Five Year Financial Forecast

FY 2009 – FY 2013

CITY OF SAN ANTONIO, TEXAS

A current and long-range assessment of financial conditions and costs for city services

CITY OF SAN ANTONIO

FIVE YEAR FINANCIAL FORECAST

FY 2009 – FY 2013

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CITY OF SAN ANTONIO

FIVE YEAR FINANCIAL FORECAST

FY 2009 – FY 2013

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INTRODUCTION

The first section of the General Fund Forecast provides projected revenues and expenditures for the fund. As discussed in the Economic Perspective & Outlook section of the forecast, the economic data and projections are incorporated into the strategy of developing General Fund revenue and expenditure projections over the next five years.

The first section in the General Fund Forecast includes a schedule forecasting the General Fund from FY 2009 through FY 2013. Next is a discussion of current year and projected General Fund revenues. Recent revenue trends and economic assumptions are used to develop these figures. Following the explanation of revenues is a presentation of base budget expenditures required to sustain the current (FY 2008) level of services throughout the forecast period. These projections are based in part on a modified rate of inflation. Concluding this section will be a discussion of mandated service delivery costs and General Fund Reserves.

General Fund Forecast

The forecast table on the following page combines projected General Fund resources, base budget expenditures, other added costs including reserve funds, and mandated expenditures 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.

	FY 2008 Budget	FY 2008 Estimate	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection	FY 2012 Projection	FY 2013 Projection
RESOURCES							
Beginning Balance (Excluding Reserves)	$69.85	$80.61	$25.89	$0.00	$0.00	$0.00	$0.00
Use of Reserve for Two Year Balanced Budget Plan	0.00	0.00	22.71	0.00	0.00	0.00	0.00
CURRENT REVENUES							
CPS Energy	244.50	257.86	255.89	263.57	271.47	279.62	288.01
Additional CPS Energy Transfer	9.46	9.46	9.20	9.48	9.76	10.06	10.36
Property Taxes [Current, Delinquent & Penalties]	230.83	231.67	242.25	249.53	256.64	263.96	271.14
Sales Tax	196.24	197.38	202.81	208.89	215.68	223.23	231.04
Other	145.85	144.77	138.63	140.36	142.15	143.99	145.76
TOTAL CURRENT REVENUES	**$826.88**	**$841.14**	**$848.78**	**$871.83**	**$895.70**	**$920.86**	**$946.31**
TOTAL RESOURCES	**$896.73**	**$921.75**	**$897.38**	**$871.83**	**$895.70**	**$920.86**	**$946.31**
EXPENDITURES							
Base Budget	853.97	853.10	868.56	918.26	949.88	976.45	1,002.66
Mandated Service Delivery Costs (Incremental)	0.00	0.00	21.64	8.14	2.47	4.92	1.63
TOTAL EXPENDITURES	**$853.97**	**$853.10**	**$890.20**	**$926.40**	**952.35**	**981.37**	**1,004.29**
FINANCIAL RESERVES/TWO YEAR BALANCED BUDGET							
Budgeted Financial Reserves (Incremental)	20.05	20.05	$20.85	$3.62	$2.60	$2.90	$2.29
Reserve for Two Year Balanced Budget Plan	22.71	22.71	0.00	0.00	0.00	0.00	0.00
ENDING BALANCE / (ADJUSTMENT REQUIRED)	**$0.00**	**$25.89**	**($13.67)**	**($58.19)**	**($59.25)**	**($63.41)**	**($60.27)**
BUDGETED RESERVES SUMMARY							
Total Annual Budgeted Financial Reserves	68.17	68.17	89.02	92.64	95.23	98.14	100.43
Annual Budgeted Financial Reserves as a % of Appropriations	8%	8%	10%	10%	10%	10%	10%

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 Financial Reserves.
- "Current Revenue" highlights the major sources of current revenue–CPS Energy, Property Taxes, and Sales Tax as well as all other sources, including fines and fees and other charges for current service.
- "Total 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 2008 level of services throughout the forecast period. In addition, it includes future Municipal Election costs and a potential employee compensation adjustment.

- "Mandated Service Delivery Costs (Incremental)" are the incremental recurring and one-time mandated expenditures required each year. These expenditures constitute a change to a current service budget in order to comply with a federal, state, or local law or ordinance, a contractual obligation, or the operation and maintenance requirement needed for a completed capital improvement project.

- "Ending Balance / Adjustment Required" represents the difference between Total Available Resources and Total Expenditures, but does not include the cumulative funds for the City's Budgeted Financial Reserves. A revenue and/or expenditure adjustment is required in those years when this balance is negative.

- "Budgeted Financial Reserves (Incremental)" is the incremental amount needed each year to maintain annual Budgeted Financial Reserves at eight percent and ten percent of appropritions in 2008 and 2009 through 2013 respectively.

REVENUES

Included herein is a 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 is 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.

General Fund Forecast of Current Revenues
($ in Millions)

	FY 2008 Budget	FY 2008 Estimate	FY 2009 Projections	FY 2010 Projections	FY 2011 Projections	FY 2012 Projections	FY 2013 Projections
Revenue							
CPS Energy	$244.5	$257.9	$255.9	$263.6	$271.5	$279.6	$288.0
Additional CPS Energy Transfer	9.5	9.5	9.2	9.5	9.8	10.1	10.4
Property Taxes - Current	226.1	226.8	237.6	244.3	250.9	257.8	264.6
Property Taxes - Delinquent & Penalties	4.7	4.9	4.6	5.2	5.7	6.2	6.6
City Sales Tax	196.2	197.4	202.8	208.9	215.7	223.2	231.0
Charges for Current Services	43.5	43.6	42.9	44.1	45.2	46.4	47.4
Business and Franchise Taxes	27.1	27.7	26.9	26.6	26.4	26.1	26.0
Licenses and Permits	5.8	5.6	5.5	5.6	5.6	5.7	5.7
Transfers from Other Funds	25.7	25.7	23.1	23.3	23.6	23.8	24.0
Miscellaneous Revenue	12.1	9.1	7.1	7.2	7.3	7.6	7.8
Fines	11.0	11.8	11.8	11.8	11.8	11.8	11.8
San Antonio Water System	9.4	9.7	9.9	10.0	10.2	10.3	10.5
Liquor by the Drink Tax	5.2	5.2	5.4	5.5	5.7	5.9	6.0
Other Agencies	6.1	6.2	6.1	6.2	6.3	6.4	6.5
Annexation	-	-	-	-	-	-	-
Total Revenue	**$826.9**	**$841.1**	**$848.8**	**$871.8**	**$895.7**	**$920.9**	**$946.3**
Increase from Prior Year	**N/A**	**$14.2**	**$7.7**	**$23.0**	**$23.9**	**$25.2**	**$25.4**
Percent Increase from Prior Year	**N/A**	**1.72%**	**0.92%**	**2.71%**	**2.74%**	**2.81%**	**2.76%**

As the table above indicates, total FY 2008 General Fund revenue is anticipated to be $14.2 million or 1.72% over FY 2008 budgeted levels. Over the forecast period, these revenues are expected to increase at an average annual rate of 2.39%, with annual rates of change ranging from a low of 0.91% in FY 2009 (over the FY 2008 Re-estimate) to a high of 2.81% in FY 2012 (over the FY 2011 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.

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

Projected Annual Rates of Change
FY 2009: -0.77% FY 2010: 3.00% FY 2011: 3.00% FY 2012: 3.00% FY 2013: 3.00%

The City's payment from CPS Energy represents the largest source of revenue to the General Fund, accounting for 28.0% of Budgeted FY 2008 General Fund resources. Fourteen percent of

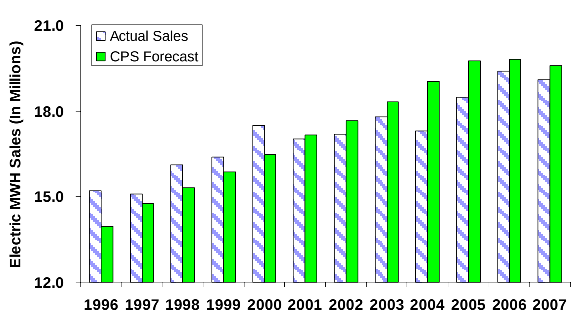
CPS Energy gas and electric customer revenue is paid to the City as a return on investment. The estimated revenue of $257.9 million for FY 2008 is $13.4 million, or 5.46%, higher than the original $244.5 million budgeted in FY 2008. The forecast for FY 2009 of $255.9 million is $1.97 million, or 0.77% lower than the FY 2008 Estimate. The forecasted amounts for FY 2010 through FY 2013 are based on the FY 2009 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 $255.9 million for FY 2009 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.

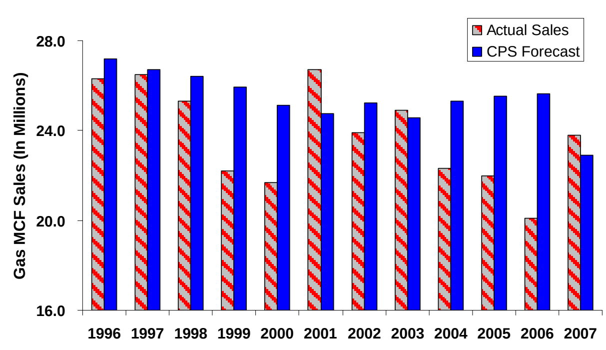
Accurately forecasting the CPS Energy payment revenue is challenged by a number of variables such as the weather, growth of the system, changes in per capita consumption, advances in technology, fuel prices, generation mix, and unscheduled maintenance on generation plants. For the past several years, 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 forecast. CPS Energy's electric sales increased steadily from FY 1997 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 11 year period largely dependent on the weather in the winter months.

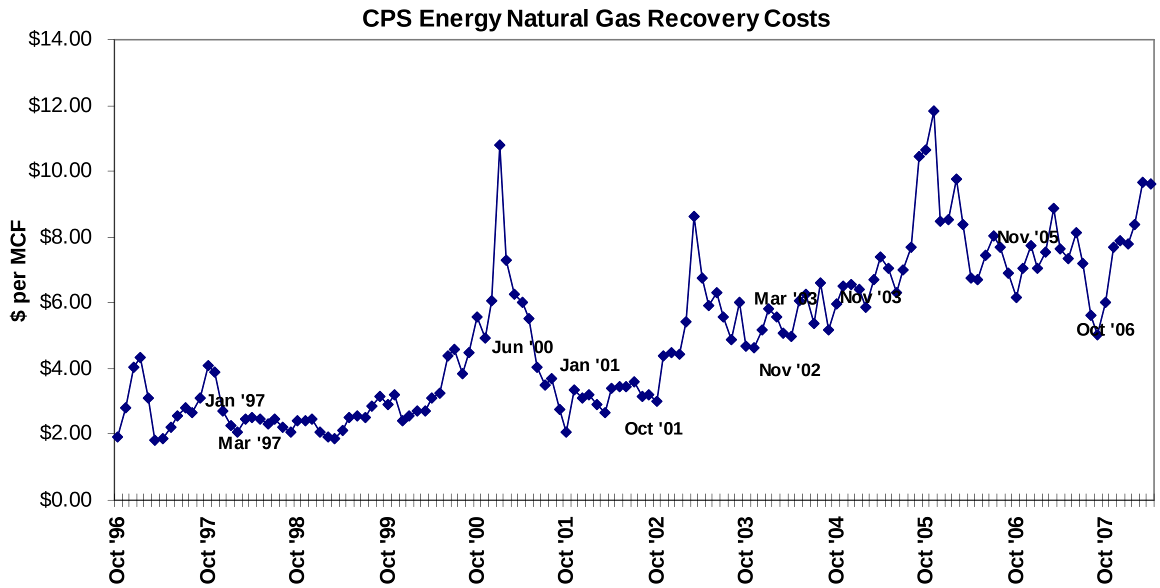
Electric Sales



Natural Gas Sales



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



As illustrated in the graph, natural gas prices have become much more volatile since June 2000. Natural gas costs recovered by CPS Energy increased in June 2000 to $4.41 per MCF (Thousand Cubic Feet) and continued to rise reaching a high of $10.78 per MCF in January 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 2002. Natural gas prices recovered by CPS Energy rose again to a high of $8.64 per MCF in March 2003, falling back to $4.63 in November 2003 and have continued to fluctuate upwards since that time to a high of $11.85 per MCF in November 2005. 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. 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.

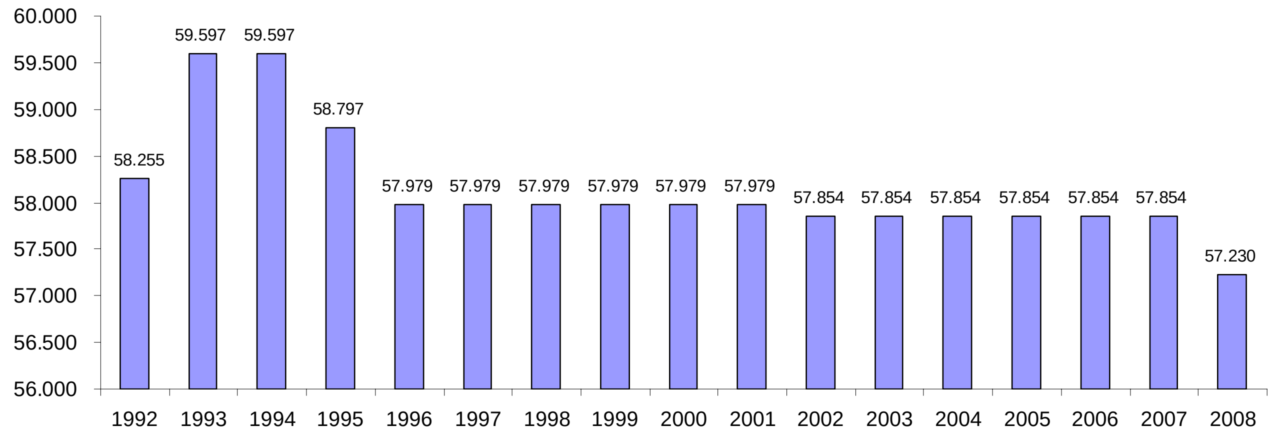
Current Property Tax Revenue—Maintenance & Operations

Projected Annual Rates of Change
FY 2009: 4.78% FY 2010: 2.80% FY 2011: 2.70% FY 2012: 2.74% FY 2013: 2.64%

Property Tax revenue accounts for 26.5% of total Budgeted FY 2008 General Fund resources. 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 and in conformance with State Law. The property tax revenue projections used in the budget and over the Forecast period are derived from the City's total assessed value less exemptions such as the

Over-65, Disabled, and Disabled Veterans exemptions. Additional tax relief provided by the City includes Tax Abatement/Phase-Ins exemptions, Freeport exemptions, Historic Property exemptions, and the 10% Residence Homestead limitation. The revenue generated through the forecast period assumes the current property tax rate of 57.230 cents per $100 of taxable valuation. The General Fund maintenance and operation portion is 36.080 cents with the remaining 21.150 cents used to support the City's debt service requirements.

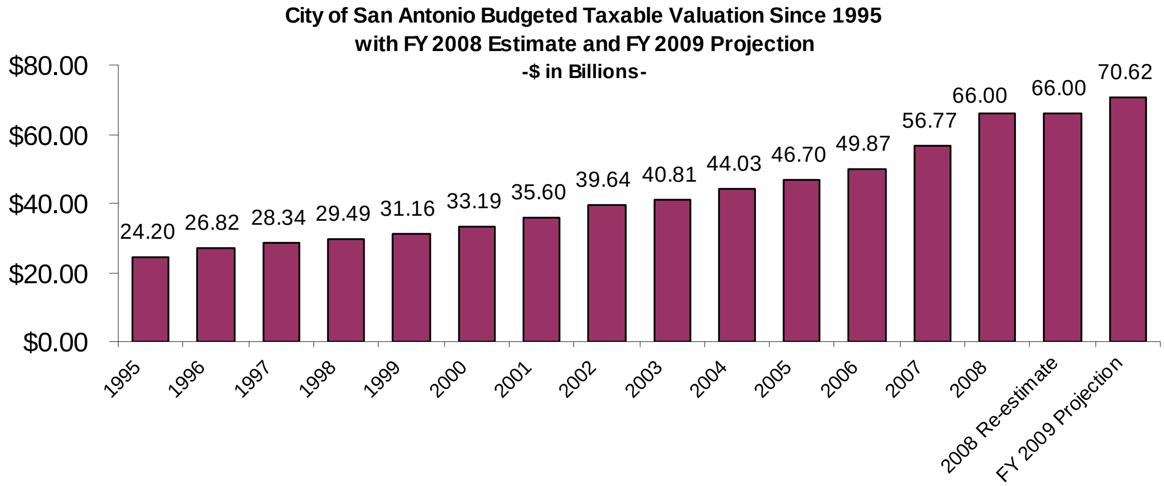
City of San Antonio Property Tax Rates Since 1992
-Cents per $100 Valuation-



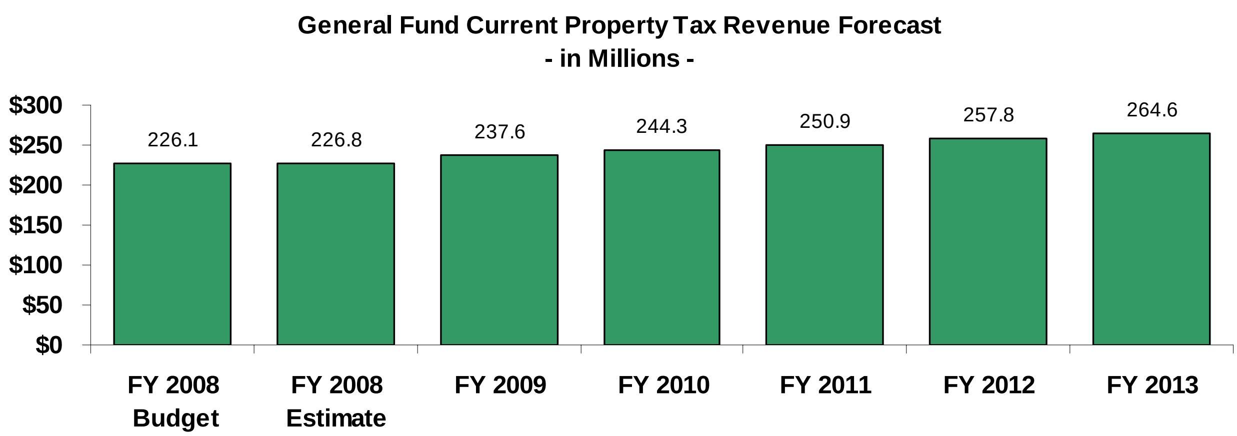
As the previous chart indicates, the City has not increased the property tax rate for fifteen years and has decreased it four times over that same period. Most recently, the FY 2008 Adopted Budget included a decrease in the total tax rate of $0.0624 or 6/10 of a cent. With this decrease in the tax rate, the City of San Antonio projected $3.8 million in foregone property M&O property tax revenue. The projected tax rate in the forecast for FY 2009 and FY 2010 is estimated at a reduced level to recognize the transfer of the City's Health Clinics (and their associated expense) to the University Health System as approved by City Council. Specifically the FY 2009 tax rate is projected to be reduced by five tenths of a cent and the FY 2010 tax rate is projected to be reduced an additional two tenths of a cent. Final tax rate calculations will be determined in July of each fiscal year when the City receives its Certified Tax Roll from Bexar Appraisal District.

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 annexations. Taxable valuations for FY 2008 are projected to increase by 0.0063% from the original budget of $65.996 billion. The change in taxable value is due to final dispositions of appeals, mediation, litigation in District Court and 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 2009 are projected to increase by 7.00% over the FY 2008 Estimate of $66.000 billion. This reflects a 4.00% base value increase and a 3.00% increase from new improvements. FY 2010 taxable valuations are estimated to increase by 3.50% while FY 2011 through FY 2013 are estimated at 3.00%. These estimates account for increased valuations from conservative estimates of base value growth, new property improvements, and annexations. The following chart details the City's adopted taxable value since 1995 and includes the re-estimated taxable value for FY 2008 and projected value for FY 2009 (based on Bexar Appraisal District's preliminary estimate as of April 9, 2008).



Based on the City's current Property Tax rate and the projected taxable valuations, the following graph illustrates the anticipated General Fund Current Property Tax revenue. It is projected that the General Fund will receive $226.8 million in FY 2008 or 0.30% more than the FY 2008 Budget.

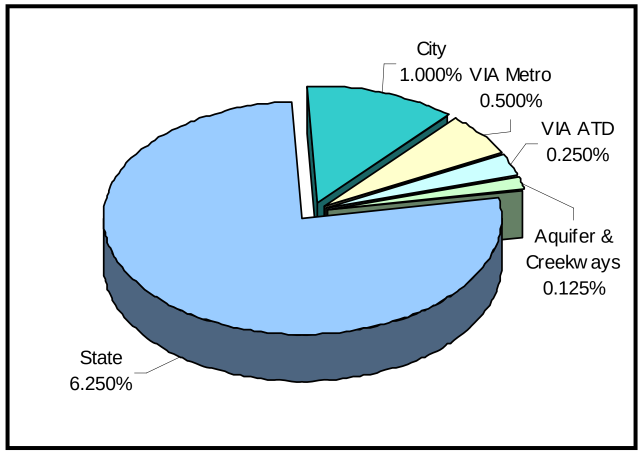


As briefly discussed above, the City's taxable value included in the forecast projections is net of all residential and commercial exemptions, special appraisals, and residence-homestead 10% limitations. In FY 2009, a total of 70,818 property owners are expected to qualify for the $65,000 Over-65 Residence Homestead exemption. The estimated impact of this exemption is $4.235 billion in taxable value loss equating to $24.238 million in property tax revenue that will be exempted in FY 2009, assuming no change in the current ad valorem tax rate of 57.230 cents per $100 of taxable valuation. During this same period, an estimated 9,847 disabled property owners will qualify for the $12,500 Disabled Residence Homestead exemption. The estimated impact of this exemption is $121.632 million in taxable value loss equating to $696,101 in property tax revenue that will be exempted in FY 2009, assuming no change in the current tax rate. Additionally, with the passage of Proposition 3 (Property Tax Freezes for Elderly and Disabled) on the May 7, 2005 ballot, the City will forego an additional $6.640 million in property tax revenue in FY 2009.

City Sales Tax Revenue

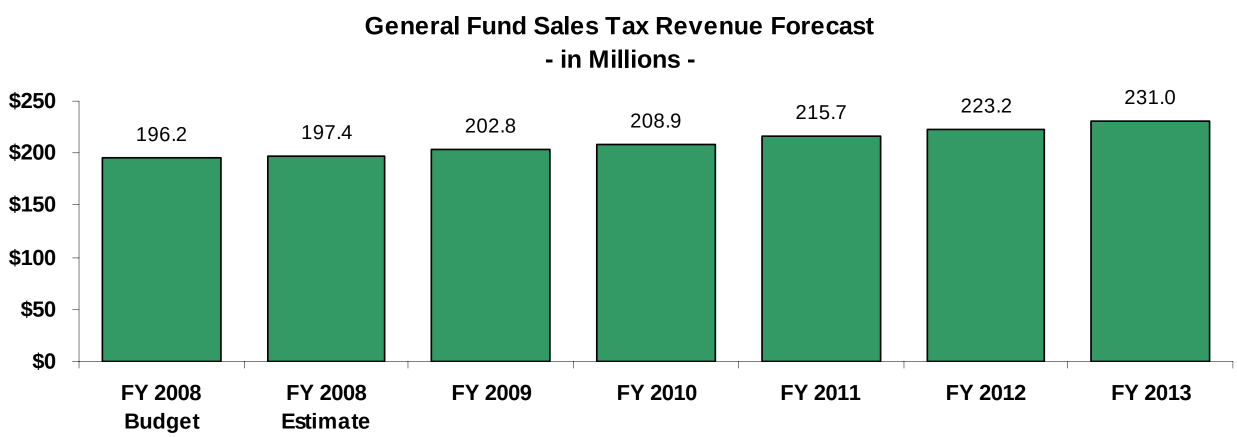
Projected Annual Rates of Change
FY 2009: 2.75% FY 2010: 3.00% FY 2011: 3.25% FY 2012: 3.50% FY 2013: 3.50%

Sales tax revenue collected to support maintenance and operations for the General Fund within the FY 2008 Adopted Budget accounts for 23.0% of all Budgeted FY 2008 General Fund resources. San Antonio's current sales tax rate is 8.125%. Several entities receive percentages of all sales tax proceeds as summarized in the adjacent chart. Currently, one-eighth of a cent remains available before the State mandated cap of 8.25% is reached.



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 showing signs of economic slowdown. Local economic conditions, such as the unemployment rate and economic output, are projected to perform slightly better than national trends for every year throughout the forecast period.

Actual sales tax collections for the current year are projected to be at $197.4 million. This amount is $1.14 million or 0.58% more than the $196.2 million budgeted in FY 2008 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 Advanced Transportation District. General Fund Sales Tax revenues in FY 2009 are projected to increase by 2.75%. Across the Forecast period, revenue levels from this source are expected to grow at an average rate of 3.31%. 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. The following graph illustrates General Fund Sales Tax revenue growth over the forecast period compared to the FY 2008 Budget and Estimate.



Charges for Current Service

Projected Annual Rates of Change
FY 2009: -1.42% FY 2010: 2.71% FY 2011: 2.58% FY 2012: 2.54% FY 2013: 2.26%

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; and Health revenues generated by birth and death certificates. Actual revenues for the current year are projected to be at $43.6 million or 0.14% 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 2009: -2.89% FY 2010: -1.09% FY 2011: -0.96% FY 2012: -0.85% FY 2013: -0.63%

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 ($3.86) and each residential line ($1.15). These fees change every July 1 and the adjustment is based on ½ of the current CPI. The new fees on July 1, 2008 will be $3.92 for business lines and $1.17 for residential lines. The estimated revenue for the City's largest cable television provider, Time Warner Cable (TWC), is re-estimated to be $10.7 million for FY 2008, or 2% higher than the original $10.5 million budgeted in FY 2008. The forecast for FY 2009 of $10.9 million is $0.20 million, or 2% higher than the FY 2008 estimate. The forecasted amounts for FY 2010 through 2013 are based on the FY 2009 projection adjustment by a growth rate of 2% annually.

Revenue derived from Certified Telecommunications Providers (CTPs) has 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 CTP re-estimated revenue for FY 2008 of $15.43 million is $0.83 million or 5.1 % lower than the FY 2007 actual of $16.26 million.

Licenses and Permits

Projected Annual Rates of Change
FY 2009: -1.15% FY 2010: 0.64% FY 2011: 0.72% FY 2012: 1.27% FY 2013: 1.03%

The FY 2008 Adopted Licenses and Permits budget totals $5.78 million. Of this amount, $3.87 million is generated from licenses. This revenue category includes Alcoholic Beverage licenses, Health licenses such as Food Establishment licenses, as well as professional and occupational licenses including downtown Peddler licenses and Pet Shop licenses. The Permits revenue category, totaling $1.9 million within the FY 2008 Adopted Budget, includes fees from Garage Sales permits, Alarm Fees permits, and Street Lane closures.

Licenses and Permits actual revenues for FY 2008 are projected to be at $5.6 million. This amount is -3.29% below the FY 2008 Budget. The projected rates of annual growth over the forecast period are based on modest growth in license revenue.

Revenue Transfers from Other Funds

Projected Annual Rates of Change
FY 2009: -10.26% FY 2010: 1.00% FY 2011: 1.00% FY 2012: 1.00% FY 2013: 1.00%

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 a number of 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 Hotel Occupancy Tax Fund. The General Fund receives 15.0% of Hotel/Motel Tax revenues to offset the General Fund's costs of maintaining tourist-related venues such as the River Walk. 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.

Miscellaneous Revenue

Projected Annual Rates of Change
FY 2009: -24.35% FY 2010: 2.67% FY 2011: 2.87% FY 2012: 2.29% FY 2013: 1.95%

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 $9.28 million compared to the FY 2008 Budget of $12.07 million. This $2.79 million decrease is largely attributable to actual portfolio interest earnings from City investments being lower than projected earnings due to lower than anticipated interest rates. For FY 2009, total revenue in the Miscellaneous category is expected to be $2.26 million, or 24.35% lower than the $9.28 million Estimated in FY 2008. The lower revenue can largely be attributed to an anticipated increase on short-term money investments.

Fines

Projected Annual Rates of Change
FY 2009: 0.00% FY 2010: 0.00% FY 2011: 0.00% FY 2012: 0.00% FY 2013: 0.00%

Revenues in this category include fines for moving and parking violations and probation fees. In FY 2008, this source of revenue is expected to come in $0.88 million or 8.03% over budget. Because of the uncertainty of the factors involved and varied collections from year to year, it is difficult to project this revenue source with any consistency. As such, there is no projected growth for the forecast years.

San Antonio Water System (SAWS) Payment

Projected Annual Rates of Change
FY 2009: 2.00% FY 2010: 1.50% FY 2011: 1.50% FY 2012: 1.50% FY 2013: 1.50%

The SAWS revenue payment to the City is based on 2.7% of SAWS' total projected revenue for each year of the Forecast period. This payment agreement was initiated in April 1992 when certain City of San Antonio water and waste water systems were consolidated into the San Antonio Water System. The forecasted FY 2008 revenue from SAWS is $9.69 million. This is an increase of $0.26 million from the FY 2008 Estimate of $9.43 million. Projections for the forecast period are based on historical revenue experience of SAWS for each of its core businesses.

Liquor by the Drink Tax Revenue

Projected Annual Rates of Change
FY 2009: 3.00% FY 2010: 3.00% FY 2011: 3.00% FY 2012: 3.00% FY 2013: 3.00%

The Liquor by the Drink Tax revenue source (or Mixed Beverage Tax) represents the City's 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. The forecast period amounts are based on conservative figures with an anticipated annualized growth rate of 3.00%.

Other Agencies' Revenue

Projected Annual Rates of Change
FY 2009: -1.56% FY 2010: 1.74% FY 2011: 1.76% FY 2012: 1.78% FY 2013: 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 2008 is anticipated to be at $6.16 million or $0.10 million over budgeted levels.

BASE BUDGET EXPENDITURES

The General Fund Forecast table shown in the General Fund Forecast section provides a summary of base budget expenditures for the FY 2008 Budget, the FY 2008 Estimate and projected expenditures from FY 2009 to FY 2013. The FY 2008 Budget was adopted in September 2007 and reflects minor changes due to a mid-year budget adjustment. The FY 2008 Estimated budget is based on an analysis of current fiscal year General Fund expenditure trends by using six months of actual expenditures to project estimated expenditure levels at the end of FY 2008. The FY 2009 base assumes the removal of the one-time improvements included in the FY 2008 Adopted Budget and 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 2009 through 2013. These rates and their underlying assumptions are described in the Economic Perspective & Outlook section of this document. Shown below are the assumed inflation rates for each year of the forecast period:

General Fund
CPI Projections

FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
3.37%	3.37%	2.60%	2.60%	2.60%

The following table represents the Base Budget projections for FY 2009 and throughout the forecast period. These projections include transfers to the Streets Maintenance and Improvement Fund and the Animal Care Services Fund.

General Fund
Projected Base Budget Expenditures
($ in Millions)

FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
$868.6	$918.3	$949.9	$976.5	$1,002.7

GENERAL FUND MANDATED EXPENDITURES

The following section projects the cost requirements of mandated expenditures over the FY 2009 – FY 2013 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 2009	FY 2010	FY 2011	FY 2012	FY 2013
Capital Improvements Operations & Maintenance						
2007 Bond Program - Japanese Tea Gardens	One-Time	$22,800	$0	$0	$0	$0
2007 Bond Program - Japanese Tea Gardens	Recurring	184,698	30,220	0	0	0
2007 Bond Program - New Libraries (CD3 & CD9)	Recurring	0	909,398	303,133	961,919	328,264
Capital Improvements - Fire Stations	One-Time	0	3,604,653	135,000	1,791,445	90,000
Capital Improvements - Fire Stations	Recurring	0	1,108,245	235,021	720,279	221,819
Roosevelt Branch Library	One-Time	125,000	50,000	0	0	0
Roosevelt Branch Library	Recurring	252,045	556,133	0	0	0
Park Acquisition & Development Security & Maint.	One-Time	134,500	4,500	4,500	40,500	4,500
Park Acquisition & Development Security & Maint.	Recurring	515,023	107,704	11,550	25,160	10,650
River Walk Improvements Security & Maintenance	Recurring	305,808	82,879	0	0	0
Sales Tax Venue Land Acquistiion Security & Maint.	One-Time	57,500	172,500	168,000	110,500	0
Sales Tax Venue Land Acquistiion Security & Maint.	Recurring	98,818	171,979	408,053	238,316	0
Voelcker Park Security & Maintenance	One-Time	243,000	0	0	0	0
Voelcker Park Security & Maintenance	Recurring	798,759	42,867	0	0	0
Subtotal		**$2,737,951**	**$6,841,078**	**$1,265,257**	**$3,888,119**	**$655,233**
Contract Requirement						
Police Collective Bargaining Agreement	Recurring	$9,462,729	$0	$0	$0	$0
Fire Collective Bargaining Agreement	Recurring	$7,428,146	$0	$0	$0	$0
Police Longevity Pay	Recurring	1,169,213	807,128	723,759	690,084	609,944
Fire Longevity Pay	Recurring	0	278,055	289,178	300,745	312,775
Medical Examiner Office Services	Recurring	398,024	155,516	168,330	0	0
Library Software Maintenance	Recurring	21,000	0	0	0	0
Diabetes Registry Pilot Program	One-Time	190,000	0	0	0	0
History Center Portal - Brisco Western Arts Museum	Recurring	158,835	19,377	0	0	0
Subtotal		**$18,827,947**	**$1,260,076**	**$1,181,267**	**$990,829**	**$922,719**
Grant Match Requirement						
DWI STEP Grant match	Recurring	16,215	0	0	0	0
ReACT Grant Match (Auto Crime Prevention)	Recurring	56,021	37,035	27,094	46,025	47,546
Subtotal		**$72,236**	**$37,035**	**$27,094**	**$46,025**	**$47,546**
Total One-Time Costs		**772,800**	**3,831,653**	**307,500**	**1,942,445**	**94,500**
Total Recurring Costs		**20,865,334**	**4,306,536**	**2,166,118**	**2,982,528**	**1,530,998**
Overall Total		**21,638,134**	**8,138,189**	**2,473,618**	**4,924,973**	**1,625,498**

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 chart above are shown on the following pages in greater detail.

CAPITAL IMPROVEMENTS OPERATIONS & MAINTENANCE

2007 Bond Program – Japanese Tea Gardens: The 2007 Bond Program approved funding for the renovation of the infrastructure at the Japanese Tea Gardens. This mandate, totaling $207,498 would provide for the general maintenance and operations due to renovations and upgrades at the Japanese Tea Gardens. This mandate includes $22,800 in one-time costs and incremental cost in FY 2010 of $30,220.

2007 Bond Program – New Libraries in District 3 & 9: The 2007 Bond Program approved funding for the construction of two new libraries, one in Council District 3 and one in Council District 9. The library in Council District 3 is scheduled for completion in early 2010. The library in Council District 9 is projected to be completed in early 2012. This mandate, totaling $909,398 in FY 2010 would provide for general maintenance and operations at the Council District 3 Library. The incremental cost in FY 2011 would be $303,133. The library in Council District 9 will have similar maintenance and operations requirements.

Capital Improvements – Fire Stations: Consistent with the Capital Improvements Program, this mandate provides funding to address the operating costs and capital needs for two new fire stations and the replacement of eight existing fire stations. There is no fiscal impact associated with this mandate in FY 2009 but the cost in FY 2010 will total $4,712,898 to include $3,604,653 in one-time costs. The forecast schedule for the mandated costs associated with the two new fire stations may change as a result of actual fire station completion dates.

Roosevelt/NEISD Branch Library: A cooperative branch library with North East Independent School District (NEISD) will open at Roosevelt High School in August 2009. The Library Department will be responsible, under a service agreement with NEISD, for a portion of the operations and maintenance of the new branch library. This mandate includes $252,045 in recurring costs and $125,000 in one time costs for FY 2009. The incremental expense will be $556,133 in FY 2010. Final costs for each entity will be determined through a service agreement.

Park Acquisition & Development – Security & Maintenance: This mandate, totaling $649,523 in FY 2009, provides funding for maintenance and security of park acquisitions and park infrastructure improvements, totaling more than 40 acres and over 70 park improvements. The majority of these newly acquired and developed parks are made up of 2007 Bond Program projects. This mandate includes $134,500 in FY 2009 for one-time costs and an incremental cost of $107,704 in FY 2010.

River Walk – Security & Maintenance: This mandate, totaling $305,808 in FY 2009, provides funding for maintenance and security of the major expansion of the developed portion of the River Walk northward from from Lexington Avenue approximately 1.3 miles to Josephine Street. This mandate includes an incremental cost of $82,879 in FY 2010. While this mandate focuses on the North Museum Reach Urban segment, cost estimates are being developed for the southern Mission Reach of the River Walk. Costs have not been fully identified and will impact the forecast.

Sales Tax Venue Land Acquisition – Security & Maintenance: Proposition 1 and 2, passed in May 2005, provides for the acquisition of land over the Edwards Aquifer from sales tax funds and the acquisition and development of linear creeks, including Leon, Salado and Medina Rivers. It is projected that 1,000 acres of undeveloped property will be acquired with these funds between FY 2008 and FY 2012. This mandate, totaling $156,318 in FY 2009, will provide funding for maintenance and security associated with these voter-approved property acquisitions. This mandate includes $57,500 in one-time costs in FY 2009 and a total cost of $344,479 in FY 2010.

Voelcker Park – Security & Maintenance: This mandate includes $798,759 in recurring costs and $243,000 in one-time expenses for the security and maintenance of the newly acquired Voelcker Park. The park is scheduled to open by January 2009 and includes more than 311 acres and 7.8 miles of trails.

CONTRACT REQUIREMENTS

Police Collective Bargaining Agreement: This mandate provides funding to address the increase for the last year of the current Collective Bargaining Agreement with the San Antonio Police Officers' Association. The recurring cost in FY 2009 is $9,462,729**.**

Fire Collective Bargaining Agreement: This mandate provides funding to address the increase for the last year of the current Collective Bargaining Agreement with the San Antonio Firefighters' Association. The recurring cost in FY 2009 is $7,428,146**.**

Police Longevity Pay: This mandate provides funding to address increases in salary based upon years of service for all uniform personnel. The total cost in FY 2009 is $1,169,213 and the incremental cost for this mandate in FY 2010 would be $807,128.

Fire Longevity Pay: This mandate provides funding to address increases in salary based upon years of service for all uniform personnel. This mandate has no impact in FY 2009. The cost for this mandate in FY 2010 would be $278,055.

Medical Examiner Office Services: In 2006, the City entered into a one-year, Interlocal Agreement with Bexar County in which Bexar County would provide the City with forensic science services. The agreement included four, one-year automatic renewals. This mandate, totaling $398,024 in FY 2009, addresses the minimum guaranteed amount as based on the total amount of all fees invoiced to the City by the County for services rendered during the previous fiscal year. The incremental increase for FY 2010 is projected at $155,516.

Library Software Maintenance: This mandate would provide funding for software maintenance and licenses for Early Literacy Stations as well as maintenance for the Library's automated system. This mandate totals $21,000 in FY 2009.

Diabetes Registry Pilot Program: This mandate provides funding to address the second phase of a two-year initiative to develop a registry of non-identifying records of diabetes test results. Information from the registry would be used to direct prevention and intervention programs for the San Antonio community and also to determine regional and state policy and practices. This mandate includes $190,000 for the populating of registry data for 50,000 patients by October 2009.

History Center Portal – Dolph & Janie Brisco Western Arts Museum: The City Council approved a lease agreement for the old Main Library Building (also known as the Hertzberg Building) to the National Western Art Foundation for the renovation and use of the building located at 210 W. Commerce, as well as adjacent City owned property on Market Street, to create a world-class western art museum and library history center. The San Antonio Public Library, under this lease agreement, will provide a Western Arts Museum using up to 5,000 square feet of dedicated space in the building. The operating term of the agreement is twenty-five years with three five-year renewals. This lease was approved on August 31, 2006. The Library is responsible for creating the 5,000 square feet Western Arts Museum and providing for the operations and maintenance of the Portal. To support the operations and maintenance of the Western Arts

Museum, the total recurring cost for FY 2009 is $158,835 with an incremental cost of 19,377 in FY 2010.

GRANT MATCH REQUIREMENTS

DWI STEP Grant Match: The Texas Department of Transportation (TxDOT) DWI Selective Traffic Enforcement Program (STEP) is designed to assist the City of San Antonio Police Department increase its DWI enforcement through overtime efforts of Traffic Officers. FY 2009 will represent the sixth year that the City will participate in the STEP and would require a $16,215 cash match. This mandate would provide the cash match of $16,125 for FY 2009 and assist in securing the $800,000 grant.

ReACT Grant Match (Auto Crime Prevention): The Regional Auto Crimes Team (ReACT) Program was established to perform proactive programs such as conducting salvage inspections, surveillance of high auto theft and recovery areas, and holding auto theft prevention seminars with civil groups. The base cash match for this project is $534,433. This mandate, totaling $56,021, for FY 2009, would provide the additional cash match needed to address the cost increase for City personnel costs and other operating expenses.

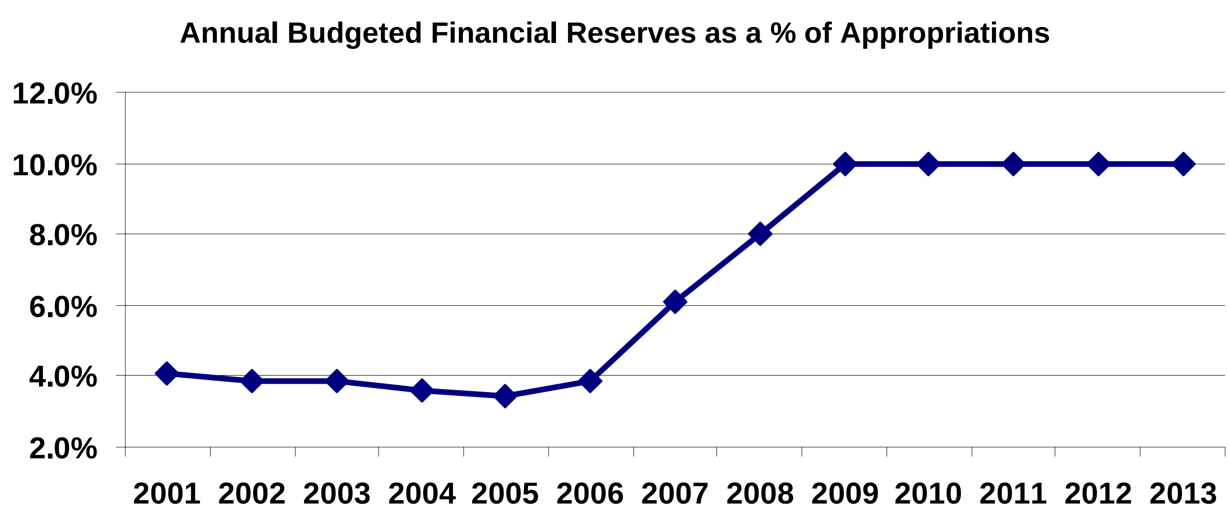
FINANCIAL RESERVES FUNDS

The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management. Financial reserves provide budgetary flexibility for unexpected events, to withstand financial emergencies, and to protect the City from the usual uneveness in revenue-expenditure patterns. The FY 2008 Adopted Budget combined three existing financial reserves: 1) Contingency Reserve Fund, 2) Emergency Reserve Fund and 3) Budget Stabilization Reserve Fund into one *Budgeted Financial Reserves Fund*.

Additionally, the FY 2008 Budget increased reserves from 6.11% of operating expenditures in FY 2007 to 8.00% of operating expenditures in FY 2008 for a total reserve amount of $68.17 million. The FY 2008 Budget also established a goal of 10% of appropriations as a target for Budgeted Financial Reserves to be acccomplished by FY 2009.

The Budgeted Financial Reserves 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.

The FY 2009 – FY 2013 Forecast recommends allocating substantial funding to the reserve to reach the 10% goal in FY 2009 and maintains this goal through FY 2013. The following graph represents a history of the General Funds' Budgeted Financial Reserves and the projection over the forecast period.



HOTEL OCCUPANCY TAX-RELATED FUNDS

CONVENTION, SPORTS AND ENTERTAINMENT SERVICES

Hotel Occupancy Tax Fund

The Hotel Occupancy Tax (HOT) Fund accounts for revenues received from Hotel Occupancy Tax Collections. The fund supports tourism through a transfer to the Community and Visitor Facilities Fund (CVF), the Convention and Visitors Bureau Fund (CVB) and the Cultural Affairs Fund. The fund also supports various visitor related activities such as maintenance of the River Walk, HemisFair Park, and La Villita through a transfer of a portion of its HOT revenues to the General Fund under History and Preservation.

The following is the Financial Forecast for the Hotel Occupancy Tax Fund. It reflects projections for a five year period from FY 2009 through FY 2013. The Forecast includes as its starting point the current fiscal year budget and preliminary estimated projections for the fiscal year. The Forecast includes financial projections on revenues, expenditures, ending balances and reserves.

	FY 2008 Budget	FY 2008 Estimate	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection	FY 2012 Projection	FY 2013 Projection
RESOURCES							
Beginning Balance	$7,344	$8,653	$0	$0	$0	$0	$0
Use of Reserve for Two Year Balanced Budget	0	0	6,182	1,510	0	0	0
Hotel Occupancy Tax	53,133	53,860	56,015	58,115	60,149	61,954	63,812
Interest Earnings	1,103	717	373	386	407	417	424
TOTAL RESOURCES	**61,580**	**63,230**	**62,570**	**60,011**	**60,556**	**62,371**	**64,236**
TRANSFERS							
Community & Visitor Facilities Fund	18,286	17,268	20,223	21,300	22,187	22,754	23,908
Convention & Visitors Bureau Fund	19,104	19,104	20,244	20,788	21,630	22,281	22,913
Cultural Affairs Fund	7,968	7,968	8,401	8,716	9,021	9,291	9,570
Support for History and Preservation	7,970	8,079	8,402	8,717	9,022	9,293	9,572
Other Transfers	2,629	2,629	2,290	2,318	2,341	2,364	2,385
Renewal, Improvement & Contingency (Incremental)	1,000	2,000	1,500	1,000	1,000	1,000	1,000
Reserve for Two Year Balanced Budget	4,400	6,182	1,510	0	0	0	0
TOTAL TRANSFERS	**61,357**	**63,230**	**62,570**	**62,839**	**65,201**	**66,983**	**69,348**
ENDING BALANCE / ADJ. REQUIRED	***$223***	***$0***	***$0***	***($2,828)***	***($4,645)***	***($4,612)***	***($5,112)***
FINANCIAL RESERVES SUMMARY							
Financial Reserves Goal (2 Months Operating Budget)	9,222	9,235	9,281	9,627	10,049	10,397	10,749

Financial Reserve Goal is not achieved in the Forecast period

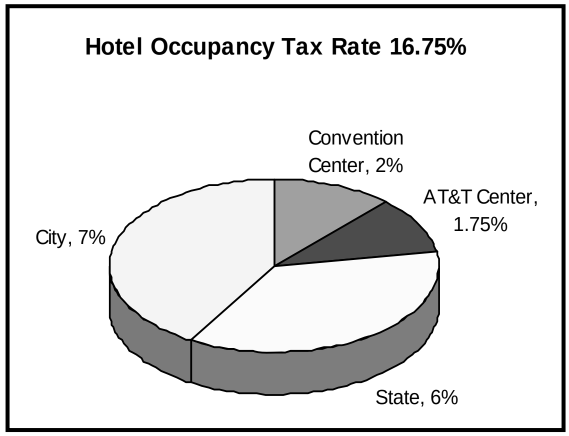
Analysis of Revenues vs. Expenditures

The Hotel Occupancy Tax Fund Forecast table presents a comparison of projected yearly revenues, projected current services expenditures, projected mandates and resulting projected balances in the Hotel Occupancy Tax Fund over the forecast period. The ending balance reflects the difference between the beginning balance plus operating revenues and operating expenditures. During the forecast period, the $4.4 million Budgeted Financial Reserve will be expensed as necessary to cover shortfalls and maintain the solvency of the Fund.

As shown in the Hotel Occupancy Tax Fund Forecast, the Fund experiences shortfalls in the out-years between 2011 and 2013. The anticipated shortfalls are a result of the combination of an overall downturn in the economy resulting in a decreased growth rate of HOT collections along with the rising cost of commodities and inflation which increase the total expense to be incurred by HOT supported departments.

Revenues

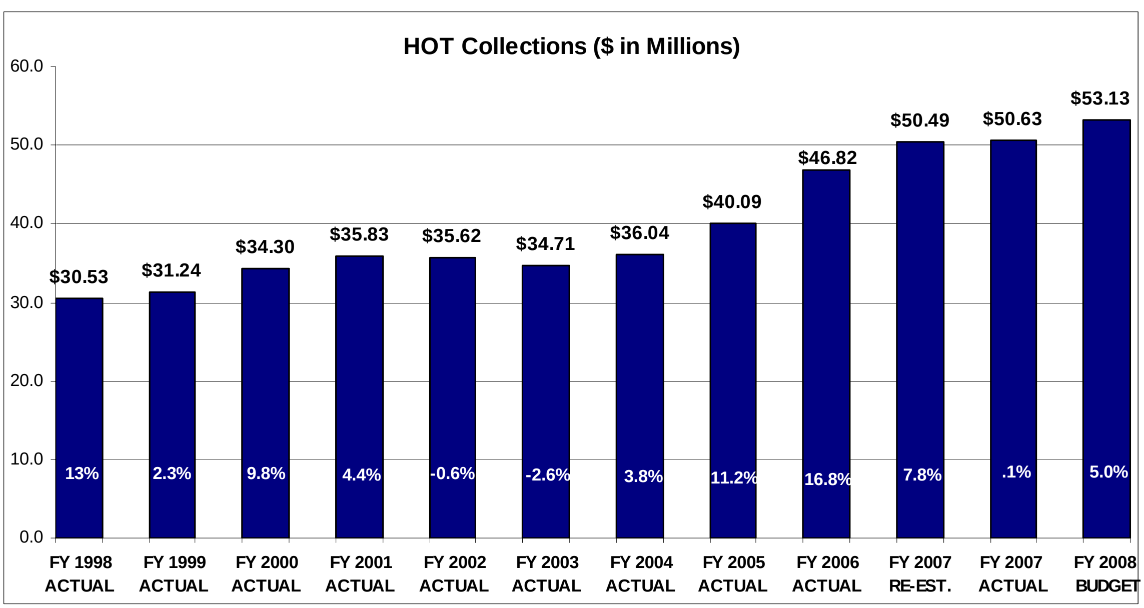
The current Hotel Occupancy Tax (HOT) rate of 16.75% levied on every room night charge is comprised of 6% for the State, 7% for the City, 2% for the Convention Center Expansion Debt Service and future Convention Center Projects, and 1.75% for the AT&T Center arena. With the impending completion of AT&T Center debt service payments, future Bexar County HOT collections will be distributed according to voter approval following the May general elections.



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 and Outlook section of the Forecast.

HOT revenue is estimated to be $53.13 million for FY 2008, which is 5.0% higher than the FY 2007 actual collections. HOT revenues are projected to increase at annual rates of 4.0% (FY 2009), 3.75% (FY 2010), 3.5% (FY 2011), 3.0% (FY 2012) and 3.0% (FY 2013) during the forecast period years. The primary reason for the current year growth in HOT revenue is the continued strength in local convention business in conjunction with the opening of the new Grand Hyatt Hotel and the City's hosting of the 2008 NCAA Men's Final Four Tournament. Additionally, leisure travel continues to support the overall growth as San Antonio remains home to the State's top two tourist attractions, the Alamo and the River Walk, according to the State of Texas Office of Economic Development and Tourism.

As the historical HOT Collections graph shows below, over the past ten years, the City's HOT Collections have increased 74%.



The dedicated 2% HOT revenue collections for the Convention Center Expansion is recorded within a separate fund and is not reflected in HOT revenue projections within the Hotel Occupancy Tax 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 Hotel Occupancy Tax 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, Sports, and Entertainment Facilities Department are facility rentals, catering and concession commissions, reimbursable expenses, parking revenue and various event-related fees from the Alamodome, Convention Center, Lila Cockrell Theater, and Municipal Auditorium. Revenues for the facilities are based on event mix projections for each of the years in the forecast period.

The forecast for the Hotel Occupancy Tax Fund assumes a re-estimate of revenues for FY 2008 as the starting point.

Current Services Expenditures

This section of the Forecast projects expenditures based on the current services level. The current services level assumes that Arts and Cultural Agencies Funding and Support for History and Preservation will remain at 15% of HOT collections. The FY 2009 target assumes the removal of the one-time improvements included in the FY 2008 Adopted Budget.

The inflation rates used to project non-personal services expenditures were derived from the national Consumer Price Index (CPI) projections for each year from 2009 through 2013. These rates and their underlying assumptions were described in the Economic Perspective and Outlook chapter. Shown below are the assumed inflation rates for each year of the forecast period:

FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
3.37%	3.37%	2.60%	2.60%	2.60%

Included in the Current Services expenditure amounts are adjustments to assessments needed to sustain the City’s Employee Benefits and Liability programs that are funded by the City’s self-insurance funds.

Financial Reserve

The establishment and maintenance of an appropriate financial reserve within the Hotel Occupancy Tax Fund had been the goal of the 2007 Five Year Financial Forecast. This reserve is designed for the departments who utilize Hotel Occupancy Tax dollars in smoothing fluctuations in available resources from year to year and stabilizing the budget. At the end of FY 2008 the Budget Stabilization Reserve will hold an estimated $7.7 million in reserve funds. It is anticipated, based on current revenue and expenditure projections, that the reserve will be needed beginning in FY 2009 to make up for a shortfall in revenues.

Community and Visitor Facilities Fund

The Community and Visitor Facilities Fund (CVF) accounts for revenues and expenditures generated from convention, tourism, sports, and entertainment related activities. In order to increase efficiency, the Community and Visitor Facilities Fund combines the resources of the Convention, Sports, and Entertainment Facilities Department and International Affairs to fund the operations of the Alamodome, Convention Facilities, and the protocol unit of the International Affairs Department. It is funded primarily through revenues generated from the City's sports, entertainment and convention facilities as well as a transfer from the Hotel Occupancy Fund.

The following is the Financial Forecast for the Community and Visitor Facilities Fund.

Community and Visitor Facilities Fund Forecast
($ In Thousands)

	FY 2008 Budget	FY 2008 Estimate	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection	FY 2012 Projection	FY 2013 Projection
RESOURCES							
Beginning Balance	$0	$0	$0	$0	$0	$0	$0
Alamodome Revenue	6,027	6,143	4,932	5,314	5,467	5,886	6,055
Convention Center Revenue	10,848	11,742	10,334	10,540	10,750	10,964	11,181
Other Revenue	358	361	373	386	396	407	417
Transfer from Hotel Occupancy Tax	18,286	17,268	20,223	21,300	22,187	22,754	23,908
TOTAL RESOURCES	**35,519**	**35,514**	**35,862**	**37,540**	**38,800**	**40,011**	**41,561**
EXPENDITURES							
Base Budget*	35,519	35,514	35,243	36,602	38,489	39,922	41,358
Mandates (Incremental)	0	0	619	938	311	89	203
TOTAL EXPENDITURES	**35,519**	**35,514**	**35,862**	**37,540**	**38,800**	**40,011**	**41,561**
ENDING BALANCE	***$0***	***$0***	***$0***	***$0***	***$0***	***$0***	***$0***

*Base Budget expenditures for Convention, Sports and Entertainment Facilities, Alamodome, International Affairs, and Non-Departmental Departments

Mandates

CVB Hosting Obligations- This mandate will fund costs associated with the annual contractual obligations incurred 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 2009 include the SAP Global, Shriners, American Dental Association, and the National Council of La Raza conventions. In FY 2009, these hosting obligations are estimated to be $618,725.

NCAA Event Hosting Obligations- In 2010 The City of San Antonio will play host to another National Collegiate Athletic Association (NCAA) tournament: the Women's Final Four Tournament. The hosting obligation for this tournament of $174,350 is associated with contractual obligations to the NCAA related to operating expenses including pipe and drape, electrical expenses, seating, and signage for the event.

Community and Visitor Facilities Fund Mandates

-Expenditures Shown Incrementally-

Mandate Title	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Hosting Obligations (One-time)	$ 618,725	$ 764,175	$ 310,770	$ 89,000	$ 203,350
NCAA Hosting Obligations (One-time)	$ 0	$ 174,350	$ 0	$ 0	$ 0
TOTALS	**$ 618,725**	**$ 938,525**	**$ 310,770**	**$ 89,000**	**$ 203,350**

Policy Issues

Convention, Sports, and Entertainment Facilities Studies The Convention, Sports, and Entertainment Facilities Department is currently conducting a Facility pricing study to determine the market rate for convention facilities fees as well as the best practice structure to maximize facility revenues and improve customer service.

Convention and Visitors Bureau Fund

The Convention and Visitors Bureau Fund accounts for revenues and expenditures generated in Marketing and Promotion of San Antonio as a premier leisure and convention destination. It is supported from revenues generated by the Convention and Visitors Bureau as well as a transfer from the Hotel Occupancy Tax Fund.

The following is the Financial Forecast for the Convention and Visitors Bureau Fund.

Convention and Visitors Bureau Fund Forecast
($ In Thousands)

	FY 2008 Budget	FY 2008 Estimate	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection	FY 2012 Projection	FY 2013 Projection
RESOURCES							
Beginning Balance	$0	$0	$0	$0	$0	$0	$0
Current Revenue	127	209	130	134	138	139	140
Transfer from Hotel Occupancy Tax	19,104	19,104	20,244	20,788	21,630	22,281	22,913
TOTAL RESOURCES	**19,231**	**19,313**	**20,374**	**20,922**	**21,768**	**22,420**	**23,053**
EXPENDITURES							
Base Budget	19,231	19,313	20,374	20,922	21,768	22,420	23,053
TOTAL EXPENDITURES	**19,231**	**19,313**	**20,374**	**20,922**	**21,768**	**22,420**	**23,053**
ENDING BALANCE	***$0***	***$0***	***$0***	***$0***	***$0***	***$0***	***$0***

Cultural Affairs Fund

The Cultural Affairs Fund accounts for expenditures generated from the leadership, resources, and support for arts and cultural organizations and individual artists. The fund accounts for the operating expenditures of the Office of Cultural Affairs as well as the contributions made to art and cultural agencies. It is supported through a transfer from the Hotel Occupancy Tax Fund.

The following is the Financial Forecast for the Cultural Affairs Fund.

Cultural Affairs Fund Forecast
($ In Thousands)

	FY 2008 Budget	FY 2008 Estimate	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection	FY 2012 Projection	FY 2013 Projection
RESOURCES							
Beginning Balance	$0	$0	$0	($0)	($0)	$0	$0
Transfer from Hotel Occupancy Tax	7,968	7,968	8,401	8,716	9,021	9,291	9,570
TOTAL RESOURCES	**7,968**	**7,968**	**8,401**	**8,716**	**9,021**	**9,291**	**9,570**
EXPENDITURES							
Office of Cultural Affairs Operating Budget	1,851	1,851	1,828	1,879	1,932	1,983	2,037
Contributions to Cultural Agencies (Base)	5,961	5,961	5,961	6,415	6,678	6,927	7,144
Funding to Maintain 15% to Arts (Incremental)	0	0	454	263	250	218	225
Transfers (Art Programming)	156	156	158	159	161	163	164
TOTAL EXPENDITURES	**7,968**	**7,968**	**8,401**	**8,716**	**9,021**	**9,291**	**9,570**
ENDING BALANCE	***$0***	***$0***	***$0***	***$0***	***$0***	***$0***	***$0***

Policy Issues

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. In FY 2007, the City Council approved an increase in funding to the maximum 15% allowed.

Art program funding is distributed on a competitive basis and is managed by the City's Office of Cultural Affairs. There are seven funding programs summarized as follows:

- General Operating Program
- Project Funding Program
- Neighborhood Arts Program
- Deferred Maintenance and Capital Program
- Stabilization Program
- Incubator Program
- New Collaborations Program

The General Operating Program provides support to arts and cultural agencies that 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 specific events or programs. The Neighborhood Arts Program encourages partnerships between arts and cultural organizations and neighborhood based groups. Funding is usually very specific to activities and neighborhoods. The Deferred Maintenance and Capital Program is for General Operating Program award recipients who reside in City-owned facilities or have a long term lease. The Stabilization Program is also for General Operating Program award recipients and addresses specific stabilization issues of an organization. The Incubator Program was developed specifically for small and emerging organizations that can benefit from an administrative capacity building program. The New Collaborations Program encourages the collaboration of arts and cultural organizations that would produce new works or cultural activities. All the programs are competitive with specific review committees providing input on the major focus areas of each program.

The FY 2009 - FY 2013 Forecast assumes that the art funding level will remain at the 15% level approved in FY 2007. As seen in the following table, there are several components that make up City art funding. In addition to the department budget of the Office of Cultural Affairs and the Contributions to Cultural Agencies, funding is also provided through contractual agreements to the Majestic Theatre, San Antonio Symphony and the Carver Center. Additionally, Arts funding helps cover a portion of the indirect cost transfer to the General Fund as well as a transfer to pay for the services of a Planner II. In FY 2007, the City Council also agreed to use 4.25% of HOT collections for cultural agencies using City-owned facilities. This funding is a part of the overall 15% provided to Arts and Cultural Agencies.

DEVELOPMENT & PLANNING SERVICES FUND

Development & Planning Services Fund

Introduction

The Development & Planning Services Fund was established in FY 2007 to account for revenues and expenditures generated from all development related activities and to ensure development revenues are used to support development expenses. The Fund includes departmental expenses for Development Services, Planning & Community Development, and the San Antonio Fire Department's Fire Prevention Division.

The Development Services Department is responsible for protecting the health, safety, and quality of life for the residents of San Antonio through regulation of land development and construction. In addition, the Department seeks to provide an efficient and effective development process that supports City growth and economic development. These processes include consulting, educating, reviewing, permitting, inspecting, and granting authority to develop land and occupy buildings within the City. The Department is also responsible for master development plans, vested rights, subdivision mapping/parcel addressing, zoning administration, subdivision administration, building codes administration, landscaping, tree preservation, sign regulation, and development review of streets and traffic.

Since the development process involves review by other City departments and outside agencies, the Development Services Department seeks to facilitate the coordination of these reviews to provide quality customer service. The creation of the Development and Planning Services Fund provides many benefits to the departments and their customers. Benefits generated by the creation of the Fund include:

- Greater trust by stakeholders and improved perception of the departments
- Enhanced accountability by appropriately aligning revenue with expenses and adjusting to economic trends

Establishment of the Fund has also allowed the City to expand and reduce staffing levels and resources when needed to (1) ensure a positive balance fund and (2) to make continuous improvements in the cycle time for permitting, to ensure consistency and quality of plan review and inspections, and to enhance customer service.

Five Year Financial Forecast

Below is the Financial Forecast for the Development & Planning Services Fund. The Forecast reflects projections for a five year period from FY 2009 through FY 2013 and includes as its starting point the current fiscal year budget and preliminary estimated projections for the fiscal year. The Forecast includes financial projections on revenues, expenditures, ending balances, and reserves.

Development & Planning Services Fund Forecast
($ In Thousands)

	FY 2008 Budget *	FY 2008 Estimate	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection	FY 2012 Projection	FY 2013 Projection
RESOURCES							
Beginning Balance	($3,708)	($3,112)	($1,175)	$461	$957	$1,010	$583
Current Revenue	30,150	30,150	30,172	30,735	31,309	31,894	32,491
TOTAL RESOURCES	**26,442**	**27,038**	**28,997**	**31,196**	**32,266**	**32,904**	**33,074**
EXPENDITURES							
Base Budget	28,281	28,213	28,536	30,239	31,256	32,321	32,384
TOTAL EXPENDITURES	**28,281**	**28,213**	**28,536**	**30,239**	**31,256**	**32,321**	**32,384**
ENDING BALANCE/ADJ. REQUIRED	***($1,839)***	***($1,175)***	***$461***	***$957***	***$1,010***	***$583***	***$690***
FINANCIAL RESERVES SUMMARY							
Budgeted Financial Reserves Goal (3% of Operating Expenses)	*$848*	*$846*	*$856*	*$907*	*$938*	*$970*	*$972*
Ending Balance Amount Over (Below) Budgeted Financial Reserves	($2,687)	($2,021)	($395)	$50	$72	($387)	($282)

* The FY 2008 Budget reflects mid-year budget adjustments to revenues and expenditures as recommended in the Deficit Reduction Strategy endorsed by City Council in February 2008. Original FY 2008 Revenue Budget was $33,279,773. Orginal FY 2008 Appropriations were $ 29,353,868.

Analysis of Revenues and Expenditures

The Development & Planning Services Forecast represents a comparison of projected yearly revenue, projected current services expenditures and reserves, and resulting projected balances in the Development & Planning Services Fund over the forecast period. The Forecast assumes current service delivery and methodologies. The remaining balance reflects the difference between the beginning balance and the operating revenues, less the operating expenditures and allocations for the budget stabilization reserve.

Revenues

Development revenue collections for this fiscal year continue to be less than expected due to a decline in permit activity. Total revenue collections for FY 2008 are expected to fall short of original budget projections by $3.1 million or 9.4 percent. This is largely due to a decline in new residential building permits. Through the first six months of this fiscal year (October 2007-March 2008), new residential permitting has declined by 58 percent compared to the same period in FY 2007 and is below the original FY 2008 budget projection by 53 percent.

No growth in permitting activity or revenues is assumed in FY 2009. Beginning in FY 2010 and beyond, a 2 percent increase in revenues from the prior year is assumed. In FY 2010, the increase results in additional revenues of approximately $563,000. As a result of the additional activity in FY 2010, the forecast assumes that additional service hours will be funded to accommodate the additional permitting activity.

The FY 2008 Adopted Budget included a series of new fees and fee adjustments in addition to the mid-year fee increases implemented in June 2007. These additional increases were intended to better align rates with the costs associated with providing services.

Current Services Expenditures

This section of the Forecast projects expenditures based on the current service level. The FY 2009 Base Budget assumes the removal of the one-time improvements included in the FY 2008 Adopted Budget.

The inflation rates used to project non-personal services expenditures were derived from the national Consumer Price Index (CPI) projections for each year from FY 2009 through FY 2013. These rates and their underlying assumptions are described in the Economic Perspective and Outlook section.

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

FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
3.37%	3.37%	2.60%	2.60%	2.60%

Due to the revenue shortfalls in both FY 2007 and FY 2008, expenditure reductions have become necessary to assist in stabilizing the Fund. Beginning in February 2008, both Development Services and Planning & Community Development implemented a Deficit Reduction Plan aimed at reducing operating expenditures to eliminate the projected deficit by the conclusion of FY 2009. The Deficit Reduction Strategy was developed with the input of key stakeholders to ensure that there were no decreases in customer service.

The Forecast assumes the implementation of the Deficit Reduction Strategy in FY 2008 continuing into FY 2009. As a result of the implementation, it is projected that the fund will have a positive fund balance of $456,000 by the conclusion of FY 2009. As noted above, FY 2010 and beyond adds back a proportionate number of service delivery in relation to the increase in revenues to address services deferred in FY 2008 as a part of the Deficit Reduction Strategy.

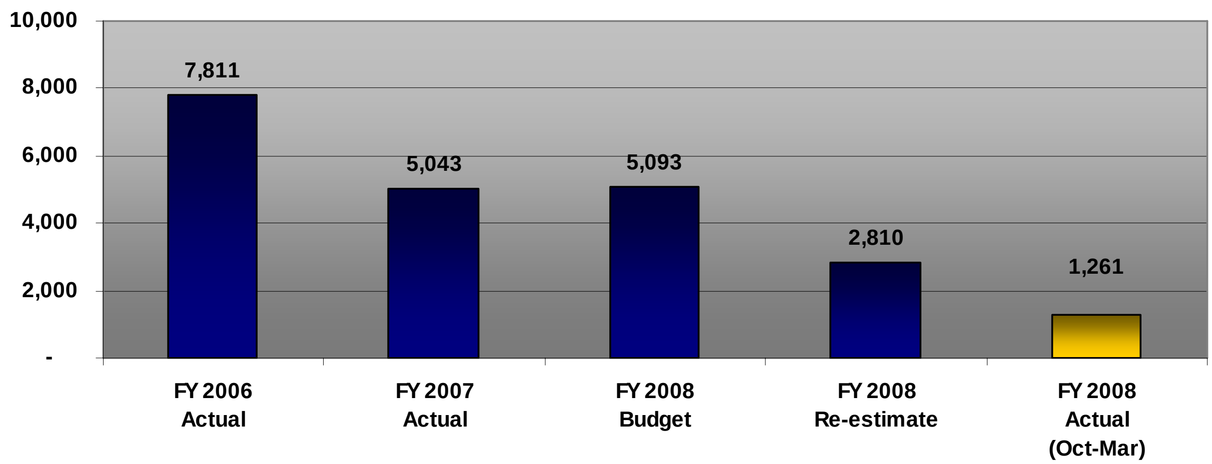
Financial Reserve

The establishment and maintenance of an appropriate financial reserve within the Development Services Fund is critical to prudent financial management. This reserve will assist in smoothing fluctuations in available resources from year to year and in stabilizing the budget. The Budgeted Financial Reserves goal is three percent of operating expenses within the Fund. During the 5-Year Forecast period this goal is not achieved.

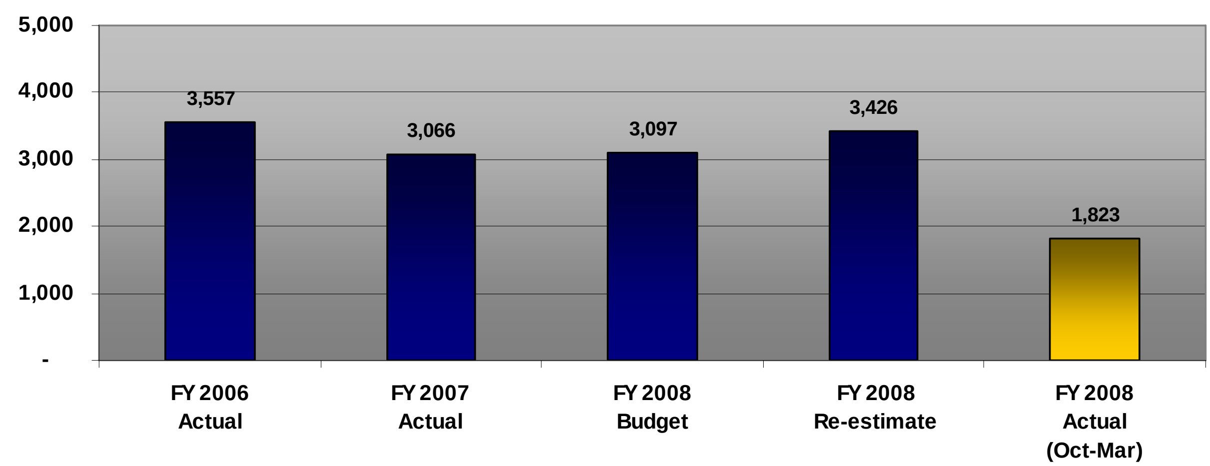
Permit Activity

Finally, the following graphs illustrate the decrease in total permitting activity that has been realized in FY 2008. As noted above, the largest decrease in permitting has occurred in the area of new residential permits. Commercial permitting has remained slightly above projected levels. In the first six months of FY 2008 (October 2007-March 2008), commercial permitting has increased by 24 percent compared to the same period in FY 2007. It is anticipated that as housing inventories are depleted new residential permitting activity will increase, however, it is too early to project when that will occur.

New Residential Building Permits



New & Existing Commercial Building Permits



ENVIRONMENTAL SERVICES FUND

Environmental Services Fund

Introduction

The Environmental Services Fund records all revenues and expenditures for services provided by the Solid Waste Management (SWM) Department. The Department consists of the Solid Waste Division, the Environmental Management Division, and the Office of Environmental Policy (EOP).

The Solid Waste Division focuses on providing weekly refuse and recycling collection services and semi-annual brush pick-up service. The Solid Waste Division is responsible for the collection of municipal solid waste generated from approximately 344,000 homes within the City of San Antonio. Of these homes, City crews service 330,000 and 14,000 are serviced by private contractors. Refuse disposal is currently provided through contractual agreements with two privately held area landfills and one city owned, privately operated, transfer station operation. All forecasted disposal costs assume continued expenditures to private disposal companies.

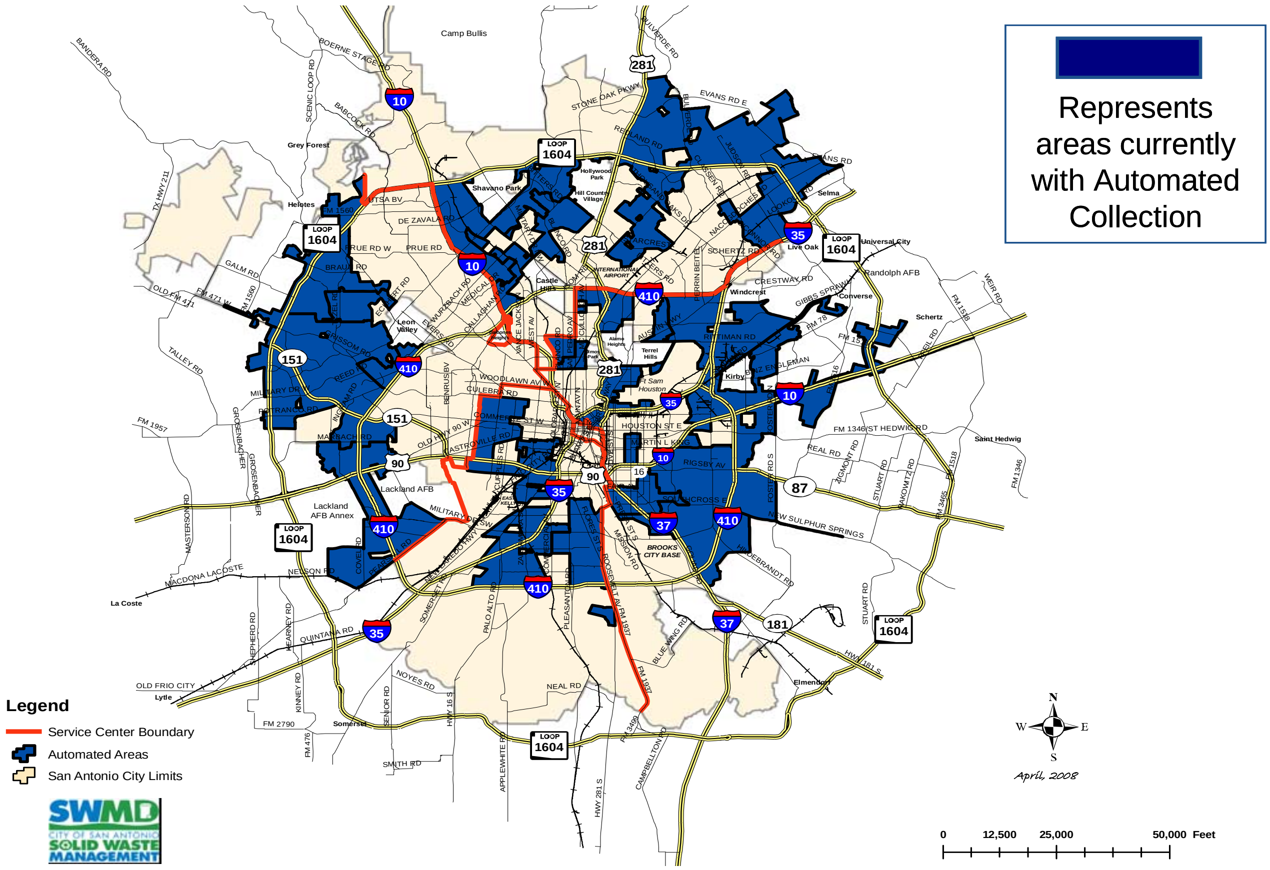
The Environmental Management Division maintains approximately 720 acres of closed City landfill areas and other sensitive, environmentally regulated areas. The division also manages a drop-off facility and operations for brush mulching and a drop-off facility for household hazardous waste.

The Office of Environmental Policy was created during the FY 2008 Budget Process in an effort to address rising energy costs and increasing concerns about the long term impact of current levels of energy consumption. The EOP coordinates air quality and green building initiatives, collaborates with CPS and SAWS, develops incentives for environmental programs in partnership with other departments and agencies, and coordinates existing sustainable practices between City departments. Beyond increasing energy efficiency and lowering energy costs, the EOP boosts public awareness of environmental issues with the ultimate goal of improving the quality of life for city residents.

In FY 2009, the SWM Department will be in the third year of its solid waste collection conversion project. Expected to be completed by 2010, the citywide conversion from manual to automated solid waste collection will also incorporate fully automated recyclables collection. By the end of FY 2008, 175,000 of the 344,000 homes will have been converted to automated collection. Below is the Department's estimated home conversion schedule through the 3½ year conversion timeframe.

Route Conversion	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Estimate
Homes Converted (Approximate)	75,000	100,000	100,000	34,600

The following map shows the areas of the city that are currently fully automated for garbage and recycling collections.



Five-Year Financial Forecast

The following is the Financial Forecast for the Environmental Services Fund. It reflects projections for a five-year period from FY 2009 through FY 2013. The Forecast includes as its starting point the current fiscal year budget and preliminary estimated projections for the fiscal year. The Forecast includes financial projections on revenues, expenditures, ending balances, and reserves.

Environmental Services Fund Forecast
($ In Thousands)

	FY 2008 Budget	FY 2008 Estimate	FY 2009 Projection	FY 2010 Projection	FY 2011 Projection	FY 2012 Projection	FY 2013 Projection
RESOURCES							
Beginning Balance	$4,552	$5,206	$4,636	$2,947	$868	$12	$3,185
Current Revenue	83,862	85,820	87,295	90,386	94,031	96,942	98,953
TOTAL RESOURCES	**$88,413**	**$91,025**	**$91,931**	**$93,332**	**$94,899**	**$96,954**	**$102,138**
EXPENDITURES							
Base Budget	$84,704	$83,065	$87,875	$91,127	$93,924	$91,786	$95,546
Mandated Service Delivery Costs (Incremental)	0	0	609	838	763	782	824
TOTAL EXPENDITURES	**$84,704**	**$83,065**	**$88,484**	**$91,964**	**$94,687**	**$92,569**	**$96,370**
Financial Reserves							
Budgeted Financial Reserves (Incremental)	$3,324	$3,324	$500	$500	$200	$1,200	$1,200
ENDING BALANCE	***$385***	***$4,636***	***$2,947***	***$868***	***$12***	***$3,185***	***$4,568***
BUDGETED RESERVES SUMMARY							
Total Annual Budgeted Financial Reserves		*$5,498*	*$5,998*	*$6,498*	*$6,698*	*$7,898*	*$9,098*
Annual Budgeted Financial Reserves as a % of Appropriations		*7.0%*	*7.2%*	*7.5%*	*7.5%*	*9.0%*	*10.0%*

Financial Reserves Goal is 10% of Appropriations

Analysis of Revenues and Expenditures

The Environmental Services Fund Forecast Table represents a comparison of projected yearly revenue, projected services expenditures and reserves, and the resulting projected balances in the Environmental Services Fund over the forecast period. The Forecast reflects the continuation of the 3½ year automated conversion schedule included within the FY 2008 Adopted Budget.

The remaining balance reflects the difference between the beginning balance and the operating revenues, less the operating expenditures and allocations for budgeted financial reserves. Increases in fees to include the Solid Waste Fee, Brush Fee, and the Automated Conversion Fee are assumed in the Five-Year Forecast.

The FY 2009 Proposed Budget will include analysis of FY 2009 proposed collection frequencies, automation implementation, service delivery methods, rate analysis, growth routes, and private sector contracts. These analyses may impact the projections in FY 2009 and throughout the forecasted period.

Revenues

The primary sources of revenue for the Environmental Services Fund are the Solid Waste Fee, Brush Fee, Environmental Fee, and Automated Conversion Fee. These fees are assessed to customers monthly and billed by CPS Energy (CPS). The Solid Waste and Brush Collection Fees are assessed to each residential household in the City for collection services. The Environmental Fee is charged to all customers and commercial entities. Forecasted revenues are based on an estimate reflecting a 1.00% average annual rate of growth in homes beginning in FY 2009 and continuing through each year of the forecast period. The Forecast assumes re-estimated revenues for FY 2008 as the starting point.

Below is a five-year history of the monthly rates associated with the Environmental Services Fund. Note that the Conversion fee reflects a $10 million and a $5 million CPS Utility Rebate which was adopted in the FY 2007 and FY 2008 budgets respectively.

History of Monthly Rate Fees

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Solid Waste Fee	$9.71	$9.71	$10.16	$11.42	$12.66
Brush Collection Fee	1.20	1.20	2.53	2.53	2.53
Environmental Fee	1.30	1.30	1.30	1.30	1.30
Conversion Fee	0.00	0.00	0.00	0.74	1.50
Total	**$12.21**	**$12.21**	**$13.99**	**$15.99**	**$17.99**

In order for the Environmental Services Fund to maintain financial stability, fee increases are assumed throughout the forecasted period for fuel, labor, and other rising operational costs. These estimated rate increases assumed in the Forecast are reflected in the following table:

FY 2009-2013 Financial Forecast Estimated Monthly Projected Adjustments

Monthly Fees	FY 2008 Adopted	FY 2009 Projected	FY 2010 Projected	FY 2011 Projected	FY 2012 Projected	FY 2013 Projected
Solid Waste Fee	$12.66	$14.26	$16.31	$16.98	$17.46	$17.71
Brush Fee	2.53	2.53	2.53	2.53	2.53	2.53
Environmental Fee	1.30	1.30	1.30	1.30	1.30	1.30
Conversion Fee	1.50	1.50	0	0	0	0
Total Monthly Fees	**$17.99**	**$19.59**	**$20.14**	**$20.81**	**$21.29**	**$21.54**
Net Increase Over Previous Year	**$2.00**	**$1.60**	**$0.55**	**$0.67**	**$0.48**	**$0.25**

The FY 2008 Adopted Budget included an adjusted monthly Conversion Fee of $1.50, which will continue through FY 2009. In FY 2008, CPS revenues in the form of a one-time utility rebate of $5 million from the General Fund was transferred to the Environmental Services Fund to defray the overall cost of the needed capital investment and thus reduce the Conversion Fee required. The Conversion Fee is planned to be phased out in FY 2010; however, as daily operational costs continue to increase, the Solid Waste Fee component of residents' monthly bill is projected to continue to increase through FY 2013.

The FY 2008 Adopted Budget included an Assistance Program for Seniors, Disabled, and Low Income Families. The Department allocated $1.59 million in FY 2008 towards the creation of this program, administered through the Department of Community Initiatives. It is estimated that a balance of $1 million will remain available at the end of FY 2008. To mitigate the potential financial impact in FY 2009 of the projected $1.60 per month rate increase, the Department will continue the assistance program targeted towards seniors, the disabled community and low-income families. The projected FY 2009 budget reflects the carry forward amount of $1 million to continue this assistance program.

Current Services Expenditures

The Forecast also projects expenditures using the adopted 3½ year automated conversion schedule and includes automated conversion service deliveries and methodologies. The FY 2009 Base Budget, however, assumes the removal of the one-time improvements included in the FY 2008 Adopted Budget.

The inflation rates used to project non-personal services expenditures were derived from the national Consumer Price Index (CPI) projections for each year from 2009 through 2013. These rates and their underlying assumptions are described in the Economic Perspective and Outlook section.

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

FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
3.37%	3.37%	2.60%	2.60%	2.60%

Financial Reserve

The establishment and maintenance of an appropriate financial reserve within the Environmental Services Fund is critical to prudent financial management. This reserve would assist the Environmental Services Department in smoothing fluctuations in available resources from year to year and stabilizing the budget. The FY 2009 - FY 2013 Forecast recommends a Budgeted Financial Reserve goal of 10 percent of operating expenditures. It is anticipated based on current revenue and expenditure projections that the financial reserve goal would be attained in FY 2013.

Mandates

The Mandates Table below 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 forecast projections.

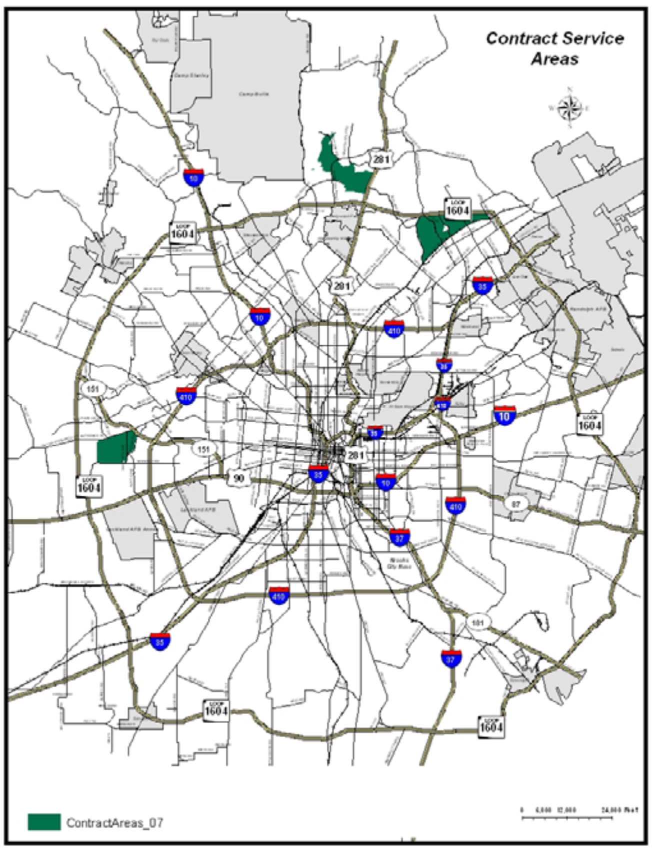
Mandate Title	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Collection Contracts (Recurring)	$15,710	$0	$0	$0	$0
Disposal Contracts (Recurring)	500,747	741,822	664,014	680,558	719,004
Mo. Billing & Coll. Srvcs. (Recurring)	92,733	95,705	98,772	101,937	105,204
Totals	**$609,190**	**$837,527**	**$762,786**	**$782,495**	**$824,208**

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 SWM 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 three private sector solid waste collection areas with Waste Management Incorporated (WMI). The Contract Areas Map indicates the three City areas that are serviced by WMI. The three areas 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 three collection contracts for these areas were awarded to WMI based on the determination that the cost of privatization was more efficient than the cost of the Solid Waste Department to provide the same service.

The two collection contracts are estimated to increase due to inflation set forth by the CPI in the amount of $15,710 in FY 2009.

Contract Service Areas



Expiration of Contracts

Escalating costs in fuel, labor, and equipment costs within the last twelve months have negatively impacted private solid waste contractors. During the latter part of FY 2005, rates for their services began to increase dramatically as contractors attempted to recover their costs.

Currently the SWM Department contracts for collection services for approximately 14,000 homes. At the end of 2007, the Department entered into two contracts, which will extend collection services to the Heritage NW and Longs Creek areas through the end of 2008.

Solid Waste Private Sector Garbage Collection Services Facts Summary
With Expiration Dates Highlighted

Contracted Company	Contracted Area	Homes	Current Contracted Rates (Monthly per Household	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
WMI	Heritage & Longs Creek	10,282	$23.75	31-Dec-2008				
WMI	Stone Oak	3,762	$11.64		31-Dec-2009			

Disposal Contract Increases

Disposal contracts are scheduled for mandated price increases based on contract requirements. The SWM 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 Solid Waste Department currently has disposal contracts with Waste Management (WMI), Allied Waste Industries (AWI), and Texas Disposal Systems Landfill, Inc. (TDSL). The incremental cost for these mandated increases is $500,747 in FY 2009.

The following table describes the disposal contracts in more detail.

Disposal Contracts

Company Ownership	Landfill Name	Term	Contract Beginning Date	Contract Ending Date
WMI	Covel Gardens Landfill	30 yrs	1995	2025
AWI	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 increased 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 $92,733 in FY 2009.

ECONOMIC OUTLOOK & PERSPECTIVE

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 government 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 as a whole. 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.

Throughout the Economic Perspective and Outlook section, San Antonio is frequently referred to as a Metropolitan Statistical Area (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 conglomeration of the following counties: Atascosa, Bandera, Bexar, Comal, Guadalupe, Kendall, Medina, and Wilson.

EXECUTIVE SUMMARY

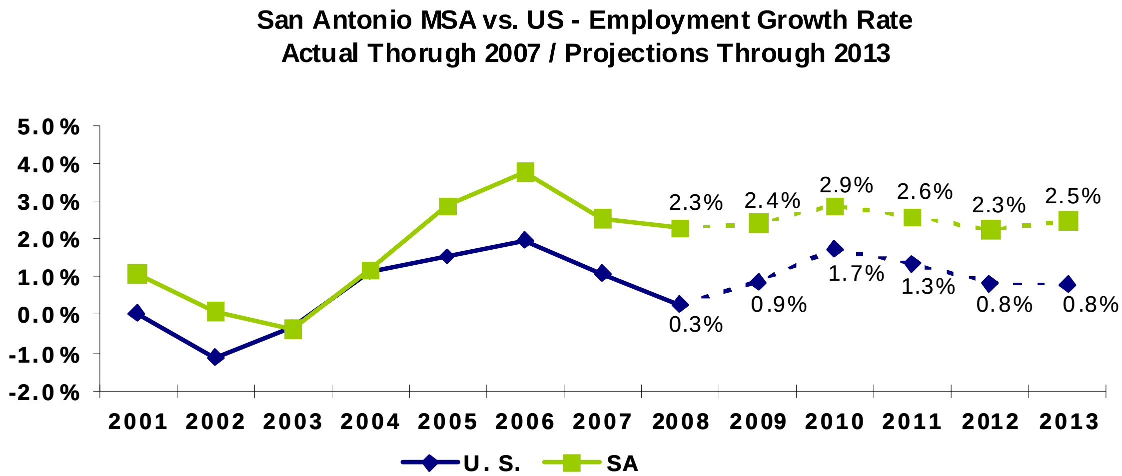
The **U.S. economy** has been steadily trending toward a recession. Many economists still define a recession as two consecutive quarters of negative economic growth. However, recessions are difficult to diagnose in real-time, especially using this definition, due to the lag in obtaining the relevant data. It is increasingly more commonplace to define a recession by analyzing trends in key economic indicators. One of these indicators is consumer confidence as consumer spending accounts for about two-thirds of all economic activity in the U.S. According to the early April 2008 release of the Reuters/University of Michigan Survey of Consumers, consumer confidence is at its lowest since 1982, and has slipped more than 20 percent since January 2008 and 27 percent since April 2007. The subprime financial crisis has been the leading catalyst toward the downward economic trend, the effects of which have contributed to declining corporate profits, tightening credit markets, and increased unemployment. These indicators, along with dropping stock prices and house prices, continue to be contributing factors toward this downward trend in consumer sentiment and the overall economy. The recent action taken by the Federal Reserve in cutting interest rates and the upcoming fiscal stimulus package attempts to bring some relief by the end of the year. These actions, however, have contributed to weakening of the dollar and rising inflation and will continue to be an issue both nationally and locally. Gasoline and food price increases are also directly affecting consumer spending, particularly for travel and leisure goods.

While many economists believe the U.S. economy is either already in a recession or will be in a recession soon, the **San Antonio economy** should continue to experience some growth, albeit minimal. The region's unemployment rate continues to run about one percentage point below the national level – a trend which is projected to remain consistent throughout the forecast period. According to Moody's financial services, the cost of doing business in San Antonio is the lowest of all major Texas metropolitan areas at 86% of the U.S., with Dallas (96%) being the next lowest. Additionally, San Antonio continues to be an affordable place to live, with cost of living at 94% of the U.S. The region also looks to benefit from defense spending, with funds set aside for Base Realignment and Closure (BRAC) construction, including renovations at Brooke Army Medical Center and Wilford Hall Medical. As elsewhere, the housing market is weakening in San Antonio, with foreclosures rising and surplus housing inventory increasing monthly, albeit at levels below many other areas of the country. However, home prices have held up relatively well, rising 8.3 percent from 4th quarter 2006 to 4th quarter 2007, according to the Office of Federal Housing Enterprise Oversight. Furthermore, it is not expected that home prices will decline in San Antonio due to the fact that the housing market never experienced the build-up of a bubble and the structure of the housing market in the area. San Antonio continues to remain vulnerable in the tourism sector due to its dependency on the national economy. This City does, however, offer an affordable alternative to more costly destinations. San Antonio should be negatively affected by the national economic slowdown although possibly not as much as other regions where the housing situation has sparked plummeting home prices and mounting housing surpluses. The City's economic outlook projects cautious optimism during the current year and throughout the forecast period.

The following sections provide further analysis to these and other key trends and indicators including historical and projected estimates through 2013. They are organized by three main categories: Employment & Income, Production & Inflation, and the San Antonio Economy. The Employment & Income section includes Employment Growth, the Unemployment Rate and Income statistics. The Production & Inflation section includes national economic factors such as Gross Domestic Product (GDP), Gross Metro Product (GMP), and the Consumer Price Index (CPI). The final section provides an overview of San Antonio's economy, population, housing trends, hotel activity, and airport activity.

EMPLOYMENT & INCOME

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 historical data on San Antonio's **employment growth** rate compared to the national level along with projections from 2008 through 2013.



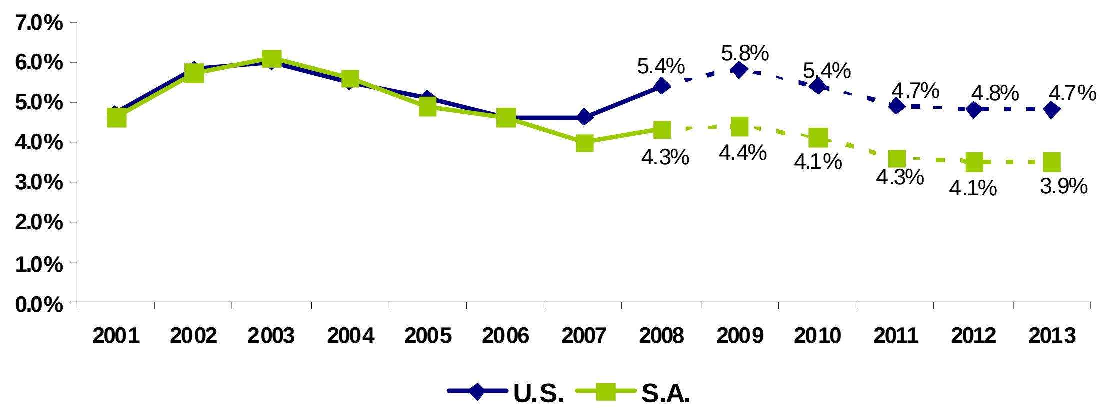
Source: Actual data from U.S. Bureau of Labor Statistics. Projections from Moody's Economy.com

Since 2003, San Antonio has seen increased employment and has continued to outpace the national economy as a whole. Between 2006 and 2007, San Antonio added approximately 21,000 jobs or 2.6 percent. Moody's forecasting services anticipates steady growth through 2008 and 2009 of 2.3 and 2.5 percent. San Antonio (MSA) ranks 16th out of 389 Metropolitan Statistical Areas in long-term employment growth largely due to the low cost of doing business.

The **unemployment rate** represents the number of unemployed persons as a percent of the labor force. An unemployed person is defined as someone who is 16 years and older and has been looking for employment for at least four weeks. The national unemployment rate has steadily decreased from 2003 to 2007. Since January 2008, however, the seasonally adjusted rate has averaged 4.9 percent reaching 5.1 percent in March. This upward movement in unemployment is expected to continue through 2009.

Between 2001 and 2006, San Antonio's unemployment rate has closely mirrored the national rate. Both peaked at about 6 percent in 2003, slowly decreasing to 4.6 percent in 2006. While the national unemployment rate held flat at 4.6 percent in 2007, San Antonio saw its rate decrease further to 4.1%. In the forecast period, San Antonio's unemployment rate looks to trend upward mirroring the U.S. trend. This upward movement in the unemployment rate for San Antonio is expected to hover around 4.3 and 4.4 percent in 2008 and 2009 respectively.

San Antonio MSA vs U.S.
Unemployment Rate
Actual Through 2007 / Forecasted 2008 to 2013



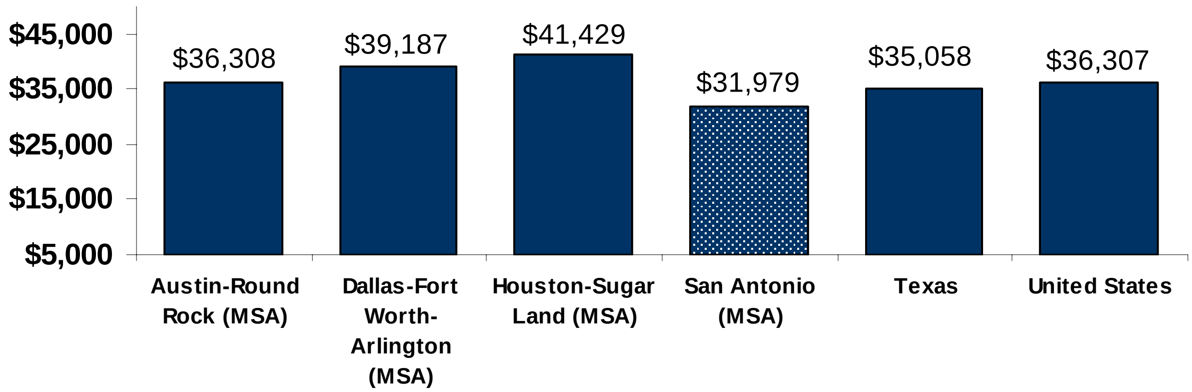
Source: Actual data from U.S. Bureau of Labor Statistics. Projections from Moody's Economy.com

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.

Per capita income data can vary from one source to another. National and local per capita income data shown in this document has been obtained from the U.S. Bureau of Economic Analysis (BEA). The U.S. Census Bureau also reports per capita income and will usually be less than the BEA data in that BEA includes income "in-kind", income received by non-profit institutions and Medicare payments. In addition, the Bureau of Economic Analysis income series is estimated largely on the basis of data from administrative records of business and governmental records whereas the Census Bureau data is obtained from household surveys.

San Antonio has historically had a low per capita income relative to other Texas cities. The following chart compares San Antonio's per capita income to other Texas metropolitan areas.

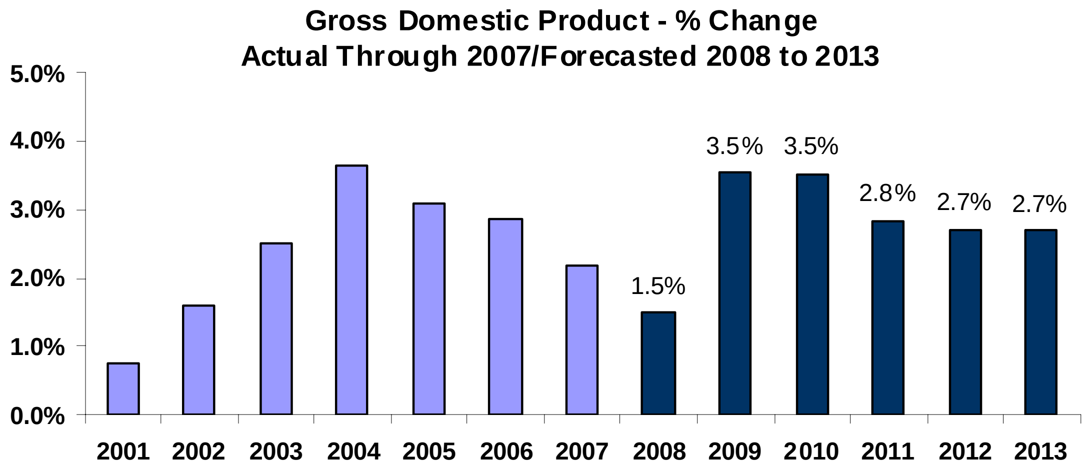
Per Capita Income - 2006*



*Source: Bureau of Economic Analysis, Department of Commerce; *2006 is the latest available preliminary estimate*

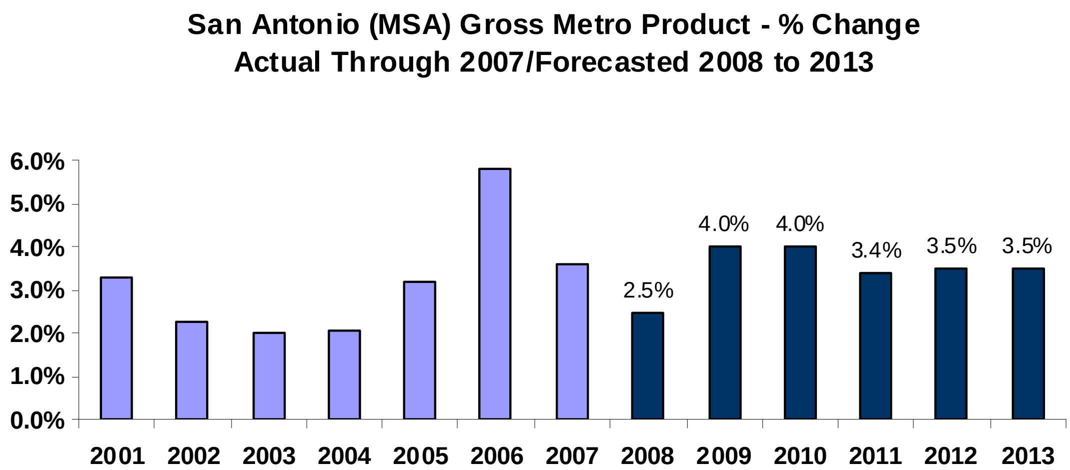
PRODUCTION & INFLATION

The growth in **Gross Domestic Product** (GDP) is considered an accurate measure of the country's overall economic condition. GDP measures the market value of all final goods and services produced by land, labor and capital in the United States. Declining growth has occurred since 2004 and is estimated to drop to 1.5% in 2008. The figure below illustrates GDP growth rate from 2001 to 2007 and shows the projection for growth beyond 2008 through 2013.



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 Financial Services measures GMP as the sum of the costs incurred and incomes earned in the production of goods and services. As shown in the figure below, San Antonio (MSA) GMP will continue to fluctuate through the forecast period.



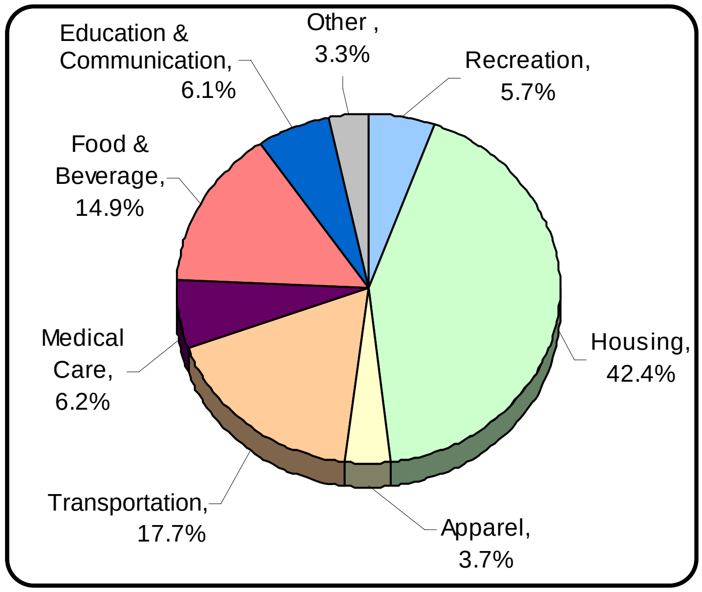
Source: Actual Data and projections from Moody's Economy.com

The **Consumer Price Index** (CPI), commonly referred to as the inflation rate, measures the average price change for a market basket of consumer goods and services. This basket of goods contains a wide array of items ranging from food and gasoline to college tuition and medical supplies. The CPI does not, however, include investments such as stocks or real estate.

The Bureau of Labor Statistics has classified each expenditure item in this basket of goods into more than 200 categories. Each one of these categories is cataloged into eight major groups, as shown in the adjacent figure. For example, gasoline is listed under the transportation category and makes up 5.2% of the basket of goods.

Since 1998, the price of the market basket of consumer goods and services has increased a cumulative amount of about 26 percent. This means that $100 in 1998 has the same purchasing power as approximately $126 in 2007. Between 1998 and 2007, CPI has increased on average by 2.6%.

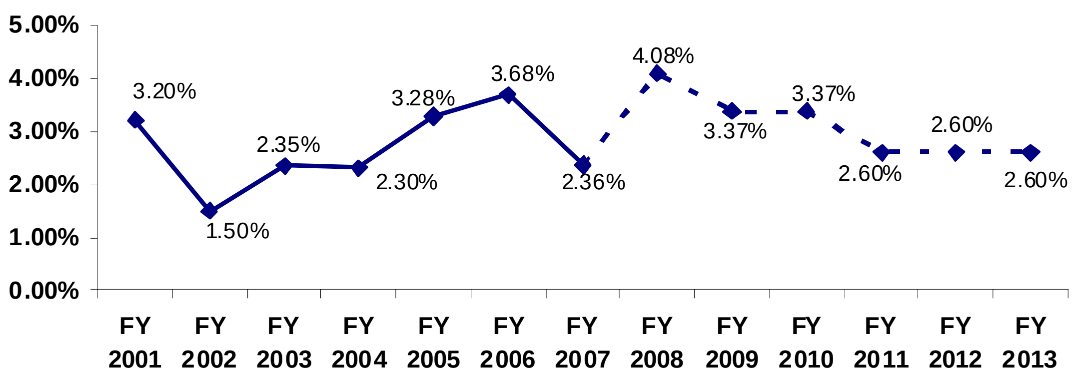
Composition of CPI



The Consumer Price Index is used as the inflationary factor for specific non-personnel services expenditures in the development of the General Fund and other funds base budget forecasts. This allows the City to plan for possible increases in certain commodities and other costs in the next five years by taking into account rising prices. Additionally, CPI also serves as a cost of living index. With assistance from the Economic Analysis Division of the Economic Development Department, the projections for CPI have been developed and modified to reflect the City's budget cycle based on a fiscal year from October 1 to September 30.

The figure below shows the national annual growth of inflation based on San Antonio's fiscal year (October 1 – September 30) from 2001 to 2007 and projections beyond 2008 and throughout the forecast period.

Consumer Price Index Percent Change
Actual Through FY 2007 / Forecasted FY 2008 to FY 2012



Source: Actual Data from U.S. Bureau of Labor Statistics have been modified to reflect City of San Antonio's Fiscal Year. Projections were developed in coordination with the City of San Antonio's Economic Development Department.

Figures from the Bureau of Labor Statistics illustrate that the national CPI levels in late 2007 and early 2008 track similarly to inflation in San Antonio. Therefore, at this time, we project to see similar trends in the future. The City of San Antonio is likely to see rising inflation. As shown in the preceding graph, research done by the City's Economic Development Department indicates the likely possibility of continued rising inflation in the short and long term:

> The Federal Reserve has pushed a lot of money into the economy with the lowering of interest rates as it attempts to fight the credit crunch and the national recession. Once the economy begins to turn around, this large amount of money now flowing through the economy could spark inflation. In our opinion, the Federal Reserve will have to slam on the brakes once the economy turns around and raise interest rates pretty rapidly. However, there is a lag of about one year before these interest rate changes take effect.
>
> Additionally, there will be a strong possibility of pent up demand in the U.S., and the demand for resources from Asia is likely to continue. The weakening of the U.S. dollar is also a contributing factor to inflation and is part of the explanation for higher gas prices which is driving food prices higher. The result is a real possibility of higher inflation toward the end of 2009 and into 2010 and possibly the first part of 2011. The slowing economy may temper this to some extent, but given the lags and the high likelihood that the Federal Reserve will not reverse course until it is clear the economy is recovering, the risk of higher inflation may exceed any tempering that occurs mainly due to the fact that the timing of the effects are not aligned. Once U.S. interest rates are more aligned with European interest rates, we expect the dollar will start to strengthen, but that probably will not start to occur until the latter part of 2008 at the earliest as the Fed possibly starts increasing interest rates if the economy starts to recover.

The CPI used in the Five Year Forecast is summarized in the following table.

CPI - Based on Fiscal Year

FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
3.37%	3.37%	2.60%	2.60%	2.60%

SAN ANTONIO ECONOMY

- The following section provides information relative to San Antonio specifically, including population, housing, hotel activity, and airport activity.

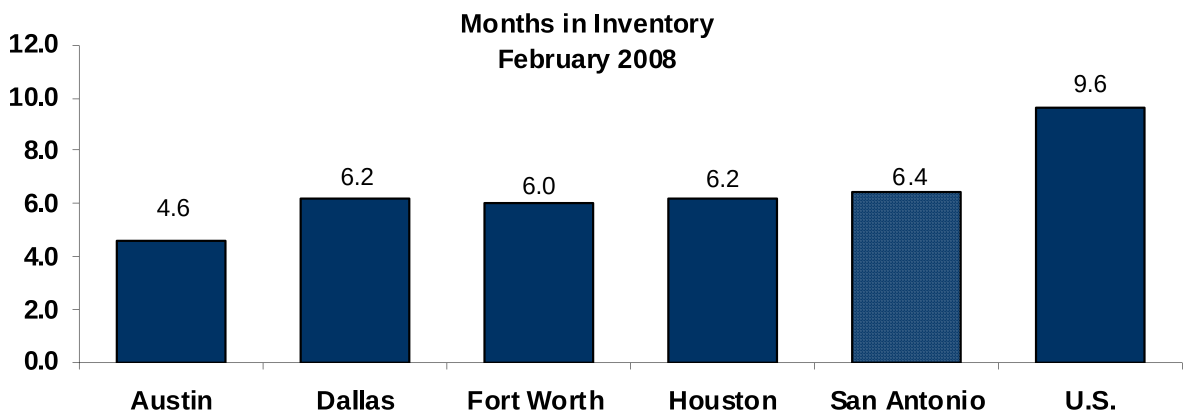
Population

According to population data from the U.S. Census Bureau, The City of San Antonio is the seventh largest city in the United States and the second largest in Texas behind Houston. The City of San Antonio's Planning Department forecasts a population in 2008 of 1,318,700 with an average growth rate of 1.83 percent throughout the forecast period.

Housing

The housing situation has been one of the leading causes, if not the fundamental source of the nation's current economic problems. The high default rates of subprime mortgages made to high-risk individuals or those with weaker credit histories has permeated into all areas of the economy. Due to these high default rates on mortgages, banks have become more conservative in their lending policies by raising interest rates and tightening underwriting standards, which in turn discourages consumer spending and business investment. Additionally, the large housing surplus created by the current wave of foreclosures has stifled permitting and construction, and has negatively affected house prices. As in other parts of the country, San Antonio is feeling the effects of the housing crisis on various levels.

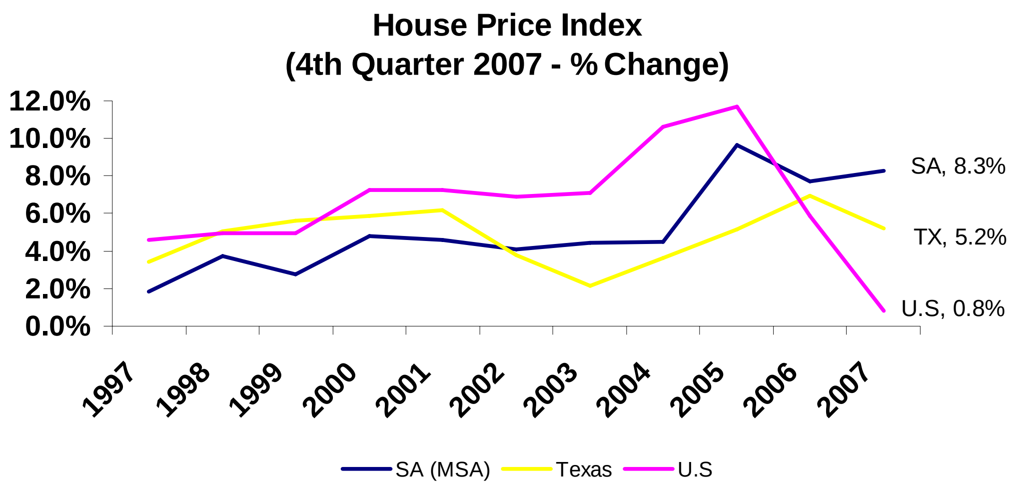
Months in Inventory measures the amount of time it would take to sell the current housing inventory or supply if no other homes were added to the current inventory. San Antonio has steadily seen this number increase since February 2007 when the months in inventory stood at 4.8 months compared to its current February 2008 figure of 6.4 months. This represents an increase of 35% over the same time last year. Comparatively, the months in inventory for the U.S. in February was at 9.6 months, according to data provided by the National Association of Realtors.



Source: Real Estate Center at Texas A&M University

The **House Price Index** (HPI) measures average price changes in repeat sales or refinancings on the same single-family homes. The measure is 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. The HPI is compiled and published by the Office of Federal Housing Enterprise Oversight (OFHEO) using data provided by Fannie Mae and Freddie Mac.

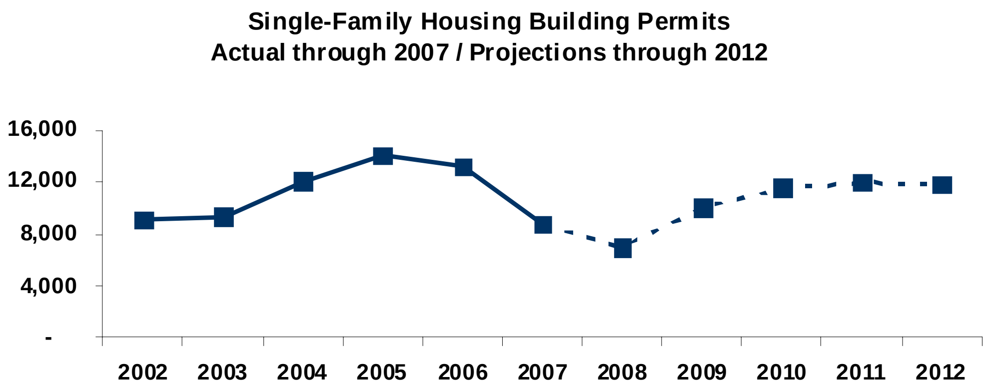
As illustrated in the following figure, San Antonio surpassed Texas and the US in the Housing Price Index rate change from the fourth quarter of 2006 to the fourth quarter of 2007. While home prices in San Antonio continue to be lower than comparison Texas cities, these same home prices are increasing at a faster rate (8.3%) than Corpus Christi (5.2%), Dallas (2.95%), Fort Worth (2.9%), Houston (4.8%), and Austin (7.9%). San Antonio's HPI means that a house with an initial value of $100,000 at year-end 2006 might expect an end of year 2007 value of $108,300. The actual value will depend on the local real estate market, house condition, age, and other factors.



Source: Office of Federal Housing Enterprise Oversight (OFHEO)

According to the Real Estate Center at Texas A&M University and available MLS Residential Housing Activity, the median house price in San Antonio in 2007 was $147,800. Since the beginning of 2008, however, prices continue to fluctuate downward with January ($140,300) and February ($142,800) illustrating this recent decline in house prices. However, this is consistent with the regular housing cycle. Overall, it is not anticipated that home prices in San Antonio will decline due to the fact that the local housing market did not experience the development of a housing bubble like in other parts of the country and the fact that the quantity supplied of housing in San Antonio is more responsive to changes in demand as can be seen in the discussion on single-family permits below. Additional support for this projection is provided by David W. Berson, Ph.D. and Lavaughn M. Henry, Ph.D. of the PMI Group, a major mortgage insurance company. In their report, "Economic and Real Estate Trends^{SM}", Drs. Berson and Henry estimate the probability of lower home prices in San Antonio over the next two years at less than one percent.

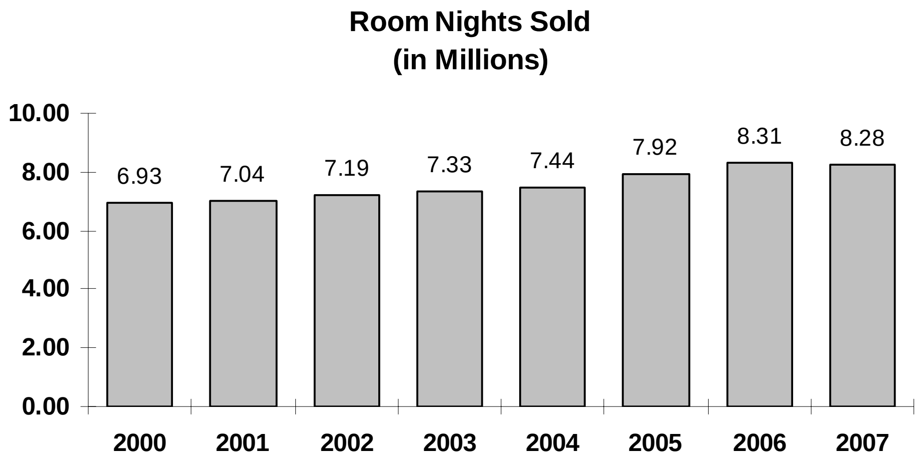
An additional measure of residential housing activity is the number of **single-family permits** issued. As shown in the following graph, San Antonio has seen a decline in the number of building permits issued for single-family housing. Since the same time frame last year (February 2007), the number of permits issued has dropped from 855 to 471 or 45 percent.



Source: Real Estate Center at Texas A&M University. Projections from Moody's Economy.com

Room Nights Sold

San Antonio has experienced a strong annual growth rate in room nights sold, with an average increase of 5.2 percent. However, from 2006 to 2007, Room Nights Sold dropped 0.4 percent in 2007.

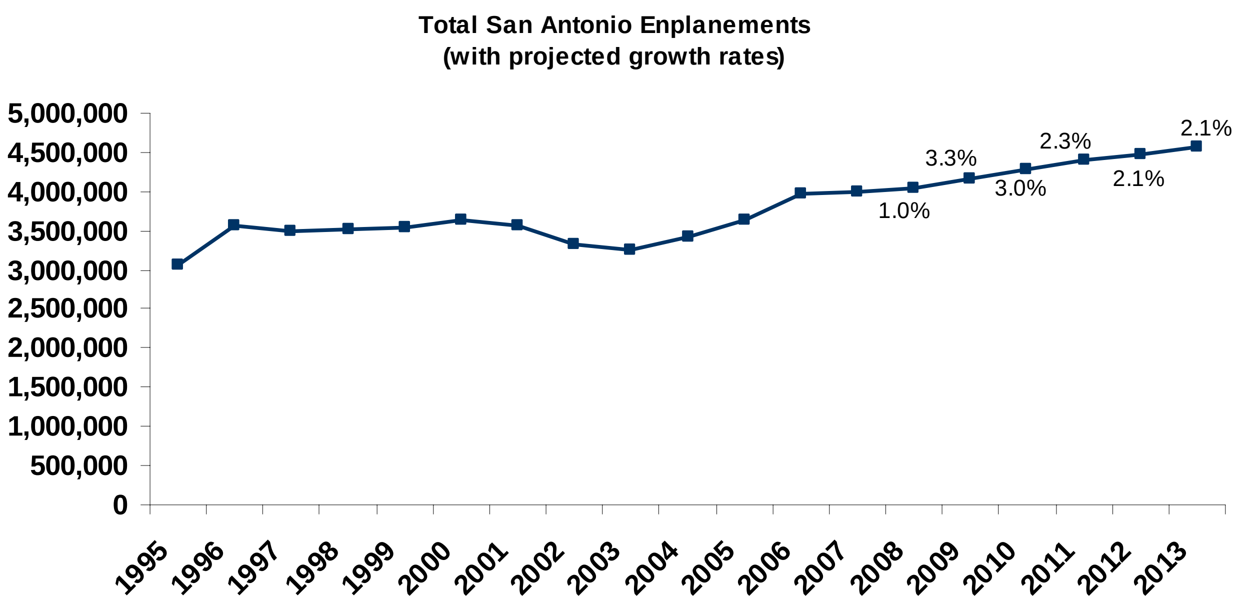


Source: Data obtained from Smith Travel Research based on hotels in San Antonio Market report dated Apirl 18, 2008

Enplanements

San Antonio's International Airport is the only commercial service airport serving the City and the San Antonio metropolitan area.

Since 1995, San Antonio has averaged an annual growth rate of 2.4 percent. More recently, the average annual growth rate of enplanements has increased 5.2 percent since 2003.



Source: Aviation Department