

ISSUER COMMENT

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San Antonio (City of) TX

Voters approve funding to address coronavirus-related job losses, a credit positive

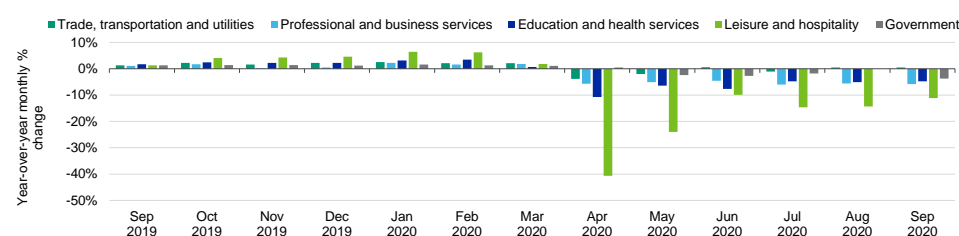
On November 3, [San Antonio](#) (Aaa stable) voters approved a measure to reallocate sales tax revenue to workforce programs aimed at reemploying people who lost jobs due to the coronavirus crisis, a credit positive. The reallocation will fund scholarships for education and job training as part of the city's "SA: Ready to Work Program" to improve the employment prospects of 40,000 residents. Increased employment and higher salaries will boost residents' purchasing power and ultimately lift sales tax revenue, one of the city's largest revenue sources.

Passage of the ballot measure, Proposition B, will add about \$38.5 million annually for four years to the city's commitment to post-coronavirus economic recovery. As early as May, the city demonstrated strong governance by announcing an initial investment of \$191 million as part of the Community Resilience and Recovery Plan to provide aid to small businesses and fund workforce development, increase access to technology (digital inclusion) and improve housing security. Proposition B's 0.125% sales tax will go towards economic improvement initiatives starting sometime in the spring of 2021 and sunset on December 31, 2025.

Like many cities, mounting job losses have driven higher unemployment levels in San Antonio over the last several months. The city has suffered in large part because its substantial leisure and hospitality sector was hit hard by a slowdown in travel related to the coronavirus (see Exhibit 1). At 12%, the sector is the fifth largest in the San Antonio metropolitan statistical area (MSA) in share of employment, according to the US Bureau of Labor Statistics. The other sectors that make up the top five in employment have also experienced a decline in jobs, though at a lesser pace.

Exhibit 1

Leisure and hospitality sector jobs have plummeted with the pandemic curbing travel
Employment changes for the top five employment sectors in the San Antonio MSA

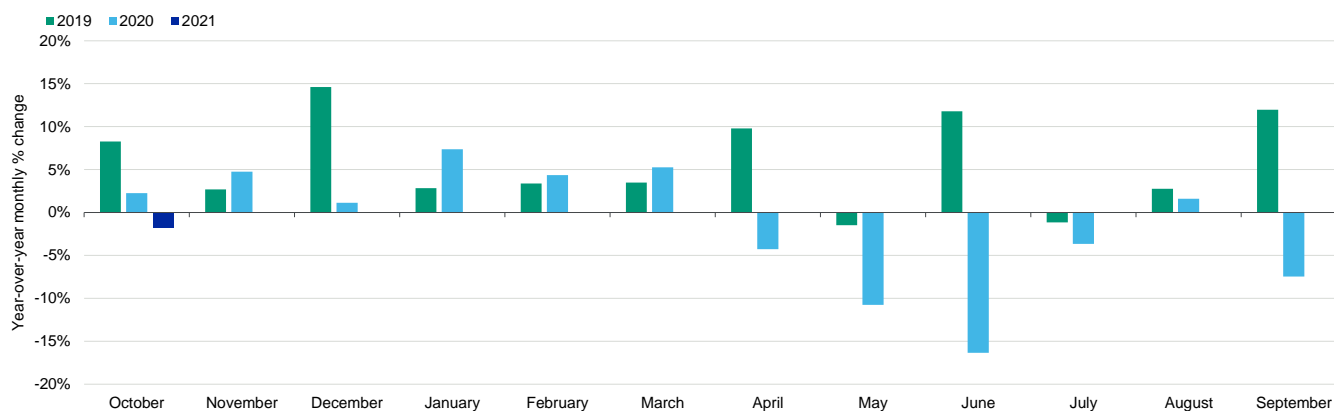


MSA stands for metropolitan statistical area. September 2020 numbers are preliminary.

Source: Bureau of Labor Statistics

San Antonio, like other municipalities, derives a portion of its revenue from sales taxes that are sensitive to consumer sentiment and demand. Collections, which accounted for over 19% of the city's operating revenue in fiscal year 2019 (ended September 30, 2019), remain weaker than the prior year (see Exhibit 2), even though the monthly year-over-year decline has lessened since a June low point. June data reflects April sales tax activity that coincided with shelter-in-place orders. City officials expect sales tax activity to remain depressed as the city's adopted budget for fiscal 2021 incorporates a 0.3% decrease compared to the city's estimated collections in fiscal 2020. Nevertheless, Proposition B's sales tax will provide more than \$170 million over its four-year duration for workforce training, per city estimates.

Exhibit 2

Coronavirus effects have led to a steep drop in sales tax collections**Sales tax revenue year-over-year monthly changes**

Data is reported on a two-month lag so September data reflects July activity.

Source: Texas Comptroller of Public Accounts

Proposition B's now-extended 0.125% sales tax was initially approved by voters in 2000 to fund the Edwards Aquifer Protection Program and the development of Linear Creekway Parks. The Edwards Aquifer is the largest and most important water source for the area. The tax has been reapproved three times since inception with the most recent approval in 2015 to raise a total of \$180 million. Before voter approval for reallocation on Tuesday, the tax was set to expire in the spring or summer of 2021.

While losing the tax revenue for the aquifer protection is negative, the city announced a \$100 million funding replacement plan in September that will rely on debt issuance and excess general fund revenue over the next 10 years. The city expects to pledge a portion of the revenue it receives from its utility system, [San Antonio Water System](#) (SAWS, Aa1 senior lien, Aa2 junior lien), to debt service.

Both SAWS and the city have elevated but manageable debt. At fiscal year-end 2019, SAWS' had \$2.7 billion in outstanding revenue bonds, a high 3.7x operating revenue. The city had \$2.9 billion in debt, a high 2.6% of full valuation.

Separately on November 3, San Antonio voters approved Proposition A that shifts funds generated from the Proposition B sales tax to transportation projects starting on January 1, 2026.

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