandate Title	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Convention & Visitors Bureau	Hosting Obligations (one-time)	$ 386	$ 410	$ 680	$ 432	$ 75
Alamodome	NCAA Hosting Obligations (one-time)	351	427	0	159	0
	TOTALS	**$ 737**	**$ 837**	**$ 680**	**$ 591**	**$ 75**

POLICY ISSUES

San Antonio Symphony The San Antonio Symphony was created in 1939 by conductor Max Reiter, former conductor of the symphony orchestra of Milan. The symphony, which performs in the historic Majestic Theatre, is currently led by Larry Rachleff who has served as the group's music director since 2002.

Because of its importance to performing arts in the City, the San Antonio Symphony receives City funding in order to maintain financial viability. In FY 2003 and FY 2004, the symphony received $352,000 from the Community and Visitor Facilities Fund. In FY 2005, the symphony received $320,000 from the General Fund and $80,000 from the Aviation Fund for performing within Aviation Facilities. In FY 2006, the symphony received $400,000 in the form of a one time commitment from the City's General Fund.

For FY 2007, the Symphony is seeking funding through a competitive process administered by the Office of Cultural Affairs. Future funding sources for the Symphony include the Community and Visitor Facilities Fund, the City's General Fund or a combination of the two.

San Antonio Symphony Five Year Funding History
($ In Thousands)

Funding Source	FY 2002	FY2003	FY2004	FY2005	FY2006
General Fund	$ 0	$ 0	$ 0	$ 320	$ 400
Aviation Fund	0	0	0	80	0
CVF Fund	512	352	352	0	0
Total	*$ 512*	*$ 352*	*$ 352*	*$ 400*	*$ 400*

Arts Funding Through HOT revenues, San Antonio is able to fund art and cultural programs and agencies across the City. The Texas State Tax Code requires that not more than 15% of City HOT revenue go towards arts and cultural programs. Historically, the City of San Antonio has given approximately 10% of Hotel Occupancy Tax monies to arts and cultural programming. However, for FY 2006 the City Council approved an increase in funding to 12%.

Art program funding is distributed on a competitive basis and is managed by the City's Office of Cultural Affairs. There are three funding programs that agencies can apply for: the General Operating Program, Project Funding Program and Neighborhood Arts Program. In order to qualify for the General Operating Program, the agency must have a budget of over $50,000 and meet a designated matching requirement. Whereas the General Operating Program has a two year funding cycle, the Project Funding Program has a funding cycle of only one year and is intended to help smaller agencies with special events or projects. The Neighborhood Arts Program is money that is tied to a specific project in a specific neighborhood. A review committee is established which judges each competing art agency on its artistic merit, community involvement, financial position and marketing ability.

Contributions to Art & Cultural Agencies Five Year History
($ In Thousands)

Budget FY 2002	Budget FY 2003	Budget FY 2004	Budget FY 2005	Budget FY 2006
$2,401	$2,401	$2,329	$2,329	$3,149

Cultural Collaborative A recent economic impact study revealed that San Antonio's creative industry is a $1.2 billion economic engine employing nearly 10,000 people. This places the creative industry alongside other important sectors of the city's economic roster. The primary aim of The Cultural Collaborative: A Plan for San Antonio's Creative Economy (TCC) encompasses the entire spectrum of San Antonio's creative economy—nonprofit arts and cultural organizations, creative businesses, and creative individuals. TCC's 38 strategies, to be implemented over the next nine years, support the growth and recognition of the creative economy by 1) providing greater access to arts and culture to residents, 2) promoting the economic growth of the creative sector, 3) increasing awareness of the role and value of art and culture, 4) strengthening our unique and diverse culture, heritage, and architecture, and 5) developing increased resources of all types. The strategies are prioritized but not fixed and some are recurring such as arts funding and program support. Some strategies are one-time expenditures and some require existing resources. The economic impact study was conducted in FY 2005 and the implementation of TCC's strategy began in FY 2006 with a first year cost of $1.32 million. This included an $819,000 increase for arts funding. The Cultural Collaborative's cost in 2007, subject to funding availability, is projected to be $1.07 million which will also includes arts funding.

Convention Center Expansion The Henry B. Gonzalez Convention Center (HBGCC) plays host to more than 300 events each year with over 750,000 convention delegates from around the world. The HBGCC, once built as part of the 1968 HemisFair, has undergone two major expansions, one in 1988 and another in 1999, resulting in a total 440,000 square feet of exhibit and meeting space. In 2004, the San Antonio Water Systems (SAWS) Building located between Commerce and Market Streets was acquired to provide space for potential future expansion. Additionally, the City's Convention Center is anticipated to benefit from the 1,000 room headquarter hotel scheduled for opening in February 2008. An expansion study totaling $100,000 will be commissioned in 2007 and will determine the cost and timeline for creating any future convention center expansion.

ECONOMIC PERSPECTIVE & OUTLOOK

OVERVIEW

A forecast of the City's finances recognizes that the City's fiscal health is directly linked to the success of the local, national, and global economies. In light of this relationship, the fiscal projections provided in this document are based, in large part, upon an analysis of historical and current economic trends. The historical data and forecast projections are provided by governmental and private organizations. This section provides projections for the local and national economies, which support the fiscal projections presented in this document.

Comparing national and local economic data offers a broader picture of San Antonio's performance in relation to the United States. This allows policy makers the ability to plan for and execute short and long term programs and projects while taking into account potential threats or upsurges on the national front. Comparing the micro and macro economies shows that, while San Antonio leads in certain economic indicators, it lags behind in others. San Antonio is ranked 180th in Per Capita Income out of 360 Metropolitan Statistical Areas (MSA) and falls below the national average. However, San Antonio has steadily grown closer to the national average and finds itself just below the national unemployment rate for the current year as well as for the forecasted periods. San Antonio also boasts low living and business costs, currently at 90 and 92 percent of the national average.

The following sections give further analysis to these and other key trends and indicators. They are organized by three main categories: Employment, Production & Inflation, and the San Antonio Economy. The Employment section includes Per Capita Income, Employment, and Unemployment figures. The Production & Inflation section includes national economic factors such as Gross Domestic Product (GDP), Consumer Price Index (CPI) and Municipal Cost Index (MCI). The final section provides an overview of San Antonio's economy, including local economic indicators such as population, Housing Price Index (HPI), building activity, hotel room nights sold and enplanements.

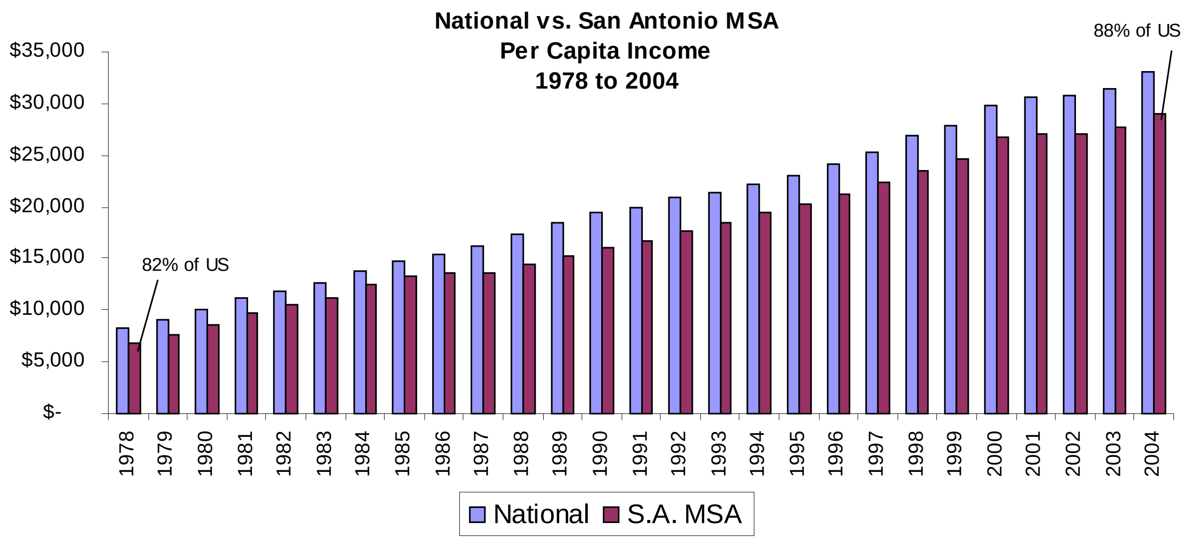
Throughout the Economic Perspective & Outlook section, San Antonio is frequently referred to as a Metropolitan Statistical Area or MSA. The general concept of a metropolitan area is that of a large population nucleus, together with adjacent communities, having a high degree of social and economic integration with that core. The U.S Office of Management of Budget (OMB) has defined the San Antonio Metropolitan Statistical Area as the combination of the following counties: Atascosa, Bandera, Bexar, Comal, Guadalupe, Kendall, Medina and Wilson.

EMPLOYMENT

Per Capita Income

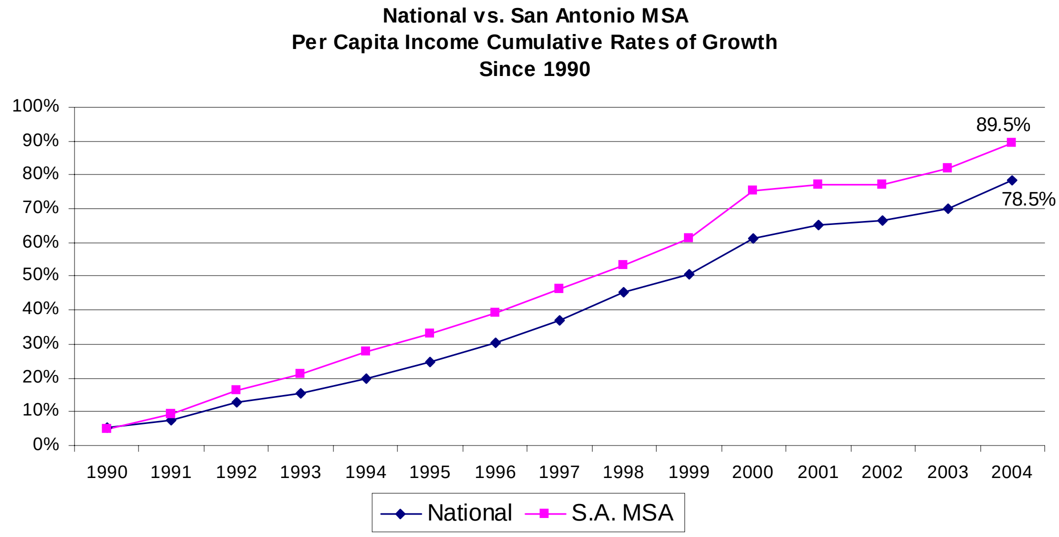
Per capita income measures the total personal income of an area divided by the total population of that area. Total personal income can include, but is not limited to, salary and wages, investment and retirement plans as well as government transfers such as social security payouts and unemployment compensation.

The following chart compares the San Antonio Metropolitan Statistical Area (MSA) per capita income growth to national per capita income growth. The figure below provides this comparison from 1978 to 2004 (2004 is the latest year that national and local per capita income data is available from the U.S. Bureau of Economic Analysis). As can be seen from the chart below, the local per capita income has remained close to the national level and as a percentage has come closer to the national average over the years. In 1978, San Antonio's per capita income was $6,757 compared to the national per capita income of $8,245. By 2004, local per capita income was $28,946 compared to $33,050 at the national level.



Source: U.S. Bureau of Economic Analysis

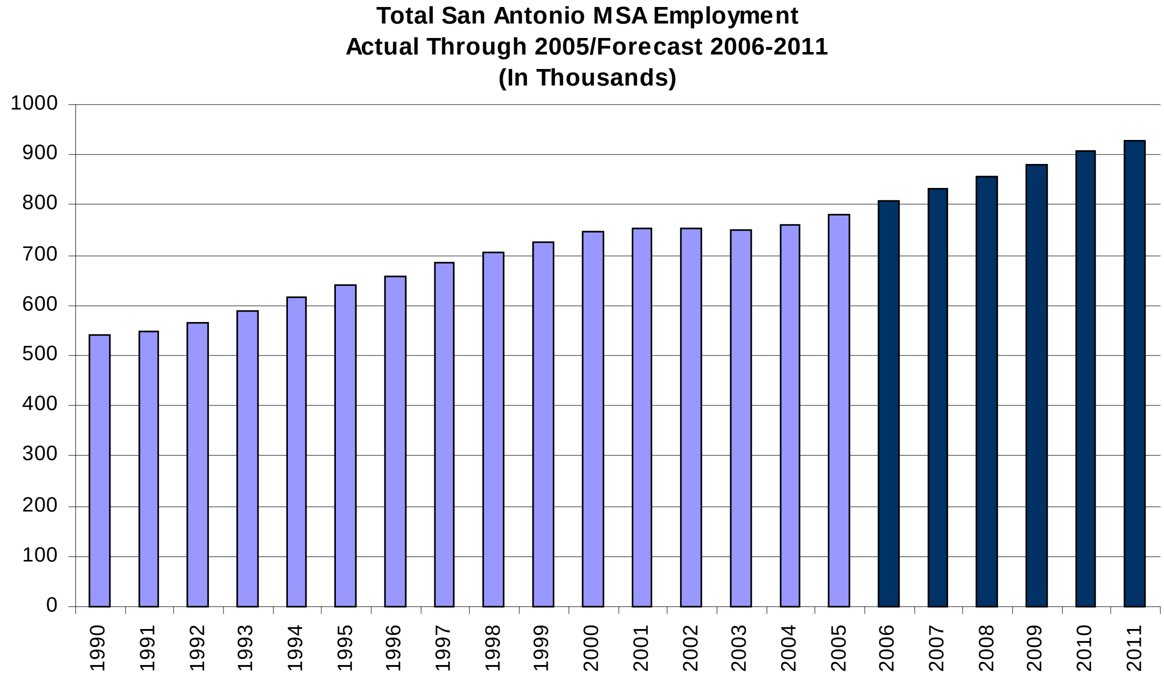
As a percentage, San Antonio's average per capita income in 1978 was 82 percent of the national per capita income. In 2004, however, San Antonio's average per capita income was 88 percent of the national average. Furthermore, San Antonio's cumulative rate of growth since 1990 has exceeded the U.S. economy as a whole thereby closing the per capita income gap. Since 1990, San Antonio has seen a cumulative rate of growth of nearly 90 percent while the U.S. has grown almost 79 percent—a difference of 11 percent—as shown in the figure below.



Source: U.S. Bureau of Economic Analysis

One of the major economic indicators of a region is the total employment level. Increases in the total number employed in a particular region can be attributed to either job creation from within the area or the migration of jobs to the region.

The figure below provides an analysis of the past history of San Antonio MSA employment along with projections from 2006 through 2011.



Source: Actual data from U.S. Bureau of Labor Statistics. Projections from Moody's Economy.com

From 2001 to 2002, the U.S. employment experienced a decline in total employment growth, decreasing by more than 1.1 percent while San Antonio grew slightly at 0.11 percent, showing resilience during this recessionary period.

The sluggish economy continued through 2002 to 2003. National employment saw an overall decrease in employment of which San Antonio was a part. Total local employment decreased by 2,800 jobs, a decrease of 0.37 percent from the previous year, while the national economy decreased by 0.27 percent reflecting weakness in both the national and local economies.

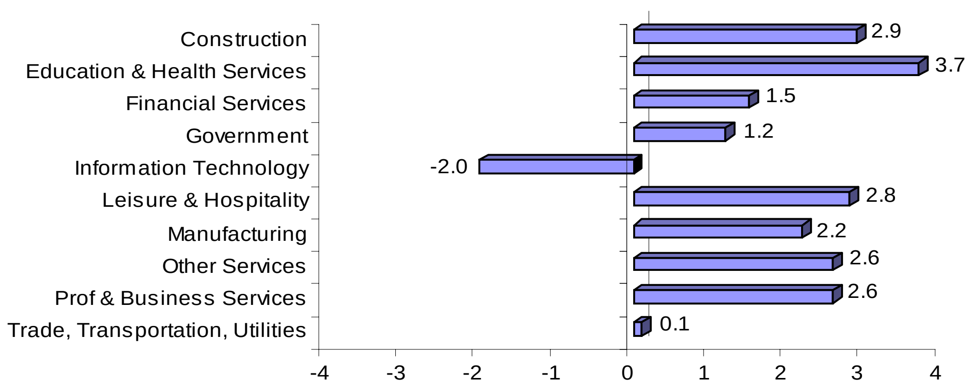
Since 2004, San Antonio has seen increased employment numbers and has continued to outpace the national economy as a whole with an increase of 8,700 jobs or 1.16 percent in 2004 and an increase of 19,900 jobs or 2.62 percent in 2005. Moody's forecasting services anticipate that robust local employment growth will continue through the next few years including employment growth rates of 3.72 percent in 2006 and 2.92 percent in 2007 largely due to the initiation of operation at the new Toyota manufacturing facility and suppliers.

Booming federal defense dollar spending is a key support to growth in the San Antonio economy. More importantly, the City of San Antonio has emerged as a key defense manufacturing and outsourcing center moving beyond its traditional role as home to a large military presence. New data shows that San Antonio now receives significantly more in procurement money than in wages and salaries from the Pentagon. This represents a key turning point. The growth at Fort Sam Houston is estimated to exceed 13,000 new jobs and $1.5 Billion in construction projects over the next four to five years. The latest Base Realignment and Closure (BRAC) proposal will also bring a net 3,600 new jobs to the metro area in the next five years. The expansion of the Texas Cryptology Center currently located at Lackland Air Force Base will accelerate high-paying, technology-intensive jobs. Finally, San Antonio is slated to deepen its military-healthcare connections with the new center of excellence at Fort Sam Houston. The broader military-defense industry will drive growth in San Antonio.

Employment Sectors

San Antonio MSA has experienced an increase in nearly all major employment sectors within the past year. As shown in the figure below, those sectors that have seen the highest percentage growth include Education and Health Services (3.7%) and Construction (2.9%).

Employment Growth by Sector
% change from April 2005 to April 2006

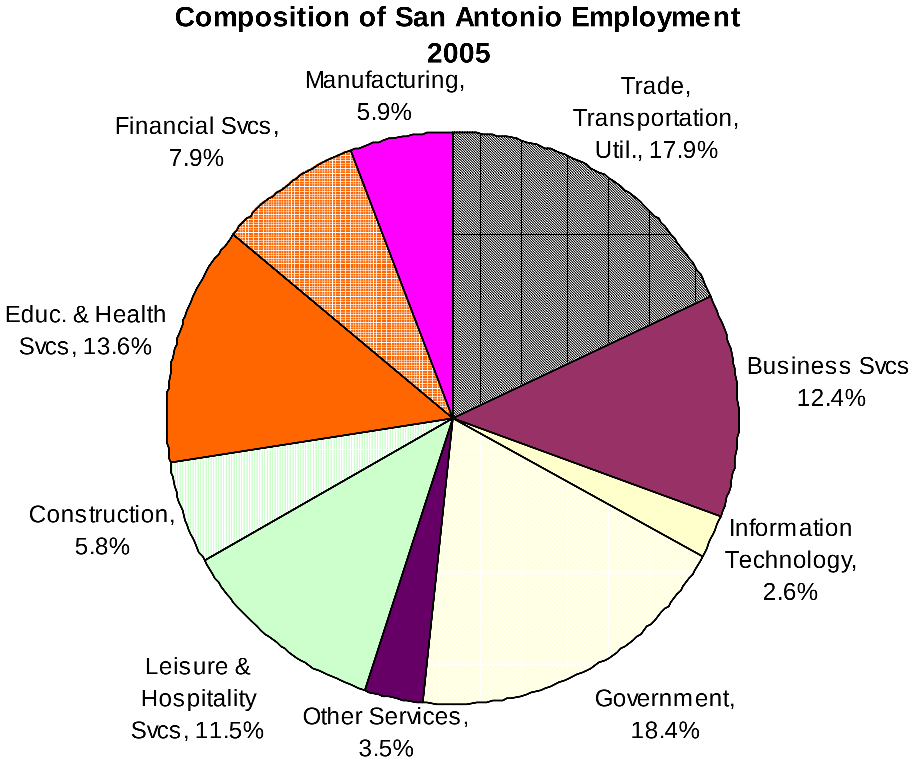


Source: Actual data from U.S. Bureau of Labor Statistics & Texas Workforce Commission

Growth in the financial services has slowed over the past year, partly due to strong growth in 2004. At the same time, the finance industry is benefiting from expansions at USAA and local banks looking to capitalize on local demographic growth.

The booming construction activity and soaring defense spending mask ongoing and upcoming weakness in the local information technology sector. As home to former SBC and now AT&T, the metro area has been steadily losing telecom service jobs since 2000. According to Moody's forecasting services, information technology payrolls have shrunk by 20 percent since their peak in late 2000.

The following chart shows employment by sector for San Antonio for 2005.



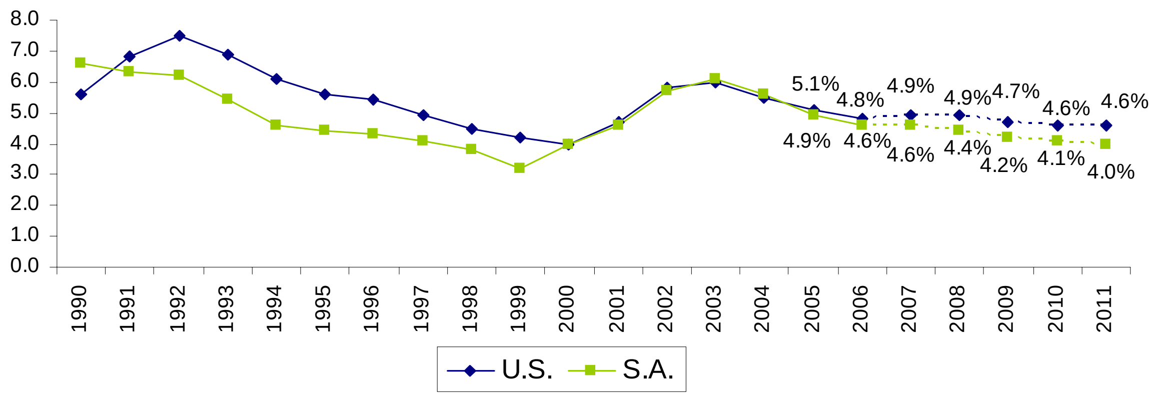
Source: U.S. Bureau of Labor Statistics & Texas Workforce Commission

Unemployment Rate

The **unemployment rate** represents the number of unemployed persons as a percent of the labor force. The level of national unemployment, shown in the following figure, has decreased sharply from the rate in 2003 of 6.0 percent. Since then, the national unemployment rate has decreased to 5.5 percent in 2004 and 5.1 percent in 2005.

Local unemployment has closely mirrored the national unemployment rate, peaking at 6.1 percent in 2003 largely due to job reductions occurring in technical and financial service industries locally. Since 2003, however, local unemployment has steadily decreased to 5.6 percent in 2004 and 4.9 percent in 2005. As the national economy improves and as automobile, financial and other supporting industries come on line, the local unemployment rate is expected to stabilize in each year beyond 2006 through 2011.

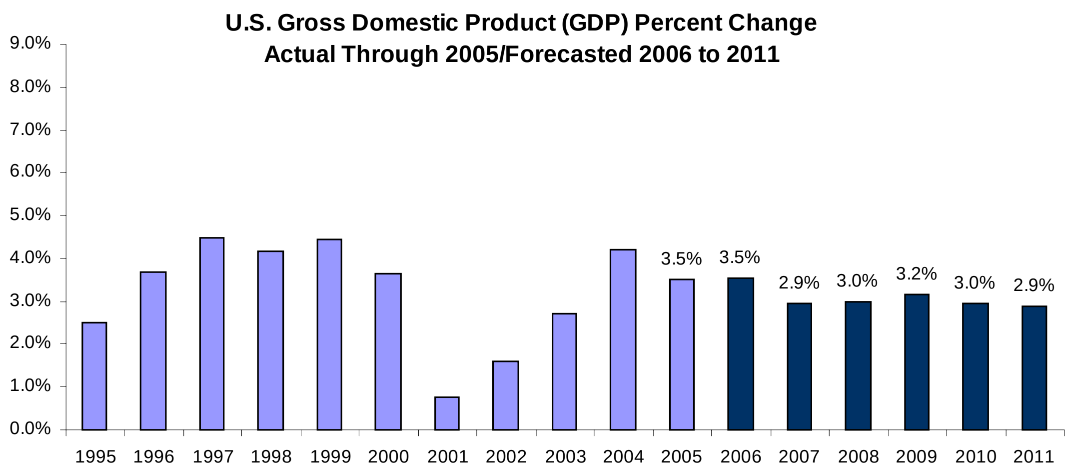
San Antonio MSA vs U.S.
Unemployment Rate
Actual Through 2005 / Forecasted 2006 to 2011



Source: Actual data from U.S. Bureau of Labor Statistics. Projections from Moody's Economy.com

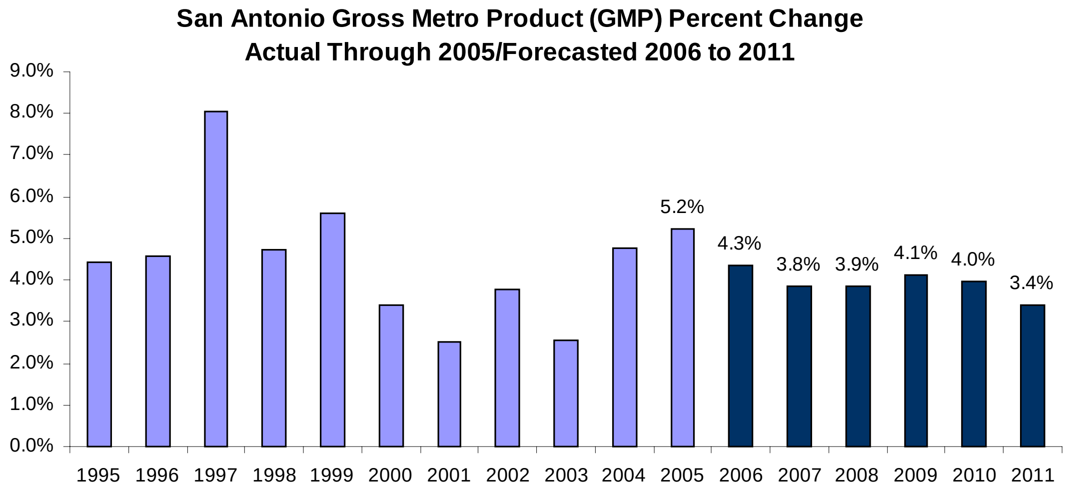
PRODUCTION & INFLATION

The **Gross Domestic Product** (GDP) measures the market value of all final goods and services produced by land, labor and capital in the United States. The figure below tracks GDP growth from 1990 to 2005 and shows the projection for growth beyond 2005 through 2011. The nation experienced a 3.5 percent gain in 2005 as it continued to recover from the 2001 recession.



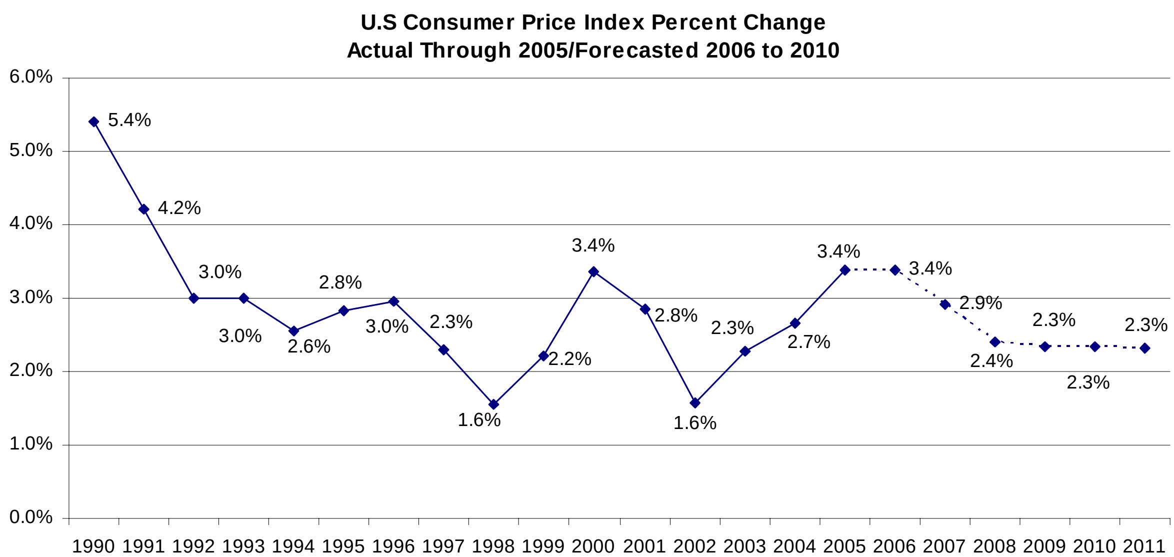
Source: Actual Data from U.S. Bureau of Economic Analysis. Projections from Moody's Economy.com

The **Gross Metro Product** (GMP), similar to GDP, is the value added in production by the labor and capital of a particular metropolitan area. Moody's measures GMP as the sum of the costs incurred and incomes earned in the production of goods and services. As shown in the following figure, San Antonio GMP will continue to fluctuate through the forecast period.



Source: Actual Data and projections from Moody's Economy.com

The change in the **Consumer Price Index** (CPI), commonly referred to as the inflation rate, measures the average price change in major consumer expenditure groups. The figure below shows the growth of inflation from 1990 to 2005 and projections beyond 2005 and through the forecast period.



Source: Actual Data from U.S. Bureau of Labor Statistics. Projections from Moody's Economy.com

In 2000, inflation increased by 3.4 percent—the highest annual increase rate since 1991. After four years of rates below 3.0 percent, inflation again jumped up to 3.4 percent, partially due to spikes in energy and fuel costs associated with high energy demand and weak oil supply, resultant of recent natural disasters and volatility in the gulf region. This jump in the inflationary rate in 2005 for energy was 15.7 percent.

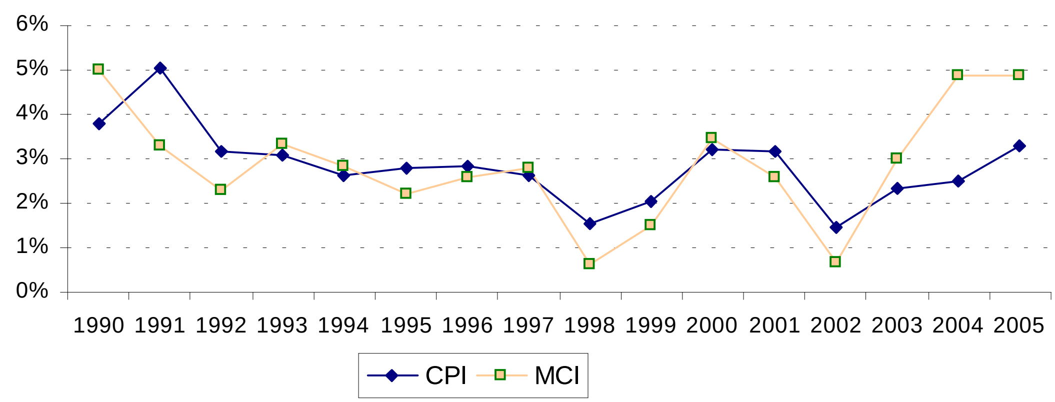
Referring to these inflationary cost increases, Moody's states:

> With the economy expanding above its potential and near its capacity, inflationary pressures are developing. Core inflation and inflation expectations have been edging higher. Businesses have been willing to shoulder the financial burden of their higher material costs due to their record-wide profit margins, the small share of commodities in total costs, and the belief that material prices will soon moderate. The longer material prices remain near record highs, the more likely the pass-through to consumer prices. Meanwhile, labor costs, the largest cost for businesses, are escalating and will not recede quickly. Firms are thus much more likely to pass along any acceleration in labor cost growth to their customers.

In light of the federal funds rate increase in early May 2006, Moody's expects the Federal Reserve to possibly raise the federal funds rate, the rate banks charge to lend to each other, one more time in the next few months in order to curb high inflation.

The **Municipal Cost Index** (MCI) was developed by American City & County to show the effects of inflation on the cost of providing municipal services. While the Consumer Price Index (CPI) is a statistical measure of change in the prices of goods and services in major consumer expenditure groups such as food, housing, clothing, and transportation, the MCI is adjusted by changes in the cost of materials and supplies, wages, and contracted services. The CPI measures the purchasing power of the consumer dollar by comparing the cost of a "market basket" of goods and services over time whereas the MCI is a weighted average of the more detailed price indexes measuring consumer cost fluctuations, industrial commodity wholesale prices, construction contract costs, and health and welfare program transfer payments from local budgets. The MCI draws on monthly statistical data collected by the U.S. Departments of Commerce and Labor as well as independently compiled data to project a composite cost picture for municipalities.

MCI Growth Compared to CPI Growth



Source: American City and County

The graph above shows a comparison of the MCI and the CPI growth changes over the past 15 years. In 2005, the MCI continued at a higher rate than CPI, meaning inflation rates for municipal services increased at a higher rate than the inflation rates of goods and services in major expenditure groups.

A summary of the forecast for each national indicator is provided below.

	Year	Gross Domestic Product		Consumer Price Index		Unemployment (000)	(US)	
Historical	1995	8,032	2.5%	152.4	2.8%	117,306	5.6%	*Historical*
	1996	8,329	3.7%	156.9	3.0%	119,699	5.4%	
	1997	8,704	4.5%	160.5	2.3%	122,767	4.9%	
	1998	9,067	4.2%	163.0	1.6%	125,924	4.5%	
	1999	9,470	4.4%	166.6	2.2%	128,992	4.2%	
	2000	9,817	3.7%	172.2	3.4%	131,792	4.0%	
	2001	9,891	0.8%	177.1	2.8%	131,832	4.7%	
	2002	10,049	1.6%	179.9	1.6%	130,342	5.8%	
	2003	10,321	2.7%	184.0	2.3%	129,993	6.0%	
	2004	10,756	4.2%	188.9	2.7%	131,424	5.5%	
	2005	11,135	3.5%	195.3	3.4%	133,458	5.1%	
Projections	2006	11,528	3.5%	201.9	3.4%	135,928	4.8%	*Projections*
	2007	11,867	2.9%	207.8	2.9%*	137,592	4.9%	
	2008	12,222	3.0%	212.8	2.4%*	138,924	4.9%	
	2009	12,610	3.2%	217.7	2.3%	140,816	4.7%	
	2010	12,983	3.0%	222.8	2.3%	142,664	4.6%	
	2011	1,3358	2.9%	228.0	2.3%	144,486	4.6%	

Sources: Actual Data from U.S. Bureau of Economic Analysis and Bureau of Labor Statistics. Projections from Moody's Economy.com

*Note: Modified Annual CPI for FY 2007 at 3.02 percent; FY 2008 at 2.53 percent—based on Fiscal Year

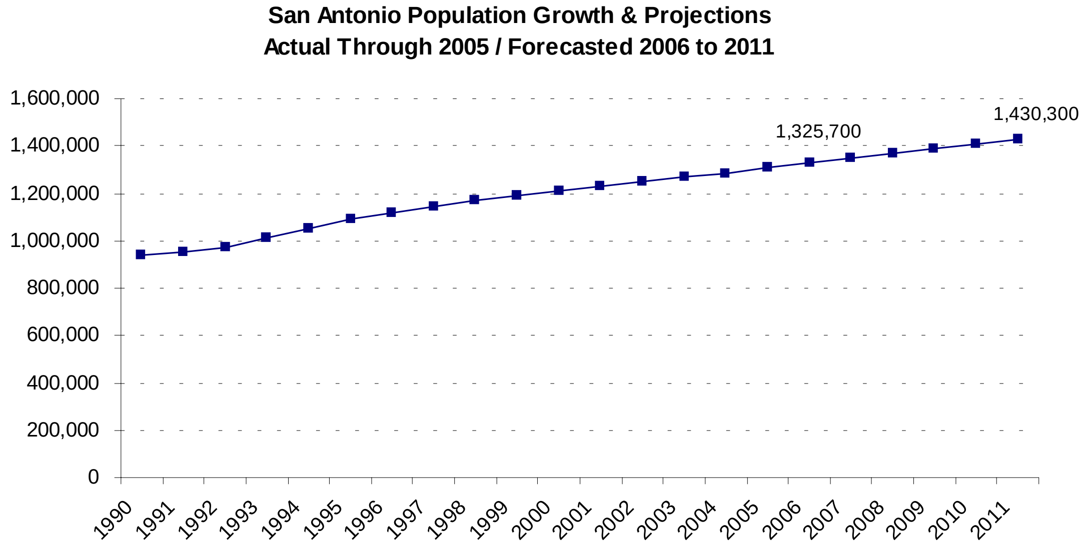
SAN ANTONIO ECONOMY

The following information provides key statistical data specific to the City of San Antonio which can be used to gauge the City's current and future economic conditions. These measures include the following:

Population & Growth
Housing Price Index (HPI)
Building Permit Activity
Construction Valuations
Room Nights Sold
Enplanements

Population & Growth

The City of San Antonio is the eighth largest city in the United States and the second largest in Texas. With a projected population in 2006 of 1,325,700, the City has experienced steady growth over the past several decades. From 1990 to 1999, the City of San Antonio experienced an average growth rate of 2.6 percent in its population. Since 2000 however, growth has declined, averaging just over 1.5 percent, which looks to continue steadily though the projection period. The following graph illustrates the population growth and projections throughout the forecasted period:

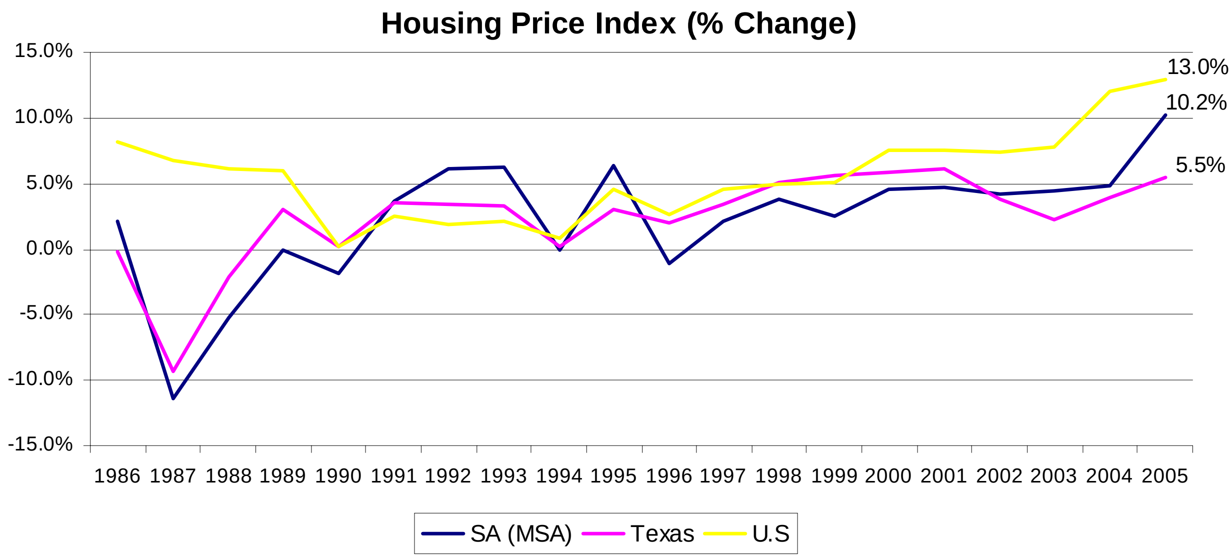


Source: Actual figures and Projections from City of San Antonio Planning Department

House Price Index (HPI)

The **House Price Index** (HPI) is a measure designed to capture changes in the value of single-family homes in the United States as a whole, in various regions of the country, and in the individual states and the District of Columbia. The HPI serves as a timely, accurate indicator of house price trends at various geographic levels as well as an analytical tool for determining changes in the rates of mortgage defaults, prepayments and housing affordability in specific geographic areas. The HPI is compiled and published by the Office of Federal Housing Enterprise Oversight (OFHEO) using data provided by Fannie Mae and Freddie Mac.

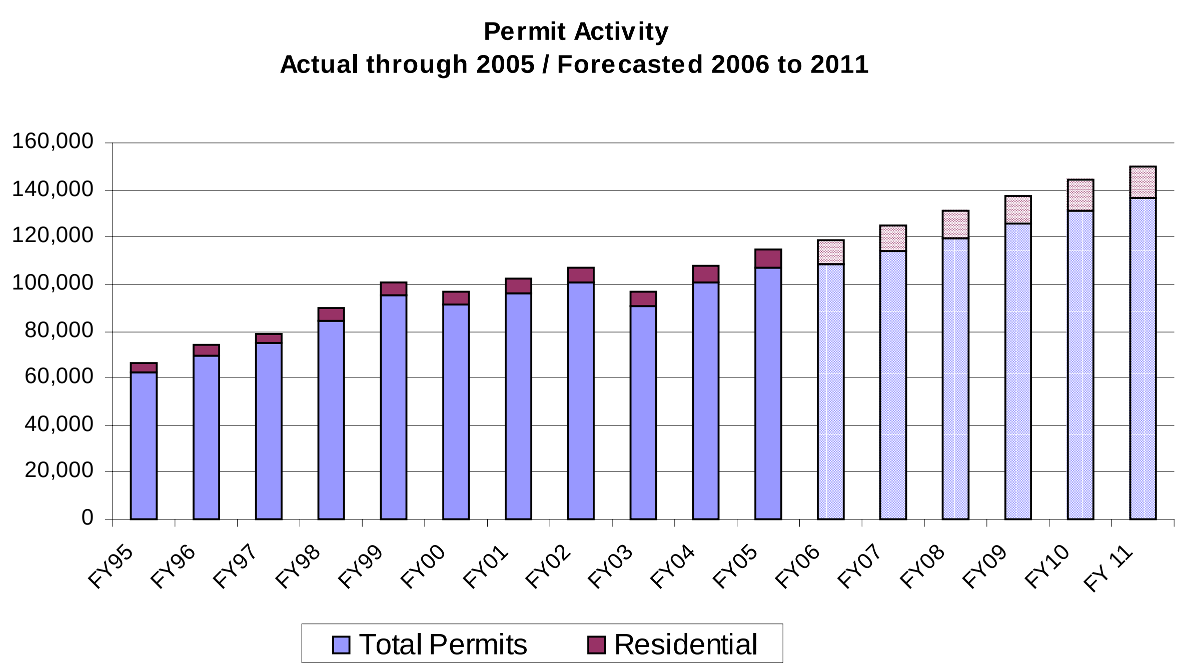
As illustrated in the following figure, San Antonio surpassed Texas in the Housing Price Index rate change from 2001 to 2002. San Antonio is one of Texas' fastest growing housing markets (10.2%), with house prices increasing more rapidly than Austin (7.0%), Dallas (3.7%), Fort Worth (3.1%) and Houston (4.4%).



Source: Office of Federal Housing Enterprise Oversight (OFHEO)

Building Permit Activity

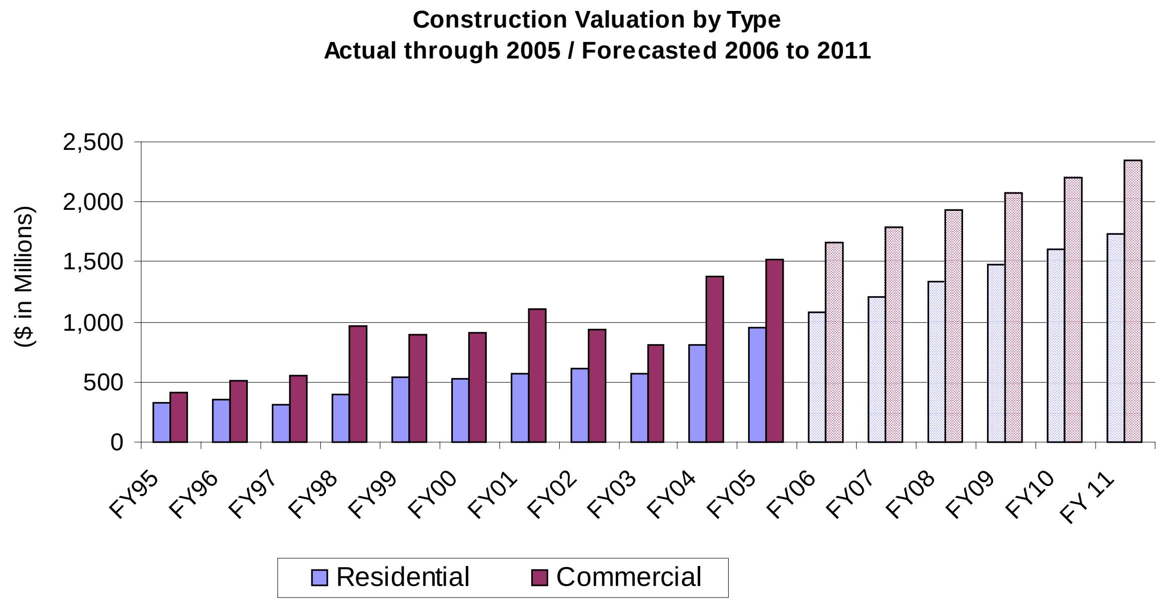
The City of San Antonio issues building and trade permits to allow construction or renovation of residential and commercial properties. The graph below shows new residential construction and other permit activity. Over the past 10 years, construction activity in San Antonio has, on average, risen steadily which can be attributed to population growth and economic stability. This continued population growth and stability is also reflected in the forecast period.



Source: City of San Antonio Development Services Department

Construction Valuation

The City of San Antonio's Development Services Department uses a valuation schedule as the basis for the assessment of building plan review and building permit fees. Construction valuations have fluctuated in the past, but future valuations for residential and commercial are estimated to increase on average 10 percent and 13 percent respectively.



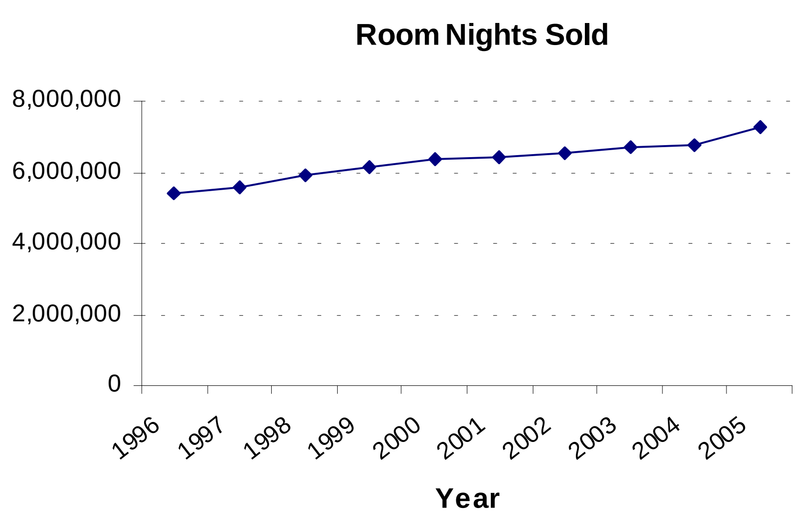
Source: City of San Antonio Development Services Department

Room Nights Sold

Since 1996, the City of San Antonio has seen a strong annual growth rate of 3.2 percent in room nights sold. Even in 2001 San Antonio was one of only a few major destinations in the United States to see positive growth in room nights sold. Additionally, 2005 was a banner year for San Antonio with the highest percentage increase in room nights sold since 1989.

Fiscal Year	Room Nights Sold	Percent Change
1996	5,419,464	2.9%
1997	5,599,826	3.2%
1998	5,924,596	5.5%
1999	6,158,908	3.8%
2000	6,365,011	3.2%
2001	6,399,130	0.5%
2002	6,561,534	2.5%
2003	6,691,769	1.9%
2004	6,784,572	1.4%
2005	7,279,386	6.8%

Source: Smith Travel Research



Enplanements

San Antonio's International Airport is the only commercial service airport serving the City and the San Antonio metropolitan area. Based on 2004 airport data, the Airports Council International ("ACI") ranked the San Antonio International Airport 48th in the nation in terms of total passengers served, 50th in the nation in terms of aircraft operations and 41st for total air cargo processed.

During the years 1995 to 2000, the number of airline passengers at the San Antonio International Airport grew at a steady pace. In 2001, however, airports nationwide saw a significant decrease in the number of enplaned passengers, and the San Antonio Airport was no exception. In 2001 through 2003, the San Antonio enplaned passenger count fell on an average of 4.4 percent.

A strong local economy along with a significantly improved airline industry has resulted in substantial growth at the airport in the last couple of years. From 2003 through 2005 the number of enplaned passengers increased 14 percent and airport is projected to maintain steady growth into the future.