

A YEAR FOR BIG BUSINESS



2007

YEAR IN REVIEW

Despite obstacles, San Antonio's economy stayed on track

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San Antonio-made Tundras hit the streets, industrial plants closed, persistent rains drenched South Texas farms, gasoline prices hit record highs, housing construction and real estate moderated due to a national mortgage crisis and private-equity firms targeted two large local public companies.

Through it all, San Antonio's economy grew in the rocky year of 2007. The growth just was not at the heady pace of the prior two years when projects such as the Toyota truck manufacturing plant and the Washington Mutual Bank's regional operations center geared up.

In fact, Washington Mutual first cut 96 positions from the regional office here as mortgage markets nationwide struggled. In December, the company announced it was cutting another 173 jobs, although it still planned to increase jobs overall in other business lines. The same industry turmoil also cost 42 jobs at

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Wachovia Corp.'s operations center in San Antonio.

International competition, meanwhile, was blamed for the shuttering of the Friedrich Air Conditioning Co. manufacturing plant with

263 jobs and for a 45-person layoff at Miller Curtain Co.

Still, the region continued to rack up economic gains, including a \$550 million Microsoft Corp. data center and a commitment from Rackspace Managed Hosting to add more than 3,000 jobs over five years in return for economic incentives associated with the move of that company's headquarters.

A new economic impact study, meanwhile, identified the military as the city's biggest employer with 195,075 U.S. Defense Department-related jobs. That sector is poised to add 6,000 jobs and \$2.1 billion in construction during the next four years as a result of the most recent base realignment and closure legis-

lation.

Overall, the region produced 16,000 new jobs from October 2006 to this October and that number could grow when more accurate data becomes available next year. That should push annual job growth over 2 percent, which officials consider healthy.

San Antonio-based AT&T Inc., the nation's largest phone company, rode out a year of big changes.

Chief Executive Edward E. Whitacre Jr. retired in June, ending the tenure of the man who led the \$285 billion merger spree that reunited Baby Bell runt SBC Communications with its one-time parent and several siblings. Company veteran Randall Stephenson took over as AT&T's new chief.

This year, AT&T continued to look to wireless to offset its dwindling landline business. The company became the exclusive carrier for Apple Inc.'s iPhone — one of the year's most coveted electronic gadgets — and it spent \$2.8 billion to buy rural

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JOHN DAVENPORT/STAFF

Janie Obregon is a student and single parent who didn't appreciate soaring fuel prices around the holidays.

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wireless provider Dobson Communications Inc.

AT&T also this year accelerated its rollout of U-verse, the pay TV service it created to compete with cable rivals. It appeared to have worked through technical glitches that marred the service's early rollout, and ended the third quarter with more than 126,000 customers.

The private-equity splurge that consumed many public companies in the last half of 2006 carried over for two San Antonio companies, with different results.

An effort to take Clear Channel Communications Inc. private that started in 2006 dragged into 2007 because of delays when large institutional investors indicated that Bain Capital Partners LLC and Thomas H. Lee Partners LP did not offer enough money for the company. A deal to allow shareholders to partially participate in the buyout later was approved, and the company is expected to become private in the first quarter of 2008.

Tesoro Corp. experienced tumultuous days starting Oct. 26, when billionaire Kirk Kerkorian offered a premium for 16 percent of Tesoro stock. Kerkorian withdrew after Tesoro devised a poison pill that would have required Kerkorian to pay a premium for all Tesoro shares.

As the year approached its midpoint, motorists struggled to pay for gasoline, as prices in San Antonio reached a record \$2.99 a gallon on May 24.

At the same time, two local refiners were in a sweet spot. Strong demand for their products and relatively stable crude oil prices led to strong refining margins for San Antonio-based Valero Energy Corp. and Tesoro. Refining margins, a key measure of profitability, are the difference between what a refiner pays for crude oil and what it can get for its finished products.

But by midsummer, refiners were squeezed. They had to pay more for crude oil, yet couldn't raise prices at the pump because of soft demand. That led to weaker refining margins and hurt earnings at both Valero and Tesoro in the third quarter.

The year also marked a change in strategy for Valero, as it sold its Lima, Ohio, refinery to concentrate on investing in its more sophisticated plants.

2007 also marked the year that Valero LP, a pipeline, storage and terminal partnership, separated from Valero Energy, changed its name to NuStar LP and formed a holding company, NuStar GP Holdings LLC.

NuStar is expected to become a Fortune 500 company at year's end when it completes its purchase of the assets of CITGO Asphalt Refining Co. The buy will make NuStar the largest asphalt refiner on the East Coast.

San Antonio's \$15.3 billion health-care industry was marked by consolidation and expansion in 2007.

The Cancer Therapy and Research Center agreed to be merged into the University of Texas Health Science Center, a move CTCRC board members hope will help restore its status as a comprehensive cancer center. Early in the year, NuStar Chairman and former Valero Energy Corp. chieftain William Greehey gave \$25 million to UTHSC for a children's cancer center.

Christus Santa Rosa Healthcare Corp. is finalizing a deal to acquire McKenna Memorial Hospital in New Braunfels even as it prepares for a new hospi-



HELEN L. MONTOYA/STAFF

NuStar LP Chairman Bill Greehey and CEO Curt Anastasio used blowtorches to cut a pipe during an April ceremony for its new headquarters.

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TRAVIS KESSLER

San Antonio Board of Realtors CEO

tal in the Westover Hills area near Sea World. Baptist Health System is still in negotiations to build a replacement hospital at Brooks City-Base.

Methodist Healthcare System is nearing completion on Stone Oak Methodist Hospital and a free-standing emergency room in Boerne.

The San Antonio-built Toyota Tundra finally hit the market in February and became nearly ubiquitous on local streets. Part of that was local pride and part of it was the huge incentives Toyota was offering on the new pickup truck.

The Greater San Antonio Chamber of Commerce released its first-ever study of manufacturing in San Antonio and revealed that it was a \$14.4 billion segment of the local economy. Much of that funding came from sources other than Toyota, which only started producing trucks for sale at the end of 2006.

The aviation industry was somewhat fickle in 2007. There were successes with Gore Design Completions getting the contract to do completion work on Airbus.

In addition, Boeing Support Services learned that it would get to work on the new 787 Dreamliner resulting in 400 new jobs. The facility also won the renewal of its contract to work on the KC-135 Stratotanker, which would mean 200 new jobs.

On the down side, the firm that Boeing beat is protesting the award of the Stratotanker contract. Boeing has had to put the new hires on hold.

Also, the promise of 850 new jobs and \$200,000 in investment by Sino Swearingen Aircraft Corp. never materialized. The local business jet maker delivered only two jets in 2007 despite having nearly 300 orders.

A logistics dream long sought by San Antonio economic development leaders became real-

ity in 2007 when the first Mexican trucks were cleared to make U.S. deliveries beyond the border zone in a test program by the U.S. Transportation Department.

The international deliveries were due to halt, however, at the end of the year. Congress ordered early funding cuts in the program because of truck-driver union opposition.

San Antonio's residential real estate market saw a return to normal in 2007, following several high-flying years of rising sales volume and price appreciation for both new and existing homes.

By the end of October, about 19,666 pre-owned homes had changed hands, down about 8 percent from 2006, according to the San Antonio Board of Realtors. But the city's median home price had risen about 6.5 percent, reaching \$150,100.

Higher-than-normal inventories in the new-home market led many San Antonio home builders to offer discounts or upgrades to buyers. Metrostudy, a housing research firm, found that new-home starts dropped about 27 percent in the first three quarters of the year as builders worked to sell off the backlog.

Overall, though, in a year when weak national housing numbers dominated the news, San Antonio remained one of the nation's healthiest markets.

"We're fortunate in that in all of our major cities in Texas, we do have job growth and price appreciation and a healthy real estate market," said Travis Kessler, CEO of the San Antonio Board of Realtors.

As the San Antonio population grew, so did the need for office, retail and commercial real estate space.

North and Northwest San Antonio proved popular areas for commercial development, with projects such as The Rim (800 total acres), Tesoro's new

headquarters (618,000 square feet) and Santikos' Legacy (650,000 square feet) all under way. The medical office building market added capacity, especially at the South Texas Medical Center and in the Stone Oak residential development.

As the North Side filled up, the West Side continued its commercial growth, with data centers in Westover Hills and retail at Alamo Ranch Marketplace (1 million square feet).

In downtown, residential growth took shape, but the office market there has been stagnant as companies follow the residents and move to San Antonio's outskirts.

Coming out of a drought that cost the state an estimated \$4.1 billion in crop income in 2006,

farmers and ranchers were relieved and financially rewarded by nourishing rains through the summer. Booming demand by the ethanol industry for corn and grain sorghum convinced South Texas farmers to grow more of those crops. One farm expert expected corn and grain sorghum acreage to grow by 30 percent in the region.

Unusually heavy rains in May through July kept sorghum and vegetable producers from harvesting all their crops and damaged hay fields. The Texas Farm Service Agency estimated that those storms inflicted \$200 million in agricultural damages in South Texas.

Still, the U.S. Department of Agriculture forecast that farm profits this year would set a new record at \$87.5 billion.

That's \$30 billion more than the 10-year net income average and \$1.6 billion more than the last record in 2004.

Ranchers, who are key agricultural drivers in South Texas, did not expect to see big gains; and cotton receipts were likely to be down after a strong 2006. But farm officials expected 2007 to be generally sound for Texas producers.

On a celebratory note, a fourth NBA championship for the San Antonio Spurs highlighted another solid year for sports business, which included a record-setting year for the Silver Stars in the WNBA and another Texas League championship for the Missions in baseball.

Sponsors of those teams benefited from the playoff runs, particularly in the NBA Finals where advertising audiences locally could reach 20 times the size of regular season games.

The push for a second major-league professional sports franchise lost all momentum during the year, but the city agreed to host a Rock 'n' Roll Marathon over two days in 2008 that could generate \$20 million in economic returns. In addition, the Big 12 Championship in football returned to San Antonio for the first time in eight years, producing millions in direct economic benefits and millions more in media exposure.

In addition, Columbia Industries, a bowling ball manufacturer with a 40-year-history in San Antonio, was purchased by a rival manufacturer early in the year and closed its doors. But two former executives with that firm announced plans in May to get a portion of the plant back in operation with close to one-fifth of the 100 people who lost their jobs.

Finally, a significant change in business leadership occurred as Joe Krier ended a 20-year run as president of the Greater San Antonio Chamber of Commerce, the city's largest business organization. Former City Council member Richard Perez replaced Krier at the chamber in November.