OFFICIAL STATEMENT

Dated June 12, 2003

NEW ISSUE--BOOK-ENTRY-ONLY

RATINGS: Fitch: "AAA"
Moody's: "Aaa"
S&P: "AAA"
(AMBAC Insured: See "BOND INSURANCE" and "RATINGS")

Interest on the Series 2003 Bonds (defined below) is not excludable from gross income of the owners thereof for federal income tax purposes. See "TAX MATTERS" herein.

$24,685,000
CITY OF SAN ANTONIO, TEXAS, STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION CONTRACT REVENUE BONDS, SERIES 2003 (TAXABLE) (STARBRIGHT PROJECT)

Dated: June 1, 2003 - Interest Accrues from Date of Delivery **Due: August 15 as shown on the following page**

The City of San Antonio, Texas, Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003 (Taxable) (Starbright Project) (the "Series 2003 Bonds") are being issued by the City of San Antonio, Texas, Starbright Industrial Development Corporation (the "Corporation"), a non-profit industrial development corporation created by the City of San Antonio, Texas (the "City") pursuant to the provisions of the Development Corporation Act of 1979 (Article 5190.6, Texas Civil Statutes – the "Act"). Proceeds of the Series 2003 Bonds will be used to pay a portion of certain obligations of the City set forth in the Project Starbright Agreement by and among various parties including, among others, Toyota Motor Manufacturing North America, Inc. ("Toyota"), the State of Texas (the "State"), the City, Bexar County, Texas, and various other public and private entities (the "Starbright Agreement") relating to the construction by Toyota of an automobile manufacturing facility in southwest Bexar County. Such obligations of the City include the acquisition and conveyance to Toyota of an approximately 2,643 acre tract of land for the project site and reimbursing Toyota for certain site preparation costs and the construction of a training facility (collectively, the "City Project"). See "PLAN OF FINANCING – Description of the Starbright Project" herein for further information. Proceeds of the Series 2003 Bonds also will be used to fund all or a portion of the Debt Service Reserve Fund, pay capitalized interest for approximately 32 months, and pay costs of issuance.

Interest on the Series 2003 Bonds accrues from the date of delivery and is payable on August 15, 2003, and on each February 15 and August 15 thereafter until maturity or prior redemption. Principal of the Series 2003 Bonds is payable at maturity or redemption only upon presentation and surrender of the Series 2003 Bonds at the designated corporate trust office of the Trustee, initially Wells Fargo Bank Texas, N.A., as Trustee. The Series 2003 Bonds are issued in fully registered form in denominations of $5,000 principal amount or any integral multiple thereof and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2003 Bonds until DTC resigns or is discharged. The Series 2003 Bonds will be available to purchasers only in book-entry form. Purchasers of the Series 2003 Bonds will not receive certificates evidencing their beneficial ownership therein. See "BOOK-ENTRY-ONLY SYSTEM" herein.

The Series 2003 Bonds are issued pursuant to an Indenture of Trust, as supplemented by the First Supplemental Indenture of Trust (collectively referred to herein as the "Indenture"), each dated as of June 1, 2003, and each by and between the Corporation and the Trustee. The Series 2003 Bonds are special limited obligations of the Corporation payable solely from (1) Pledged Revenues, including Pledged Contract Payments to be made to the Corporation by the City pursuant to an Economic Development Contract (the "Economic Development Contract") by and between the Corporation and the City relating to certain revenues received by the City from its electric and gas systems (the "Utility Systems"); (2) Pledged Funds (generally, the Debt Service Fund and the Debt Service Reserve Fund and any monies deposited therein, and any Reserve Fund Surety Policies); and (3) any and all property pledged as additional security with the Trustee by the Corporation under the Indenture (collectively, the "Trust Estate"). See "PLAN OF FINANCING – Sources and Uses of Funds." The Indenture provides that the Reserve Fund Requirement of the Debt Service Reserve Fund may be satisfied in whole or in part with one or more reserve fund surety policies therein. The City is obligated to pay the Corporation sufficient Pledged Contract Payments necessary to pay Debt Service (as defined in the Indenture) on the Series 2003 Bonds issued under the Indenture.

Neither the State, the City, nor any other political corporation, subdivision, or agency of the State shall be obligated to pay principal or interest on the Series 2003 Bonds, and neither the faith and credit nor the taxing power of the State, the City, or any other political corporation, subdivision, or agency of the State is pledged to the payment of the principal of or the interest on the Series 2003 Bonds.

The Series 2003 Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES 2003 BONDS AND THE INDENTURE –Redemption Provisions."

Ambac

Payments of regularly scheduled principal and interest on the Series 2003 Bonds when due are insured by a financial guaranty insurance policy to be issued by AMBAC Assurance Corporation (the "Ambac Assurance") on the date of delivery of the Series 2003 Bonds. See "BOND INSURANCE" herein.

MATURITY AND PRICING SCHEDULE – SEE INSIDE COVER PAGE

The Series 2003 Bonds are offered for delivery when, as and if issued by the Corporation and received by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P., Houston, Texas, and Loeffler Jonas & Tuggey LLP, San Antonio, Texas, Co-Bond Counsel, as to the validity of the issuance of the Series 2003 Bonds under the Constitution and the laws of the State of Texas. Certain legal matters will be passed upon for the Underwriters by McCall Parkhurst & Horton L.L.P., San Antonio, Texas; for the Corporation by the Corporation's Special Issuer's Co-Counsel, Vinson & Elkins L.L.P. and Loeffler Jonas & Tuggey LLP; and for the City by the City Attorney for the City. The Series 2003 Bonds are expected to be available for delivery through the facilities of DTC on or about June 26, 2003.

SIEBERT BRANDFORD SHANK & CO., LLC **RBC DAIN RAUSCHER, INC.**
FIRST SOUTHWEST COMPANY **JPMORGAN SECURITIES**

$24,685,000
CITY OF SAN ANTONIO, TEXAS,
STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION
CONTRACT REVENUE BONDS, SERIES 2003 (TAXABLE) (STARBRIGHT PROJECT)

MATURITY AND PRICING SCHEDULE

$11,930,000 SERIAL BONDS

Maturity (August 15)	Principal Amount	Interest Rate	Yield	CUSIP #(1) (796300)
2007	$525,000	2.180%	2.180%	AA9
2008	535,000	2.570%	2.570%	AB7
2009	550,000	2.980%	2.980%	AC5
2010	565,000	3.290%	3.290%	AD3
2011	585,000	3.560%	3.560%	AE1
2012	605,000	3.770%	3.770%	AF8
2013	625,000	3.910%	3.910%	AG6
2014	650,000	4.010%	4.010%	AH4
2015	675,000	4.110%	4.110%	AJ0
2016	705,000	4.260%	4.260%	AM3
2017	735,000	4.410%	4.410%	AN1
2018	770,000	4.510%	4.510%	AP6
2019	800,000	4.610%	4.610%	AQ4
2020	840,000	4.660%	4.660%	AR2
2021	880,000	4.710%	4.710%	AS0
2022	920,000	4.760%	4.760%	AT8
2023	965,000	4.750%	4.810%	AK7

$12,755,000 5.110% Term Bonds Due August 15, 2033 - Priced to Yield 5.110% - CUSIP # 796300 AL5

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(1) CUSIP numbers have been assigned to the Series 2003 Bonds by Standard & Poor's CUSIP Service Bureau, A Division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the Series 2003 Bonds. Neither the Corporation, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

Optional Redemption: On August 15, 2013, and on any date thereafter, the Series 2003 Bonds maturing on and after August 15, 2014, are subject to optional redemption, upon direction of the City to the Corporation, in whole or in part, in the principal amount of $5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption: The Series 2003 Bonds maturing in the year 2033 are subject to mandatory redemption at the redemption price of par plus accrued interest on the dates and in the principal amounts as set forth herein under the caption "THE SERIES 2003 BONDS - Redemption Provisions - Mandatory Sinking Fund Redemption of Term Bonds."

CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL[1]:

Name	Years on City Council (as of 6/01/03)	Term Expires	Occupation
Ed Garza, Mayor	6	May 31, 2005	Land Planner
Roger O. Flores, Jr., District 1	*	May 31, 2005	Restaurant Owner
Joel Williams, District 2	*	May 31, 2005	Civil Service
Ron H. Segovia, District 3	*	May 31, 2005	Police Officer, Retired
Richard Perez, District 4	*	May 31, 2005	Self Employed
Patti Radle, District 5	*	May 31, 2005	Agency Director and Teacher
Enrique M. Barrera, District 6	3	May 31, 2005	Retired, Texas Workforce Commission
Julián Castro, District 7	2	May 31, 2005	Attorney
Art A. Hall, District 8	*	May 31, 2005	Attorney / Investment Banker
Carroll Schubert, District 9	2	May 31, 2005	Attorney
Christopher "Chip" Haass, District 10	*	May 31, 2005	Educator

* Newly elected; term began June 1, 2003.

CITY OFFICIALS:

Name	Position	Approximate Years with City of San Antonio	Approximate Years in Current Position
Terry M. Brechtel	City Manager	12 Years	2 Years
J. Rolando Bono	Deputy City Manager	25 Years	2 Years
Melissa Byrne Vossmer	Assistant City Manager	5 Years	5 Years
Travis M. Bishop	Assistant City Manager	25 Years	3 Years
Christopher J. Brady	Assistant City Manager	7 Years	3 Years
Jelynne L. Burley	Assistant City Manager	19 Years	1 Year
Frances A. Gonzalez	Assistant to the City Manager	18 Years	2 Years
Roland Lozano	Assistant to the City Manager	23 Years	2 Years
Erik J. Walsh	Assistant to the City Manager	9 Years	2 Years
Andrew Martin	City Attorney	1 Year	1 Year
Yolanda Ledesma	Acting City Clerk	31 Years	7 Months
Louis A. Lendman	Director of Management and Budget	15 Years	2 Years
Thomas G. Wendorf	Director of Public Works	4 Years	2 Years
Milo Nitschke	Director of Finance	8 Years	2 Years

CONSULTANTS AND ADVISORS:

Co-Bond Counsel and Special Issuer's Counsel	Vinson & Elkins L.L.P., Houston, Texas Loeffler Jonas & Tuggey LLP, San Antonio, Texas
Co-Certified Public Accountants	KPMG L.L.P., San Antonio, Texas Leal & Carter, P.C., San Antonio, Texas Robert J. Williams, CPA, San Antonio, Texas
Co-Financial Advisors	Coastal Securities, San Antonio, Texas Estrada Hinojosa & Company, Inc., San Antonio, Texas

[1] All members of the City Council serve as directors of the Corporation. See "THE CORPORATION" herein. The Mayor of the City and the Mayor Pro-Tem of the City serve as the President and Vice President, respectively, of the Corporation. The City Manager or her designeee, the City Clerk, and the Director of Finance of the City serve as the Executive Director, Secretary, and Treasurer, respectively, of the Corporation, but do not serve on the Board of Directors.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended (the "Rule"), and in effect on the date of this Official Statement, this document constitutes an Official Statement of the Corporation with respect to the Series 2003 Bonds that has been deemed "final" by the Corporation as of its date except for the omission of no more than the information permitted by the Rule.

THE SERIES 2003 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2003 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE SERIES 2003 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SERIES 2003 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

The information set forth herein has been furnished by the Corporation and the City and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or the City or the other matters described herein since the date hereof.

This Official Statement includes descriptions and summaries of certain events, matters, and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the Corporation or from the Financial Advisor to the Corporation. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be produced or used, in whole or in part, for any other purposes.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2003 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, salesman or other person has been authorized by the Corporation or the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Corporation or the City or any other person. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

The prices and other terms respecting the offering and sale of the Series 2003 Bonds may be changed from time to time by the Underwriters after the Series 2003 Bonds are released for sale, and the Series 2003 Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Series 2003 Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2003 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

$24,685,000
CITY OF SAN ANTONIO, TEXAS,
STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION
CONTRACT REVENUE BONDS, SERIES 2003 (TAXABLE) (STARBRIGHT PROJECT)

INTRODUCTION

This Official Statement provides certain information with respect to the $24,685,000 *City of San Antonio, Texas, Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003 (Taxable) (Starbright Project)* (the "Series 2003 Bonds"). The Corporation is an industrial development corporation created by the City of San Antonio, Texas (the "City") and existing under the Development Corporation Act of 1979, Article 5190.6, Texas Revised Civil Statutes, as amended, (the "Act"). The Series 2003 Bonds are issued pursuant to an Indenture of Trust, as supplemented by the First Supplemental Indenture of Trust (collectively, the "Indenture"), each dated as of June 1, 2003, and each by and between the Corporation and Wells Fargo Bank Texas, N.A., as Trustee. The Indenture and the issuance of the Series 2003 Bonds were approved by a Resolution adopted by the Board of Directors of the Corporation, which were further approved, as required by law, pursuant to an ordinance (the "Ordinance") adopted by the City Council of the City.

Certain capitalized terms used in this Official Statement have the meaning given to them in the Indenture or as defined herein, except as otherwise indicated herein. Definitions and Excerpts of Indenture of Trust and First Supplemental Indenture of Trust are included in APPENDIX A to this Official Statement.

This Official Statement includes a description of the Corporation, the City, the City's electric and gas systems (the "Utility Systems") which are managed and operated by the City Public Service Board of San Antonio, Texas ("CPS" or the "CPS Board"), the Series 2003 Bonds, the Indenture, an Economic Development Contract, dated as of February 27, 2003, by and between the Corporation and the City (the "Economic Development Contract"), and the City's revenues which are pledged to secure the Series 2003 Bonds. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Indenture and the Economic Development Contract are qualified by reference to such documents in their entirety, and all references to the Series 2003 Bonds are qualified by reference to the form of the Series 2003 Bonds and the information with respect to the Series 2003 Bonds included in the Indenture. Copies of such documents may be obtained from the Corporation at the Office of the Director of Finance, City of San Antonio, Texas, City Hall Annex, 506 Dolorosa, San Antonio, Texas 78204 and from the City's Co-Financial Advisors, Coastal Securities, 600 Navarro, Suite 350, San Antonio, Texas 78205, and Estrada Hinojosa & Company, Inc., 100 W. Houston Street, Suite 1485, San Antonio, Texas 78205, upon payment of reasonable costs associated with the copying and mailing of open records.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement will be filed with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Corporation's, the City's and CPS' undertaking to provide certain information on a continuing basis.

THE CORPORATION

The Corporation is an industrial development corporation, created by and on behalf of the City pursuant to the Act and a resolution of the City Council of the City approved on February 20, 2003. The Act authorizes the City to create industrial development corporations to issue bonds on behalf of the City for the specific public purpose of accomplishing certain of the City's essential governmental functions, including the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare, including but not limited to the acquisition of land.

Pursuant to its articles of incorporation and the bylaws of the Corporation, the Corporation is governed by an 11-member Board of Directors, composed entirely by those persons who are members of the City Council of the City and whose terms of office are fixed and run coterminously with their respective terms of office as members of the City Council. The directors serve without compensation except for the reimbursement of expenses.

The Corporation currently has no assets other than its rights to receive the Pledged Contract Payments (defined and described herein) from the City, which will be assigned to the Trustee for the benefit of the registered owners of the Series 2003 Bonds upon the initial delivery of the Series 2003 Bonds.

The Corporation's obligation with respect to the payment of the principal of, premium, if any, and interest on the Series 2003 Bonds is a special, limited, and non-recourse obligation payable solely from the Pledged Contract Payments payable by the City pursuant to the Economic Development Contract and from other assets in the Trust Estate created by the Indenture. The Corporation has no authority to levy taxes. The Series 2003 Bonds do not constitute an obligation, either special, general, or moral, of the City, the State of Texas, or any other political subdivision thereof. The obligations of the City under the Economic Development Contract do not constitute a pledge, a liability, or a charge upon the funds of the City, other than the Pledged Contract Payments, and do not constitute a debt or general obligation of the State of Texas, the Corporation, the City, or any other political subdivision of the State of Texas. Neither the faith and credit nor the taxing power of the State of Texas, the City, or any other political subdivision of the State of Texas has been pledged to the payment of the principal of, premium, if any, or interest on the Series 2003 Bonds.

PLAN OF FINANCING

Description of the Starbright Project

In early February 2003, Toyota Motor Manufacturing North America, Inc. ("Toyota") announced that it had selected a site near the City in southwest Bexar County, Texas (the "County") to construct a new industrial plant for the purpose of manufacturing motor vehicles and automotive parts and components, which is estimated to initially employ approximately 2,000 employees (the "Starbright Project"). Toyota, the City, the State of Texas, the County, and various other public and private entities have entered into an agreement, known as the Project Starbright Agreement (the "Starbright Agreement"), which sets forth the obligations of the various parties with respect to bringing the Toyota automobile manufacturing facility to Bexar County. Pursuant to the Starbright Agreement, the City is obligated to acquire and convey to Toyota an approximately 2,643 acre tract of land for the project site and reimburse Toyota for site preparation costs (not to exceed $10,000,000) and the construction of a training facility (the City's portion of such training facility not to exceed $3,000,000) (collectively, the "City Project"). The land conveyed to Toyota will not be mortgaged to secure the Series 2003 Bonds. The Corporation is issuing the Series 2003 Bonds to finance the City's obligations under the Starbright Agreement to fund the City Project. Proceeds of the Series 2003 Bonds also will be used to fund all or a portion of the Debt Service Reserve Fund, pay capitalized interest for approximately 32 months, and pay costs of issuance. The following is a summary of the estimated costs of the City Project:

Land Acquisition (including closing costs)	$17,122,021
Rollback Tax for Agricultural Use Conversion	441,006
Site Improvements	10,000,000
Environmental and Archeological	300,000
Cell Tower Relocation	50,000
Training Facility	3,000,000
Capitalized Interest	3,000,179
Costs of Issuance (including Bond Insurance and Reserve Fund Surety Policy)	1,487,252
Miscellaneous Financing Costs	106,500
Total Costs of City Project	$35,506,958

A portion of the costs of the City Project will be financed with proceeds of the Series 2003 Bonds. The remaining portion of the costs of the City Project are expected to be paid for with a $9,000,000 grant from the federal government and a contribution from Toyota of approximately $2,000,000.

Sources and Uses of Funds

The estimated sources and uses of funds in connection with the sale of the Series 2003 Bonds is as follows:

SOURCES OF FUNDS:	
Principal Amount of the Series 2003 Bonds	$24,685,000.00
Original Issue Discount/Premium	(7,469.10)
TOTAL SOURCES	$24,677,530.90
USES OF FUNDS:	
Deposit to Acquisition and Construction Fund	$20,019,526.32
Deposit to Series 2003 Debt Service Fund (Capitalized Interest Account)	3,000,179.14
Bond Insurance and Reserve Fund Surety Policy Premium	304,013.52
Issuance Expenses	1,183,238.57
Underwriters' Discount	170,573.35
TOTAL USES	$24,677,530.90

THE SERIES 2003 BONDS

General Description of the Series 2003 Bonds

Interest on the Series 2003 Bonds will accrue from the date of initial delivery at the rates per annum set forth on the inside cover page of this Official Statement, and will be payable initially on August 15, 2003, and on each February 15 and August 15 thereafter (each an "Interest Payment Date"). The Series 2003 Bonds will mature on August 15 in the years and in the amounts set forth on the inside cover page of this Official Statement. Interest on the Series 2003 Bonds will be calculated on the basis of a 360-day year of twelve consecutive 30-day months.

The Series 2003 Bonds will be issued in denominations of $5,000 principal amount or any integral multiple thereof. Principal of and interest on the 2003 Bonds are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM." In the event the Book-Entry-Only System (described herein) is discontinued, the interest on the Series 2003 Bonds will be payable to the registered owner as shown on the security register maintained by the Trustee as of the last calendar day of the month immediately prior the Interest Payment Date (the "Record Date"), by check, mailed first-class postage prepaid, to the address of such person on the security register or by such other method acceptable to the Trustee requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the Series 2003 Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated payment office of the Trustee.

Authority for Issuance

The Series 2003 Bonds will be issued under the provisions of the applicable laws of the State of Texas including the Act and Chapter 1201, Texas Government Code, as amended. The City is authorized to provide the Pledged Contract Payments to secure the Series 2003 Bonds pursuant to the provisions of Chapter 380, Texas Government Code. (See "THE ECONOMIC DEVELOPMENT CONTRACT – Representations and Covenants of the City - Qualification of City Project Under City's Economic Development Program.")

Security and Source of Payment for the Series 2003 Bonds

The Series 2003 Bonds, together with any additional bonds issued on a parity therewith pursuant to a Supplemental Indenture (collectively, the "Bonds"), are special obligations of the Corporation and are payable both as to principal and interest solely from the Trust Estate created under the Indenture. The Trust Estate consists of (1) Pledged Revenues, including the Corporation's right, title and interest in and to Pledged Contract Payments under the Economic Development Contract (see "The Economic Development Contract" herein), (2) Pledged Funds (generally, the Debt Service Fund and the Debt Service Reserve Fund and any monies deposited therein, and any Reserve Fund Surety Policies), and (3) any and all property pledged as additional security with the Trustee by the Corporation under the Indenture.

Under the Economic Development Contract, the City is obligated to pay to the Trustee, on behalf of the Corporation from certain revenues it receives from the Utility Systems, such sums as are required to pay (1) Debt Service on all Bonds issued under the Indenture, which shall include the payment of principal, redemption premium, if any, and interest on the Series 2003 Bonds, (2) all amounts required to establish, restore and maintain an amount equal to the Reserve Fund Requirement in the Debt Service Reserve Fund, and (3) all other Debt Service Obligation Expenses. See "APPENDIX A – Definitions and Excerpts of Indenture of Trust and First Supplemental Indenture of Trust."

Neither the State, the City, nor any other political corporation, subdivision, or agency of the State shall be obligated to pay principal or interest on the Series 2003 Bonds, and neither the faith and credit nor the taxing power of the State, the City, or any other political corporation, subdivision, or agency of the State is pledged to the payment of the principal of or the interest on the Series 2003 Bonds.

Perfection of Interest in Security

Chapter 1208, Texas Government Code, applies to the issuance of the Series 2003 Bonds and the pledge of the Trust Estate thereto, and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Series 2003 Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Trust Estate is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Series 2003 Bonds a security interest in such pledge, the Corporation has agreed to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Redemption Provisions

Optional Redemption. On August 15, 2013, and on any date thereafter, the Series 2003 Bonds maturing on and after August 15, 2014, are subject to optional redemption, upon direction of the City to the Corporation, in whole or in part, at a redemption price of 100% of the principal amount redeemed plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption of Term Bonds. The Series 2003 Bonds maturing in the year 2033 (the "Term Bonds") are subject to mandatory redemption prior to maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates (each a "*Mandatory Redemption Date*"), at a price equal to the principal amount redeemed plus accrued interest to the Mandatory Redemption Date, subject to the conditions set forth below:

Mandatory Redemption Date (August 15)	**Mandatory Redemption Amount**	**Mandatory Redemption Date (August 15)**	**Mandatory Redemption Amount**
2024	$1,010,000	2029	$1,295,000
2025	1,060,000	2030	1,360,000
2026	1,115,000	2031	1,430,000
2027	1,170,000	2032	1,505,000
2028	1,230,000	2033 (maturity)	1,580,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Trustee will (i) determine the principal amount of such Series 2003 Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bonds or portions of the Term Bonds to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided below. The principal amount of any Term Bonds to be mandatorily redeemed on a Mandatory Redemption Date will be reduced by the principal amount of such Term Bonds which, by the 45th day prior to such Mandatory Redemption Date, either have been purchased in the open market and delivered or tendered for cancellation by or on behalf of the Corporation to the Trustee or optionally redeemed and which, in either case, have not previously been made the basis for a reduction under this sentence. In addition, if in the exercise of its right of optional redemption, the Corporation has redeemed part but not all of the Term Bonds, the principal amount to be mandatorily redeemed on the next mandatory redemption date or dates following the date of such optional redemption will be reduced by the principal amount optionally redeemed and which has not previously been made the basis for a reduction under this sentence.

Redemption Procedures. If less than all of the Series 2003 Bonds of a maturity are called for redemption, the particular Series 2003 Bonds or portions thereof to be redeemed will be selected by lot or other random method by the Registrar in such a manner as the Registrar may determine. Notice of any redemption identifying the Series 2003 Bonds to be redeemed in whole or in part will be given by the Trustee at least 30 days prior to the date fixed for redemption by sending written notice by United States mail, first class postage paid, to the registered owner of each Series 2003 Bond to be redeemed in whole or in part at the address shown on the Register. The notice shall also be given by the Trustee at least 30 days prior to the date fixed for redemption by United States certified mail, return receipt requested, to each registered securities depository. Such notice shall identify the Series 2003 Bonds or portions thereof to be redeemed by stating the CUSIP number, certificate number, date of issuance, interest rate and maturity date of such Series 2003 Bonds or portions thereof to be redeemed, and shall state the redemption date, the redemption price, the amount of accrued interest payable on the redemption date, and the place at which Series 2003 Bonds are to be surrendered for payment. Any notice given as described above will be conclusively presumed to have been duly given, whether or not the owner receives such notice.

Transfer and Exchange of the Series 2003 Bonds

Beneficial ownership of the Series 2003 Bonds registered in the name of DTC may be transferred as described under "BOOK-ENTRY-ONLY SYSTEM" herein.

So long as any Series 2003 Bonds remain Outstanding, the Trustee shall keep the register at its designated corporate trust office in which, subject to such reasonable regulations as it may prescribe, the Trustee shall provide for the registration and transfer of the Series 2003 Bonds in accordance with the terms of the Indenture.

The Series 2003 Bonds may be surrendered by DTC or any subsequent registered owner for registration of transfer at the designated corporate trust office of the Trustee which will serve as registrar for the Series 2003 Bonds. Upon surrender of any Series 2003 Bond duly endorsed, or accompanied by a satisfactory written instrument of transfer executed, by the registered owner or his attorney duly authorized in writing, the Corporation is required to execute, and the Trustee is required to authenticate and deliver to and in the name of the designated transferee, one or more new Series 2003 Bonds of the same maturity, in any designated authorized denomination, and of like aggregate principal amount for the Series 2003 Bonds so surrendered.

Neither the Corporation nor the Trustee is required to register the transfer of or to exchange (i) any Series 2003 Bond during the 15 calendar days preceding the selection of the Series 2003 Bonds to be redeemed or thereafter until after the close of business on the day of first mailing of notice of such redemption thereof or (ii) any Series 2003 Bond which has been selected for redemption.

No service charge will be made for any transfer or exchange, but the Corporation or the Trustee may make a charge sufficient to reimburse any expense, tax, fee or other governmental charge required to be paid with respect to such transfer. In addition, for every exchange of the Series 2003 Bonds (other than the exchange of temporary Series 2003 Bonds for definitive Series 2003 Bonds), the Corporation or the Trustee may make reasonable charges to cover the charges and costs of printing the Series 2003 Bonds including any Trustee's charges in connection therewith.

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DEBT SERVICE REQUIREMENTS

Table 1

The following table presents the debt service requirements on the Series 2003 Bonds:

Fiscal Year Ending September 30	Principal	Interest	Total Debt Service
2003		$ 154,909.14	$ 154,909.14
2004		1,138,108.00	1,138,108.00
2005		1,138,108.00	1,138,108.00
2006		1,138,108.00	1,138,108.00
2007	$ 525,000	1,138,108.00	1,663,108.00
2008	535,000	1,126,663.00	1,661,663.00
2009	550,000	1,112,913.50	1,662,913.50
2010	565,000	1,096,523.50	1,661,523.50
2011	585,000	1,077,935.00	1,662,935.00
2012	605,000	1,057,109.00	1,662,109.00
2013	625,000	1,034,300.50	1,659,300.50
2014	650,000	1,009,863.00	1,659,863.00
2015	675,000	983,798.00	1,658,798.00
2016	705,000	956,055.50	1,661,055.50
2017	735,000	926,022.50	1,661,022.50
2018	770,000	893,609.00	1,663,609.00
2019	800,000	858,882.00	1,658,882.00
2020	840,000	822,002.00	1,662,002.00
2021	880,000	782,858.00	1,662,858.00
2022	920,000	741,410.00	1,661,410.00
2023	965,000	697,618.00	1,662,618.00
2024	1,010,000	651,780.50	1,661,780.50
2025	1,060,000	600,169.50	1,660,169.50
2026	1,115,000	546,003.50	1,661,003.50
2027	1,170,000	489,027.00	1,659,027.00
2028	1,230,000	429,240.00	1,659,240.00
2029	1,295,000	366,387.00	1,661,387.00
2030	1,360,000	300,212.50	1,660,212.50
2031	1,430,000	230,716.50	1,660,716.50
2032	1,505,000	157,643.50	1,662,643.50
2033	1,580,000	80,738.00	1,660,738.00
TOTAL	$24,685,000	$23,736,821.64	$48,421,821.64

Maximum Annual Debt Service (2018): $1,663,609.00

Average Annual Debt Service: $1,606,770.74

Debt Service Coverage: 90.12x Average Annual Debt Service (based on Pledged Contract Payments received by the City from CPS during the City's fiscal year ended September 30, 2002 - See Table 2.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Series 2003 Bonds is to be transferred and how the principal of and interest on the Series 2003 Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York while the Series 2003 Bonds are registered in its partnership nominee's name, Cede & Co. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Corporation believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The Corporation cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Series 2003 Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Series 2003 Bonds), or redemption or other notices, to the Beneficial Owners, or that *they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Series 2003 Bonds. The Series 2003 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Series 2003 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities Series 2003 Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 Bonds on DTC's records. The ownership interest of each actual purchaser of the Series 2003 Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Series 2003 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Series 2003 Bonds representing their ownership interests in the Series 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2003 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2003 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2003 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2003 Series Bond documents. For example, Beneficial Owners of the Series 2003 Bonds may wish to ascertain that the nominee holding the Series 2003 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2003 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2003 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2003 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Series 2003 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2003 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Series 2003 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2003 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2003 Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Series 2003 Bonds at any time by giving reasonable notice to the Corporation. Under such circumstances, in the event that a successor depository is not obtained, Series 2003 Bonds are required to be printed and delivered.

The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2003 Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Corporation believes to be reliable, but the Corporation takes no responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Series 2003 Bonds, the Corporation will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Series 2003 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct Participant or Indirect Participant acquires an interest in the Series 2003 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

THE INDENTURE

The following paragraphs briefly describe certain provisions of the Indenture. See "APPENDIX A – Definitions and Excerpts of Indenture of Trust and First Supplemental Indenture of Trust" attached hereto for a more complete description of the Indenture.

Establishment of Funds

The Indenture establishes the following separate funds for the deposit of the proceeds from the sale of the Series 2003 Bonds and the Pledged Revenues, all of which will be held by the Trustee: (1) Acquisition and Construction Fund, (2) Debt Service Fund, (3) Debt Service Reserve Fund, and (4) Rebate Fund (relating only to Bonds the interest on which is excludable from federal income taxation). The Trustee may establish separate accounts within all Funds. The Debt Service Fund and Debt Service Reserve Fund, and monies and Reserve Fund Surety Policies deposited therein, constitute the "Pledged Funds." Money on deposit in such Funds may be invested in any securities authorized for investment of Corporation funds by the laws of the State of Texas, currently the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended.

Acquisition and Construction Fund. The Indenture establishes a Series 2003 Acquisition and Construction Account within the Acquisition Fund. A portion of the proceeds from the sale of the Series 2003 Bonds will be deposited in the Series 2003 Acquisition Account of the Acquisition Fund to pay a portion of the City Project and to pay costs associated with the issuance of the Series 2003 Bonds.

Debt Service Fund. The Indenture establishes a Series 2003 Debt Service Fund Capitalized Interest Account into which a portion of the proceeds of the Series 2003 Bonds will be deposited to pay capitalized interest for approximately 35 months following the issuance of the Series 2003 Bonds. There shall be paid out of the Debt Service Fund on or before each Interest Payment Date or principal payment date (whether due to stated maturity or prior redemption) for any of the Bonds, the amount required to pay the principal and/or interest due on such date.

Debt Service Reserve Fund. Upon the issuance of the Series 2003 Bonds, the amount of the Reserve Fund Requirement will be established at $1,606,770.74 ("*Series 2003 Reserve Fund Requirement*"), which is not less than the average annual Aggregate Debt Service nor more than the maximum annual Aggregate Debt Service, in accordance with the requirements of the Indenture. The Reserve Fund Requirement will be satisfied, in whole, by a reserve fund surety policy provided by Ambac Assurance Corporation. See "Reserve Fund Surety Policy."

Flow of Funds

The Indenture provides that Pledged Revenues shall be used to make or provide for all payments, deposits, and transfers required therein as follows:

On or before the 30th of each month, and at such other times as shall be set forth in any Supplemental Indenture, there will be paid into the Debt Service Fund from the Pledged Revenues, amounts which, when added to other amounts in the Debt Service Fund and available for such purposes, will provide for the accumulation in approximately equal installments of the amount required to pay the Debt Service on all Bonds and Obligations including the following:

(a) any interest to become due and payable on each Series of Outstanding Bonds on the next Interest Payment Date for such Series; and

(b) any principal scheduled to become due and payable on each Series of Bonds within the following twelve months; and

(c) unless otherwise provided in any Supplemental Indenture, any amounts due on Obligations; and

(d) unless otherwise provided in any Supplemental Indenture, any amounts required to pay all related Expenses.

"Expenses" are defined in the Indenture as the ongoing fees and expenses of the Corporation relating to its Bonds, including its fees and expenses relating to: (1) the Trustee, Paying Agents, Registrars, Authenticating Agents, Securities Dealers, Securities Depositories, or other Fiduciaries; (2) financial and legal consultants; (3) insurers; (4) remarketing, indexing, or similar agreements; (5) to the extent not included within the definition of Debt Service, Credit Agreements, Investment Liquidity Facility agreements, or Reserve Fund Surety Policies.

After the payments and transfers set forth in the preceding paragraph, if the Debt Service Reserve Fund contains less than the Reserve Fund Requirement, there will be paid into the Debt Service Reserve Fund from Pledged Revenues the amount required, if any, by a Supplemental Indenture to attain the Reserve Fund Requirement, which transfers shall continue until the Debt Service Reserve Fund contains the Reserve Fund Requirement; provided, however, that by Supplemental Indenture, the Corporation may provide for other or greater transfers in connection with the purchase or acquisition of any Reserve Fund Surety Policy.

If on any Interest Payment Date, or on any principal payment date, or on any other date there are not sufficient Pledged Revenues to make the transfers to the Debt Service Fund or the Debt Service Reserve Fund or to pay when due interest or principal of or any other payments on any Bonds or Obligations, there may be transferred at the Corporation's discretion, from any lawfully available source the amount which will result in the appropriate Fund having the balances required to be on deposit therein; provided that no transfer will be made from proceeds of one issue of Bonds to pay debt service on another issue of Bonds unless authorized by Supplemental Indenture. The Corporation is permitted to reimburse itself from Pledged Revenues when they are available.

Certain Covenants

The Corporation has covenanted that so long as any Series 2003 Bonds are outstanding, it will maintain the Economic Development Contract in full force and effect and will use reasonable diligence to require the City to perform and discharge each and all of the duties and obligations imposed upon the City by the Economic Development Contract. If the City fails to make Pledged Contract Payments as required by the Economic Development Contract and if it should appear that enforcement of the Economic Development Contract has become ineffective or will be ineffective to the extent that a default in payment of principal or interest on the Series 2003 Bonds occurs or is threatened, the Corporation will take all necessary action to preserve and protect the rights of the Owners of the Series 2003 Bonds and to assure payment of the principal and redemption price of the Series 2003 Bonds and the interest thereon.

Amendments to Indenture

Amendments Not Requiring Consent or Notice. The Corporation may enter into Supplemental Indentures that may amend or modify the Indenture without consent or notice to the Owners, if such amendment or modification is for, among other matters, the following: (1) to authorize Bonds and other Obligations and, in connection therewith, to specify and determine the matters relative to such Bonds and other Obligations which are not contrary to or inconsistent with the Indenture, or to amend, modify, or rescind any such authorization, specification, or determination at any time prior to the first delivery of such Bonds and other Obligations; (2) to close the Indenture or any Supplemental Indenture against, or provide limitations and restrictions in addition to, the limitations and restrictions contained in the Indenture or any Supplemental Indenture on the delivery of Bonds and other Obligations or the issuance of other evidences or indebtedness; (3) to add to the covenants and agreements of the Corporation in the Indenture or any Supplemental Indenture, other covenants and agreements to be observed by the Corporation which are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indentures as theretofore in effect; (4) to add to the limitations and restrictions in the Indenture or any Supplemental Indenture other limitations and restrictions to be observed by the Corporation which are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indenture as theretofore in effect; (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture or any Supplemental Indenture, of the Pledged Revenues and Pledged Funds, or to grant to Owners of Bonds additional rights or enhancements on any Bond, Note, or Credit Agreement; (6) to add or modify the provisions of the Indenture to allow for the issuance of Bonds or obligations that are junior and subordinate to Bonds and Obligations issued under the Indenture; (7) to modify any of the provisions of the Indenture or any Supplemental Indenture in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Outstanding Bonds and other Obligations of any Series at the date of the adoption of such Indenture or Supplemental Indenture shall cease to be Outstanding Bonds and other Obligations; and (ii) such Supplemental Indenture shall be specifically referred to in the text of such Bonds and other Obligations delivered after the date of the adoption of such Supplemental

Indenture and of Bonds and other Obligations issued in exchange therefor or in place thereof; (8) to surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of the Indenture, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Indenture; (9) to add additional elements or components to the City Project as now or hereafter permitted by law; (10) to increase the Reserve Fund Requirement for the Debt Service Reserve Fund or to provide for Reserve Fund Surety Policies; (11) to alter the Indenture to comply with the requirements of a nationally recognized rating agency in order to obtain or maintain a rating on the Bonds in a long-term debt rating category or in a high-quality, short-term or commercial paper rating category or of such rating agency; (12) to increase the interest rate or rates on the Bonds of any Series; (13) to designate Paying Agents, Authenticating Agents, Registrars, and other agents for the Bonds of any Series; (14) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture; (15) to modify the Indenture to maintain or preserve federal tax exemption relating to the Bonds (which does not apply to the Series 2003 Bonds); (16) to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect; and (17) to modify any of the provisions of the Indenture or any Supplemental Indenture in any respect whatsoever, provided that such action shall not adversely affect the interest of the owners of Outstanding Bonds or other Obligations.

Amendments Requiring Consent. The Indenture provides that the terms and provisions of the Indenture may be amended upon the consent of the Owners of 51% of the aggregate principal amount of all outstanding Series 2003 Bonds, and, in the case that less than all of the several series of Bonds Outstanding are affected by such modification or amendment, Owners of the aggregate principal amount of any Bonds or Obligations which are affected by the amendment or modification. The Bond Insurer is deemed to be an Owner of the Series 2003 Bonds guaranteed by the Bond Insurer for all notice and consent purposes.

Additional Obligations

The Corporation reserves the right to issue an unlimited amount of additional Bonds to complete the City Project provided that certain conditions in the Indenture are satisfied, including the following: (a) the Economic Development Contract shall provide for the increase or adjustment of Pledged Contract Payments under the Economic Development Contract so that such payments will be sufficient to: (1) pay the principal and interest on said Bonds and make all mandatory redemption or sinking fund installments as required by the Supplemental Indenture authorizing such Bonds, (2) increase and/or maintain the balance in the Debt Service Reserve Fund to the Reserve Fund Requirement required by the Supplemental Indenture authorizing such Bonds, and (3) pay all related Expenses; (b) a certificate is executed by the City Manager or her designee to the effect that the City is not in default as to any material covenant, condition, or obligation prescribed under the Economic Development Contract, and (c) a certificate is executed by an authorized representative of the CPS Board to the effect that the CPS Board is not in default as to any material covenant, condition, or obligation prescribed by any ordinance authorizing the Utility Systems revenue bonds or other obligations payable by a lien on and pledge of the net revenues derived from the Utility Systems.

The Indenture also authorizes the Corporation to incur Obligations in addition to the Series 2003 Bonds. The term "Obligations" means any and all repayment, reimbursement or other obligations arising pursuant to any Credit Agreement issued or incurred pursuant to the Indenture. A Credit Agreement is defined in the Indenture as any agreement between the Corporation and a third party financial institution pursuant to which such third party financial institution issues a letter of credit, municipal bond insurance policy, line of credit, standby purchase agreement, Reserve Fund Surety Policy, surety bond, or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the Corporation's obligations pursuant to any Bonds, and shall include, to the extent permitted by applicable law, Investment Liquidity Facilities; and in consideration for which the Corporation may agree to pay certain fees and to reimburse and repay any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges.

THE ECONOMIC DEVELOPMENT CONTRACT

The Corporation and the City have entered into the Economic Development Contract. The Economic Development Contract shall remain in effect for as long as any Bonds (including the Series 2003 Bonds) and other Obligations remain outstanding and any expenses remain unpaid.

Corporation's Obligations

The Corporation is obligated under the Economic Development Contract to issue the Series 2003 Bonds to finance the cost of the City Project. The Corporation will apply proceeds of the Series 2003 Bonds to purchase or refinance a total of approximately 2,643 acres of land (defined in the Economic Development Contract as the "Overall Tract"), or so much thereof as may be required by the Starbright Agreement, and convey, or cause to be conveyed, to Toyota, or so much thereof as may be required pursuant to the Starbright Agreement. With respect to any portion of the Overall Tract not required to be conveyed to Toyota by the terms of the Starbright Agreement, the Corporation will hold, use, restrict or convey such land upon the direction of the City. The Corporation is further obligated in the Economic Development Contract to apply proceeds of the Series 2003 Bonds to reimburse Toyota for, and to pay or cause to be paid all other costs of, the City Project including without limitation, costs of a training facility (the City's portion thereof not to exceed $3,000,000) and site preparation (not to exceed $10,000,000) as provided in the Starbright Agreement.

City's Obligations

Unconditional Payments. In consideration of the Corporation's agreement to issue Bonds (including the Series 2003 Bonds) and other obligations to fund the costs of the City Project, the City has agreed under the Economic Development Contract to pay to the Corporation, or at the request of the Corporation, the Trustee, during the term of such Contract, as an unconditional obligation of the City (but solely from the source described in the paragraph below captioned "Source of City Payments") the Pledged Contract Payments and any other sum required by the Economic Development Contract, regardless of whether or not the City Project or Project Starbright is completed, operable, operated or retired and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the City Project or Project Starbright. Such payments are not subject to any reduction, whether offset or otherwise, and are not conditional upon (i) performance or default by the Corporation under the Economic Development Contract or any other agreement or other obligation of the Corporation, or (ii) whether or not Toyota or any other party to the Starbright Agreement shall perform, fail to perform or default in its obligations.

Debt Service Payments. So long as the Series 2003 Bonds remain outstanding and unpaid, the City will remit to the Trustee the sums necessary to pay, or accrue amounts necessary to pay, the Debt Service on the Series 2003 Bonds at the times and in the amounts as fixed and prescribed in the Indenture. Promptly after the Series 2003 Bonds (and any series of Bonds and other Obligations) are issued, the Corporation shall furnish (or cause the Trustee to furnish) the City a schedule of payments to be made on the Series 2003 Bonds and any additional Bonds and other Obligations.

Debt Service Reserve Fund Payments. The City will also pay to the Trustee such sums, if any, as are necessary to establish, restore, and maintain an amount equal to the Reserve Fund Requirement in the Debt Service Reserve Fund created in the Indenture at such times and in such amounts as provided in the Indenture.

Expenses. The City will also pay to the Corporation (or at its request, the Trustee or other third parties to whom such amounts are due) the Expenses as they are incurred.

Source of City Payments. All money required to be paid by the City to the Corporation as described above is payable solely from those net revenues of the Utility Systems that are transferred by the CPS Board to the City in an amount not to exceed 14% of the gross revenues of the Utility Systems less the value of gas and electric services of the Utility Systems used by the City for municipal purposes and the amounts expended for additions to the street lighting system, subject to the flow of funds and other more specific terms of the City's ordinances authorizing bonds, notes, public securities and credit agreements (the "Utility Systems Ordinances") payable from the net revenues of the Utility Systems. The Corporation and the owners of the Series 2003 Bonds shall never have the right to demand that any of these payments shall be made from any funds raised or to be raised by taxation. The City has reserved the right to pay all or any portion of amounts payable by the City under the Economic Development Contract with the proceeds of grants related to the City Project that are lawfully available for such purpose in which case such payments would be credited against amounts due by the City under the Economic Development Contract; however, no pledge or lien of any kind has been granted by the City with respect to any such grants.

Covenant Not to Sell Substantial Portion of Utility Systems. The City has agreed that it will not sell or dispose of all or a substantial portion of the Utility Systems so long as any Bonds (including the Series 2003 Bonds) or other Obligations remain outstanding unless the City provides for the full legal defeasance of all outstanding Bonds and other Obligations prior to or concurrent with such sale or disposition.

Remedies Upon Payment Default. In the event of a default by the City in the payment of any sum due and payable under the Economic Development Contract as described above which continues ten days after the Trustee gives notice of such nonpayment, the Trustee, shall be authorized to pursue any remedies authorized by applicable law.

Qualification of City Project Under City's Economic Development Program. The City has represented to the Corporation that it has taken all necessary legal action to adopt an economic development program in satisfaction of Section 380.001, Texas Local Government Code, as amended, that the City Project qualifies under the City's economic development program established under Chapter 380, Texas Local Government Code, that the Economic Development Contract has been authorized pursuant to Section 380.002(b), Texas Local Government Code, as amended, and that the City's Pledged Contract Payments under the Economic Development Contract, derived from sources described above, satisfy and comply in all respects with Section 380.002(c), Texas Local Government Code, as amended.

Amendment of Economic Development Contract

Amendment to Economic Development Contract Not Requiring Consent of Owners. The Indenture provides that the Corporation and the City may amend, change, or modify the Economic Development Contract without the consent of or notice to the Owners, if such amendment, change or modification: (1) is required by the provisions of the Economic Development Contract or the Indenture; (2) cures any ambiguity or formal defect or omission; (3) is necessary to maintain or preserve the federal tax exemption, if any, of interest on certain Bonds (the interest on which was originally issued as being excludable from federal income taxation, which does not apply to the Series 2003 Bonds) or to comply with any state and/or federal law, including, without limitation, any applicable regulation of the Securities and Exchange Commission; (4) to subject to the lien and pledge of the Indenture to additional revenues, properties or collateral; (5) grants to or confers on the Corporation additional rights, remedies, powers, or authority and the consideration given by the Corporation for such amendment, modification or change does not reduce the amount payable under the Economic Development Contract as Pledged Contract Payments, or extend the time of payment of such amounts or in any manner materially impair or adversely affect the rights of the Owners of the Bonds; (6) enables the Corporation to issue Bonds; (7) enables the Corporation to issue subordinate lien Bonds or obligations; and (8) enables the Corporation to make any change to the Economic Development Contract provided that such change does not diminish, alter or reduce the City's obligation and commitment to pay Pledged Contract Payments.

Amendment to Economic Development Contract Requiring Consent of Owners. Except for the amendments, changes, or modifications provided in the preceding paragraph, neither the Corporation nor the City may consent to any amendment, change or modification of the Economic Development Contract without publication of notice and written approval or consent of the Owners of not less than 51% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, no amendment, modification or change in the Economic Development Contract may in any way reduce the City's obligation to pay Pledged Contract Payments below an amount equal to the amount necessary to: (1) pay Debt Service on the Bonds as it becomes payable; and (2) establish and maintain all of the Funds and Accounts and the balances therein as required by the Indenture.

BOND INSURANCE

The information contained or referred to in this Official Statement relating to the bond insurer and the financial guaranty insurance policy has been provided by Ambac Assurance Corporation ("Ambac Assurance"). Such information has not been independently verified by the Corporation or the Underwriters and is not guaranteed as to completeness or accuracy by the Corporation or the Underwriters and is not to be construed as a representation of the Corporation or the Underwriters. Reference is made to the specimen of the financial guaranty insurance policy attached hereto.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Series 2003 Bonds effective as of the date of issuance of the Series 2003 Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2003 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Paying Agent. The insurance will extend for the term of the Series 2003 Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2003 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2003 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2003 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2003 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent has notice that any payment of principal of or interest on a Series 2003 Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Series 2003 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2003 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Series 2003 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2003 Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $6,362,000,000 (unaudited) and statutory capital of approximately $3,945,000,000 (unaudited) as of March 31, 2003. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Corporation of the Series 2003 Bonds.

Ambac Assurance makes no representation regarding the Series 2003 Bonds or the advisability of investing in the Series 2003 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "RESERVE FUND SURETY BOND".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. *The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;*

2. *The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;*

3. *The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;*

4. *The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;*

5. *The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;*

6. *The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;*

7. *The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;*

8. *The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003; and*

9. *The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003.*

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

RESERVE FUND SURETY BOND

The Indenture requires the establishment of a Debt Service Reserve Fund in an amount equal to $1,606,770.74. The Indenture authorizes the Corporation to obtain a Surety Bond in place of fully funding the Debt Service Reserve Fund. Accordingly, application has been made to Ambac Assurance Corporation ("Ambac Assurance") for the issuance of a Surety Bond for the purpose of funding the Debt Service Reserve Fund (see the "THE INDENTURE" herein). The Series 2003 Bonds will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the Series 2003 Bonds. The Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Series 2003 Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Series 2003 Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the Corporation is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Corporation is subordinate to the Corporation's obligations with respect to the Series 2003 Bonds.

In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Debt Service Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Indenture provides that the Debt Service Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on the Additional Funding Instrument shall be paid from first available Pledged Revenues on a pro rata basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Debt Service Reserve Fund to the required level, after taking into account the amounts available under the Surety Bond and the Additional Funding Instrument shall be deposited from next available Pledged Revenues.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

Ambac Assurance Corporation

For information regarding Ambac Assurance, please see "BOND INSURANCE – Ambac Assurance Corporation."

THE CITY

The City is a political subdivision of the State of Texas, incorporated in 1837 and chartered as a home-rule municipality in 1951. It operates with a Council-Manager form of government with ten council members elected from single member districts and a Mayor elected at large, each serving two-year terms, limited to two concurrent terms as required by the City Charter. All members of the City Council stand for election at the same time in odd-numbered years.

The City's geographic area covers approximately 448.8961 square miles and is located in South Central Texas, 282 miles south of Dallas, 199 miles west of Houston, and 152 miles north of the U.S./Mexico border. It serves as the county seat for Bexar County, which has a population of 1,392,931. The United States Census Bureau cites the City's population to be 1,144,646 as of April, 2000. According to the United States Census Bureau, this ranks San Antonio as the ninth largest city in the United States and the third largest in the State of Texas. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest from the Gulf of Mexico, and approximately 150 miles from the Mexican border cities of Del Rio, Eagle Pass and Laredo.

See APPENDIX C for additional information regarding the City.

SAN ANTONIO ELECTRIC AND GAS SYSTEMS

The City acquired its gas and electric utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Holding Company Act of 1935. The ordinances of the City (the "CPS Bond Ordinances") authorizing the issuance of obligations secured with a first lien on the net revenues of the Utility Systems (the "Parity Bonds") establish management requirements and provide that the complete management and control of the Utility Systems is vested in a Board of Trustees consisting of five citizens of the United States of America permanently residing in Bexar County, Texas, known as the "City Public Service Board of San Antonio, Texas" (referred to herein as "CPS", "City Public Service" or the "CPS Board"). The Mayor of the City is a voting member of the Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the CPS Board and its conduct of the management of the Utility Systems.

CPS currently has outstanding approximately $2,500,000,000 in principal amount of Parity Bonds, $250,000,000 in principal amount of Junior Lien Variable Rate Demand Bonds, and $350,000,000 in principal amount of tax exempt commercial paper. The CPS Bond Ordinances authorizing such Parity Bonds provide that the gross revenues of the Utility Systems are to be deposited in CPS's General Account, and further provide that such revenues are pledged and appropriated to be used in the following priority: (i) for maintenance and operating expenses of the Utility Systems, (ii) for payment of the Parity Bonds and the establishment and maintenance of a debt service reserve therefor, (iii) for the payment of any obligations inferior in lien to the Parity Bonds which may be issued, including the Junior Lien Obligations and Commercial Paper Notes, (iv) for an amount equal to 6% of the gross revenues of the Utility Systems to be deposited in the Repair and Replacement Account, (v) for cash payments and benefits to the City not to exceed 14% of the gross revenues of the Utility Systems, and (vi) for any remaining net revenues in the General Account to be deposited in the Repair and Replacement Account. The maximum amount in cash to be transferred or credited by the CPS Board to the General Fund of the City from the net revenues of the Systems during any fiscal year shall not exceed 14% of the gross revenues of the Utility Systems less the value of gas and electric services of the Utility Systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system.

See APPENDIX D for additional information regarding CPS and the Utility Systems.

Pursuant to the Economic Development Contract, the City has pledged certain payments it receives from CPS as described in the preceding paragraph to secure the Series 2003 Bonds. The following table shows the payments the City has received from CPS during the City's preceding five fiscal years:

Historical Revenues and Benefits Received by City from City's Electric and Gas Systems

Table 2

	Fiscal Years Ended September 30*				
	1998	1999	2000	2001	2002
Gross benefits from CPS:	$146,145,982	$145,170,683	$167,138,876	$182,411,012	$165,118,018
Less charges for furnishing gas and electricity to City:	(17,452,320)	(17,770,559)	(19,635,102)	(20,160,022)	(20,318,380)
Net cash to City:	$128,693,662	$127,400,124	$147,503,774	$162,250,990	$144,799,638

*Note: The information shown in Table 2, which lists the revenues and benefits received by the City from CPS during the respective fiscal years of the City (ending on September 30 of each of such years) does not match the similar information shown in the table that appears at the bottom of page D-5 due to that fact that the information shown on page D-5 presents the same information (i.e. the revenues and benefits provided by CPS to the City) as of the respective fiscal years of CPS (ending as of January 31 of each of such years).

INVESTMENTS

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Investment Act") and in accordance with an Investment Policy approved by the City Council of the City. The Investment Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City has established a written investment policy in accordance with the Investment Act. The City's investments are managed by its Finance Director, who, in accordance with the Investment Policy, reports investment activity to the City Council. Both State law and the City's investment policies are subject to change.

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for City deposits; (7) certificates of deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (5) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) bankers' acceptances with the remaining term of 270 days or, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. bank or state; (11) no-load money market mutual funds regulated by the Securities and Exchange Commission (the "SEC") that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and (12) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; address investment diversification, yield, maturity, and the quality and capability of investment management; and include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "investment strategy statement" that specifically addresses each funds' investment. Each investment strategy statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. " At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

Additional Provisions

Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Current Investments

At December 31, 2002, investable City funds, in the approximate amount of $886,567,792, were 85.23% invested in obligations of the United States, or its agencies and instrumentalities and 12.85% invested in a money market fund, with the weighted average maturity of the portfolio being less than one year. The remaining 1.92% of the City's portfolio includes convention center debt service reserve funds of $16,999,830, which were invested in fully collateralized repurchase agreements that were fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and City's investment policy objectives are to preserve principal, limit risk, maintain diversification and liquidity, and maximize interest earnings.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.03% of their book value. No funds of the City are invested in derivative securities; *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

GENERAL LITIGATION AND CLAIMS

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits are capped under the Texas Tort Claims Act. Therefore, the potential liability for all such lawsuits, assessments and various other claims is approximated at $10.5 million which is included in the reserve recorded in the City's Insurance Reserve Fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits; including the pursuit of any and all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such lawsuits.

In the opinion of the City Attorney, it is improbable that the lawsuits now outstanding against the City could become final in a timely manner so as to have a material adverse financial impact upon the City.

Information regarding various lawsuits against the City is included in Footnote 11, entitled "Commitments and Contingencies: in Appendix E, entitled "Excerpts from the City's Audited Financial Statement" for the year ended September 30, 2002.

LIMITATION ON BONDHOLDERS' REMEDIES

The principal remedy of Bondholders in the event of default is limited to civil proceedings to compel the City to perform its obligations under the Economic Development Contract. The enforcement of a claim for payment of Pledged Contract Payments under the Economic Development Contract may also be subject to the applicable provisions of the federal bankruptcy laws and to other statutes, if any, hereafter enacted, which might impose constraints on such enforcement.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Series 2003 Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Series 2003 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2003 Bonds been qualified under the securities acts of any other jurisdiction. The Corporation assumes no responsibility for qualification of the Series 2003 Bonds under the securities laws of any jurisdiction in which the Series 2003 Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Series 2003 Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

RATINGS

The Series 2003 Bonds have been assigned ratings of "Aaa", "AAA", and "AAA" by Moody's Investors Service ("Moody's"), Standard & Poor's, a Division of The McGraw-Hill Corporation ("S&P"), and Fitch Ratings ("Fitch"), respectively, based upon a municipal bond insurance policy to be issued by AMBAC Assurance Corporation insuring payment of principal and interest on the Series 2003 Bonds. The Series 2003 Bonds have been assigned underlying ratings of "Aa2", "AA", and "AA" by Moody's, S&P and Fitch, respectively. An explanation of the significance of such ratings may be obtained from Moody's, S&P, or Fitch. The rating of the Series 2003 Bonds by Moody's, S&P, and Fitch reflects only the views of said companies at the time the ratings are given, and the Corporation makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's, S&P, and Fitch if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Series 2003 Bonds.

LEGAL PROCEEDINGS

The delivery of the Series 2003 Bonds is subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P. and Loeffler Jonas & Tuggey LLP, Co-Bond Counsel, as to the validity of the issuance of the Series 2003 Bonds under the Constitution and laws of the State of Texas. The opinion of Co-Bond Counsel will be based upon an examination of a transcript of certain proceedings taken by the Corporation incident to the issuance and authorization of the Series 2003 Bonds. The proposed form of Co-Bond Counsel's opinion is contained in APPENDIX F.

In their capacity as Co-Bond Counsel, Vinson & Elkins L.L.P. and Loeffler Jonas & Tuggey LLP have reviewed the information appearing in the Official Statement under the caption "THE SERIES 2003 BONDS," "THE ECONOMIC DEVELOPMENT CONTRACT" and "THE INDENTURE" solely to determine whether such information conforms to and fairly summarizes the provisions of the Series 2003 Bonds, the Economic Development Contract and the Indenture referred to therein. Such firms have also read and participated in the drafting of certain other portions of the Official Statement including "SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2003 BONDS," "LIMITATION ON BONDHOLDERS' REMEDIES," "LEGAL INVESTMENTS IN TEXAS," "TAX MATTERS", and "CONTINUING DISCLOSURE OF INFORMATION." Such firms have not, however, independently verified any of the factual information contained in the Official Statement nor have they conducted an investigation of the affairs of the Corporation or the City for the purpose of passing upon the accuracy or completeness of the Official Statement. No person is entitled to rely upon such firms' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein except as set forth in the first sentence of this paragraph. The fees of Co-Bond Counsel for their services with respect to the Series 2003 Bonds are contingent upon the delivery of the Series 2003 Bonds.

Certain matters will be passed on for the City by the City Attorney and for the Underwriters by McCall Parkhurst & Horton L.L.P., San Antonio, Texas. The fees of Counsel to the Underwriters for their services are contingent upon the delivery of the Series 2003 Bonds.

LEGAL INVESTMENTS IN TEXAS

Chapter 1201, Texas Government Code, as amended, provides that obligations such as the Series 2003 Bonds are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities and other political subdivisions or public agencies of the State of Texas. The Series 2003 Bonds also are eligible to secure deposits of any public funds of the state of Texas or any political subdivision or public agency of the State of Texas, and are lawful and sufficient security for such deposits to the extent of their market value. For political subdivisions and other public subdivisions funded in the State that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Series 2003 Bonds may need to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "RATINGS" herein.

The Corporation has made no investigation of any other laws, rules, regulations, or investment criteria that might affect the suitability of the Series 2003 Bonds for any of the above purposes or limit the authority of any of the above entities or persons to purchase or invest in the Series 2003 Bonds.

TAX MATTERS

The following discussion describes the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of the Series 2003 Bonds. This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), published revenue rulings, judicial decisions and existing and proposed Treasury regulations, including regulations concerning the tax treatment of debt instruments issued with original issue discount (the "OID Regulations"), changes to any of which subsequent to the date of this official statement may affect the tax consequences described herein.

This summary discusses only Series 2003 Bonds held as capital assets within the meaning of section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, dealers in securities or foreign currencies, or Owners whose functional currency (as defined in section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Series 2003 Bonds. Investors who are subject to special provisions of the Code should consult their own tax advisors regarding the tax consequences to them of purchasing, holding, owning and disposing of the Series 2003 Bonds, including the advisability of making any of the elections described below, before determining whether to purchase the Series 2003 Bonds.

For purposes of this discussion, a "U.S. person" means an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States, or a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source of income. The term also includes nonresident alien individuals, foreign corporations, foreign partnerships, and foreign estates and trusts to the extent that their ownership of the Series 2003 Bonds is effectively connected with the conduct of a trade or business within the United States, as well as certain former citizens and residents of the United States who, under certain circumstances, are taxed on income from U.S. sources as if they were citizens or residents.

In General

Income derived from a Bond by an Owner is subject to U.S. federal income taxation. In addition, a Series 2003 Bond held by an individual who, at the time of death, is a U.S. person is subject to U.S. federal estate tax.

Payments of Interest

Stated interest paid (and other original issue discount) on each Series 2003 Bond will generally be taxable in each tax year held by an Owner as ordinary interest income without regard to the time it otherwise accrues or is received in accordance with the Owner's method of accounting for federal income tax purposes. Special rules governing the treatment of original issue discount, acquisition premium, market discount or amortizable premium are described below.

Original Issue Discount

The issue price of the Series 2003 Bonds maturing in year 2023 is less than the stated redemption price at maturity of such Series 2003 Bonds (the "Discount Bonds"). Accordingly, as provided in the Code and the OID Regulations, the excess of the "stated redemption price at maturity" of each Discount Bond over its "issue price" (defined as the initial offering price to the public, excluding bond houses and brokers, at which a substantial amount of the Series 2003 Bonds have been sold) will be original issue discount. Except as described below, Owners of Discount Bonds will have to include in gross income (irrespective of their method of accounting) a portion of such original issue discount for each year during which such Series 2003 Bonds are held, without regard to the time at which the cash to which such income is attributable will be received. The amount of original issue discount included in income for each year will be calculated under a constant yield to maturity formula that results in the allocation of less original issue discount to earlier years of the term of such Series 2003 Bonds and more original issue discount to the later years.

The foregoing summary is based on the assumptions that (a) the Underwriters have purchased the Discount Bonds for contemporaneous sale to the general public and not for investment purposes, (b) all of the Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c) the respective initial offering prices of the Discount Bonds to the general public are equal to the fair market value thereof. Neither the Corporation nor Bond Counsel warrants that the Series 2003 Bonds will be offered and sold in accordance with such assumptions.

Market Discount

An Owner that purchases a Series 2003 Bond at a "market discount" will be subject to provisions in the Code that convert certain capital gain on the redemption, sale, exchange or other disposition of the Bond into ordinary income. A Series 2003 Bond will have market discount to the extent the "revised issue price" of such Series 2003 Bond exceeds, by more than a de minimis amount, the Owner's tax basis in the Series 2003 Bond immediately after the Owner acquires the series 2003 Bond. The "revised issue price" generally equals the issue price of the Series 2003 Bond plus the amount of original issue discount (computed without regard to any "acquisition premium" described above) that had accrued on such Series 2003 Bond as of the date the Owner acquired the Series 2003 Bond and reduced by the stated interest previously paid with respect to such Series 2003 Bond as of such date.

An Owner may elect to include market discount in income as it accrues, but such an election will apply to all market discount bonds acquired by such Owner on or after the first day of the first taxable year to which such election applies and is revocable only with permission from the Internal Revenue Service ("IRS"). Unless an Owner elects to include market discount in income as it accrues, any partial principal payments on, or any gain realized upon the sale, exchange, disposition, redemption or maturity of a Series 2003 Bond will be taxable as ordinary income to the extent any market discount has accrued on such Series 2003 Bond. Market discount on a Series 2003 Bond would accrue ratably each day between the date an Owner purchases the Series 2003 Bond and the date of maturity. In the alternative, an Owner irrevocably may elect to use a constant interest accrual method under which marginally less market discount would accrue in early years and marginally greater amounts would accrue in later years.

If a Series 2003 Bond purchased with market discount is disposed of in a nontaxable transaction (other than a nonrecognition transaction described in section 1276(d) of the Code), accrued market discount will be includable as ordinary income to the Owner as if such Owner had sold the Series 2003 Bond at its then fair market value. An Owner of a Series 2003 Bond that acquired it at a market discount and that does not elect to include market discount in income on a current basis also may be required to defer the deduction for a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the Series 2003 Bond until the deferred income is realized.

Amortizable Premium

An Owner that purchases a Series 2003 Bond for any amount in excess of its principal amount, or in the case of a Discount Bond, its stated redemption price at maturity, will be treated as having premium with respect to such Bond in the amount of such excess. An Owner that purchases a Discount Bond at a premium is not required to include in income any original issue discount with respect to such Series 2003 Bond.

If an Owner makes an election under section 171(c)(2) of the Code to treat such premium as "amortizable bond premium," the amount of interest that must be included in such Owner's income for each accrual period will be reduced by the portion of the premium allocable to such period based on the Series 2003 Bond's yield to maturity. If an Owner makes the election under section 171(c)(2), the election also shall apply to all taxable bonds held by the Owner at the beginning of the first taxable year to which the election applies and to all such taxable bonds thereafter acquired by such Owner, and it is irrevocable without the consent of the IRS. If such an election under section 171(c)(2) of the Code is not made, such an Owner must include the full amount of each interest payment in income in accordance with its regular method of accounting and will receive a tax benefit from the premium only in computing its gain or loss upon the sale of other disposition or retirement of the Series 2003 Bond. The existence of bond premium and the benefits associated with the amortization of bond premium vary with the facts and circumstances of each Owner. Accordingly, each Owner of a Series 2003 Bond should consult his own tax advisor concerning the existence of bond premium and the associated election.

Accrual Method Election

Under the OID Regulations, an Owner that uses an accrual method of accounting would be permitted to elect to include in gross income its entire return on a Series 2003 Bond (i.e., the excess of all remaining payments to be received on the Series 2003 Bond over the amount paid for the Series 2003 Bond by such Owner) based on the compounding of interest at a constant rate. Such an election for a Series 2003 Bond with amortizable bond premium (or market discount) would result in a deemed election for all of the Owner's debt instruments with amortizable bond premium (or market discount) and could be revoked only with the permission of the IRS with respect to debt instruments acquired after revocation.

Disposition or Retirement

Upon the sale, exchange or other disposition of a Series 2003 Bond, or upon the retirement of a Series 2003 Bond (including by redemption), an Owner will recognize gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement and the Owner's basis in the Series 2003 Bond. An Owner's tax basis for determining gain or loss on the disposition or retirement of a Series 2003 Bond will be the cost of such Series 2003 Bond to such Owner, increased by the amount of original issue discount and any market discount includable in such Owner's gross income with respect to such Series 2003 Bond, and decreased by the amount of any payments under the Series 2003 Bond that are part of its stated redemption price at maturity (i.e., all stated interest payments with respect to the Series 2003 Bonds previously paid) and by the portion of any premium applied to reduce interest payments as described above. Such gain or loss will be capital gain or loss (except to the extent the gain represents accrued original issue discount or market discount on the Series 2003 Bond not previously included in gross income, to which extent such gain would be treated as ordinary income). Any capital gain or loss will be long-term capital gain or loss if at the time of disposition or retirement the Series 2003 Bond has been held for more than one year.

Information Reporting and Backup Withholding

The Corporation is required to report to the IRS payments of interest and accruals of original issue discount (if any) on Series 2003 Bonds held of record by U.S. persons other than corporations and other exempt holders. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and taxpayer identification number of the registered Owner. A copy of Form 1099 will be sent to each registered Owner of a Series 2003 Bond for federal income tax reporting purposes. The amount of original issue discount required to be reported by the Corporation may not be equal to the amount required to be reported as taxable income by an Owner of a Discount Bond that acquired such Series 2003 Bond subsequent to its original issuance.

Interest paid to an Owner of a Series 2003 Bond ordinarily will not be subject to withholding of federal income tax if such Owner is a U.S. person. Backup withholding of federal income tax at a rate of 31 percent may apply, however, to payments made in respect of the Series 2003 Bonds, as well as payments of proceeds from the sale of Series 2003 Bonds, to registered holders or Owners that are not "exempt recipients" and that fail to provide certain identifying information. This withholding generally applies if the Owner of a Series 2003 Bond (who is not an exempt recipient) (i) fails to furnish to the Corporation such Owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the Corporation an incorrect TIN, (iii) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Corporation or such Owner's broker with a certified statement, signed under penalty of perjury, that the TIN provided to the Corporation is correct and that such Owner is not subject to backup withholding. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. To prevent backup withholding, each prospective holder will be requested to complete an appropriate form.

Any amounts withheld under the backup withholding rules from a payment to a person would be allowed as a refund or a credit against such person's U.S. federal income tax, provided that the required information is furnished to the IRS. Furthermore, certain penalties may be imposed by the IRS on a holder or Owner who is required to supply information but who does not do so in the proper manner.

THE FEDERAL TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON AN OWNER'S PARTICULAR SITUATION. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF HOLDING AND DISPOSING OF THE SERIES 2003 BONDS UNDER APPLICABLE STATE OR LOCAL LAWS. FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO INVESTORS WHO ARE NOT U.S. PERSONS.

FINANCIAL INFORMATION OF THE CITY

The financial statements of the City for the year ended September 30, 2002, included in APPENDIX E to this Official Statement, have been examined by KPMG LLP, Leal & Carter, P.C., and Robert J. Williams, CPA, independent certified public accountants, to the extent indicated in their report thereon (which report is qualified as therein set forth) which appears in APPENDIX E.

UNDERWRITING

Siebert Brandford Shank & Co., LLC, as representative on behalf of the syndicate of underwriters (collectively, the "Underwriters"), has agreed to purchase all of the Series 2003 Bonds, if any of the Series 2003 Bonds are purchased, from the Corporation, upon the satisfaction of certain conditions, and will offer the Series 2003 Bonds to the public initially at the offering prices stated on the inside cover page hereof. The Underwriters have further agreed to pay an aggregate purchase price for all of the Series 2003 Bonds of *$24,506,957.55* (representing the par amount of the Series 2003 Bonds, less a net original issue discount of $7,469.10 and less an underwriting discount of $170,573.35). The Underwriters may offer and sell the Series 2003 Bonds to certain dealers (including dealers depositing the Series 2003 Bonds into investment trusts) and others at prices other than the prices stated on the inside cover page hereof, and such prices may be changed by the Underwriters from time to time.

CONTINUING DISCLOSURE OF INFORMATION

In the Indenture, in the Economic Development Contract, and in a separate agreement between the Corporation and CPS, the Corporation, the City and CPS, respectively, have made the following agreement for the benefit of the holders and beneficial owners of the Series 2003 Bonds. The Corporation, the City and CPS are required to observe their respective agreements for so long as the Corporation and the City remain obligated to advance funds to pay the Series 2003 Bonds. Under the agreements, the Corporation, the City and CPS will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The City and CPS will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated by the City includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Table 2 and in Appendix E attached hereto. The information to be updated by CPS includes all quantitative financial information and operating data with respect to CPS of the general type included in Appendix D of this Official Statement under the headings "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Customer Base"; "TEN-YEAR ELECTRIC CUSTOMER STATISTICS"; "FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY"; "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE"; "DESCRIPTION OF PHYSICAL PROPERTY - ELECTRIC SYSTEM - Generating Capability, and – Five-Year South Texas Project Capacity Factor"; "DESCRIPTION OF PHYSICAL PROPERTY – OTHER ELECTRIC AND GAS SYSTEMS STATISTICS." The City and CPS will update and provide this information within six months after the end of each fiscal year of (i) the City in or after 2003, and (ii) of CPS in or after 2004. The City and CPS will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State and approved by the staff of the Commission.

The City and CPS may provide updated information in full text or in such other form consistent with the agreement, or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission. The updated information will include audited financial statements of the City, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide audited financial statements of the City when and if they become available, but if such audited financial statements are unavailable, the City will provide such financial statements on an unaudited basis within the required time. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX E or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's fiscal year end is September 30, and CPS's fiscal year end is January 31. Accordingly, the City and CPS must each provide updated information by March 31 and July 31, respectively, in each year, unless the City or CPS changes its fiscal year. If the City or CPS changes its fiscal year, the City and CPS, as appropriate, will notify each NRMSIR and any SID of the change.

Material Event Notices

The Corporation, the City and CPS will also provide timely notices of certain events to certain information vendors. The Corporation will provide notice of any of the following events with respect to the Series 2003 Bonds, if such event is material to a decision to purchase or sell the Series 2003 Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2003 Bonds; (7) modifications to rights of holders of the Series 2003 Bonds; (8) the Series 2003 Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2003 Bonds; and (11) rating changes. In addition, the City and CPS will provide timely notice of any failure by the City or CPS, as appropriate, to provide information, data, or financial statements in accordance with their respective agreements described above under "Annual Reports." The Corporation, the City and CPS will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board.

Availability of Information from NRMSIRs and SID

The Corporation, the City and CPS have agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of the Series 2003 Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State as a SID and the Commission has determined that it is a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476-6947.

Limitations and Amendments

The Corporation, the City and CPS have agreed to update information and to provide notices of material events only as described above. The Corporation, the City and CPS have not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. Neither the Corporation, the City, nor CPS makes any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Series 2003 Bonds at any future date. The Corporation, the City and CPS disclaim any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Series 2003 Bonds may seek a writ of mandamus to compel the Corporation, the City and CPS to comply with their agreement.

The Corporation, the City and CPS may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Corporation, the City or CPS, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Series 2003 Bonds in the offering made hereby in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Series 2003 Bonds consent or any person unaffiliated with the Corporation, the City or CPS (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Series 2003 Bonds. The Corporation, the City and CPS may also amend or repeal their respective agreement if the Commission amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, and the Corporation, the City and CPS may amend their respective agreement in their discretion in any other circumstance or manner, but in either case only to the extent that its right to do so would not prevent the Underwriters from purchasing the Series 2003 Bonds in the offering described herein in compliance with the Rule. If the Corporation, the City or CPS amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

The Corporation has not previously made an undertaking in accordance with the Rule. The City and CPS have complied in all material respects with all continuing disclosure agreements made by them in accordance with the Rule.

CO-FINANCIAL ADVISORS

Coastal Securities and Estrada Hinojosa & Company, Inc. (the "Co-Financial Advisors") are employed by the Corporation in connection with the issuance of the Series 2003 Bonds and, in such capacity, have assisted the Corporation in the preparation of certain documents related thereto. The Co-Financial Advisors' fee for service rendered with respect to the sale of the Series 2003 Bonds is contingent upon the issuance and delivery of the Series 2003 Bonds.

The Co-Financial Advisors have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources which are believed to be reliable, including financial records of the City and CPS and other entities which may be subject to interpretation. No guarantee is made by the Co-Financial Advisors as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinions as to the completeness and accuracy of the information contained in this Official Statement.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, including, but not limited to the information under the headings "DESCRIPTION OF THE SERIES 2003 BONDS - Security for the Series 2003 Bonds" and in any other information provided by the Corporation or the City that are not purely historical are forward-looking statements, including statements regarding the Corporation's or the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Corporation and the City on the date hereof, and the Corporation and the City assume no obligation to update any such forward-looking statements. The Corporation's and the City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherent subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, regulatory circumstances, and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions of future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Corporation or the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

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AUTHORIZATION OF OFFICIAL STATEMENT

This Official Statement has been approved as to form and content and the use thereof in the offering of the Series 2003 Bonds was authorized, ratified, and approved by the Board of Directors of the Corporation and the City Council of the City on the date of sale, and the Underwriters will be furnished, upon request, at the time of payment for and the delivery of the Series 2003 Bonds, a certified copy of such approval, duly executed by the proper officials of the Corporation.

The use of this Official Statement has been duly approved by the Board of Directors of the Corporation and the City Council of the City for distribution in accordance with the provisions of the securities and Exchanged Commission's rule codified at 17 C.F.R., Section 240, 15c2-12.

/s/ Christopher J. Brady
Executive Director of the Corporation

/s/ Ed Garza
Mayor, City of San Antonio

APPENDIX A

DEFINITIONS AND EXCERPTS OF INDENTURE OF TRUST AND FIRST SUPPLEMENTAL INDENTURE OF TRUST

The following are excerpts of certain definitions and provisions of the Trust Indenture and First Supplemental Trust Indenture. Such excerpts do not purport to be complete and are qualified in their entirety by reference to the complete text of such documents, copies of which are available upon request from the Corporation prior to the issuance and delivery of the Series 2003 Bonds and from the Trustee after the issuance and delivery of the Series 2003 Bonds. Provisions included herein are in substantially final form, but may change prior to closing and may thereafter change prior to delivery of the Series 2003 Bonds.

Definitions

"Account" or "Accounts" shall mean any one or more, as the case may be, of the accounts from time to time hereafter created in any of the Funds required to be maintained pursuant to Section 502 or the provisions of any Supplemental Indenture.

"Acquisition and Construction Fund" shall mean the Acquisition and Construction Fund established pursuant to Section 502 and maintained pursuant to Section 503, including any Accounts created therein.

"Aggregate Debt Service" shall mean for any Fiscal Year or other period, as of the date of calculation, the sum of the amounts of Debt Service for such Fiscal Year or other period with respect to any one or more Series of Bonds and other Obligations then outstanding.

"Authenticating Agent" shall mean an agent appointed by the Trustee to provide the services of an Authenticating Agent as provided herein.

"Authorized Officer of the Corporation" shall mean the President, Vice President, Executive Director, Treasurer, Secretary or other member of the Board or any other officer of the Corporation authorized to perform specific acts or duties by law or by motion, resolution, order or other manner contemplated by its by-laws duly adopted by the Board of Directors.

"Board of Directors" or "Board" shall mean the Board of Directors of the Corporation which is the governing body of the Corporation.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Corporation" shall mean the City of San Antonio, Texas, Starbright Industrial Development Corporation.

"Costs of Issuance" shall mean the items of expense payable or reimbursable directly or indirectly by the Corporation and related to the authorization, sale and issuance of Bonds, which items of expense shall include without limiting the generality of the foregoing: travel expenses; printing costs; costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Trustee, Registrars, Securities Depository, and any Authenticating Agents; initial fees and charges of providers of Credit Agreements, Investment Liquidity Facilities and Reserve Fund Surety Policies or other parties pursuant to remarketing, indexing or similar agreements; discounts; legal fees and charges; consulting fees and charges; auditing fees and expense; credit insurance; financial advisor's fees and charges; costs of credit ratings; insurance premiums; fees and charges for execution, transportation and safekeeping of Bonds or Obligations; expenses and fees of the Corporation and the City associated with the Bonds or Obligations and initial fees of any arbitrage consultants; and other administrative or other costs of issuing, carrying and repaying such Bonds and Obligations and investing the proceeds thereof.

"Costs" or "Costs of the City Project" shall mean all costs, fees and charges associated with, or to be reimbursed for, the acquisition, construction, and improvement of the City Project, including all losses, costs, damages, expenses and liabilities of whatsoever nature (including, but not limited to, attorneys' fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) incurred by the Corporation and the Texas Department of Economic Development directly or indirectly resulting from, arising out of or related to the issuance, offering, sale, delivery, or payment of the Bonds, and interest thereon or Obligations, for the design, construction, installation, operation, use, occupancy, maintenance, or ownership of Project Starbright which are required to be paid to the Corporation or the Department as required by Texas Department of Economic Development Rule No. 180.2(b)(7)(ii) of Title 10, Part 5, Chapter 180 of the Texas Administrative Code. Such Costs include capitalized interest and Costs of Issuance and the repayment of any Interim Notes, including interest accrued thereon.

"Counsel's Opinion" shall mean an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds (who may also be bond counsel to the Corporation) selected by the Corporation.

"CPS" means the City Public Service Board of San Antonio, Texas, which exercises management and control of the City's Utility System pursuant to Chapter 1502, Texas Government Code, as amended.

"Credit Agreement" shall mean any agreement between the Corporation and a third party financial institution pursuant to which such third party financial institution issues a letter of credit, municipal bond insurance policy, line of credit, standby purchase agreement, Reserve Fund Surety Policy, surety bond, or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the Corporation's obligations pursuant to any Bonds, and shall include, to the extent permitted by applicable law, Investment Liquidity Facilities; and in consideration for which the Corporation may agree to pay certain fees and to reimburse and repay any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges.

"Debt Service" shall mean, with respect to any particular Fiscal Year or other twelve (12) month period and any Series of Bonds or other Obligations, an amount equal to the sum of (a) all interest payable on such Bonds during such period, except to the extent that such interest is to be paid from amounts (including any investment earnings thereon) deposited in the Debt Service Fund, Debt Service Reserve Fund, Acquisition and Construction Fund, or elsewhere for the purpose of providing capitalized interest, plus (b) that portion of the principal amount of such Bonds which are due and payable during such period; provided, however, for purposes of satisfying the requirements in Article III (with respect to the issuance of Bonds) and determining the Reserve Fund Requirement, the following rules shall apply in calculating Debt Service.

(A) Interest and principal for any Series of Bonds shall be calculated on the assumption that no Bonds of any Series Outstanding on the date of calculation will cease to be Outstanding except by reason of the scheduled payment of principal on the due date thereof.

(B) Except as provided in (C) below, future Debt Service for any Series of Bonds which bears interest at variable rates or which will at some future date bear interest at a rate or rates to be determined or which will be subject to conversion to an interest rate or interest rate mode such that rates cannot then be ascertained shall be deemed to bear interest at a rate estimated by the Financial Advisor to the Corporation as the rate that would have been borne by a Series of Bonds if (i) they were secured by the same lien on Pledged Revenues, (ii) they were issued (or remarketed as the case may be) at the date of estimation and (iii) they were to bear a fixed rate of interest to their scheduled maturity or maturities.

(C) Interest accruing on Bonds issued as capital appreciation bonds or capital appreciation notes shall be treated as principal payable at maturity of such Bonds.

(D) Interest (other than on capital appreciation bonds) shall be deemed to accrue monthly and principal also shall be deemed to accrue monthly but only during the twelve months immediately preceding any scheduled principal payment (or during such shorter periods as may be appropriate if principal payments are more frequent than every twelve months).

(E) Amounts derived from the investment of money in the Debt Service Reserve Fund during the Fiscal Year or other period of calculation shall reduce Debt Service on Bonds during such Fiscal Year or other period of calculation.

(F) Credit Agreements shall not be deemed to impose any additional Debt Service by reason of the repayment or reimbursement obligations that they impose.

"Debt Service Fund" shall mean the Debt Service Fund established pursuant to Section 502 and maintained pursuant to Section 506, including any Accounts created therein.

"Debt Service Reserve Fund" shall mean the Debt Service Reserve Fund established pursuant to Section 502 and maintained pursuant to Section 507, including any Accounts created therein.

"Depository" shall mean any bank, trust company, national banking association, savings and loan association, savings bank or other banking institution or association selected by the City as a depository of moneys and securities held under the provisions of the Indenture and the Act, and may include the commercial banking department of the Trustee or any Paying Agent.

"Economic Development Contract" shall mean that certain contract entitled "Economic Development Contract" between the City and the Corporation, dated as of June 1, 2003.

"Expenses" shall mean the ongoing fees and expenses of the Corporation relating to its Bonds, including its fees and expenses relating to: (1) the Trustee, Paying Agents, Registrars, Authenticating Agents, Securities Dealers, Securities Depositories, or other Fiduciaries; (2) financial and legal consultants; (3) insurers; (4) remarketing, indexing, or similar agreements; (5) to the extent not included within the definition of Debt Service, Credit Agreements, Investment Liquidity Facility agreements, or Reserve Fund Surety Policies.

"Fiduciary" or "Fiduciaries" shall mean the Trustee or the Paying Agents, or any or all of them, as may be appropriate.

"Financial Advisor to the Corporation" shall mean a financial advisory or investment banking firm or firms of nationally recognized experience in municipal bonds selected by the Corporation which acts as the Financial Advisor to the Corporation.

"Fiscal Year" shall mean a fiscal year as established by the Corporation which is currently the 12-month period ending the last day of September, but which may be changed from time to time.

"Fund" or "Funds" shall mean any one or more, as the case may be, of the separate special funds created and established or required to be maintained pursuant to Article V.

"Indenture" shall mean the Indenture of Trust, dated as of June 1, 2003, between the Corporation and the Trustee, as from time to time supplemented and amended, including by the First Supplemental Indenture.

"Interest Payment Date" shall mean the date on which interest on the Bonds is due and payable.

"Investment Liquidity Facility" shall mean any agreement permitted by Texas law, however denominated, provided by a financial institution which contractually commits to purchase for not less than a stated price any class or amount of Investment Securities held in the Debt Service Reserve Fund or any Account therein created under the Indenture at any time such Investment Securities must be liquidated in order to make cash transfers to the Debt Service Fund.

"Investment Security" or "Investment Securities" shall mean and include any securities authorized for investment of Corporation funds by the laws of the State of Texas, currently the "Texas Public Funds Investment Act," Chapter 2256, Texas Government Code, as the same may be amended from time to time, except as may be limited under any Supplemental Indenture.

"Letter of Instructions" shall mean a written directive and authorization executed by an Authorized Officer of the Corporation.

"Obligations" shall mean any and all repayment, reimbursement or other obligations arising pursuant to any Credit Agreement issued or incurred pursuant to the Indenture.

If arising in connection with Reserve Fund Surety Policies or Investment Liquidity Facilities, such obligations may be payable solely from the Debt Service Reserve Fund and the Pledged Revenues or other revenues of the Trust Estate required to be deposited therein.

"Outstanding" shall mean as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

(i) Bonds canceled by the Trustee or Registrar or delivered to the Trustee or Registrar for cancellation at or prior to such date;

(ii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture;

(iii) Bonds deemed to have been paid or defeased as provided in the Indenture or in any Supplemental Indenture or as provided by law; and

(iv) As otherwise provided in any Supplemental Indenture.

"Owner(s)" shall mean the person in whose name such Bond is registered.

"Paying Agent" shall mean the Trustee or any bank or trust company or national or state banking association designated by the Trustee to make principal payment of and interest on the Bonds of any Series, and its successor or successors, meeting the requirements of the Indenture. Different Series of Bonds may have different Paying Agents.

"Pledged Contract Payments" shall mean all amounts relating to Debt Service on Bonds, Obligations and Expenses payable by the City, all as further defined and set forth in the Economic Development Contract.

"Pledged Funds" shall mean the following:

(a) for Bonds and Obligations, the Debt Service Fund and, to the extent created and pledged in any Supplemental Indenture, the Debt Service Reserve Fund;

(b) all monies deposited in the Debt Service Fund and the Debt Service Reserve Fund, including any investment income derived therefrom;

(c) any Reserve Fund Surety Policies purchased to satisfy the Reserve Requirement for Bonds and Obligations; and

(d) for any Series of Bonds or any Obligation, such additional Funds or Accounts as shall be created and pledged by Supplemental Indenture.

"Pledged Revenues" shall mean:

(a) Pledged Contract Payments; and

(b) any additional revenues hereafter designated as Pledged Revenues.

"Project Site" shall have the meaning set forth in the Starbright Agreement.

"Rebate Fund" shall mean the Rebate Fund established pursuant to Section 502 and maintained pursuant to Section 508, including any Accounts created therein.

"Refunding Bonds" shall mean all Bonds, whether issued in one or more Series, issued for the purpose of refunding a like or different principal amount of Bonds, and any interest thereon, and thereafter authenticated and delivered pursuant to the Indenture or any Supplemental Indenture.

"Register" shall mean the register maintained by the Registrar for each Series of Bonds which shows ownership of Bonds in accordance with Section 308.

"Registrar" shall mean the Trustee or any agent of the Trustee designated to keep a Register or Registers of the Owners of the Bonds of any Series as provided in any Supplemental Indenture, and its successor or successors.

"Reserve Fund Requirement" shall mean, to the extent required in any Supplemental Indenture, not less than the average annual Aggregate Debt Service on the Bonds, as the case may be, nor more than the maximum annual Aggregate Debt Service in the current or any future Fiscal Year based upon calculations of Aggregate Debt Service on the Bonds, as the case may be, for each such Fiscal Year performed as of the date of issuance of each Series, which calculations shall take into account the issuance of the Series of Bonds or Obligations being issued or incurred as of the date of calculation; provided, however, that if any Series of Bonds or Obligations will for any period of time beginning on the date of issuance be fully secured as to the payment of principal or purchase price thereof and interest thereon during such period by the pledge of funds pursuant to a written escrow with the Trustee or any Paying Agent, then the Reserve Fund Requirement with respect to such Series shall not begin to apply until such date as such Series shall no longer be fully secured pursuant to such agreement.

"Reserve Fund Surety Policy" or "Reserve Fund Surety Policies" shall mean any reserve fund surety policy or bond, letter of credit or other instrument, however denominated, provided by a financial institution, pursuant to which the Trustee may draw on such Reserve Fund Surety Policy to enable the Debt Service Reserve Fund to make a required transfer to the Debt Service Fund. Each Reserve Fund Surety Policy shall meet the requirements set forth in the applicable Supplemental Indenture and shall be payable on demand of the Trustee for the benefit of the Owners of the Bonds or other Obligations payable from such Funds.

"Securities Depository" shall mean any securities depository that (i) is a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provision of Section 17A of the Securities Exchange Act of 1934, as amended, operating and maintaining , with its participants or otherwise, a Book Entry System of record ownership of beneficial interests in the Bonds, and (ii) effects transfers of the Bonds in Book Entry Form.

"Starbright Agreement" shall mean the Project Starbright Agreement by and among the Toyota Motor Manufacturing North America, Inc., a Kentucky corporation, the State of Texas, the City of San Antonio, Texas and various other political subdivisions of the State of Texas.

"Supplemental Indenture" shall mean any indenture supplemental to or amendatory of the Indenture, adopted by the Corporation in accordance with Article X.

"Utility System" shall mean the gas and electric systems owned by the City and managed, operated, and maintained by CPS in accordance with the ordinances authorizing the issuance of the City's electric and gas revenue indebtedness.

"Trust Estate" shall have the meaning set forth in Article II of the Indenture.

EXCERPTS OF THE INDENTURE

*   *   *

Section 201. Granting Clauses. To secure the payment of the principal of, redemption premium, if any, and interest on all Bonds, Obligations and Expenses due and payable whether at maturity or by prior redemption, and the performance and observance of all of the covenants and conditions herein contained, and in consideration of the premises, the acceptance by the Trustee of the trusts hereby created, the purchase and acceptance of the Bonds and Obligations by the Owners thereof, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Corporation does hereby GRANT, BARGAIN, CONVEY, ASSIGN, and PLEDGE to the Trustee and its successors in trust hereunder, subject to the provisions of this Indenture, all of the Corporation's right, title and interest in and to the following described properties and interests, direct or indirect, whether now owned or hereafter acquired:

(a) The Pledged Revenues, including all of the Corporation's right, title and interest in and to the Pledged Contract Payments;

(b) The Pledged Funds, including all moneys deposited or required to be deposited therein, and held by the Trustee as special trust funds derived from insurance proceeds, condemnation awards, payments on contractor's performance or payment bonds or other surety bonds, or any other sources; and

(c) Any and all property of every kind and nature (including without limitation, cash, obligations or securities) which may from time to time hereafter be conveyed, assigned, hypothecated, endorsed, pledged, mortgaged, granted, or delivered to or deposited with the Trustee as additional security hereunder by the Corporation, or which pursuant to any of the provisions of this Indenture may come into the possession or control of the Trustee as security hereunder, or of a receiver lawfully appointed hereunder, all of which property the Trustee is authorized to receive, hold and apply as specifically set forth in this Indenture (collectively, the "Trust Estate").

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ARTICLE III
AUTHORIZATION AND ISSUANCE OF BONDS AND OTHER OBLIGATIONS, GENERAL TERMS AND PROVISIONS OF THE BONDS AND OTHER OBLIGATIONS

Section 301. Authorization of Bonds and other Obligations.

(1) This Indenture authorizes the issuance of Bonds and the incurrence of Obligations of the Corporation and creates a continuing pledge of and lien on the Trust Estate, including Pledged Revenues and Pledged Funds, to secure the full and final payment of all amounts due on such Bonds and Obligations and pay Expenses. The aggregate principal amounts of the Bonds which may be executed, authenticated and delivered under this Indenture and the aggregate amounts of any other Obligations are not limited except as may be provided herein or in any Supplemental Indenture.

(2) The Bonds may, if and when authorized by the Corporation pursuant to one or more Supplemental Indentures, be issued in one or more Series, shall be designated "Contract Revenue Bonds," and the designation thereof shall include such appropriate particular designation in the title for the Bonds of any particular Series, as the Corporation may determine. Each Bond shall bear upon its face the designation so determined for the Series to which it belongs.

Section 302. Provisions for Issuance of Bonds. The Corporation has the authority to issue one or more series of Bonds provided that:

(1) All (but not less than all) of the Bonds of each Series shall be executed by the Corporation for issuance under this Indenture and delivered to the Trustee, the Registrar or the Authenticating Agent and thereupon (except as provided in any Supplemental Indenture) shall be authenticated by the Registrar or the Authenticating Agent and delivered to the Owners by the Trustee, the Registrar or the Authenticating Agent, but only upon the receipt of:

> (a) Counsel's Opinion to the effect that, as of its date, (i) this Indenture and the Supplemental Indenture authorizing the Bonds of such Series have been duly authorized, executed and delivered by the Corporation, are in full force and effect and constitute legal, valid and binding special obligations of the Corporation; (ii) this Indenture and such Supplemental Indenture create the valid pledge of and lien on the Pledged Revenues and Pledged Funds which they purport to create, subject only to the provisions of this Indenture and such Supplemental Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture and such Supplemental Indenture; and (iii) the Bonds of such Series are valid binding special obligations of the Corporation and entitled to the benefits of this Indenture and such Supplemental Indenture; provided, however, that the Counsel's Opinion may include an exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization, or other laws affecting creditors' rights generally or matters relating to equitable principles;

(b) A Letter of Instructions as to the delivery of such Bonds signed by an Authorized Officer of the Corporation which may contain such other instructions as shall be appropriate to provide for the transfer and deposit of the proceeds of such Series of Bonds in the Funds and Accounts hereinafter provided;

(c) In the case of each Series of Bonds, a copy of the Supplemental Indenture authorizing such Bonds certified by an Authorized Officer of the Corporation, which shall describe the Bonds therein authorized and shall further specify:

(i) The authorized principal amount, designation and Series of such Bonds;

(ii) The purpose or purposes for which such Series of Bonds is being issued;

(iii) The maturity date or dates of the Bonds of such Series;

(iv) The interest rate or rates on the Bonds of such Series which may be fixed, variable or otherwise, and the manner of determining such rate or rates, and the Interest Payment Date or dates therefor;

(v) The authorized denominations of and the manner of dating, numbering and lettering the Bonds of such Series;

vi) The Paying Agent or Agents for payment of the principal and redemption price, if any, of, and interest on, the Bonds of such Series;

(vii) The Registrar for the Bonds of such Series;

(viii) The redemption price or prices, if any, and, subject to Article IV, the redemption terms for the Bonds of such Series;

(ix) The amount and due date of each mandatory redemption or sinking fund installment, if any, for Bonds of like maturity of such Series;

(x) The increased or changed Reserve Fund Requirement as of the issuance of such Series of Bonds;

(xi) How any increase or change in the Reserve Fund Requirement will be funded, including any special provisions for a Reserve Fund Surety Policy;

(xii) The forms of the Bonds of such Series;

(xiii) The appointment of any Registrar, Authenticating Agent or other agents, if any, for such Series of Bonds; and

(xiv) Any other provisions deemed advisable by the Corporation not in conflict with the provisions of this Indenture.

(d) The opinion of the Attorney General of the State, if required by law, to the effect that the Bonds have been issued in accordance with law, or a judgment of a State district court validating the issuance of such Bonds. The re-approval of the Attorney General of the State shall not be required for any Bond or Bonds that are issued in exchange, substitution or replacement of another Bond or Bonds pursuant to the provisions of this Indenture or any Supplemental Indenture;

(e) A motion, resolution or ordinance of the City approving the issuance of the Bonds;

(f) Any required certificate of registration of the Bonds by the Comptroller of Public Accounts of the State of Texas; and

(g) To the extent required by the Act or the administrative rules promulgated thereunder, evidence of approval of such series of Bonds from the Texas Department of Economic Development or its successor agency; and

(h) Such further documents as are required by the provisions of this Indenture or any Supplemental Indenture.

(2) All Refunding Bonds of each Series shall be executed by the Corporation for issuance under this Indenture and delivered to the Trustee or Registrar and thereupon shall be authenticated by the Trustee, Registrar, Authentication Agent and delivered to the Corporation or upon its order, but only upon the receipt by the Trustee or Registrar of the following:

(a) The documents referred to in Subsection 1 of this Section;

(b) If any Bonds to be refunded are to be called for redemption, a Letter of Instructions containing irrevocable instructions to the Trustee or Registrar satisfactory to it requiring that due notice be given of redemption of the Bonds or portions thereof to be refunded on a redemption date specified in such instructions;

(c) If any Bonds are to be refunded other than by exchange and cancellation of the Bonds to be refunded, either (i) moneys in an amount sufficient to effect payment at the applicable redemption price (or the principal amount at maturity) of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption (or maturity) date, which moneys shall be held by the Trustee or any Paying Agent or any one or more escrow agents, in a separate account irrevocably in trust for and assigned to the respective Owners of the Bonds to be refunded, or (ii) Investment Securities or other obligations in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of Subsection 2 of Section 1301 and any money required pursuant to said Subsection 2, which Investment Securities or other obligations and money shall be held in trust and used only as provided in said Subsection 2; provided, however, that neither the Trustee nor the Paying Agent shall not be responsible for any calculations necessary for actions taken in connection with this Section; and

(d) If any Bonds are to be refunded, (i) a verification report of an independent nationally recognized certified public accountant reflecting such calculations necessary to show that the Investment Securities comply with Subsection 2 of Section 1301 and (ii) such further documents, opinions and moneys as are required by the provisions of Articles X or XI of this Indenture or of any Supplemental Indenture or any other provision of State or federal law.

(3) Except for Bonds issued pursuant to the First Supplemental Indenture, no additional Series of Bonds shall be issued unless the following requirements are satisfied:

(a) The Economic Development Contract shall provide for the increase or adjustment of Pledged Contract Payments under the Economic Development Contract so that such payments will be sufficient to: (1) pay the principal and interest on said Bonds and make all mandatory redemption or sinking fund installments as required by the Supplemental Indenture authorizing such Bonds, (2) increase and/or maintain the balance in the Debt Service Reserve Fund to the Reserve Fund Requirement required by the Supplemental Indenture authorizing such Bonds, and (3) pay all related Expenses.

(b) A certificate is executed by the Mayor to the effect that the City is not in default as to any material covenant, condition, or obligation prescribed under the Economic Development Contract.

(c) A certificate is executed by the authorized representative of CPS to the effect that CPS is not in default as to any material covenant, condition, or obligation prescribed by any ordinance authorizing the Utility System revenue Bonds or other obligations payable by a lien on and pledge of net revenues derived from the Utility System.

(d) If any obligations to be issued on a parity with Bonds issued pursuant to the First Supplemental Indenture are secured by a debt service reserve fund, then such debt service reserve fund shall be fully funded upon the issuance of such parity obligations, either with cash or by a reserve fund credit instrument acceptable to the provider of the Reserve Fund Surety Policy for the Bonds issued pursuant to the First Supplemental Indenture, provided that such Reserve Fund Surety Policy is then in existence.

(e) If any amounts related to repayment of draws are then past due and owing to the provider of the Reserve Fund Surety Policy for Bonds issued pursuant to the First Supplemental Indenture, then prior written consent for the issuance of additional Bonds must be obtained from such provider of the Reserve Fund Surety Policy.

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Section 302B. <u>Special Provisions for Credit Agreements.</u>

(1) At any time and from time to time as provided in any Supplemental Indenture, any designated Bonds may be further secured pursuant to one or more Credit Agreements. Prior to entering into any such Credit Agreement, the Corporation, to the extent required by the Act, shall cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating to such Credit Agreement to be submitted to the Attorney General of Texas for his approval.

(2) Credit Agreements relating to Reserve Fund Surety Policies shall be payable from and secured by the Debt Service Fund and Pledged Revenues required to be deposited into such Fund.

(3) It shall be a condition to the Corporation's incurrence of any Obligation (including any reimbursement and/or repayment obligation) pursuant to a Credit Agreement that the Corporation shall deliver evidence that:

(a) the Bonds secured by such Credit Agreement were issued or incurred in compliance with the applicable requirements of Section 302, of this Indenture; and

(b) that all requirements of the Corporation's Articles of Incorporation have been satisfied.

(4) Upon request of the Trustee or such other party relating to the incurrence of an Obligation, general counsel to the Corporation or bond counsel to the Corporation shall provide an opinion stating the that conditions set forth in Section 302B(3) have been satisfied.

(5) The issuer of any Credit Agreement shall be entitled to be subrogated to the rights of the Owners of the Bonds secured by such Credit Agreement.

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ARTICLE IV
REDEMPTION OF BONDS

Section 401. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to a Supplemental Indenture shall be redeemable, upon notice as provided in this Article unless a different notice provision is provided for in a Supplemental Indenture, at such times, at such redemption prices and upon such terms in addition to the terms contained in this Article as may be specified in the Supplemental Indenture authorizing such Series.

Section 402. Redemption at the Election or Direction of the Corporation. In the case of any redemption of Bonds at the election or direction of the Corporation, the Corporation shall give written notice to the Trustee, the Registrar and any Paying Agent of its election or direction so to redeem, of the redemption date, of the Series, of the principal amounts and of the redemption prices of the Bonds of each maturity of such Series to be redeemed (which Series, maturities, principal amounts and redemption prices thereof to be redeemed shall be determined by the Corporation in its sole discretion, subject to any limitations with respect thereto as are contained in Section 404 of this Indenture or any Supplemental Indenture). Such notice shall be given at least forty-five (45) days prior to the redemption date or such shorter period as shall be acceptable to the Registrar. In the event notice of redemption shall have been given as in Section 405, there shall be paid on or before the redemption date to the appropriate Paying Agents an amount which, in addition to other moneys, if any, available therefor held by the Paying Agents, will be sufficient to redeem on the redemption date at the redemption price thereof, plus interest accrued and unpaid to the redemption date, all of the Bonds to be redeemed.

Section 403. Redemption Otherwise Than at Corporation's Election or Direction. Whenever by the terms of this Indenture or any Supplemental Indenture the Trustee or the Registrar (or the Paying Agent on behalf of Registrar) is required or authorized to redeem Bonds otherwise than at the election or direction of the Corporation, the Trustee or the Registrar (or Paying Agent on behalf of the Registrar), shall select the Bonds to be redeemed, give the notice of redemption and pay out moneys available therefor at the redemption price thereof, plus interest accrued and unpaid to the redemption date, to the appropriate Paying Agents in accordance with the terms of this Indenture and any Supplemental Indenture.

Section 404. Selection of Bonds to be Redeemed. If less than all of the Bonds of like maturity of any Series shall be called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be selected by lot or other random method by the Registrar in such a manner as the Registrar may determine unless otherwise provided by the Supplemental Indenture authorizing that Series.

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ARTICLE V

ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

* * *

Section 502. Establishment of Funds. The following Funds may be authorized to be established and maintained under any Supplemental Indenture:

(1) Acquisition and Construction Fund, which may include the proceeds of Bonds previously issued by the Corporation;

(2) Debt Service Fund;

(3) Debt Service Reserve Fund; and

(4) Rebate Fund (collectively, the "Funds").

All Funds and Accounts shall be held by the Trustee. The Funds shall constitute a trust fund which shall be held in trust by the Trustee for the benefit of the Owners. The Corporation reserves the right to establish additional funds and accounts for the receipt and application of grant proceeds of the Economic Development Contract other than Pledged Revenues in connection with the City Project. The Corporation may from time to time establish accounts and subaccounts within each Fund for such purposes as may be provided herein or in any Supplemental Indenture.

Section 503. Acquisition and Construction Fund.

(1) There shall be paid into the Acquisition and Construction Fund the amounts required to pay the Costs of the City Project and Costs of Issuance, in accordance with the provisions of this Indenture and any Supplemental Indenture. There may also be paid into the Acquisition and Construction Fund, at the option of the Corporation, any moneys received by the Corporation from any source unless otherwise required to be applied by this Indenture or any Supplemental Indenture.

(2) Separate, segregated accounts may be created within the Acquisition and Construction Fund and held in the manner provided in any Supplemental Indenture authorizing such accounts. Money held in such accounts shall be held separately from other moneys in the Acquisition and Construction Fund and shall be disposed of only in the manner provided in the Supplemental Indentures authorizing such accounts. Without in any way limiting the generality of the foregoing, such separate, segregated accounts and all funds, investments thereof and investment income earned thereon may be pledged (and a lien and security interest therein may be granted) to secure for any period of time the payment of principal of and/or the purchase price of any or all of any such Series of Bonds issued pursuant to such Supplemental Indenture or other Obligations incurred pursuant to such Supplemental Indenture and interest thereon to any date, all as may be more fully provided in such Supplemental Indenture.

(3) Amounts in the Acquisition and Construction Fund shall be used as provided in the Supplemental Indenture authorizing the Series of Bonds which provided money to establish the account.

(4) Amounts in the Acquisition and Construction Fund may be transferred to the Debt Service Fund and applied to the payment of interest on or principal or redemption price of the Bonds or payment of other Obligations when due, to the extent provided in a Supplemental Indenture.

Section 504. Flow of Funds. Pledged Revenues shall be used to make or provide for all payments, deposits, and transfers required by this Indenture.

(1) On or before the 30th day of each month, and at such other times as shall be set forth in any Supplemental Indenture, there shall be paid into the Debt Service Fund from the Pledged Revenues, amounts which, when added to other amounts in the Debt Service Fund and available for such purposes, will provide for the accumulation in approximately equal installments of the amount required to pay the Debt Service on all Bonds and Obligations including the following:

(a) any interest to become due and payable on each Series of Outstanding Bonds on the next Interest Payment Date for such Series; and

(b) any principal scheduled to become due and payable on any Series of Bonds within the following twelve months;

(c) unless otherwise provided in any Supplemental Indenture, any amounts due on Obligations;

(d) unless otherwise provided in any Supplemental Indenture, any amounts required to pay all related Expenses.

(2) After the payments and transfers set out in Subsection 1 above, if the Debt Service Reserve Fund contains less than the Reserve Fund Requirement, there shall be paid into the Debt Service Reserve Fund from Pledged Revenues the amount required, if any, by a Supplemental Indenture to attain the Reserve Fund Requirement, which transfers shall continue until the Debt Service Reserve Fund contains the Reserve Fund Requirement; provided, however, that by Supplemental Indenture, the Corporation may provide for other or greater transfers in connection with the purchase or acquisition of any Reserve Fund Surety Policy.

(3) After the payments and transfers in (1) and (2) above, the remaining Pledged Revenues shall be transferred to the Rebate Fund to the extent required to satisfy the Corporation's covenants contained in Section 508 of this Indenture and any similar covenants contained in any Supplemental Indenture.

* * *

Section 506. Debt Service Fund.

(1) Unless provision for payment has been made with the Paying Agent, there shall be paid out of the Debt Service Fund on or before each Interest Payment Date for any of the Bonds, the amount required for the interest payment on such date. There shall be paid out of the Debt Service Fund on or before each principal payment date, the amount required for the principal payable on such due date on Bonds. On or before any redemption date for Bonds to be redeemed, there shall also be

paid out of the Debt Service Fund the amount required for the payment of the redemption price of and interest on the Bonds then to be redeemed. On or before any other payment date set forth in any Supplemental Indenture, there shall also be paid out of the Debt Service Fund the amounts required to be paid on any Obligations on such payment date.

(2) The Trustee shall, at any time at the direction of the Corporation, apply amounts available in the Debt Service Fund, or from other Pledged Revenues, for the payment of any scheduled mandatory or sinking fund redemptions on Bonds issued as "term bonds" to pay the purchase price (including any brokerage and other charges) for any Bond subject to such mandatory or sinking fund redemption provided that such purchase price shall not exceed the applicable mandatory redemption price of such Bond. Upon any such purchase, the purchased Bonds shall be delivered to the Trustee or Registrar for cancellation and the principal amount of such Bonds purchased shall be credited toward the next mandatory redemption or sinking fund installment.

(3) There shall also be paid out of the Debt Service Fund any amounts required to pay Expenses related to Bonds and Obligations.

(4) At such time all Bonds and Obligations are no longer outstanding, all balances remaining in the Debt Service Fund shall be paid to the City.

Section 507. Debt Service Reserve Fund.

(1) If on any Interest Payment Date, principal payment date, or any other date, after giving effect to all transfers pursuant to Sections 504 and 505, the amount in the Debt Service Fund shall be less than the amount required to make all payments of interest, principal, and any redemption price, of the Bonds then due and payable or to make any other then required payments on Obligations (to the extent authorized in any Supplemental Indenture), the Trustee shall apply amounts from the Debt Service Reserve Fund (to the extent permissible under law and authorized in any Supplemental Indenture) to the extent necessary to make such payments.

(2) When the amount in the Debt Service Reserve Fund, together with the amounts in the Debt Service Fund, is sufficient to fully pay all Outstanding Bonds and, to the extent applicable, Obligations (to the extent authorized in any Supplemental Indenture) in accordance with their terms (including principal or redemption price and interest thereon), the funds on deposit in the Debt Service Reserve Fund at the direction of the Corporation may be used to pay the principal and redemption price of and interest on all Outstanding Bonds and to pay all other Obligations.

(3) In lieu of cash or Investment Securities, the Reserve Fund Requirement for the Debt Service Reserve Fund may be satisfied in whole or in part with one or more Reserve Fund Surety Policies. Such Reserve Fund Surety Policies may be drawn upon only after all other amounts in the Debt Service Reserve Fund have been used or applied, and other amounts in the Debt Service Reserve Fund may be used to reimburse and repay issuers of Reserve Fund Surety Policies for amounts drawn thereon together with interest thereon and related costs, all as may be more fully provided by Supplemental Indenture.

(4) If the amount in the Debt Service Reserve Fund exceeds the Reserve Fund Requirement and all reimbursement and repayment obligations pursuant to any Reserve Fund Surety Policy have been satisfied, the Corporation may direct the Trustee to transfer such excess to the Debt Service Fund or to any other Fund or Account which shall reduce by such amount the amount otherwise required to be deposited therein, provided that such amount is used for the completion of the City Project or such other costs of City Projects or costs for which the Corporation may issue Bonds. If any money is ever withdrawn from the Debt Service Reserve Fund or amounts are drawn under a Reserve Fund Surety Policy for the purpose of paying the principal of or interest on the Bonds, the Corporation shall deposit into the Debt Service Reserve Fund the amounts necessary to restore the Reserve Fund Requirement (which amounts may be deposited in equal monthly payments for a period not to exceed 12 months), or such larger balance as may be required by a Supplemental Indenture.

5) The Corporation may provide in the Supplemental Indenture that the Reserve Fund Requirement for the Debt Service Reserve Fund be funded (i) from the proceeds of Bonds, (ii) with a Reserve Fund Surety Policy, (iii) from Pledged Revenues within 12 months from the date of sale of a Series of Bonds, (iv) from any other source or (v) from any combination thereof.

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ARTICLE VI
DEPOSITORIES OF MONEYS, SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

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Section 603. Investment of Certain Funds.

(1) Moneys held in the Debt Service Fund, the Debt Service Reserve Fund and the Rebate Fund shall be invested and reinvested by the Trustee as promptly as practicable, in accordance with written instructions from the Corporation, and moneys in

all other Funds shall be invested and reinvested by the Corporation, in each case to the fullest extent practicable and if permitted by the Act, in Investment Securities the proceeds of which the Corporation estimates will be received not later than such times as shall be necessary to provide moneys when needed for payments to be made from each such Fund or Account. Each instruction regarding the investment of the Funds shall constitute a representation by the Corporation that the securities into which such investment is directed are Investment Securities. Notwithstanding anything herein to the contrary, Investment Securities in all Funds and Accounts shall mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Funds and Accounts; provided, however, that any Investment Securities for which the Corporation or Trustee shall hold an Investment Liquidity Facility shall be deemed to have a maturity equal to the period of notice of purchase to the issuer of the Investment Liquidity Facility. Investment Securities may be acquired through the Trustee or its affiliate and the Trustee or its affiliate may receive compensation in connection therewith.

(2) Interest earned or profits realized from investing any moneys (i) representing capitalized interest for Bonds deposited in the Debt Service Fund or (ii) in the Acquisition and Construction Fund may be retained in such Funds. Interest earned from the investment of any moneys in any other Fund or Account may be transferred by the Corporation or at the direction of the Corporation into the Debt Service Fund or the Rebate Fund if required by this Indenture or any Supplemental Indenture.

* * *

ARTICLE VII
PARTICULAR COVENANTS OF THE CORPORATION

* * *

Section 705. Maintenance of Economic Development Contract. So long as the Bonds or Obligations remain Outstanding and unpaid, either as to principal or interest, the Corporation will maintain the Economic Development Contract in full force and effect and will use reasonable diligence to require the City to perform and discharge each and all of the duties and obligations imposed upon the City by the Economic Development Contract. If the City fails to make Pledged Contract Payments as required by the Economic Development Contract and if it should appear that enforcement of the Economic Development Contract has become ineffective or will be ineffective to the extent that a default in payment of principal or interest on the Bonds or Obligations occurs or is threatened, the Corporation will take all necessary action to preserve and protect the rights of the Owners of the Bonds and Obligations and to assure payment of the principal and redemption price of the Bonds and Obligations and the interest thereon.

* * *

Section 707. Accounts and Reports.

(1) The Corporation shall keep proper books of records and accounts in which complete and correct entries shall be made of its transactions in accordance with Generally Accepted Accounting Principles. The Funds and Accounts established by this Indenture, such books, and all other books and papers of the Corporation, shall, to the extent permitted by law, at all times be subject to the inspection of the Owners of an aggregate of not less than 5% in principal amount of the Outstanding Bonds or their representatives duly authorized in writing. The Corporation will permit such Owners of Bonds, and their agents, auditors, attorneys and counsel, at all reasonable times, to take copies and extracts from the books of record and account, all as may be reasonably necessary for the purpose of determining performance or observance by the Corporation of the covenants, conditions and obligations contained in this Indenture.

(2) The Corporation reserves the right to create accounts and subaccounts within any Fund or Account created by this Indenture or any Supplemental Indenture when in the judgment of the Corporation the creation of such accounts or subaccounts will enable the Corporation to better administer City Project or regulate investments or limit returns on such investments. The Corporation may, but is not obligated to, create a separate bank account for each subaccount created pursuant to this Indenture.

(3) The Corporation reserves the right to employ, from time to time, any convention or method as it shall determine to be appropriate for the purpose of allocating or tracing any Pledged Revenues, or other amounts, or any proceeds or portions thereof in order to comply with applicable Federal or State laws, generally accepted accounting principles or otherwise, including without limitation for purposes of calculating any portion of revenues, debt service, operating expenses and other costs allocable to the City Project for purposes of complying with any applicable conditions to any grants made to the Corporation for the City Project; provided, however, that no such allocation or calculation shall amend, modify or otherwise adversely impair any of the liens, pledges, trusts or grants of this Indenture.

* * *

Section 709. General. The Corporation will at all times maintain its corporate existence or assure the assumption of its obligations under this Indenture by any public body succeeding to its powers under the Act, and it will use its best efforts to maintain, preserve and renew all the rights and powers provided to it by the Act. The Corporation shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Corporation under the provisions of the Act, this Indenture and any other law or regulation applicable to the Corporation.

* * *

ARTICLE VIII
DEFAULT AND REMEDIES

Section 801. Events of Default. An Event of Default hereunder shall consist of any of the following acts or occurrences:

(1) failure to pay when due principal or interest on any Bonds or Obligations; or

(2) failure to deposit to the Debt Service Fund money sufficient for the payment of any principal or interest payable on any Bonds or Obligations by no later than the date when such principal or interest becomes due and payable.
For purposes of determining whether an Event of Default has occurred under this Section 801, no effect shall be given to payments made under any bond insurance policy.

* * *

Section 804. Remedies in General. If an Event of Default hereunder shall occur and be continuing, then, in addition to all of the other rights and remedies granted to the Trustee hereunder, the Trustee, subject to the provisions of this Indenture, may proceed to protect and enforce its rights and the rights of the Owners of Bonds or Obligations by suit, action or proceeding in equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in this Indenture or any Supplemental Indenture or in aid of the execution of any power granted in this Indenture or for the enforcement of any other legal, equitable or other remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee or such Owners of Bonds or Obligations, including, without limitation, the right to seek a writ of mandamus issued by a court of competent jurisdiction compelling the members of the Board or other officers of the Corporation to make payment of the Pledged Revenues (but only from and to the extent of the sources provided in this Indenture or Supplemental Indenture) or to observe and perform such covenant, obligations or conditions of this Indenture or any Supplemental Indenture.

* * *

ARTICLE X
SUPPLEMENTAL INDENTURES; AMENDMENTS TO ECONOMIC DEVELOPMENT CONTRACT

Section 1001. Supplemental Indentures. For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture of the Corporation may, without the consent of, or notice to, any of the Owners, enter into an Indenture or Supplemental Indenture for any of the following purposes:

(1) To authorize Bonds and other Obligations and, in connection therewith, to specify and determine the matters and things referred to in Article III hereof and also any other matters and things relative to such Bonds and other Obligations which are not contrary to or inconsistent with this Indenture as theretofore in effect, or to amend, modify, or rescind any such authorization, specification, or determination at any time prior to the first delivery of such Bonds and other Obligations;

(2) To close this Indenture or any Supplemental Indenture against, or provide limitations and restrictions in addition to, the limitations and restrictions contained in this Indenture or any Supplemental Indenture on the delivery of Bonds and other Obligations or the issuance of other evidences or indebtedness;

(3) To add to the covenants and agreements of the Corporation in this Indenture or any Supplemental Indenture, other covenants and agreements to be observed by the Corporation which are not contrary to or inconsistent with this Indenture or the applicable Supplemental Indentures as theretofore in effect;

(4) To add to the limitations and restrictions in this Indenture or any Supplemental Indenture other limitations and restrictions to be observed by the Corporation which are not contrary to or inconsistent with this Indenture or the applicable Supplemental Indenture as theretofore in effect;

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Indenture or any Supplemental Indenture, of the Pledged Revenues and Pledged Funds, or to grant to Owners of Bonds additional rights or enhancements on any Bond or Credit Agreement;

(6) To add or modify the provisions of this Indenture to allow for the issuance of Bonds or obligations that are junior and subordinate to Bonds and Obligations issued under this Indenture;

(7) To modify any of the provisions of this Indenture or any Supplemental Indenture in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Outstanding Bonds and other Obligations of any Series at the date of the adoption of such Indenture or Supplemental Indenture shall cease to be Outstanding Bonds and other Obligations; and (ii) such Supplemental Indenture shall be specifically referred to in the text of such Bonds and other Obligations delivered after the date of the adoption of such Supplemental Indenture and of Bonds and other Obligations issued in exchange therefor or in place thereof;

(8) To surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of this Indenture, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in this Indenture;

(9) To add additional elements or components to the City Project as now or hereafter permitted by law;

(10) To increase the Reserve Fund Requirement for the Debt Service Reserve Fund or to provide for Reserve Fund Surety Policies;

(11) To alter the Indenture to comply with the requirements of a nationally recognized rating agency in order to obtain or maintain a rating on the Bonds in a long-term debt rating category or in a high-quality, short-term or commercial paper rating category or of such rating agency;

(12) To increase the interest rate or rates on the Bonds of any Series;

(13) To designate Paying Agents, Authenticating Agents, Registrars, and other agents for the Bonds of any Series;

(14) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Indenture;

(15) To modify the Indenture to maintain or preserve federal tax exemption relating to the Bonds;

(16) To insert such provisions clarifying matters or questions arising under this Indenture as are necessary or desirable and are not contrary to or inconsistent with this Indenture as theretofore in effect; and

(17) To modify any of the provisions of this Indenture or any Supplemental Indenture in any respect whatsoever, provided that such action shall not adversely affect the interest of the owners of Outstanding Bonds or other Obligations.

Section 1002. Supplemental Indentures Effective With Consent of Owners. Except for Indentures and Supplemental Indentures entered into or amended pursuant to Section 1001, the Corporation may at any time or from time to time adopt a Supplemental Indenture in accordance with and subject to the provisions of Article XI, which Supplemental Indenture shall become fully effective in accordance with its terms as provided in said Article XI.

* * *

Section 1004. Amendment to Economic Development Contract Not Requiring Consent of Owners. In addition to any supplemental economic development contracts into which the City and Corporation may enter in the future, the Corporation and the City may amend, change, or modify the Economic Development Contract without the consent of or notice to the Owners, if such amendment, change or modification: (1) is required by the provisions of the Economic Development Contract or this Indenture; (2) cures any ambiguity or formal defect or omission; (3) is necessary to maintain or preserve the federal tax exemption of interest on the Bonds and Obligations or to comply with any state and/or federal law, including, without limitation, any applicable regulation of the Securities and Exchange Commission; (4) to subject to the lien and pledge of this Indenture to additional revenues, properties or collateral; (5) grants to or confers on the Corporation additional rights, remedies, powers, or authority and the consideration given by the Corporation for such amendment, modification or change does not reduce the amount payable under the Economic Development Contract as Pledged Contract Payments, or extend the time of payment of such amounts or in any manner materially impair or adversely affect the rights of the Owners of the Bonds or Obligations; (6) enables the Corporation to issue Bonds or incur Obligations; (7) enables the Corporation to issue subordinate lien Bonds or obligations; and (8) enables such the Corporation to make any change to the Economic Development Contract provided that such change does not diminish, alter or reduce the City's obligation and commitment to pay Pledged Contract Payments.

Section 1005. Amendment to Economic Development Contract Requiring Consent of Owners. Except for the amendments, changes, or modifications provided in Section 1004, neither the Corporation nor the City shall consent to any amendment, change or modification of the Economic Development Contract without publication of notice and written approval or consent of the Owners of not less than 51% in aggregate principal amount of the Bonds at the time Outstanding given, procured and established as provided in Article XII hereof relating to the amendment of this Indenture. It is specifically provided, however, that no amendment, modification or change in the Economic Development Contract shall in any way reduce the City's obligation to pay Pledged Contract Payments below an amount equal to the amount necessary to: (1) pay Debt Service on the Bonds and Obligations as it becomes payable; and (2) establish and maintain all of the Funds and Accounts and the balances therein as required by this Indenture.

EXCERPTS FROM THE FIRST SUPPLEMENTAL INDENTURE OF TRUST

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ARTICLE III
SOURCES OF PAYMENT; SPECIAL ACCOUNTS AND OTHER MATTERS RELATING TO SERIES 2003 BONDS

SECTION 301. Source of Payment for Series 2003 Bonds. The Series 2003 Bonds are payable solely from, and secured by a lien on and pledge of, the Trust Estate. The Series 2003 Bonds shall not be an obligation, either special, general, moral or otherwise, of the State, the City or any political subdivisions or entities of the State. The Owners of Series 2003 Bonds shall never have the right to demand payment out of any funds raised or to be raised by taxation or to have any claim against any property or revenues of the City or the Corporation except for Pledged Revenues and Pledged Funds described in the Indenture. The Corporation does not have the power to levy or collect taxes.

SECTION 302. Confirmation of Funds and Establishment of Special Accounts. Pursuant to the terms of the Indenture, the existence of the following Funds is hereby confirmed:

A. Acquisition and Construction Fund;

B. Debt Service Fund; and

C. Debt Service Reserve Fund.

For the purpose of maintaining a separate accounting of amounts allocable to Series 2003 Bonds, within certain of the Funds confirmed above, the following Accounts are hereby established:

A. Series 2003 Acquisition and Construction Account; and

B. Series 2003 Debt Service Fund Capitalized Interest Account.

Complete books and records shall be maintained with respect to the allocable amounts attributable to such Series 2003 Bonds maintained in each such account or subaccount. In addition, in order to facilitate compliance with the covenant set forth in Article IV hereof, the Corporation reserves the right to request the Trustee to establish additional rebate accounts with respect to any or all of such accounts to account for excess arbitrage profits and interest thereon that must be accounted for or rebated to the United States of America. In establishing and maintaining the foregoing accounts, maintaining all books and records relating thereto and making disbursements therefrom, particularly to the United States of America, the Trustee and the Corporation may rely from time to time upon opinions issued by nationally-recognized bond counsel to the effect that any action by the Trustee and/or the Corporation in reliance upon any interpretation of the Code or Regulations contained in such opinions will not cause interest on the Series 2003 Bonds to be includable in gross income for federal income tax purposes under existing law.

SECTION 303. Series 2003 Acquisition and Construction Account. (a) The Series 2003 Acquisition and Construction Account, including the Series 2003 Cost of Issuance Subaccount, shall be maintained by the Trustee. The Corporation shall deposit or cause to be deposited to the credit of the applicable Acquisition and Construction Account proceeds of the Series 2003 Bonds in the amount set forth in Section 3.05 of this Article III. Proceeds on deposit in the Acquisition and Construction Fund shall be used to pay all Costs associated with the City Project and Costs of Issuance, and shall be disbursed as provided in this Article III.

* * *

SECTION 304. Establishment of Series 2003 Reserve Fund Requirement and Disposition of Surplus. Upon the issuance of the Series 2003 Bonds, the amount of the Reserve Fund Requirement is hereby established and stipulated to be $1,606,770.74 ("Series 2003 Reserve Fund Requirement"), which is not less than the average annual Aggregate Debt Service nor more than the maximum annual Aggregate Debt Service, in accordance with the requirements of the Indenture. The Reserve Fund Requirement will be satisfied by a Reserve Fund Surety Policy provided by the Bond Insurer in the amount not less than the Reserve Fund Requirement, which shall be evidenced by a reimbursement agreement between the Corporation and the Bond Insurer. If the Reserve Fund Requirement is at any time to be satisfied, in lieu of cash, by a Reserve Fund Surety Policy or other credit instrument which is not issued by the Bond Insurer, then such credit provider is subject to the consent of the Bond Insurer based on conformance with guidelines provided by the Bond Insurer.

SECTION 305. Application of Net Proceeds. After payment of certain Costs of Issuance relating to the Bond Insurer at the closing, net proceeds of the sale of the Series 2003 Bonds shall be applied as follows:

A. To the Series 2003 Debt Service Fund Capitalized Interest Account within the Debt Service Fund, $3,000,179.14, which represents capitalized interest for the Series 2003 Bonds, which shall be spent during the period of three years after issuance of the Series 2003 Bonds; and

B. The balance of the proceeds to the 2003 Acquisition and Construction Account to pay costs associated with the City Project.

* * *

ARTICLE V
CONTINUING DISCLOSURE OF INFORMATION

SECTION 501. Continuing Disclosure of Information. The Corporation shall provide, or cause the City and CPS to provide, annually to each NRMSIR and any SID, within six months after the end of the City's fiscal year ending in or after September 30, 2003 and within six months after the end of CPS' fiscal year ending on or after January 1, 2004, financial information and operating data of the general type included in the final Official Statement for the Series 2003 Bonds, being the information described in Table 2 to the Official Statement and Appendix E to the Official Statement with respect to the City, and being the financing information and operating data of the general type included in Appendix D of the Official Statement under the headings "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Customer Base"; "TEN-YEAR ELECTRIC CUSTOMER STATISTICS"; FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY"; "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE"; "DESCRIPTION OF PHYSICAL PROPERTY – ELECTRIC SYSTEM – Generating Capability, and – Five-Year South Texas Project Capacity Factor"; "DESCRIPTION OF PHYSICAL PROPERTY—OTHER ELECTRIC AND GAS SYSTEMS STATISTICS." Pursuant to the Economic Development Contract, the City has covenanted provide annually to each NRMSIR and any SID, within six months after the end of its fiscal year financial information and operating data with respect to the City, including the annual audited financial statements of the City, and the unaudited financial statements of the City but only in the event audited financial statements are not completed within six months after the end of any of its fiscal years. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in the City's financial statement included as an Appendix E to the Official Statement and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided, then the Corporation shall provide audited financial statements for the applicable fiscal year to each NRMSIR and any SID, when and if audited financial statements become available.

If the City or CPS changes its fiscal year, it will notify each NRMSIR and any SID of the change (and of the date of the new fiscal year end) prior to the next date by which the City or CPS otherwise would be required to provide financial information and operating data pursuant to this Article.

The financial information and operating data to be provided pursuant to this Article may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

SECTION 502. Material Event Notices. The Corporation and the City shall notify any SID and either NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Series 2003 Bonds, if such event is material within the meaning of the federal securities laws:

A. Principal and interest payment delinquencies;

B. Non-payment related defaults;

C. Unscheduled draws on debt service reserves reflecting financial difficulties;

D. Unscheduled draws on credit enhancements reflecting financial difficulties;

E. Substitution of credit or liquidity providers, or their failure to perform;

F. Adverse tax opinions or event affecting the tax-exempt status of the Bonds;

G. Modifications to rights of holders of the Series 2003 Bonds;

H. Series 2003 Bond calls;

I. Defeasances;

J. Release, substitution, or sale of property securing repayment of the Series 2003 Bonds; and

K. Rating changes.

The Corporation, the City and CPS (as limited by CPS' obligations under the Continuing Disclosure Agreement between the Corporation and CPS) shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the Corporation, the City or CPS to provide financial information or operating data in accordance with this Article by the time required by this Article.

SECTION 503. Limitations, Disclaimers and Amendments. The Corporation shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the Corporation remains an "obligated person" with respect to the Series 2003 Bonds within the meaning of the Rule, except that the Corporation in any event will give the notice required by this Article of any Series 2003 Bond calls and defeasance that cause the Corporation to be no longer such an "obligated person."

The provisions of this Article are for the sole benefit of the Owners of the Series 2003 Bonds, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Corporation undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Corporation's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. The Corporation does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Series 2003 Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CORPORATION BE LIABLE TO THE OWNER OF ANY SERIES 2003 BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CORPORATION, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the Corporation in observing or performing its obligations under this Article shall constitute a breach of or default under the Indenture for purposes of any other provision of the Indenture.

Nothing in this Article is intended or shall act to disclaim, waive, or otherwise limit the duties of the Corporation under federal and state securities laws.

The provisions of this Article may be amended by the Corporation from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Corporation, but only if (1) the provisions of this Article, as so amended, would have permitted an underwriter to purchase or sell the Series 2003 Bonds in the primary offering of the Series 2003 Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Indenture that authorizes such an amendment) of the Outstanding Series 2003 Bonds consent to such amendment or (b) a person that is unaffiliated with the Corporation (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and Beneficial Owners of the Series 2003 Bonds. If the Corporation so amends the provisions of this Article, it shall include with any amended financial information or operating data next provided in accordance with this Article an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The Corporation may also amend or repeal the provisions of this Article if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Corporation also may amend the provisions of this Article in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Series 2003 Bonds in the primary offering of the Series 2003 Bonds.

SECTION 504. Definitions. As used in this Article, the following terms have the meanings ascribed to such terms below:

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means each such person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"SID" means any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time.

ARTICLE VI
BOND INSURANCE PROVISIONS

SECTION 601. Purpose. The purpose of this Article is to provide certain rights, remedies and assurances to Bond Insurer in consideration for its issuance of the Bond Insurance Policy.

SECTION 602. Special Provisions for Bond Insurer. In consideration for its issuance of the Bond Insurance Policy, Bond Insurer is hereby made the beneficiary of the following special provisions:

A. Notice to the Insurer. Whenever any notices are required to be given under the Indentures with respect to the Series 2003 Bonds, a copy of such notice shall be given to Bond Insurer.

B. Default and Remedies.

(a) The Bond Insurer shall be entitled to exercise all of the rights of Owners of the Series 2003 Bonds with respect to any right or remedy set forth in Article VIII of the Indenture (relating to default and remedies).

(b) Any acceleration of the Series 2003 Bonds or any annulment thereof shall be subject to the prior written consent of the Bond Insurer, provided that such Bond Insurer has not failed to comply with its payment obligations under the Bond Insurance Policy

(c) Notwithstanding Subsection A of this Section 602, the Trustee or the Corporation must provide the Bond Insurer with: (i) immediate notice of any Event of Default consisting of the failure to pay principal or interest when due on the Series 2003 Bonds, and (ii) notice of any other Event of Default related to the Series 2003 Bonds known to the Trustee or the Corporation respectively within thirty (30) days of the Trustee' s or Corporation's knowledge thereof.

(d) For all purposes of Article VIII of the Indenture (relating to defaults and remedies), except any required giving of notice of default to Owners of the Series 2003 Bonds, the Bond Insurer shall be deemed to be the sole holder of the Series 2003 Bonds it has issued, provided that the Bond Insurer has not failed to comply with its payment obligations under the Bond Insurance Policy.

(e) For purposes of Article VIII of the Indenture (relating to defaults and remedies), the Bond Insurer shall be included as a party in interest and as a party entitled to (i) notify the Corporation, the Trustee, or any applicable receiver of the occurrence of an Event of Default and (ii) request the Trustee or receiver to intervene in judicial proceedings that affect the Series 2003 Bonds or the security therefor. The Trustee or receiver shall be required to accept such notice of default from the Bond Insurer.

C. Special Provisions for Bond Insurer. To the extent permitted by the Indenture, as the same may be amended from time to time, the Bond Insurer shall be authorized to exercise the rights of the Owners of the Series 2003 Bonds that they insure with respect to consent to any amendments provided in Article XI of the Indenture, as the same may be amended from time to time, except any change in the terms of redemption, maturity or principal amount of the Series 2003 Bonds or any installment of interest thereon or any reduction in the principal amount or redemption price thereof or the rate of interest thereon. Any rating agency then rating the Series 2003 Bonds shall be given written notice of any amendments to this First Supplemental Indenture and a copy thereof at least fifteen days in advance of its execution or adoption. The Bond Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment.

* * *

APPENDIX B

ECONOMIC DEVELOPMENT CONTRACT

THE STATE OF TEXAS §
§
COUNTY OF BEXAR §

THIS ECONOMIC DEVELOPMENT CONTRACT ("Contract") is made and entered into by and between the CITY OF SAN ANTONIO, TEXAS, a municipal corporation and home-rule city which is principally situated and has its City Hall in Bexar County, Texas (hereinafter called the "City"), and the CITY OF SAN ANTONIO, TEXAS, STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION, an industrial development corporation created by the City and existing under art. 5190.6, Vernon's Texas Civil Statutes, as amended (hereinafter called the "Corporation").

W I T N E S S E T H:

WHEREAS, the City has entered into the Starbright Agreement (as hereinafter defined) for the purpose of inducing Toyota (as hereinafter defined) to establish a manufacturing and assembly facility for motor vehicles and automotive parts and components known as Project Starbright (as hereinafter defined) in order to advance the public purposes of developing and diversifying the economy of the State of Texas, eliminating unemployment and under employment in the State of Texas and developing or expanding transportation or commerce in the State of Texas and for the other purposes set forth in the Starbright Agreement; and

WHEREAS, pursuant to the Starbright Agreement, the City agreed to cause certain property to be acquired and certain property to be conveyed to (or for the benefit of) Toyota and to pay or reimburse certain costs of site preparation, certain costs of a training facility and certain other costs constituting the City Project (as hereinafter defined) to be provided as set forth in the Starbright Agreement and has created the Corporation to carry out such obligations under the Starbright Agreement; and

WHEREAS, the City desires to enter into this agreement with the Corporation to set forth the respective obligations of the City and the Corporation to carry out the aforesaid agreements and obligations undertaken by the City under the Starbright Agreement.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, the parties hereto do hereby mutually agree as follows:

ARTICLE 1
Definitions

1.1 General. As used in this Contract, the following terms are intended and used herein and shall be construed to have meanings as follows:

(a) "Board of Directors" shall mean the Board of Directors of the Corporation which is the governing body of the Corporation.

(b) "Bonds" and "Obligations" shall have the meaning set forth in the Indenture and any Supplemental Indenture. For purposes of this Contract, the Bonds and Obligations may include any Interim Note issued by the Corporation.

(c) "City" is defined in the preamble of this Contract and includes its successors and assigns.

(d) "City Council" shall mean the City Council of the City which is the governing body thereof.

(e) "City Project" shall mean the fulfillment of the obligations of the City contained in the Starbright Agreement, which under this Contract are the obligations of the Corporation, including without limitation those enumerated in Sections 4, 5 and 27 of Exhibit C to the Starbright Agreement with respect to the acquisition of the Overall Tract (or so much thereof as required by the Starbright Agreement), funding certain Costs of the Training Facility and Site Preparation as required by the Starbright Agreement, and funding any or all other obligations of the City under the Starbright Agreement including costs of real estate commissions, title insurance, roll back taxes for agricultural use conversion, environmental and archeological studies and remediation and other related actions required for the City to fulfill its obligations under the Starbright Agreement.

(f) "Contract" shall mean this agreement between the Corporation and the City and any amendments to this agreement.

(g) "Corporation" is defined in the preamble of this Contract and includes any other nonprofit corporation, political subdivision or agency succeeding to the powers, rights, privileges, obligations and functions of such Corporation.

(h) "Costs" or "Costs of the City Project" shall mean all costs, fees and charges associated with, or to be reimbursed for, the acquisition, construction, and improvement of the City Project, including all losses, costs, damages, expenses and liabilities of whatsoever nature (including, but not limited to, attorneys' fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) incurred by the Corporation and the Texas Department of Economic Development directly or indirectly resulting from, arising out of or related to the issuance, offering, sale, delivery, or payment of the Bonds and Obligations, and interest thereon, for the design, construction, installation, operation, use, occupancy, maintenance, or ownership of Project Starbright which are required to be paid to the Corporation or the Department as required by Texas Department of Economic Development Rule Nos. 180.2(b)(7)(i) and (ii) of Title 10, Part 5, Chapter 180 of the Texas Administrative Code. Such Costs include capitalized interest, costs which are not paid or reimbursed from proceeds of bonds and Costs of Issuance and the repayment of any Interim Notes, including interest accrued thereon.

(i) "Costs of Issuance" shall mean the items of expense payable or reimbursable directly or indirectly by the Corporation and related to the authorization, sale and issuance of Bonds or the authorization or incurrence of other Obligations, which items of expense shall include without limiting the generality of the foregoing: travel expenses; printing costs; costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Trustee, paying agents, registrars, securities depository, and any authenticating agents; initial fees and charges of providers of credit agreements, investment agreements, investment liquidity facilities, reserve fund surety policies or other parties pursuant to remarketing, indexing or similar agreements; discounts; legal fees and charges; consulting fees and charges; auditing fees and expense; credit insurance; financial advisor's fees and charges; costs of credit ratings; insurance premiums; fees and charges for execution, transportation and safekeeping of Bonds or other Obligations; expenses and fees of the Corporation and the City associated with the Bonds or other Obligations and initial fees of any arbitrage consultants; and other administrative or other costs of issuing, carrying and repaying such Bonds or other Obligations and investing the proceeds thereof.

(j) "CPS" means the City Public Service Board of San Antonio, Texas which exercises management and control of the City's Utility Systems pursuant to Chapter 1502, Texas Government Code, as amended.

(k) "Debt Service" shall have the meaning set forth in the Indenture and any Supplemental Indenture, and with respect to Interim Notes means amounts due and payable under any Interim Notes.

(l) "Debt Service Fund" shall mean the Debt Service Fund established in the Indenture and any Supplemental Indenture.

(m) "Debt Service Reserve Fund" shall mean the Debt Service Reserve Fund, if any, established in the Indenture and any Supplemental Indenture.

(n) "Expenses" shall mean the ongoing fees and expenses of the Corporation relating to its Bonds and other Obligations, including its fees and expenses relating to: (1) trustees, paying agents, registrars, authenticating agents, securities dealer, securities depositories, or other fiduciaries; (2) arbitrage rebate, continuing disclosure, financial and legal consultants; (3) insurers; (4) remarketing, indexing, or similar agreements; and (5) to the extent not included within the definition of "Debt Service" in the Indenture, any fees and expenses related to credit agreements, investment liquidity facilities, or reserve fund surety policies permitted by or contemplated in the Indenture.

(o) "Indenture" shall mean the Indenture of Trust and any Supplemental Indenture entered into between the Corporation and the Trustee relating to Bonds and other Obligations.

(p) "Interim Note" or "Interim Notes" shall mean any one or more promissory notes issued to borrow or finance a portion of the Costs of the City Project prior to and in anticipation of the issuance of the Bonds.

(q) "Pledged Contract Payments" shall mean all payments from the City to the Corporation provided for in Article 4 of this Contract, other than arbitrage payments described in Section 4.7.

(r) "Overall Tract" shall have the meaning assigned in the Starbright Agreement.

(s) "President" shall mean the President of the Board of the Corporation.

(t) "Project Starbright" shall have the meaning assigned in the Starbright Agreement.

(u) "Reserve Fund Requirement" shall have the meaning set forth in the Indenture and any Supplemental Indenture.

(v) "Series 2003 Bonds" shall mean the Corporation's bonds intended to be issued in 2003 in an amount not to exceed $40,000,000 to finance the Costs of the City Project and Costs of Issuance.

(w) "Site Preparation" shall have the meaning assigned in the Starbright Agreement.

(x) "Starbright Agreement" shall mean the Starbright Agreement dated as of May 1, 2003 by and between, among others, the City and Toyota.

(y) "Supplemental Indenture" shall mean any Indenture supplemental to or amendatory of the Indenture.

(z) "Term" is defined in Section 7.1.

(aa) "Toyota" means Toyota Motor Manufacturing North America, Inc., a Kentucky corporation.

(bb) "Training Facility" shall mean the training facility referred to in Section 27 of Exhibit C to the Starbright Agreement.

(cc) "Trustee" shall mean Wells Fargo Bank Texas, N.A., with respect to all Bonds but, with respect to any Interim Notes, shall mean the named payee or payees of such Interim Notes.

(dd) "Utility Systems" shall mean the gas and electric systems owned by the City and managed, operated, and maintained by CPS in accordance with the ordinances authorizing the issuance of the City's electric and gas systems revenue indebtedness.

1.2 Other Definitions. All other capitalized terms not otherwise defined in this Contract shall have the meanings set forth in the Indenture and, if not defined in the Indenture, in the Starbright Agreement.

ARTICLE 2
Obligations of the Corporation

2.1 Agreement to Issue Bonds. The Corporation agrees to issue Bonds and incur Obligations to finance the Costs of the City Project. The Corporation shall initially issue the Series 2003 Bonds and, at the request of the City, shall issue such additional Bonds and Obligations to finance or refinance Costs of the City Project, including one or more Interim Notes.

2.2 Purchase and Sale of Overall Tract. The Corporation hereby agrees to apply proceeds of the Series 2003 Bonds (and any Interim Note) to purchase, or cause to be purchased, the Overall Tract, or so much thereof as may be required by the Starbright Agreement, and convey, or cause to be conveyed, to Toyota, in accordance with the terms of the Starbright Agreement, the Overall Tract or so much thereof as may be required pursuant to the Starbright Agreement. Such conveyance, as contemplated herein and in the Starbright Agreement, shall constitute a "sale" within the meaning of Section 23(a)(3) of Article 5190.6, Vernon's Texas Civil Statutes, as amended. With respect to any portion of the Overall Tract acquired by the Corporation but not required to be conveyed to Toyota by the terms of the Starbright Agreement, the Corporation agrees to hold, use, restrict or convey such land upon the direction of the City.

2.3 Agreement to Fund Certain Other Costs of the City Project. The Corporation hereby agrees to apply proceeds of the Series 2003 Bonds (and any Interim Note) to reimburse Toyota for and to pay or cause to be paid other Costs of the City Project, including without limitation, Costs of the Training Facility and Site Preparation, as provided in the Starbright Agreement.

ARTICLE 3
Representations and Covenants of the City

3.1 City Economic Development Program. The City represents that it has taken all necessary legal action to adopt an economic development program in satisfaction of Section 380.001, Texas Local Government Code, as amended.

3.2 Qualification of City Project Under City Economic Development Program. The City represents that the City Project qualifies under the City's economic development program established under Chapter 380, Texas Local Government Code, and this Contract is authorized pursuant to Section 380.002(b), Texas Local Government Code, as amended, and the City's Pledged Contract Payments hereunder, derived from sources hereinafter set forth, satisfy and comply in all respects with Section 380.002(c), Texas Local Government Code, as amended.

3.3 Fulfillment of City Obligations Under Starbright Agreement. The City is entering into this Contract in order to fulfill its obligations contained in the Starbright Agreement.

3.4 Covenants of the City. The Corporation and the City agree that the covenants of the City contained in this Section shall only be enforced by the Corporation and its permitted assigns to the extent necessary to enforce the payment provisions contained herein or ensure compliance with any covenant of the City made in connection with the issuance, payment and security of any Bonds or other Obligations. The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to effect the financing and refinancing of the City Project and to allow the Corporation to comply with reporting obligations, to assure the Corporation of the City's intention to perform hereunder and for the better assuring and confirming unto the Corporation and the Trustee of the rights and benefits provided to them herein.

3.5 Tax Covenant. If any of the Bonds are issued as tax exempt obligations, the City hereby covenants to the Corporation and the Trustee that it will not take any action or fail to take any action that would adversely affect the exclusion from gross income of interest on such Bonds.

3.6 Continuing Disclosure. The City shall provide annually to each NRMSIR and any SID, within six months after the end of its fiscal year (currently September 30) financial information and operating data with respect to the City, including (1) the annual audited financial statements of the City, and the unaudited financial statements of the City but only in the event audited financial statements are not completed within six months after the end of any of its fiscal years; and (2) all quantitative financial information and operating data with respect to the City of the general type included in the official statement relating to the Series 2003 Bonds under Table 2. Any financial statements to be provided shall be (1) prepared in accordance with the accounting principles that the City may be required to employ from time to time pursuant to state law or regulation, and (2) be audited, if the City commissions an audit of such statements. If the City changes its fiscal year, the City will notify each NRMSIR and any SID of such change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this section. The financial information and operating data to be provided pursuant to this section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the Municipal Securities Rulemaking Board) that theretofore has been provided to each NRMSIR and any SID or filed with the Securities Exchange Commission.

ARTICLE 4
Payments by the City for Bonds and Other Obligations

4.1 Unconditional Payments to the Corporation by the City. In consideration of the Corporation's agreement to issue Bonds and other Obligations to fund Costs of the City Project, the City agrees that it will pay to the Corporation, or at the request of the Corporation, the Trustee, during the Term of this Contract, as an unconditional obligation of the City (but solely from the source prescribed in Section 4.5), the Pledged Contract Payments and any other sum required by this Article regardless of whether or not the City Project or Project Starbright is completed, operable, operated or retired and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the City Project or Project Starbright. Such payments are not subject to any reduction, whether offset or otherwise, and are not conditional upon (i) performance or default by the Corporation under this Contract or any other agreement or other obligation of the Corporation, or (ii) whether or not Toyota or any other party to the Starbright Agreement shall perform, fail to perform or default in its obligations or shall be excused from performance by reason of force majeure, waiver or otherwise.

4.2 Debt Service on the Corporation's Bonds and Other Obligations. So long as Bonds and other Obligations issued by the Corporation remain outstanding and unpaid, the City shall remit to the Trustee at the place which such Bonds and other Obligations are payable, or upon the request of the Corporation, to the payee of Bonds and other Obligations, the respective sums necessary to pay, or accrue amounts necessary to pay, the Debt Service on the Bonds and other Obligations, at the respective times and in the respective amounts as fixed and prescribed in the Indenture and any Supplemental Indenture (or Interim Notes as applicable) under authority of which said Bonds and other Obligations are issued by the Corporation. Promptly after the Series 2003 Bonds (and any series of Bonds and other Obligations, including Interim Notes) are issued, the Corporation shall furnish (or cause the Trustee to furnish) the City a schedule of payments to be made on the Series 2003 Bonds and such other Interim Notes and any additional Bonds and other Obligations.

4.3 Debt Service Reserve Fund Payments. The City shall also pay to the Trustee such sums, if any, as are necessary to establish, restore, and maintain an amount equal to the Reserve Fund Requirement in the Debt Service Reserve Fund created in the Indenture and any Supplemental Indenture authorizing the issuance of Bonds and other Obligations, and such payments shall be made at such times and in such amounts as provided in the Indenture and any Supplemental Indenture authorizing the Bonds and other Obligations.

4.4 Expenses. The City shall also pay to the Corporation (or at its request, the Trustee or other third parties to whom such amounts are due) the Expenses as they are incurred.

4.5 Source of City Payments. All money required to be paid by the City pursuant to this Article are payable solely from those net revenues of the Utility Systems that are transferred by CPS to the City in an amount not to exceed 14% of the gross revenues of the Utility Systems less the value of gas and electric services of the Utility Systems used by the City for municipal purposes and the amounts expended for additions to the street lighting system, subject to the flow of funds and other more specific terms of the City's ordinances authorizing bonds, notes, public securities and credit agreements payable from the net revenues of the Utility Systems (collectively, "CPS Ordinances"). NEITHER THE STATE, THE CITY, NOR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR OBLIGATIONS OR THE INTEREST THEREON AND THAT NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE CITY, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON SUCH BONDS OR OBLIGATIONS. The City reserves the right to pay all or any portion of amounts payable by the City hereunder with the proceeds of grants related to the City Project that are lawfully available for such purpose in which case such payments shall be credited against amounts due hereunder by the City; however, no pledge or lien of any kind is granted by the City with respect to any such grants.

4.6 Direction to CPS

(a) In order to more efficiently provide for the payments to the Trustee set forth in Sections 4.2 and 4.3, the City's Director of Finance may direct CPS to transfer the City's payments from amounts payable by CPS to the City directly to the account of the Trustee, but solely from the sources described in Section 4.5.

(b) Attached hereto as Exhibit A is an instrument directing CPS to comply with the foregoing provision and evidencing CPS' receipt and acknowledgment thereof.

4.7 Arbitrage Profits Required to be Rebated. To the extent that the Corporation does not have lawful funds available for such purposes, the City shall also pay to the Corporation for deposit into any Rebate Fund created in the Indenture (or, at the option of the City, pay directly to the United States Treasury Department on behalf of the Corporation if the City receives the Corporation's Counsel's Opinion concurring with the amount to be paid) an amount equal to the rebate amount on gross proceeds of the Bonds and other Obligations which are issued by the Corporation with the approval of the City to provide funds for the City Project required to be rebated by the Corporation to the United States Treasury Department, if any, in order to maintain any exemption of interest on the Bonds and other Obligations from federal income taxes. The Corporation shall maintain an accounting of such arbitrage profits required to be rebated, and shall furnish to the City (a) a calculation of payments to be made by the City (prepared in a manner and by a firm acceptable to the Corporation and the City) as soon as possible, in no event less than 15 days, prior to the date such payments are required to be made by the Corporation to the United States Treasury Department and (b) such other reports as the City may reasonably from time to time (but not more often than annually) request regarding the Corporation's accounting, as of the close of the Corporation's most recent fiscal year, for amounts required to be rebated to the United States. The City's obligation to make such payments shall not be reduced except to the extent that funds are on hand and lawfully available to the Corporation to make such payments when due.

ARTICLE 5
Audits, Accounts, Records and Reports

5.1 Accounts, Records, and Accounting Reports. The Corporation covenants and agrees that it will maintain, or cause to be maintained, books, records and accounts, and the same shall be available for inspection by the City at reasonable hours and under reasonable circumstances.

5.2 Annual Audits; Rebate Calculation. After the end of each fiscal year of the Corporation (beginning with the 2003 fiscal year), the Corporation (a) if requested by the City, shall have its books, records, and accounts audited by a certified public accountant and shall submit the results of such audit to the City within one hundred thirty-five (135) days after the end of the fiscal year and (b) shall prepare a calculation of any rebate liability to the United States relating to Bonds issued by the Corporation for the City Project and shall submit such calculations to the City within ninety (90) days after the end of the fiscal year.

ARTICLE 6
Acquisition, Conveyance and Title to Overall Tract

As between the City and the Corporation, it is intended that the Corporation shall have exclusive responsibility for conveying, or causing to be conveyed, the Overall Tract (or so much thereof as required by the Starbright Agreement) to Toyota (or others) as required to satisfy the terms of the Starbright Agreement. It is the mutual intent of the parties that the City's obligations with respect to such conveyance of the Overall Tract (or so much thereof as required by the Starbright Agreement) to Toyota contained in the Starbright Agreement shall be satisfied by the Corporation without the City ever being required to hold title or to being required to enter the chain of title to the Overall Tract.

ARTICLE 7
Term Bonds and Other Obligations and Contract Termination

7.1 Term and Termination. Except as provided in Section 7.3, this Contract shall have a term (the "Term") beginning on the date hereof and continuing so long as any Bonds or Obligations remain outstanding and any Expenses remain unpaid. This Contract may be amended, supplemented, and extended by mutual agreement of the parties, but not in such manner as to impair the rights of the Owners (as defined in the Indenture) of Bonds and other Obligations issued by the Corporation and secured by a pledge of the payments to be made by the City hereunder. The City agrees that it will not terminate this Contract during its Term for any reason so long as any Bonds or other Obligations remain outstanding, except as provided in Section 7.3.

7.2 Completion; Bonds and Other Obligations. Subject to approval of the City Council, the City and the Corporation (i) agree that the Corporation shall issue additional Bonds and other Obligations as may be necessary to pay for all Costs of the City Project that cannot be funded with the Series 2003 Bonds and (ii) agree to enter into such additional supplements to this Contract as shall from time to time be needed to provide for the payment of principal, interest and redemption price on such additional Bonds and other Obligations, or refunding Bonds and other Obligations and to establish and maintain the Debt Service Reserve Fund.

7.3 Dissolution of the Corporation. The City agrees that it will not cause the Corporation to be dissolved or otherwise cease to exist as a corporate entity so long as any Bonds or other Obligations remain outstanding (i) if in the opinion of the financial advisor to the Corporation or the City the credit rating on the outstanding Bonds or other Obligations would be lowered as a result of such dissolution or (ii) without the written approval of any municipal bond insurer on any outstanding Bonds or other Obligations. In the event of a dissolution, the City will assume all assets and liabilities of the Corporation, including any Bonds and other Obligations which remain outstanding.

7.4 Sale of Utility Systems. Subject to the provisions of the CPS Ordinances, the City agrees that it will not sell or dispose of all or a substantial portion of the Utility Systems so long as any Bonds or other Obligations remain outstanding unless the City provides for the full legal defeasance of all outstanding Bonds and other Obligations prior to or concurrent with such sale or disposition.

ARTICLE 8
Remedies Upon Default

8.1 Payment Default. In the event of a default by the City in the payment of any sum due and payable under Sections 4.2 or 4.3 of this Contract which shall continue 10 days after the Trustee gives notice of such nonpayment, the Trustee shall be authorized to pursue any remedies authorized by applicable law.

8.2 No Waiver. The failure of either party to insist in any one or more instances upon performance of any of the terms, covenants or conditions of this Contract shall not be construed as a waiver or relinquishment of the future performance of any such term, covenant or condition by the other party hereto, but the obligation of such party with respect to future performance shall continue in full force and effect.

ARTICLE 9
Assignment; Financing Matters

9.1 Assignment. Neither the Corporation nor the City may assign or otherwise transfer any rights or obligations created hereby except that, notwithstanding the foregoing, the Corporation may assign to the Trustee any of its rights and interests herein as security for its Bonds and other Obligations. In connection with an assignment to the Trustee, the following shall apply:

(a) The Corporation shall deliver to the City a true copy of any assignment hereof by the Corporation and shall notify the City of the address of the Trustee to which notices may be sent.

(b) When giving notice to the Corporation with respect to any default under this Contract, the City will also serve a copy of each such notice upon the Trustee, which notice shall be served to the address of such Trustee as provided to the City pursuant to subsection (a) above.

(c) In case the Corporation shall default under any of the provisions of this Contract, the Trustee shall have the right to make good such default whether the same consists of the failure to pay money due hereunder or the failure to perform any other matter or thing which the Corporation is hereby required to do or perform, and the City shall accept such payment or performance on the part of a Trustee as though the same had been done or performed by the Corporation.

9.2 Modifications to Contract. At the request of the Corporation made in connection with the issuance of the Series 2003 Bonds, the City agrees to enter into and deliver to the Corporation amendment(s) hereto containing such modifications to this Contract as the Trustee or any prospective bond insurer or rating agency for the Series 2003 Bonds may request; provided that the modifications do not, in the aggregate, materially increase the City's obligation under this Contract.

ARTICLE 10
Addresses and Notices

10.1 Notices. Until the Corporation is otherwise notified in writing by the City, the address of the City is and shall remain as follows:

City of San Antonio
P.O. Box 839966
San Antonio, Texas 78283-3966
Attention: City Manager

with a copy to:

City of San Antonio
501 Dolorosa, First Floor
San Antonio, Texas 78205
Attention: Director of Finance

Until the City is otherwise notified in writing by the Corporation, the address of the Corporation for both notice and payments is and shall remain as follows:

City of San Antonio, Texas, Starbright
Industrial Development Corporation
506 Dolorosa, First Floor
San Antonio, Texas 78205
Attention: Director of Finance

Until the City and Corporation are otherwise notified in writing by the Trustee, the address of the Trustee is and shall remain as follows:

Wells Fargo Bank Texas, N.A., Trustee
1445 Ross Avenue, 2nd Floor MAC T5303-022
Dallas, Texas 75202
Attention: Corporate Trust

All written notices required or permitted to be given under this Contract from one party to the other shall be deemed given by facsimile transmission or other electronic means or one business day after the deposit of certified or registered mail in a United States Postal Service mail box or receptacle, with proper postage affixed thereto and addressed to the respective other party at the address set forth above or at such other address as the parties respectively shall designate by written notice.

ARTICLE 11
Miscellaneous Provisions

11.1 Successors and Assigns. This Contract shall bind and benefit the respective parties and their legal successors, and, except as permitted in Article 9 above, shall not otherwise be assignable, in whole or in part, by either party without first obtaining the written consent of the other.

11.2 Benefit of Contract. This Contract shall be for the sole and exclusive benefit of the City and the Corporation and shall not be construed to confer any rights upon any third party other than the Trustee on behalf of holders and credit enhancers of Bonds and other Obligations.

11.3 Compliance with Laws. This Contract shall be subject to all present and future valid laws, orders, rules and regulations of the United States of America, the State of Texas and of any regulatory body having jurisdiction. Without limiting the foregoing, it is agreed that to the extent required by Texas Department of Economic Development Rule 180.2(b)(7)(v) of Title 10, Part 5, Chapter 180 of the Texas Administrative Code, the City has not and will not maintain that it is entitled to an exemption from Texas Sales or Use Taxes on personal property acquired in connection with Project Starbright solely by virtue of it being financed with Bonds under the Development Corporation Act of 1979, Article 5190.6, Vernon's Texas Civil Statutes, as amended; provided, however, that the foregoing provision relates solely to exemptions arising solely by virtue of financing with Bonds issued under the foregoing act, and shall not apply to any exemptions to which the City is entitled by virtue of being a home-rule city and political subdivision of the State of Texas.

11.4 Independent Contractor. Corporation is engaged as an independent contractor, and all of the services provided for herein shall be accomplished by Corporation in such capacity.

11.5 Severability. In the event any term, covenant or condition herein contained shall be held to be invalid by any court of competent jurisdiction, such invalidity shall not affect any other term, covenant or condition herein contained, provided that such invalidity does not materially prejudice either the Corporation or the City in their respective rights and obligations contained in the valid terms, covenants or conditions hereof.

11.6 Entire Agreement. This Contract merges the prior negotiations and understandings of the parties hereto and embodies the entire agreement of the parties.

11.7 Written Amendment. Unless otherwise provided herein, this Contract may be amended only by written instrument duly executed on behalf of the City and the Corporation.

11.8 Legal Authority. The City's City Attorney or his or her designee shall have the right to enforce all legal rights and obligations of the City under this Contract without further authorization. The Corporation covenants to provide to the City's City Attorney all documents and records that the City's City Attorney reasonably deems necessary to assist in determining the Corporation's compliance with this Contract, with the exception of those documents made confidential by federal or State law or regulation.

11.9 City Approval. This Contract has been duly approved by the City Council of the City and the Board of Directors of the Corporation.

[end of page]

IN WITNESS WHEREOF, the parties hereto to have signed this Contract in multiple copies, each of which shall be deemed to be an original, but all of which shall constitute but one and the same contract, as of the date of countersignature.

ATTEST:

CITY OF SAN ANTONIO, TEXAS, STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION (“Corporation”)

____
Corporation Secretary

By: ______________________________
Name: ___________________________
Title:____________________________
Date: ____________________________

ATTEST/SEAL:

CITY OF SAN ANTONIO, TEXAS (“City”)

____
Acting City Clerk

By:______________________________
Mayor of the City of San Antonio
Date: ____________________________

APPROVED AS TO FORM:

____
Assistant City Attorney

EXHIBIT “A”

Receipt and Acknowledgment by CPS

To: City Public Service Board of San Antonio, Texas (“CPS”)
145 Navarro
San Antonio, Texas 78205

Re: Economic Development Contract between City of San Antonio, Texas and City of San Antonio, Texas, Starbright Industrial Development Corporation

Ladies and Gentlemen:

Pursuant to Section 4.6(b) of the captioned agreement, you are hereby requested to acknowledge that if pursuant to Section 4.6(a) you are requested, in writing, by the Director of Finance of the City (the “Director”), you will transfer to an account identified by the Director the specified amounts out of the CPS payment to the City then due, in accordance with schedules provided to you by the City, with such transfers being first subject to any other obligations or provisions contained in the CPS Ordinances.

Please evidence your receipt and acknowledgment of this instruction.

Very truly yours,

____
City Manager, City of San Antonio

RECEIPT ACKNOWLEDGED:

____
General Manager and CEO
City Public Service Board of San Antonio, Texas

APPENDIX C

CITY OF SAN ANTONIO
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

This Appendix contains a brief discussion of certain economic and demographic characteristics of the City of San Antonio, Texas (the "City" or "San Antonio") and of the metropolitan area in which the City is located. Although the information in this Appendix has been provided by sources believed to be reliable, no investigation has been made by the City to verify the accuracy or completeness of such information.

Population and Location

The 2000 U.S. Census Bureau cites the population of the City to be 1,144,646. The City's Department of Planning estimated the City's population at 1,251,200 for the calendar year ending December 31, 2002. The U.S. Census Bureau ranks the City as the third largest in the State of Texas and the ninth largest in the United States.

The City is the county seat of Bexar County, which has a population of 1,392,931 according to the 2000 U.S. Census Bureau. The City's Department of Planning estimated Bexar County's population at 1,512,800 for the calendar year ending December 31, 2002 for Bexar County. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the Mexican border cities of Del Rio, Eagle Pass, and Laredo, respectively.

The following table provides, as of April 1 for the years shown, the population of the City, Bexar County, and the San Antonio Metropolitan Statistical Area ("MSA"), which includes Bexar County and portions of, Comal, Wilson, and Guadalupe Counties:

Year	City of San Antonio	Bexar County	San Antonio MSA
1920	161,399	202,096	238,639
1930	231,542	292,533	333,442
1940	253,854	338,176	376,093
1950	408,442	500,460	542,209
1960	587,718	687,151	736,066
1970	654,153	860,460	888,179
1980	786,023	988,971	1,088,881
1990	935,933	1,185,394	1,324,749
2000	1,144,646	1,392,931	1,592,383

Sources: U.S. Census Bureau; City of San Antonio, Department of Planning.

Area and Topography

The area of the City has increased through numerous annexations, and now contains approximately 448.9 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 788 feet above mean sea level.

Annexation Plan

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 448.8961 square miles and having a fiscal year 2003 total market valuation of $46.390 billion. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as well as an opportunity to enhance the City's fiscal position. Planned annexations by the City are currently under consideration.

At its November 20, 2002 meeting, the City Council annexed, effective December 31, 2002, five areas for inclusion within the City for full purposes, adding 18.7031 square miles of land to the City's total area. At that same meeting, the City Council also annexed, effective January 5, 2003, six areas for inclusion within the City for limited purposes. These areas annexed for limited purposes will, upon full purpose annexation, add a total of 56.9656 square miles of land to the City's total area; however, they are not currently included within the calculation of the City's total area given the possibility of de-annexation three years from the date of initial annexation. (See "Limited Purpose Annexation" below).

Limited Purpose Annexation

The City annexed for limited purposes, effective January 5, 2003, six areas south of San Antonio. Limited purpose annexation allows the City to extend regulatory authority for the limited purposes of applying its planning, zoning, health, and safety ordinances to specified areas. The City may not impose a property tax in such areas until the property is annexed for full purposes, which generally occurs within three years after limited purpose annexation.

As a requirement of Section 43.123, Texas Local Government Code, as amended, the City is publishing a planning study and regulatory plan regarding the proposed limited purpose annexation areas. The planning study contains projected levels of development in the next ten years with and without annexation of such areas, issues regarding (and the public benefits of), annexation, economic and environmental impact of annexation, and proposed zoning for the specified areas. The regulatory plan outlines development regulations and the date of future, full purpose annexation.

Annexation Legislation

In 1999, the Texas Legislature passed Chapter 1167, Acts of the 76th Legislature, Regular Session, 1999 (the "Annexation Act"), changing the manner in which Texas municipalities can annex land. Under the Annexation Act, municipalities must prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted.

The City Council, at its September 19, 2002 meeting, adopted a three-year annexation plan for the City identifying 13 areas for either limited or full purpose annexation, as required by the Annexation Act (such requirement now codified at Section 43.052, Texas Local Government Code), of which 11 areas were annexed in the manner described in "Annexation Plan" above. The City Council added 13 areas identified for annexation by December 31, 2005.

Form of Government and Administration

The City's Home Rule Charter (the "City Charter") with a council-manager form of government (the "City Council"), was adopted in 1951. On five separate occasions since that time, first in November 1974, then again in January 1977, May 1991, May 1997, and November 2001, the City Charter has been amended. Significant amendments to the City Charter include the 1991 passage of provisions limiting service by the Mayor and members of the City Council to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990's and charged with conducting a comprehensive review of the City Charter resulted in the May 1997 passage of five propositions, each containing numerous amendments to the City Charter. The most recent amendments to the City Charter occurred in 2001 and included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's advice and/or confirmation.

The City Council is composed of 11 elected members, with 10 members elected from single-member districts, while the Mayor is elected at large. Because of the aforementioned term-limits, City Council members and the Mayor each serve a maximum of four years. The terms of all elected officials currently sitting in office expire in May 2003. The City Manager, the City's chief administrative officer, is appointed by and serves at the pleasure of the City Council.

Services

The full range of services the City provides to its constituents includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers the promotion of convention and tourism and participation in economic development programs high priorities. The funding sources from which these services are provided include ad valorem, sales, and hotel/motel tax receipts, federal and state grants, user fees, bond proceeds, tax increment financing, and other sources.

In addition to the above described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport, parking, storm water, and solid waste operations.

Electric and gas services to the San Antonio area are provided by City Public Service ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 16 generating unit electric system and the gas system that serves the San Antonio area. CPS's operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2002 were $165,118,018.

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System ("SAWS"), another City-owned and operated utility. In addition to these services, SAWS contracted with the City to provide certain storm water services thereto and it manages and develops water resources in and around the San Antonio region. SAWS is in its ninth year as a separate, consolidated entity that addresses the City's water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS revenue transfers to the City for the City's fiscal year ended September 30, 2002 were $6,116,065.

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, agribusiness, manufacturing, financial business, telecommunications, telemarketing, insurance, and mineral production. Support for these economic activities is demonstrated by the City's commitment to its on-going infrastructure improvements and development and its dedicated work force. Total employment in the San Antonio MSA for December 2002 was 769,520, which is 11,161, or 1.47%, more jobs than the December 2001 total of 758,359. Service, trade, and government represent the largest employment sectors in the San Antonio MSA. Medical and bio-medical, tourism, and the military represent the largest industries in San Antonio. The City serves as a major insurance center in the southwest United States and is the headquarters location for several insurance companies. According to the Greater San Antonio Chamber of Commerce Largest Employers Directory 2002, San Antonio's seven largest private sectors employers are: Valero Energy Corporation, United Services Automobile Association, H.B. Zachry Company, H.E.B. Grocery Company, SBC Communications, Inc., SBC Southwestern Bell, and Baptist Health System. The five largest publicly traded companies in the City, ranked by revenues, are SBC Communications, Inc., Valero Energy Corp., Clear Channel Communications, Inc., Tesoro Petroleum Corp., and Harte-Hanks Inc., according to the San Antonio Business Journal Book of Lists 2003.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains the largest industry segment in the San Antonio economy, according to the San Antonio Greater Chamber's Economic Impact Study, 2001. The industry is diversified, with related industries such as research, pharmaceuticals, manufacturing, and insurance contributing approximately the same economic impact as health services. The total economic impact from this industry sector totaled approximately $11.5 billion in 2001. The industry provided nearly 98,000 jobs, or approximately 14% of the City's total workforce. The healthcare and bioscience industry's annual payroll in 2001 approached $3.5 billion, up 16% from 1998. The 2001 average annual wage of City workers was $30,652, compared to $34,352 for healthcare and bioscience employees. These 2001 economic impact figures represent growth of 5% over the previous year, or approximately $570 million. In addition, the industry grew by 17% over the four years preceding the date of the aforementioned economic impact study.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has 10 major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over $2.3 billion as of January 2002. As of January 2002, approximately 24,800 Medical Center employees provided care for over 3.3 million outpatients and approximately 98,000 inpatients. Physical plant values representing the original investments in physical facilities and equipment (less depreciation) held relatively steady at $1.7 billion. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects already in progress total $136 million. Projects planned for the next five years will add an additional estimated $165 million to present physical plant and equipment values.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the "UT Health Science Center") with its five professional schools awarding more than 50 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UT Health Science Center oversees the new, federally-funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. An extension campus is under construction in Laredo, Texas.

There are numerous other medical facilities outside the boundaries of the Medical Center, including 25 short-term general hospitals, two children's psychiatric hospitals, and two state hospitals. There are three Department of Defense hospitals, one of which is located in the Medical Center (as hereinafter described).

Military Health Care. San Antonio has three major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center ("BAMC") conducts treatment and research in a new, 1.5 million square foot facility at Fort Sam Houston U.S. Army Base, providing health care to nearly 600,000 military personnel and their families. BAMC is a major trauma center and contains the world-renowned Institute of Surgical Research Burn Center. BAMC also conducts bone marrow transplants in addition to more than 600 ongoing research studies.

Wilford Hall Medical Center ("Wilford Hall") is the largest medical facility of the U.S. Air Force. In addition to providing health care to military personnel and their families, Wilford Hall is a major trauma center that handles emergency medical care for approximately one-fourth of the City's emergency patients. Wilford Hall provides medical education for the majority of its physician and dental specialists and other health professionals, conducts clinical investigations, and offers bone marrow and organ transplantation.

Audie L. Murphy Memorial Veterans Hospital, located in the Medical Center, is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, the Audie L. Murphy Research Services (which is dedicated to medical investigations), and the new Frank Tejeda VA Outpatient Clinic (which serves veterans located throughout South Texas).

Bio-Medical Research and Development. Research and development are important areas that strengthen San Antonio's position as an innovator in the bio-medical field, with total research economic impact exceeding $681.7 million annually.

The Texas Research Park (the "Park") is the site for the University of Texas Institute of Biotechnology, the Cancer Therapy and Research Center's Institute for Drug Development, dozens of new biotechnology-related companies, and will soon include the South Texas Centers for Biology and Medicine. The Park has over $100 million invested in its facilities and equipment and generates more than $200 million in economic activity for the City each year. The Park is owned and operated by the Texas Research Park Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation. SBC Communications, Inc. recently donated $1.8 million to the Park for a 7,000 square foot, state-of-the-art teleconferencing building that will link all facilities at the Park to the UT Health Science Center and the University of Texas San Antonio ("UTSA").

The Southwest Foundation for Biomedical Research, which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the United States, and is internationally renowned. The Southwest Foundation for Biomedical Research has a full time staff of 65 doctoral degree recipients, a technical staff of 102, and an administrative and supporting staff of 165 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities.

The UT Health Science Center has been a major bio-science research engine since its inception, with strong research groups in cancer, cancer prevention, diabetes, drug development, geriatrics, growth factor and molecular genetics, heart disease, stroke prevention, and many other fields. One of its latest achievements is the establishment of the Children's Cancer Research Center, endowed with $200 million from the State of Texas's tobacco settlement. The UT Health Science Center, along with the Cancer Therapy and Research Center, forms the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

UTSA houses the Cajal Neuroscience Research Center, which is funded by $11 million in ongoing grants and is tasked with training students in research skills while they perform basic neuroscience research on subjects such as aging and Alzheimer's disease. UTSA is also the recipient of more than $35 million for its new School of Bioengineering.

A number of highly successful private corporations, such as Mission Pharmacal, DPT Laboratories, Ltd., and ILEX Oncology, Inc., operate their own research and development groups and act as guide posts for numerous biotech startups, bringing new dollars into the area's economy. A notable example of the results of these firms' research and development is ILEX Oncology, Inc., which has developed 8 of the last 11 cancer drugs approved for general use by the Federal Drug Administration.

Tourism

The City's diversified economy includes a significant sector relating to the visitor industry. The City receives approximately 8 million visitors each year, up from approximately 7.6 million in 1997 and 6.9 million in 1995. A recent study sponsored by the San Antonio Area Tourism Council approximated that, on an annual basis, these visitors spend $2 billion in the local economy and generate a total economic impact of more than $4 billion. The list of attractions in the San Antonio area includes, among many others, the Alamo and other sites of historic significance, the River Walk, two major theme parks (Seaworld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs.

Conventions. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows convention activity at December 31 for the years indicated:

Calendar Year	Conventions	Attendance	Number of Room Nights[1]	Estimated Dollar Value[2]
1993	1,597	576,720	976,732 [3]	$ 472,229,870
1994	1,647	488,979	947,753	400,385,785
1995	1,536	512,045	982,045	419,272,687
1996	1,391	575,668	959,543	471,368,472
1997	1,502	571,950	944,807	468,324,099
1998	1,497	607,890	1,038,472	547,642,022
1999	1,511	552,234[4]	938,992	497,502,088
2000	1,321	515,483[4]	921,495	464,393,480
2001	1,022	524,743[4]	903,034	472,735,721
2002	1,218	609,036	987,912	548,674,442

1 Reported by the Convention and Visitors Bureau and the Hotel Community.
2 For the years of 1993 through 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the International Association of Convention and Visitors Bureaus ("IACVB") which reflected the average expenditure of $818.82 per convention and trade show delegate. Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 IACVB Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP which reflected the average expenditure of $900.89 per convention and trade show delegate.
3 Calendar year 1993 was an exception to the growth trend due to three major conventions requiring approximately 115,500 room nights. Adjusting the 1993 room nights by 115,500 would result in a yearly total of 861,732 room nights.
4 The decline in Convention Center activity occurred due to disruptions during construction at the Convention Center, which is now complete.

Military Installations

The military represents a principal component of the City's economy. Three major military installations are currently located in Bexar County, including Lackland Air Force Base ("Lackland AFB"), Fort Sam Houston U.S. Army Base ("Fort Sam"), and Randolph Air Force Base ("Randolph AFB"). In addition, the property of Brooks Air Force Base ("Brooks AFB"), a fourth major military installation, was transferred from the United States Air Force (the "Air Force") to the City on July 22, 2002, as part of the "Brooks City-Base Project." The total military employment associated with the three active military installations and Brooks City-Base, (formerly Brooks AFB), approximates 73,189 military, civilian, and guard reserve part-time personnel, an annual aggregate payroll of $2.9 billion, and a total economic impact of $4.8 billion.

Military Base Redevelopment. On July 13, 2001, Kelly Air Force Base officially closed and the land and facilities were transferred to the Greater Kelly Development Authority ("GKDA"), a City Council-created organization responsible for overseeing the base's redevelopment into a business and industrial park. The new business park, known as KellyUSA, is focused on: (i) establishing an intermodel logistics distribution center promoting Inland Port San Antonio and international trade primarily with Mexico and Central and South America and (ii) becoming both a renowned international aviation overhaul and repair center and a manufacturing center for the City. KellyUSA assets, including roads, buildings, and an 11,400-foot runway for commercial air operations, are valued at $1.8 billion. To further the redevelopment goals, GKDA has completed over $105 million in new construction and facility upgrades over the past two years including a new 123,000 square foot hangar for Boeing and a new office building (which is currently leased at 94% of capacity). In addition, GKDA has planned a $108.6 million capital improvement program for the next five years, including the demolishing of 1.2 million square feet in unusable facilities. As of June 2002, these efforts have resulted in the retention of 7,000 military and the creation of over 5,400 new commercial jobs. GKDA has also executed 60 leases totaling approximately 4.4 million square feet of the space available with tenants such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Dynamics, General Electric, and Pratt & Whitney. An additional 2.4 million square feet of space has been leased back to the Air Force for its continued use.

The Brooks City-Base Project is a collaborative effort between the Air Force and the City designed to retain the Air Force missions and jobs at Brooks AFB, improve Air Force mission effectiveness, assist the Air Force in reducing its support operating costs, and promote and enhance economic development on Brooks AFB and in the surrounding community. Both the City and the Air Force are partnering to utilize City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park ("Brooks Technology & Business Park"), a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology. Brooks Technology & Business Park was officially established on July 22, 2002 with the transfer of the 1,310 acres of land and improvements comprising Brooks AFB to the City Council-established organization, Brooks Development Authority ("BDA"), with the Air Force becoming Brooks Technology & Business Park's anchor tenant and leasing back additional facilities, as necessary, to perform its missions. The City is now providing municipal services to Brooks Technology & Business Park and has been providing fire and police services thereto since October 2001. Base electric, gas, and water utilities have been transferred by the BDA to the City-owned utilities, CPS and SAWS, respectively. The BDA is also contracting with Grubb & Ellis, a national real estate developer and property management firm, to manage Brooks Technology & Business Park facilities and to facilitate the attraction of new tenants and jobs.

Despite the official closure of Kelly Air Force Base in July 2001, the level of military-related employment has remained stable over the past 12 months due to growth and expansion of missions at Lackland AFB and Fort Sam. The City, in partnership with the Greater San Antonio Chamber of Commerce, community volunteers, Bexar County, and community stakeholders, has formed a Military Missions Task Force (the "Task Force") to continue working with local military installations to improve their military value, strengthen partnerships with local institutions, and to help attract new missions and jobs to San Antonio. With another round of base closure and realignment scheduled for 2005, the community has been proactive in strengthening the value of its military installations through unique initiatives like the Brooks City-Base project and the Fort Sam leasing project discussed below. The Task Force will continue to facilitate the success of these projects and to develop new partnership initiatives with the military bases.

Fort Sam has also initiated leasing activities to reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the United States Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center ("BAMC") and two other buildings at Fort Sam. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, have been vacant for some time and are presently in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants. On September 17, 2002, the Army announced that it would be relocating U.S. Army South from Puerto Rico to Fort Sam in 2003, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. The Army has negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the old BAMC, clearing the way for renovation to begin on these historic facilities. The continued success of this unique public-private partnership at Fort Sam is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP. This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army also intends to extend this initiative to include other properties at Fort Sam currently available for redevelopment.

Other Significant Industries

Aerospace Industry. The aerospace industry's annual economic impact to the City is $2.5 billion, a figure which represents five percent of the City's economy. This industry provides over 10,000 jobs, with employees earning total annual wages totaling over $370 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Randolph AFB and Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, Southwest Airlines, FEDEX, UPS, and others. The industry in San Antonio is very diversified with continued growth in air passenger service, air cargo, maintenance repair and overhaul ("MRO") and general aviation. San Antonio International Airport has added four new non-stop passenger routes in the past 12 months and currently has flights to 30 non-stop destinations, with new charter service to Mexico available in March 2003. Stinson is at 100% occupancy rate and has a tenant waiting list for facilities. A Stinson Master Plan was approved by the City Council in October 2002 and is pending approval by the Federal Aviation Administration. At KellyUSA, the MRO business is strong as tenants such as Boeing and Lockheed continue to secure long term government contracts. KellyUSA is also working to add air cargo activity following completion of an Air Cargo Study and Strategic Plan in June 2002. This study also provided San Antonio International Airport with an Air Cargo Strategic Plan that includes recommendations on expanding the existing and growing air cargo business created primarily by UPS, FEDEX, and Airborne Express operations. In June 2002, the innovative Alamo Area Aerospace Academy ("AAAA") graduated its first class of high school students, with 15 of the 25 seniors in the class finding employment with local aerospace employers.

The Fiscal Year 2003 class of 127 commenced in August 2002. This innovative workforce initiative provides high school juniors and seniors a dual-credit aerospace curriculum taught by the Austin Community College District and offers paid summer internships with local employers.

Aerospace Research and Development. Brooks Air Force Base 311th Human Systems Wing's School of Aerospace Medicine, long active in research and development related to aviation and human systems, conducts a wide variety of research related to human effectiveness in aviation and is opening a new aircraft sustainability laboratory that will conduct research and development applicable to commercial aviation.

The Southwest Research Institute is one of the original and largest independent, nonprofit, applied engineering and physical sciences research and development organizations in the United States, serving industries and governments around the world in the engineering and physical sciences. Southwest Research Institute has contracts with the Federal Aviation Administration, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. Southwest Research Institute occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 2,700 scientists, engineers, and support personnel.

Information Technology Industry. The Information Technology ("IT") industry is one of the fastest growing sectors of the local economy. With an overall economic impact of approximately $3.4 billion, the IT industry represents about 7% of the San Antonio economy. This economic impact has tripled since 1990 and doubled since 1995. The IT industry includes two major types of activity: (i) the production and sale of various types of computer products and (ii) computer/data processing services. The annual payroll among IT industry employees is about $500 million, with employment of approximately 11,500 individuals. Not captured in this employment number is an additional 4,600 employees of the Air Intelligence Agency, which is the premier IT agency for the Air Force and the Department of Defense, and is located in San Antonio. Due to the success of the AAAA, the community also established a similar academy for IT, which began in August 2002 with an enrollment of 81 high school juniors. The City is focused on leveraging the IT industry assets to serve the nation in developing and implementing the initiatives of the federal Homeland Security Act.

Sources: The Greater San Antonio Chamber of Commerce; San Antonio Medical Foundation; City of San Antonio, Department of Economic Development and Convention and Visitors Bureau.

Growth Indices

San Antonio Water System Average Customers per Fiscal Year

Fiscal Year Ended May 31[1]	Water Customers[2]
1993	253,902
1994	257,733
1995	266,308
1996	269,405
1997	273,276
1998	270,897
1999	279,210
2000	285,887
2001	292,136
2002	298,215

1 On April 3, 2001, the SAWS Board of Trustees approved the changing of SAWS' fiscal from a year-end of May 31 to December 31.
2 Excluding SAWS irrigation customers.
Source: SAWS (herein defined.)

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Construction Activity

Set forth below is a table showing building permits issued for construction within the City at December 31 for the years indicated:

Calendar Year	Residential Single Family Permits	Residential Single Family Valuation	Residential Multi-Family[1] Permits	Residential Multi-Family[1] Valuation	Other[2] Permits	Other[2] Valuation
1993	2,858	$ 194,055,482	91	$ 34,177,025	12,151	$ 388,857,924
1994	3,987	262,104,759	166	68,097,513	13,302	421,324,638
1995	3,925	237,796,446	353	63,396,919	11,588	420,001,031
1996	4,306	261,540,367	171	64,282,630	9,055	578,225,607
1997	4,240	257,052,585	155	42,859,473	8,170	717,988,779
1998	5,630	363,747,169	85	23,194,475	8,193	892,766,648
1999	5,771	398,432,375	404	157,702,704	9,870	911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271

1 Includes two-family duplex projects.
2 Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.
Source: City of San Antonio, Department of Development Services.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

	Calendar Year					
	2002	2001	2000	1999	1998	1997
Amarillo	$ 44,201,183	$ 43,357,043	$ 42,474,995	$ 40,781,524	$ 39,276,557	$ 37,611,600
Arlington	42,293,256	65,948,096	65,264,427	60,092,585	57,095,137	54,923,300
Austin	110,208,923	117,393,240	117,818,293	104,915,700	94,261,113	85,272,735
Dallas	192,542,321	210,130,838	215,412,071	198,740,061	189,502,534	173,592,271
El Paso	47,465,776	46,876,210	45,970,014	43,603,400	41,414,498	39,097,126
Fort Worth	72,632,487	72,975,421	71,543,992	68,142,426	64,116,910	57,778,025
Houston	334,122,179	337,540,694	321,095,967	308,508,700	296,149,172	270,268,332
Irving	38,810,594	43,188,105	44,773,277	42,773,277	37,198,548	33,805,687
Plano	45,309,249	47,327,003	47,325,948	40,483,049	36,058,044	32,420,190
SAN ANTONIO	153,207,656	151,422,401	133,360,785	126,060,252	117,583,252	108,526,967

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County, with 41 high schools, 74 middle schools, and 230 elementary schools. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. In addition, Bexar County has 92 accredited private and parochial schools at all education levels. In San Antonio, there are seven accredited universities and four public community colleges, excluding business and professional schools, which had a combined enrollment of 83,344 students for the Fall 2002 semester.

Source: Texas Education Agency

Employment Statistics

The following table indicates the total civilian employment in the San Antonio MSA for the period of December 2002, as compared to the prior periods of November 2002 and December 2001.

	December 2002	November 2002	December 2001
Civilian Labor Force	807,583	813,875	791,854
Total Unemployment	38,063	41,179	33,495
Total Enemployment	769,520	772,696	758,359
Unemployment Rate	4.7%	5.1%	4.2%

The following table shows certain nonagricultural wage and salary employment by industry in the San Antonio MSA for the period of December 2002, as compared to the prior periods of November 2002 and December 2001.

	December 2002	November 2002	December 2001
Mining	2,400	2,400	2,300
Construction	44,900	44,600	41,500
Manufacturing	52,400	52,500	53,600
Transportation, Communication, and Utilities	34,400	34,400	35,700
Trade	178,400	176,600	180,800
Finance, Insurance, and Real Estate	51,700	51,700	51,800
Services and Miscellaneous	234,900	235,500	232,000
Federal Government	28,800	28,800	28,200
State Government	15,600	15,600	15,400
Local Government	93,400	93,700	90,400
Total	736,900	735,800	731,700

Sources: U. S. Bureau of Labor Statistics; Texas Workforce Commission, Labor Market Information.

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Employers with 500 or More Employers in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties)

Construction

Firm	Product/Service	Firm	Product/Service
Bexar Electric Company	Electrical Contractor	Design Electric	Electrical Contractor
CCC Group, Inc.	Industrial Contractor	H.B. Zachry Company	General Contractor

Finance, Insurance, Real Estate

Firm	Product/Service	Firm	Product/Service
American Funds Group	Mutual Funds & Investments	Humana	Health Maintenance Organization
Bank of America	Commercial & Individual Banking	Security Service Federal Credit Union	Federal Credit Union
Benefit Planners, LLP	Insurance Claims Administrators	USAA	Insurance/Financial Services
Frost National Bank	Financial Services	Wells Fargo Bank	Financial Services
Homeside Lending, Inc.	Financial Institution	World Savings	Savings Deposits And Loans

Government

Firm	Product/Service	Firm	Product/Service
Bexar County	County Government	San Antonio Fire Department	Fire Department
Brooks Air Force Base	Military Installation	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	San Antonio Police Department	Police Department
Fort Sam Houston	Military Installation	San Antonio Water System	Water Utility
Lackland AFB/37th Training Wing	Military Installation	Texas Dept of Transportation	Road Construction/Maintenance
Randolph Air Force Base	Military Installation	VIA Metropolitan Transit	Urban Public Transportation

Manufacturing

Firm	Product/Service	Firm	Product/Service
Alamo Concrete Products	Ready-Mix Concrete	Lancer Corporation	Beverage Dispensing Equipment
Bausch & Lomb, Ray-Ban	Sunglasses	Levi Strauss & Company	Menswear
Cardell Cabinetry	Cabinetry	Martin Marietta Materials SW, Inc.	Limestone, Asphalt & Concrete
Clarke American	Check Printing	Miller Curtain Company	Curtains & Draperies
Coca-Cola Bottling Co. of the SW	Soft Drinks, Beverage Service	Motorola	Industrial Electronics
Crest Door Systems	Metal Doors	Philips Semi Conductors	Semi-Conductors
DPT Laboratories, Inc.	Pharmaceuticals & Cosmetics	Plains Cotton Cooperative Assn.	Retail Textile Products
Fairchild Dornier Corporation	Regional Airliners/Corporate Jets	RCC Coozie Inc	Promotional Products
Flextronics Enclosures	Metal Stamping & Plastics	S.M.I.-Texas	Steel Manufacturing & Fabrication
Friedrich Air Conditioning Co.	Air Conditioning	San Antonio Express-News	Newspaper Publishers
Kinetic Concepts, Inc.	Specialty Medical Products	San Antonio Shoe, Inc. (SAS)	Mens and Ladies Shoes
L & H Packing Company	Meat Processing	Sony Semiconductor San Antonio	Semiconductors

Medical

Firm	Product/Service	Firm	Product/Service
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	Health Care System
Alamo Medical Health Group	Psychiatric Clinic	Methodist Specialty & Transplant Hospital	Hospital And Health Care Services
Baptist Health System	Hospital & Health Education	Metropolitan Hospital	General Acute Health Care
University Health System	Health Care And Trauma Services	PacifiCare	Health Plans: HMO, PPO, POS
Brooke Army Medical Center	Military Health Care	San Antonio State Hospital	Mental Illness Treatment
Caremark Prescription Service	Mail Order Pharmacy	San Antonio State School	Mental Health Residential Care
Center for Health Care Services	Mental Health Case Management	Santa Rosa Health Care Corp.	Medical & Surgical Hospitals
Christus Santa Rosa Health Care	Hospital And Health Care	South Texas Veterans Health Care System	General Acute Care Hospital
Guadalupe Valley Hospital	Hospital Services	UT Health Science Ctr. at S.A.	Professional Health Education
McKenna Memorial Hospital	Health Care		

Retail

Firm	Product/Service	Firm	Product/Service
Aaron Rents and Sells Furniture	Office & Residential Furniture	Frontier Enterprises	Restaurant Headquarters
Curtis C. Gunn, Inc.	Auto Dealerships	H.E.B. Grocery Company	Groceries & Distributing HQ
Den-Tex Central Inc (dba Denny's)	24-Hour, Full Service Restaurants	Holt Company of Texas	Construction Equipment
Dillard's Department Stores	Department Stores	QVC San Antonio Inc.	Electronic Customer Service Ctr.
Foley's	Department Store	Super S Foods	Grocery Store

(Table continues on next page.)

Employers with 500 or More Employers in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties) - *Continued*

Service

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Administaff, Inc.	Professional Employer Organization	North East ISD	Public School System
Advantage Rent-A-Car	Vehicle Rental	Northside ISD	Public School System
Alamo Community College District	Education & Workforce Dev.	Onpoint	Customer Service Centers
Alamo Heights ISD	Education	Parent/Child Inc.	Early Childhood Development
Allen Tharp & Associates	Caterers	Pinkerton, Inc.	On-Site Security
Archdiocese of San Antonio	Catholic Offices	San Antonio College	Public Community College
Beamer Inc	Family Restaurants	San Antonio I.S.D.	Public School System
Bill Miller Bar-B-Q Ent., Ltd.	Food Service And Catering	Sanitors, Inc.	Commercial Janitorial Services
Cadbeck Staffing	Employee Leasing Seville	Schertz-Cibolo-Universal City ISD	Public School System
Calling Solutions, Inc.	Contract Telemarketing	Sears Teleservice Center	Customer Service Consultants
Citicorp	National Service Center	Seguin ISD	Public School System
Comal ISD	Education	South San Antonio ISD	Public School System
Donald E Kierman	Telecommunications Consultant	Southside ISD	Public School System
East Central ISD	Public School System	Southwest ISD	Public School System
Edgewood ISD	Public School System	Southwest Research Institute	Research and Development
Four Seasons Resort & Club	Hotels	St. Mary's University	Private University
Goodwill Industries of S.A.	Vocational Services	Staff Professionals Inc.	Employee Leasing Service
Harlandale ISD	Public Education	Standard Aero US	Aircraft Engine Repair
Hasslocher Enterprises, Inc.	Restaurant Chain/ Food Distributors	Taco Cabana, Inc.	Restaurants
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Tanseco Inc./Div. of Radio Shack	C-C TVs, Alarms, Monitors
Hyatt Hill Country Resort	Hotel Resort	Texas Department of Human Svcs.	Social Services
International Business Benefits	Employee Leasing Service	The Psychological Corporation	Test Publishers
Judson ISD	Public School System	Trinity University	Private University
Luby's Cafeterias, Inc.	Cafeterias	University of Texas at San Antonio	Public University
Marriott Rivercenter Hotel	Hotel	Wendy's of San Antonio Inc.	Fast Food Restaurants
Morningside Ministries, Inc.	Retirement Home	West Teleservices Corporation	Telemarketing Service Vendor
New Braunfels ISD	Public School System	Westaff	Full Service Staffing

Transportation, Communications, Utilities

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
AT&T	Long Distance & Local Telephone	Time Warner Cable	Cable TV and Internet Service
City Public Service	Natural Gas and Electric Service	Trans Met Inc.	Freight Transpiration
Clear Channel Communications	TV & Radio Stations, Advertising	U.S. Postal Service	Postal Services
Qwest Communications	Telecommunications	United Parcel Service	Parcel Delivery
SBC Communications Inc.	Telecommunications	Valero Energy Corporation	Crude Oil Refinery
SBC Southwestern Bell	Telecommunications	WorldCom	Telecommunications
Southwest Airlines	Air Service And Transportation		

Wholesale

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
CARQUEST Auto Parts (Straus-Frank Co.)	Automotive Replacement Parts	SYGMA Network, Inc.	Distributor
		Tyson Foods, Inc.	Food Service

Source: January 2002, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

San Antonio Electric and Gas Systems

CPS and its operation are described in Appendix D of this Official Statement.

San Antonio Water System

History and Management

On February 13, 1992, the City Council determined that it was in the best interest of the citizens of the City and its customers to consolidate all water related functions, agencies, and activities into one agency. This action was taken due to the myriad of issues confronting the City related to the development and protection of its water resources. The consolidation provided the City with a singular voice of representation when promoting or defending the City's goals and objectives for water resource protection, planning, and development with local, regional, state, and federal water authorities and officials.

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which approved the creation of the City's water system ("SAWS"), a single unified system consisting of the former City departments comprising the waterworks, wastewater, and water reuse systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a storm water system and any other related system to the extent permitted by law.

The City believes that establishing SAWS has helped to reduce the costs of operating, maintaining, and expanding these systems and has allowed the City greater flexibility in meeting future financing requirements. More importantly, it has allowed the City to develop, implement, and plan for its water needs through one agency in a focused fashion.

The complete management and control of SAWS is vested in a board of trustees (the "SAWS Board") currently consisting of seven members, including the City's Mayor and six persons who are residents of the City or reside within the SAWS service area. With the exception of the Mayor, all SAWS Board members are appointed by the City Council for four-year staggered terms and are eligible for reappointment for one additional four-year term. Four SAWS Board members must be appointed from four different quadrants in the City, and two SAWS Board members are appointed from the City's north and south sides, respectively. SAWS Board membership specifications are subject to future change.

Except as specified otherwise in various ordinances authorizing SAWS' issuance of debt, the SAWS Board has absolute and complete authority to control, manage, and operate SAWS including the expenditure and application of its gross revenues. With the exception of fixing rates and charges for services rendered by SAWS, the SAWS Board has full power and authority to make rules and regulations governing furnishing to customers, and their subsequent payment for, SAWS' services, along with the discontinuance of said services upon the customer's failure to pay for the same. The SAWS Board, to the extent authorized by law and subject to certain various exceptions, also has authority to make extensions, improvements, and additions to SAWS and to acquire by purchase or otherwise properties of every kind in connection therewith.

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.4 million residents. SAWS employs approximately 1,600 personnel and provides maintenance of over 9,000 miles of water and sewer mains.

Historical Water Consumption (Million Gallons)

Fiscal Year Ended	Daily Average	Peak Day	Peak Month	Metered Usage	Metered Water Revenue
5/31/1998	165	271	August	53,592	53,592
5/31/1999	159	308	July	53,520	53,520
5/31/2000	162	269	August	57,144	57,144
5/31/2001	155	267	July	53.047	53.047
12/31/2001[1]	159	274	July	34,839	34,839
12/31/2001[2]	159	274	July	58,097	58,097
12/31/2002[3]	143	222	August	52,303	52,303

1 On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year end of May 31 to December 31. Report is for the seven months ending December 31, 2001.
2 Twelve months ending December 31, 2001.
3 Twelve months ending December 31, 2002. Unaudited.
Source: SAWS.

Water Consumption by Customer Class (Million Gallons)

	2002[3]	2001[2]	2001[1]	2001	2000	1999	1998
Residential	28,372	29,003	19,397	28,694	31,008	29,496	29,232
Commercial	11,942	12,371	6,538	12,384	13,536	11,616	11,916
Apartment	7,791	7,718	4,641	7,783	8,148	8,136	8,460
Industrial	2,696	2,670	1,617	2,737	2,724	2,820	2,568
Wholesale	173	531	770	535	624	528	516
Municipal	876	784	350	914	1,104	924	900
	51,850	53,077	33,313	53,047	57,144	53,520	53,592

1 On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year end of May 31 to December 31. Report is for the seven months ending December 31, 2001.
2 Twelve months ending December 31, 2001.
3 Twelve months ending December 31, 2002. Unaudited.
Source: SAWS.

System

SAWS includes all water resources, properties, facilities, and plants owned, operated, and maintained by the City relating to supply, storage, treatment, transmission, and distribution of treated potable water, chilled water, and steam (collectively, the "waterworks system"), collection and treatment of wastewater (the "wastewater system"), and treatment and reuse of wastewater (the "water reuse system") (the waterworks system, the wastewater system, and the water reuse system, collectively, the "system"). The system does not include any "Special Projects," which are declared by the City upon the recommendation of the Board, not to be part of the system and are financed with obligations payable from sources other than ad valorem taxes, certain specified revenues, or any water or water-related properties and facilities owned by the City as part of its electric and gas system.

In addition to the water related utilities that the Board has under its control, on May 13, 1993, the City Council approved an ordinance establishing initial responsibilities over the storm water quality program with the Board and adopted a schedule of rates to be charged for storm water drainage services and programs. As of the date hereof, the storm water program is not deemed to be a part of SAWS.

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS' service area currently extends over approximately 561 square miles, making it the largest water purveyor in Bexar County. SAWS served more than 80% of the water utility customers in Bexar County and provides potable water service to approximately 306,900 customers, which includes residential, commercial, apartment, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 14 elevated storage tanks and 38 ground storage reservoirs with combined storage capacities of 144.7 million gallons. By the end of calendar year 2002, the waterworks system had in place 4,163 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between 6 and 12 inches), and 21,463 fire hydrants distributed evenly throughout the SAWS service area.

Wastewater System. Created by the City Council in 1894 and significantly improved by a 1960 sewer system expansion program, the wastewater system became a part of SAWS in 1992. The wastewater system serves a population in excess of 1.1 million, which includes City residents, 18 governmental entities, and other customers outside the City's corporate limits, over a 403 square-mile area. The wastewater system is composed of approximately 4,966 miles of mains, three major treatment plants, and one smaller treatment plant, with a combined treatment capacity of 226.7 million gallons per day. In addition, the wastewater system operates and maintains several small satellite facilities that vary in number and are temporary in nature pending completion of interceptor sewers that will connect the flow treated at such facilities to the wastewater system.

Water Reuse System. The Alamo Water Conservation and Reuse District (the "District") was created in 1989 as a conservation and reclamation district with a purpose of conserving, protecting, distributing, and reusing wastewater in order to augment the supply of water in the Edwards Aquifer (as hereinafter defined). In 1992, it was consolidated into SAWS. SAWS owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and sell non-potable water outside the waterworks system's and wastewater system's boundaries. SAWS has developed a water-recycling program utilizing the wastewater flow and expects within two years to make available for various entities up to 35,000 acre-feet (one acre-foot equals approximately 325,821 gallons), or 20% of SAWS' current use, for non-potable uses, including golf courses and industrial customers that are currently being supplied from the Edwards Aquifer. To facilitate this program, the water reuse system will develop infrastructure to include transmission mains throughout the City, as well as storage and treatment components.

Chilled Water and Steam System. SAWS operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide service to 23 customers. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the Kelly USA industrial area on the City's west side. Together, chilled water and steam services produced $11,115,021 in gross revenues for the 2002 fiscal year.

Storm Water System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity, in response to EPA-mandated stormwater runoff and treatment requirements. The City, along with SAWS, has the responsibility, pursuant to the "Authorization to Discharge under the National Pollutant Discharge Elimination System" (the "Permit") for water quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement contract to set forth the specific responsibilities of each for the implementation of the requirements under the Permit. The approved annual budget for SAWS' share of program responsibilities for the 2002 fiscal year was $2,358,933, for which SAWS is reimbursed from storm water drainage charges assessed by the City.

Water Supply

Historically and currently, the City obtains all of its water through wells drilled into a geologic formation known as the Edwards Limestone Formation. The portion of the formation supplying water in the City's area has been the "Edwards Underground Water Reservoir" (the "Edwards Aquifer") and since 1978 has been designated by the Environmental Protection Agency as a sole-source aquifer under the Safe Drinking Water Act. The Edwards Aquifer lies beneath an area approximately 3,600 square miles in size, and including its recharge zone, it underlies all or part of 13 counties, varying from 5 to 30 miles in width and stretching over 175 miles in length, beginning in Bracketville, Kinney County, Texas, in the west and stretching to Kyle, Hays County, Texas, in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it.

Much of the Edwards Aquifer region consists of agricultural land, but areas of population ranging from communities with only a few hundred residents to urban areas with well over one million citizens exist, as well. The Edwards Aquifer supplies nearly all the water for the municipal, domestic, industrial, commercial, and agricultural needs in its region. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed with Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

The water level of the Edwards Aquifer has never fallen below the uppermost part of the Edwards Aquifer, even during the extreme and lengthy drought conditions lasting from 1947 to 1956. The maximum fluctuation of water levels at the City's index well has been about 91 feet, with the recorded low of 612 feet above sea level in August, 1956 and a recorded high of 703 feet above sea level in June, 1992. The historical (1934 to 2001) average water level at the index well in San Antonio is approximately 664 feet above sea level. SAWS sets all pumps at 575 feet to ensure continuous access to Edwards Aquifer water in any anticipated condition.

The Edwards Aquifer is recharged by seepage from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern area. Practically continuous recharge is furnished by spring-fed streams, with storm water runoff adding additional recharge, as well. The historical annual recharge to the reservoir is approximately 684,700 acre-feet. The average annual recharge over the last four decades is approximately 797,900 acre-feet. The lowest recorded recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known as the "recharge zone." The recharge dams, or flood-retarding structures, slows floodwaters and allows much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

Enhancing the City's Water Supply

The City has relied on the Edwards Aquifer as its sole source of water since the 1800's. Beginning in the 1980's and continuing today, however, the conservation and regulation of the water in the Edwards Aquifer has been the subject of intense scrutiny that has led to both extensive litigation and federal and state agency initiation of regulatory action. The Edwards Aquifer Authority was created by the Texas Legislature in 1993 with the passage of the Edwards Aquifer Authority Act to preserve and protect this unique groundwater resource. The Edwards Aquifer Authority acts as a regulatory agency charged with preserving and protecting the Edwards Aquifer in an eight-county region including all of Uvalde, Medina and Bexar counties, plus portions of Atascosa, Caldwell, Guadalupe, Comal, and Hays counties.

Based upon population and water demand projections, along with various regulatory and environmental issues, the City recognizes that additional water sources supplementing its use of the Edwards Aquifer will be required to meet the City's long-term water needs.

SAWS' Resource Development Department is charged with the responsibility of identifying additional water resources for the City and its surrounding areas. New water resource projects range from optimizing the City's current source through conservation measures to identification and procurement of completely new and independent water sources. These efforts are guided by the 1998 Water Resource Plan, the first comprehensive, widely supported water resource plan for the City, which established programs for formulating and implementing both immediate and long-term water plans to enhance the City's water supply. In October 2000, the City Council created a permanent funding mechanism (the "Water Supply Fee") to be used for water supply development and water quality protection. The fee is based upon a uniform rate per 100 gallons of water used and is applied to all customers. The Water Supply Fee is projected to generate sufficient revenue to support approximately $519 million in capital expenditures, as well as sufficient operational funds to conduct the planning, operation, and maintenance of such water resource facilities through 2005. The multi-year financial plan will be updated every three years to ensure sufficient revenues are available to meet the water resource requirements. A listing of scheduled water supply fees for years 2001-2005 is provided in the following table:

Year	Incremental Charge Per 100 Gallons	Total Charge Per 100 Gallons
2001	$0.0358	$0.0358
2002	0.0350	0.0708
2003	0.0230	0.0938
2004	0.0190	0.1128
2005	0.0250	0.1378

Source: SAWS, approved by City Council.

SAWS has determined that the City's water needs can be met through the implementation of an array of programs and projects, including a critical management plan, conservation, agricultural irrigation efficiencies, reuse, surface water, non-Edwards Aquifer groundwater, enhanced recharge capabilities, and aquifer storage and recovery. SAWS has already initiated and/or implemented many such programs in an effort to increase the supply of water available to the City. Development of additional non-Edwards Aquifer supplies as described below should result in predictable and certain water supply necessary to meet anticipated peak demands.

Conservation Program. Beginning in 1994, SAWS has progressively implemented an aggressive water conservation program which aims to reduce pumping to 140 gallons per person per day by 2008 and ultimately reach 132 gallons per person per day over the next five to ten years. This will be accomplished through a variety of means including consumer education, rebates for water-efficient technologies, system improvements to prevent water loss, and other measures. SAWS has a unique commercial conservation program as well as a strong residential program.

SAWS has also developed partnerships with local authorities, ground water districts, and purveyors to ensure the conservation messages and programs are available throughout the region. The Water Advisory Group, consisting of cities throughout Bexar County and the Edwards Aquifer region meets regularly to coordinate conservation, drought management, and other water resource policies.

Agricultural Irrigation Efficiency. SAWS has been successful in developing partners throughout the region, as well as with federal agencies, through cost-share programs. The amount of $500,000 for fiscal year 2002 has been appropriated by the United States Department of Agriculture ("USDA") for the Edwards Aquifer region to assist landowners with agricultural irrigation efficiencies. The System has partnered with the USDA and farmers to acquire efficient irrigation systems in exchange for Edwards Aquifer water rights. The System is also currently working with the Army Corps of Engineers, the Natural Resource Conservation Service, and other local sponsors on programs designed to enhance recharge of the Edwards Aquifer through impoundment structures and brush management.

Water Reuse Program. The System owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside SAWS' water and wastewater service area. SAWS has developed a water reuse program utilizing the wastewater flow. The reuse water system producing approximately 35,000 acre feet per year is now in the fourth year of active construction and approximately 99% complete. SAWS anticipates a delivery of reuse water at or near capacity within two years. Construction efforts have been concentrated on completion of two major branches of the water reuse system serving the eastern and western portions of the City. Acceptance testing of the newly constructed pipeline segments is now underway. SAWS anticipates operation of this program at full capacity within two years, culminating in the conversion to non-potable water uses for those currently using Edwards Aquifer water. Upon completion, SAWS will deliver up to 35,000 acre feet per year of reuse water for non-potable water uses including golf courses and industrial uses that are currently being supplied from the Edwards Aquifer. This represents approximately 20% of SAWS' current usage. This infrastructure project will have transmission mains throughout the City, as well as storage and treatment components. Reuse water will be delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 40,000 acre-feet per year used by CPS, this is the largest reuse water project in the Bexar County. SAWS has a contract with CPS through 2030 for provision of such reused water. The revenues derived from the CPS contract have been excluded from the calculation of SAWS gross revenues, and are not included in any transfers to the City.

Simsboro Project. On December 30, 1998, a contract for the delivery of up to 60,000 acre-feet of water annually from the Simsboro Aquifer was executed with the Aluminum Company of America. At the same time, SAWS acquired the permanent right to produce groundwater from approximately 11,500 acres of land in the Simsboro Aquifer owned by CPS. The ALCOA and CPS contracts collectively constitute the Simsboro Project. Groundwater availability studies conclude that 55,000 acre-feet per year can be sustainable from a combination of groundwater production from both contracts. This project has been included in the approved State Water Plan. The Project is scheduled to begin delivering water in 2015 at an estimated Project cost to the System of $300 million.

Guadalupe-Blanco River Authority/San Antonio River Authority Project. SAWS joined with San Antonio River Authority to jointly develop a project to deliver approximately 94,000 acre-feet per year of water throughout the San Antonio River basin. In May 2001, the partners executed a contract with GBRA for delivery of 70,000 acre-feet of water from the Guadalupe River. The contract provides for delivery of water for 50 years as well as a seven-year period to define specific delivery plans for the project. The diversion for the project is located at the mouth of the Guadalupe River near the community of Tivoli. This contract provides a substantial volume of water that will be augmented from currently unappropriated surface water rights and groundwater from the Gulf Coast Aquifer. Permits authorizing delivery of the surface water to Bexar County have not yet been obtained. A competing application for the unappropriated flows has been filed by the San Marcos River Foundation. Capital costs for the 94,000 acre-feet per year project are estimated at $375 million, with delivery scheduled for 2010-2012.

Capital Improvement Plan

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with tax-exempt commercial paper, impact fees, system revenues, and future bond issues.

- $12 million is budgeted for the wastewater treatment program to repair/replace/upgrade treatment facilities;
- $21 million is budgeted for the wastewater collection program to fix deteriorated components of the collection system;
- $22 million is budgeted to replace sewer and water mains;
- $20 million is budgeted for the governmental replacement and relocation program;
- $9 million is budgeted to construct new production facilities; and
- $68 million is budgeted for water supply development, water treatment, and water transmission projects for new sources of water.

SAWS contemplates the following capital improvement projects:

	Fiscal Year Ended December 31					
Heating & Cooling	2003	2004	2005	2006	2007	Total
Water Delivery	$ 805,200	$ 854,237	$ 1,497,692	$ 441,987	$ 405,514	$ 4,004,630
Wastewater	36,728,000	62,281,704	38,656,310	38,230,540	45,217,369	221,113,923
Water Supply	73,271,177	75,941,910	88,917,928	79,266,772	83,896,781	401,294,568
Total Annual Requirements	68,236,380	92,689,920	150,878,192	210,143,533	124,508,450	646,456,475
	$ 179,040,757	$ 231,770,757	$ 279,950,122	$ 328,082,832	$ 254,028,114	$1,272,869,596

Project Funding Approach

The following table was prepared by SAWS staff based upon information and assumptions it deems reasonable, and shows the projected financing sources to meet the projected capital needs.

	Fiscal Year Ended December 31				
	2003	2004	2005	2006	2007
Revenues	$ 20,208,724	$ 22,478,774	$ 24,112,840	$ 28,614,935	$ 32,361,678
Impact Fees	10,205,000	12,714,660	12,892,666	13,073,163	13,256,187
Debt Proceeds	148,627,033	196,574,337	242,944,616	286,394,734	208,410,249
Total	$ 179,040,757	$ 231,767,771	$ 279,950,122	$ 328,082,832	$ 254,028,114

Recent Financial Transactions

On February 7, 2002, the City Council authorized the negotiated sale of $300,510,000 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2002.

On February 28, 2002, the City Council authorized the placement of $137,820,000 City of San Antonio, Texas Water System Revenue Bonds, Series 2002-A and the placement of $27,740,000 City of San Antonio, Texas Junior Lien Water System Revenue Bonds, Series 2002 and Series 2002-A with the Texas Water Development Board.

On March 13, 2003, the City Council anticipates authorizing the placement of $72,500,000 "City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A" and $50,000,000 "City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-B", with delivery of both series of bonds to occur on or about March 27, 2003. Also on March 13, 2003, the City Council anticipates authorizing the placement of $34,000,000 "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2003" with the Texas Water Development Board, with delivery of such bonds to occur on or about April 30, 2003.

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San Antonio Water System Summary of Pledged Revenues for Debt Coverage

	December 31		Fiscal Year Ended May 31				
	2002[1]	2001[1]	2001[2]	2001	2000	1999	1998
Revenues							
Water System	$ 58,873,352	$ 79,451,701	$ 52,803,937	$ 77,044,280	$ 82,485,798	$ 80,975,392	$ 74,027,065
Water Supply	76,167,052	36,684,084	23,537,496	21,863,709	11,919,369	2,056,493	2,141,286
Wastewater System	89,226,899	87,438,542	51,541,185	91,175,034	96,194,858	92,775,036	92,095,892
Chilled Water and Steam System	11,115,021	12,899,862	6,822,031	9,800,573	5,127,414	4,234,203	4,028,591
Non Operating Revenues[3]	30,773,197		12,249,485	7,341,296	8,468,123	5,494,022	7,649,669
Adjustments for Pledged Revenues	(7,583,370)		(3,770,167)	(4,334,051)	(6,749,142)	(3,733,765)	(5,971,694)
Total Revenues	$ 258,572,151	$ 216,474,189	$ 143,183,967	$ 202,890,841	$ 197,446,420	$ 181,801,381	$ 173,970,809
Maintenance and Operating Expenses	$ 137,441,940	$ 134,616,252	$ 78,448,318	$ 121,350,696	$ 115,016,340	$ 100,429,763	$ 93,883,767
Net Available for Debt Service	$ 121,130,211	$ 81,857,937	$ 64,735,649	$ 81,540,145	$ 82,430,080	$ 81,371,618	$ 80,807,042
Max Annual Debt Service Requirements - Total Debt	$ 66,267,591	$ 65,767,934	N/A	$ 66,994,372	$ 62,099,234	$ 49,385,448	$ 49,385,448
Max Annual Debt Service Requirements - Senior Lien Debt	$ 61,511,375	$ 55,236,354	N/A	$ 56,293,054	$ 53,566,454	$ 49,385,448	$ 49,385,448
Debt Service for Period							
Coverage of Total Debt	1.83 X	1.24 X	1.70 X	1.22 X	1.33 X	1.65 X	1.62 X
Coverage of Senior Lien Debt	1.97 X	1.48 X	N/A	1.45 X	1.54 X	1.65 X	1.62 X

1 Twelve (12) months ending December 31, 2001 and December 31, 2002. Unaudited.
2 On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year end of May 31 to December 31. Report is for the seven (7) months ending December 31, 2001.
3 Beginning in 2001, capital contributions, including items such as impact fees, were recognized as non-operating income in accordance with GASB 34.
Source: SAWS.

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THE AIRPORT SYSTEM

General

The City's airport system consists of the San Antonio International Airport (the "International Airport" or the "Airport") and Stinson Municipal Airport ("Stinson") (the International Airport and Stinson, collectively, the "Airport System"), both of which are owned by the City and operated by its Department of Aviation (the "Department").

In March 2002, the Federal Aviation Authority ("FAA") honored one airport in each state in its five-state Southwest Region with the Year 2001 Outstanding Airport Award, recognizing contributions each airport made to enhance aviation in its respective state. The FAA uses this award to honor airport owners and operators for their overall diligence in the planning and implementation of projects, airport maintenance, use of airport improvement program resources, and compliance with safety standards. The International Airport was chosen as the 2001 recipient of this award for the State of Texas.

The International Airport, located on a 2,600-acre site that is adjacent to Loop 410 freeway and U.S. Highway 281, is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second level gates. Presently, domestic air carriers providing scheduled service to San Antonio are American, America West, Atlantic Southeast, Comair, Continental, Delta, Midwest Express, Northwest, Southwest, and United. Mexicana, Aerolitoral, and Aeromar are Mexican airlines that provide passenger service to Mexico. The City is currently implementing portions of its Airport Master Plan, including designs allowing for an increase from 24 to 60 gates. It is estimated that current gate facilities are being used at 88% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses, including nine rental car companies, which lease facilities at the International Airport and Stinson.

Stinson, located on 300 acres approximately 5.2 miles southeast of the City's downtown business district was established in 1915 and is one of the country's first municipally owned airports. An Airport Master Plan for Stinson was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the International Airport.

Capital Improvement Plan

General. In fiscal year 2002, the City commenced implementation of a ten-year Capital Improvement Plan (the "CIP) pursuant to the Master Plan for the International Airport. The CIP is scheduled to conclude in fiscal year 2011, but the actual time of such conclusion may change as circumstances permit. The CIP addresses both terminal and airfield improvements. The CIP includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement to two runways along with supporting taxiways and aircraft apron. The preliminary cost estimates total approximately $425.6 million for terminal-related improvements, parking, roadway improvements, and airfield improvements. The anticipated sources of funding for the CIP are as follows:

Funding Sources	**Anticipated Funding**
Federal Grants	
Entitlements	$ 42,076,988
General Discretionary	32,559,188
Noise Discretionary	25,455,364
Passenger Facility Charges ("PFCs")	
Pay-As-You-Go	48,854,994
PFCs Secured Bonds	78,962,584
Other Funding	
Airport Funds	80,981,126
Airport Revenue Bonds	116,702,356
Total – All Sources	$425,592,600

The CIP includes capital improvements, which are generally described as follows:

Improvement	**Amount**
International Airport	
Terminal/Gate Expansion	$ 124,218,231
Airfield Improvements	177,035,099
Cargo Facilities	8,184,000
Roadway Improvements	19,021,927
Parking Improvements	51,785,000
Aircraft Apron	6,721,955
Other (Building Imp., Drainage, Radio System, Etc.)	32,726,388
Stinson Airport	5,900,000
Total	$425,592,600

Proposed PFC Projects. Public agencies wishing to impose PFCs are required to apply to the FAA for such authority and must meet certain requirements specified in the PFC Act (defined below) and the implementing regulations issued by the FAA.

The City, as the owner and operator of the Airport, has received authority to "impose and use" PFCs at the $3.00 level on five new projects and to "impose only" PFCs on six additional new projects. The FAA issued a Record of Decision on August 29, 2001 approving the City's PFC application, and the City began on November 21, 2001 collecting a $3.00 PFC (less than $0.08 air carrier collection charge) per paying passenger enplaned. A total of approximately $102.5 million in PFC Revenues will be required to provide funding for these projects at the Airport included in the CIP land which are listed below.

The following projects have been approved as "impose and use" projects:

Construct 30L Holding Apron
Modify Wash Rack Apron
Replace RON (remain overnight) Apron
Implement Terminal Modifications
Reconstruct Perimeter Road

The following projects have been approved as "impose only" projects:

Implement Acoustical Treatment Program
Construct Three High-Speed Taxiways
Extend Runway 21 and Associated Development
Construct New Concourse B
Construct Concourse B Access Road
Construct Aircraft Rescue and Firefighting Training Facility

Terminal Renovations. A comprehensive terminal renovation project is underway to improve the quality of services provided to passengers at the International Airport. The project, which is estimated to cost $27.5 million, and is included in the CIP, will include state-of-art terminal building amenities and implementation of recommendations from a recently completed Concession Redevelopment Study. Included in the terminal renovations will be redesigned, high-quality retail and food establishments offering a mix of regional and local products at street prices. Concession space will be expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets will be at airside locations.

Parking Improvements. In 1996, a parking expansion study recommended the development of a new parking garage, reconfiguration of access roadways, and development of a new cashier plaza. Construction began on this project in October 1997 and was completed in October 1999. The Airport System operates and maintains approximately 6,100 public parking spaces and 1,000 employee parking spaces for a total of 7,100 parking spaces. Due to continued growth in airline activity, the expanded parking system is currently running at or near capacity.

A parking study was developed for the Airport in August 2001 by AGA Consulting, Inc, with it concluding that further expansion to the parking system is required. That study indicates that projected peak period demand for Airport parking will exceed the available supply by the end of 2004. Estimates demonstrate that 2,400 additional parking spaces will be required in 2004 to satisfy projected demand over the next ten years. The City is in the process of coordinating the facility layout for the new parking improvements and the additional terminal facilities. The design contract is expected to be awarded in early 2003, while the construction development process for new parking facilities is expected to start before the end of 2003. The associated costs are included in the CIP.

Cargo Improvements. Cargo has been one of the fastest growing activities at the International Airport over the last ten years. The Airport has two designated cargo areas: the West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992. The East Cargo Area is specially designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics recently constructed its own facility. Expansions of the cargo apron were completed in 1997 and 1999 to accommodate future growth, and additional warehouse and office facilities are currently planned. Foreign trade zones exist at both cargo areas.

Airport Operations

General. The City is responsible for the issuance of revenue bonds for the Airport System and preparation of long-term financial feasibility studies for Airport System development. Direct supervision of airport operations is exercised by the Department. The Department is responsible for (i) managing, operating, and developing the International Airport, Stinson, and any other airfields which the City may control in the future; (ii) negotiating leases, agreements, and contracts; (iii) computing and supervising the collection of revenues generated by the Airport System under its management; and (iv) coordinating aviation activities under the FAA.

The International Airport has its own police and fire departments on premises. The firefighters are assigned to duty at the Airport from the City of San Antonio Fire Department, but their salaries are paid by the Department as an operation and maintenance expense of the Airport System.

The FAA has regulatory authority over navigational aid equipment, air traffic control, and operating standards at both the International Airport and Stinson.

Terrorist Attacks' Financial Impact on the Airport. Heightened security requirements as a result of the terrorist attacks of September 11, 2001 on New York City and the Pentagon has had an adverse impact on the Airport's operating budget. For fiscal year ending September 30, 2002, approximately $1,085,000 was spent on new security measures. A significant portion of this expense, however, represents one-time costs of certain security-related equipment purchases.

For fiscal year ending September 30, 2003, operating expenditures on security measures are estimated at $840,000, $400,000 of which is anticipated to come from federal sources. The remaining $440,000 will be made available from the Airport's Operating Fund. Future annual operating expenditures are expected to remain at the current fiscal year's $840,000 level. The portion of this expense for which the Airport is responsible in incorporated into airline rates and charges. At this time, future capital costs associated with baggage screening are unknown. A terminal programming study, initiated for the purpose of determining facility requirements and potential costs of an in-line baggage system, is currently underway.

Future Financings. On May 17, 2001, the City sold $50,230,000 "City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003" to refund a portion of the "City of San Antonio, Texas Airport System Improvement Bonds, Series 1993" and to effectuate an interest savings equal to $4,205,029. Such bonds will be delivered on or about April 8, 2003.

On May 1, 2003, the City anticipates issuing and delivering two separate series of revenue bonds payable from its collection of gross revenues of the Airport System, to-wit: $8,330,000 "City of San Antonio, Texas Airport System Revenue Bonds, Series 2003-A" and $3,285,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-B". The proceeds from the respective issuances of such bonds will be used to refund certain of the City's other debt obligations payable from its collection of gross revenues of the Airport System.

Comparative Statement of Gross Revenues and Expenses - San Antonio Airport System

The historical financial performance of the Airport System is shown below:

	Fiscal Year Ended September 30				
	1998	1999	2000	2001	2002[2]
Gross Revenues[1]	$ 37,134,969	$ 38,128,184	$ 41,523,081	$ 42,928,794	$ 42,377,654
Airline Rental Credit	3,763,781	3,510,267	6,175,754	5,209,037	4,468,199
Adjusted Gross Revenues	$ 40,898,750	$ 41,638,451	$ 47,698,835	$ 48,137,831	$ 46,845,853
Expenses	19,469,337)	(21,449,007)	(21,585,826)	(23,612,635)	(22,296,698)
Net Income	$ 21,429,413	$ 20,189,444	$ 26,113,009	$ 24,525,196	$ 24,549,155

1 As reported in the City of San Antonio's audited financial statements.
2 Unaudited.
Source: City of San Antonio, Department of Finance.

Total Domestic and International Enplaned Passengers - San Antonio International Airport

The total domestic and international enplaned passengers on a calendar basis, along with year to year percentage change:

Calendar Year	Total	Increase/ (Decrease)	Percent Change
1993	2,860,225	--	--
1994	3,064,768	204,543	7.15%
1995	3,058,536	(6,232)	(0.20%)
1996	3,568,328	509,792	16.67%
1997	3,484,141	(84,187)	(2.36%)
1998	3,505,372	21,231	0.61%
1999	3,538,070	32,698	0.93%
2000	3,647,094	109,024	3.08%
2001	3,444,875	(202,219)	(5.54%)
2003	3,349,146	(95,729)	(2.78%)

Source: City of San Antonio, Department of Aviation.

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Total Enplaned/Deplaned International Passengers - San Antonio International Airport

The total enplaned and deplaned for international passengers at the International Airport on a calendar year basis are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent Change
1993	253,321	–	–
1994	238,957	(14,364)	(5.67%)
1995	141,645	(97,312)	(40.72%)
1996	193,843	52,198	36.85%
1997	200,965	7,122	3.67%
1998	246,902	45,937	22.86%
1999	229,397	(17,505)	(7.09%)
2000	243,525	14,128	6.16%
2001	219,352	(24,173)	(9.93%)
2002	201,274	(18,078)	(8.24%)

Source: City of San Antonio, Department of Aviation.

Air Carrier Landed Weight - San Antonio International Airport

The historical aircraft landed weight at the International Airport in 1,000-pound units on a calendar year basis is shown below. Landed weight is utilized in the computation of the Airport's landed fee.

Calendar Year	Total	Increase/ (Decrease)	Percent Change
1993	5,271,426	--	--
1994	5,653,573	382,147	7.25%
1995	5,273,701	(379,872)	(6.72%)
1996	5,555,613	281,912	5.35%
1997	5,530,247	(25,366)	(0.46%)
1998	5,601,616	71,369	1.29%
1999	5,778,407	176,791	3.16%
2000	5,838,185	59,778	1.03%
2001	5,546,561	(291,624)	(5.00%)
2002	5,559,018	12,457	0.22%

Source: City of San Antonio, Department of Aviation.

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APPENDIX D

SAN ANTONIO ELECTRIC AND GAS SYSTEMS

History and Management

The City of San Antonio, Texas ("City") acquired its electric and gas utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Holding Company Act of 1935. The CPS bond ordinances authorizing the issuance of the currently outstanding CPS Senior Lien Obligations establish management requirements and provide that the complete management and control of the San Antonio Electric and Gas Systems ("Utility Systems" or the "Systems") is vested in a Board of Trustees consisting of five citizens of the United States of America permanently residing in Bexar County, Texas, known as the "City Public Service Board of San Antonio, Texas", "CPS Board" or "CPS". The Mayor of the City is a voting member of the CPS Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the CPS Board and its conduct of the management of the Systems. The present members of the CPS Board are:

Name	Profession	Appointed to the Board
Stephen S. Hennigan, Chairman	Senior Vice President, San Antonio Federal Credit Union	June 1, 2001
Aurora Ortega-Geis, Vice Chairman	Director, Fannie Mae San Antonio Partnership Office	March 28, 2002
Clayton T. Gay Jr., Trustee	Certified Public Accountant, Sole Proprietor	February 1, 1998
Alvaro Sanchez, Jr., Trustee	United States Army, Retired Civil Service (US Air Force), Retired	March 4, 1999
Ed Garza, Ex Officio Member	Mayor, City of San Antonio	June 4, 2001

Vacancies in membership on the CPS Board are filled by majority vote of the remaining members. New CPS Board appointees must be approved by a majority vote of the City Council. A vacancy in certain cases may be filled by the City Council. The members of the CPS Board are eligible for re-election at the expiration of their first five-year term of office to one additional term only. In 1997, the City Council ordained that CPS Board membership should be representative of the four geographic quadrants established by the City Council. New CPS Board members considered for approval by the City Council will be those whose residence is in a quadrant which provides such geographic representation.

The CPS Board is vested with all of the powers of the City with respect to the management and operation of the Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in the bond ordinances, except regarding rates and issuance of bonds, notes, or commercial paper. The CPS Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements and additions to the Systems, and to adopt rules for the orderly handling of CPS' affairs. It is empowered to appoint and employ all officers and employees and must obtain and keep in force a "blanket" type employees' fidelity and indemnity bond covering losses in the amount of not less than $100,000. The management provisions of the bond ordinances also grant the City Council authority to review CPS Board action with respect to research, development, and planning.

Citizens Advisory Committee

In 1997, CPS established a 15 member Citizens Advisory Committee ("CAC") to enhance its relationship with the community and to address the City Council's goals regarding broader community involvement. The primary goal of the CAC is to provide recommendations from the community on the operations of CPS for use by the CPS Board and CPS staff. Representing the various sectors of San Antonio, the CAC encompasses a broad range of customer groups in order to identify their concerns and articulate their issues. CAC members meet monthly to advise CPS about community issues and concerns with regard to the Systems and other aspects of CPS' business.

Administration and Operating Personnel

CPS employed 4,252 employees as of April 30, 2003. The average tenure of a CPS employee is over 12 years. The vast majority of all executive and supervisory personnel have been schooled and trained in the utility industry.

CPS employees have a broad range of benefits, including a defined benefit pension plan, group life insurance, hospitalization and major medical and other benefits. Generally good working conditions have produced a stable, well-qualified, highly motivated work force, which for the past year recorded an average turnover rate of 5.7% annually. Among the CPS workforce are approximately 2,200 hourly employees, of which roughly 1,274 are represented by the International Brotherhood of Electrical Workers. As a municipal entity, the organized employees of CPS may not strike or collectively bargain with CPS, although CPS management confers with representatives of the organized employees on matters pertaining to working conditions and wages to maintain an amenable relationship between the workforce and CPS management.

CPS links an employee incentive compensation plan to employee participation in controlling expenses, increasing system reliability, and enhancing customer satisfaction. The Executive Incentive Plan, established in 1997, provides links between CPS' competitiveness and each executive's compensation. Incentive plans were implemented for the entire salaried work force in 1998 and for the entire wage-scale (hourly) workforce in 2003.

CPS continues to enhance an executive Performance Management System implemented in the summer of 1998. A Performance Management System was implemented for salaried employees in June 2001. The Performance Management System established a process that develops and emphasizes facilitative leadership, and engages all employees in actively working toward key organizational and business unit strategies and objectives. The process allows for continual monitoring and ensures a higher level of coaching and feedback to reach performance expectations, provides meaningful developmental opportunities, emphasizes how results are achieved, and rewards and recognizes contributions toward business goals. The traditional employee annual review process and cost-of-living driven pay system have been replaced with an enhanced performance assessment process, market-based salaries, and incentive awards based on CPS' overall performance.

The principal executive personnel are as follows: Milton B. Lee, General Manager and CEO; V. Gary Schaub, Secretary-Treasurer and Senior Vice President for Financial and Corporate Services; Fidel Marquez, Senior Vice President for Electric Transmission and Distribution Systems; and William C. Gunst, Senior Vice President for Energy Supply.

Mr. Lee has been an employee of CPS since July 2000. During his 31 years of utility experience prior to joining CPS, he served with the Public Utility Commission of Texas, the City of Austin as General Manager of Austin's electric utility, and the Lower Colorado River Authority prior to becoming Senior Vice President for Electric Transmission and Distribution Systems at CPS. He was appointed the General Manager and CEO for CPS on January 28, 2002.

Mr. Schaub has been an employee of CPS since 1970 and served as Supervisor of Fuels and Material Accounting, Supervisor of Contract Administration, Director of Compensation and Labor Relations, and Director of Financial Services prior to his promotion to Senior Vice President for Finance and Administration in July 2000. His title changed to Senior Vice President for Financial and Business Services in February 2003. His title changed to Senior Vice President for Financial and Corporate Services in May 2003.

Mr. Marquez has been an employee of CPS since February 2001 and served as Vice President of Transmission, Substation and Engineering before his promotion to Senior Vice President for Electric Transmission and Distribution Systems in March 2002. Prior to his employment with CPS, he worked for Commonwealth Edison in Chicago, Illinois for over 17 years.

Mr. Gunst has been an employee of CPS since 1972 and was Superintendent of the O.W. Sommers/J.T. Deely Plants, Manager of the Production Department, Senior Manager for Production, and Senior Vice President for Power Generation and Bulk Power Sales prior to July 2000 when his title changed to Senior Vice President for Energy Supply.

A new senior executive position was created in May 2003: Senior Vice President for Information Technology and Business Services. An executive search has been initiated to choose a leader for this position. This individual will lead the Information & Communication Services, Purchasing, Central Stores, Facilities/Fleet/ Security, and Process Improvements.

Service Area

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson and Kendall. Certification of this service area has been approved by the Public Utility Commission of Texas (the "PUCT").

CPS is currently the exclusive provider of electric service within this service area, including the provision of electric service to some Federal military installations located within the service area that own their own distribution facilities. As discussed below under "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY - Electric Utility Restructuring in Texas; Senate Bill 7", until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition (called "Texas Electric Choice" by the PUCT), CPS has the sole right to serve as the retail electric energy provider in its service area. On April 26, 2001, the City Council passed a resolution stating that it is not the City's intent to opt-in to the deregulated electric market beginning January 1, 2002. Senate Bill 7 ("SB 7"), adopted by the Texas Legislature in 1999, provides that "opt-in" decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Board and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to retail competition in the Electric Reliability Council of Texas ("ERCOT"), the synchronous interconnected electric system that operates wholly within Texas. See "DESCRIPTION OF PHYSICAL PROPERTY - ELECTRIC SYSTEM - Interconnected System" and "CUSTOMER RATES - Governmentally Imposed Fees, Taxes or Payments". CPS has the option of acting in the role of the "Provider of Last Resort" (hereinafter defined) for its service area in the event it chooses to opt-in. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY - Electric Utility Restructuring in Texas; Senate Bill 7".

In addition to the area served at retail rates, CPS sells electricity at wholesale rates for resale to the Floresville Electric Light & Power System, the City of Hondo, the City of Castroville, and the City of Brady. Renewal contracts have been entered into with the first three long-term wholesale customers in recent years. CPS became the wholesale electric provider of the City of Brady under a three-year contract commencing December 2002. CPS believes that it will have additional opportunities to enter into long-term wholesale electric power agreements. The requirements under the existing and any new wholesale agreements would be firm energy obligations of CPS.

The CPS gas system serves the City and its environs, although there is no certificated CPS gas service area. In Texas, no legislative provision or regulatory procedure exists for certification of gas service areas and CPS competes against other entities on the periphery of its service area.

CPS has franchise agreements with 27 incorporated communities. These permit CPS to operate its facilities in their streets and public ways. Under these agreements, CPS pays 26 of these cities a franchise fee equal to 3% of electric and/or gas revenues earned within the boundaries of such cities. All but four of these agreements will expire in 2010. One of the three expires in 2003, 2006, 2011 and 2017. CPS continues to pay the city with the term expiring in 2003 a franchise fee of 2% of CPS' electric and gas revenues in that city.

Customer Base

Electric[1]			Gas[1]		
	Number	Percent		Number	Percent
Residential	519,496	87	Residential	284,624	93
Commercial & Industrial	59,171	10	Commercial	19,037	6
All Night Security Lighting	10,205	2	Industrial & Public Authority	2,211	1
Street Lighting, Public Authorities & Other Utilities	5,689	1			
Total	594,561	100	Total	305,872	100

(1) At April 30, 2003. See "FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY" and "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" for information regarding consumption of energy and contribution of revenues to the Systems by these categories of customers.

Retail Service Rates

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services and operations of electric "public utilities" is vested in the PUCT. Since the deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over the investor-owned utility companies primarily encompasses only the transmission and distribution function. PURA generally excludes from its coverage municipally-owned utilities ("Municipal Utilities"), such as CPS, but the PUCT has jurisdiction over electric wholesale transmission rates. See "Transmission Access and Rate Regulation" below. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a municipally-owned utility like the Systems has exclusive jurisdiction to set rates applicable to all services provided by the municipally-owned electric utility with the exception of wholesale transmission rates. Unless and until the City Council and the CPS Board choose to opt-in to retail competition, CPS retail service rates are subject to appellate but not original rate regulatory jurisdiction by the PUCT in areas that CPS serves outside the City limits. To date, no appeal of CPS retail electric rates has ever been filed. CPS is not subject to the annual gross receipts fee payable by public utilities. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY - Electric Utility Restructuring in Texas; Senate Bill 7".

The Texas Railroad Commission ("TRC") has significant original jurisdiction over the rates, services, and operations of all gas utilities. "Municipal Utilities" such as CPS are generally excluded from regulation by the TRC. CPS retail gas service rates are subject to appellate but not original rate regulatory jurisdiction by the TRC in areas that CPS serves outside the City limits. To date, no appeal of CPS retail gas rates has ever been filed. In the absence of a contract for service, the TRC also has jurisdiction to establish gas transportation rates for service to State agencies by a municipal utility as well as rates for gas sale and for transport of State gas for school districts.

The City has covenanted and is obligated under the CPS bond ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all operation and maintenance expenses of the Systems, to pay the debt service requirements on all revenue debt of the Systems, including the outstanding CPS Senior Lien Obligations any CPS Additional Senior Lien Obligations, CPS Junior Lien Obligations, CPS Liquidity Facility obligations, CPS Additional Junior Lien Obligations, and the CPS Commercial Paper Obligations, and to make all other payments prescribed in the CPS bond ordinances. Rate changes over the past twelve years have consisted of a 4.0% combined electric and gas base rate increase effective January 31, 1991; a new Large Volume Gas rate effective July 31, 1992, which was offered to Large Gas Customers whose monthly gas usage exceeded 550 MCF per month and enabled them to reduce bills by approximately 8.8%; and a Super Large Power ("SLP") electric rate effective January 4, 1994, which reduced the cost of electricity to customers having loads greater than 5,000 KW per month and annual load factors greater than 41% by approximately $0.0049 per kWh, a 10.2% reduction on the basic rate. A rider to the SLP Rate, the Economic Incentive Rider E16, became effective March 10, 2003, which offers discounts off the SLP demand charge for a period up to four years for new or added load of at least 10 MW. Customers must also meet

City of San Antonio employment targets and targets for purchases of goods or services from local businesses. The last base rate increase for any class of customers occurred in 1991 and CPS internal planning forecasts do not include another rate increase prior to fiscal year 2008-09, although changes in circumstances from those presently forecasted could require a rate increase before this time.

Each of CPS' retail and wholesale rates has a fuel adjustment clause, which provides for current recovery of fuel costs. The adjustment is set at the beginning of each month. See "CUSTOMER RATES - Fuel and Gas Cost Adjustment".

Transmission Access and Rate Regulation

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), Municipal Utilities, including CPS, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method. In general, the postage stamp method results in transmission payments to other transmission owners by a compact urban utility like CPS that exceeds its receipts from other utilities for their use of its own transmission facilities. CPS' wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service.

CUSTOMER RATES

CPS' electric and gas monthly rate schedules list the currently effective monthly charges payable by CPS customers. Each rate schedule briefly describes the types of service CPS renders to customers billed in accordance with that rate schedule, plus customer eligibility criteria. Customers with similar load and usage characteristics are grouped into rate classes and are billed in accordance with the same rate schedule. The different electric rate classes include rate schedules for residential, commercial, and industrial customers. There are also rate schedules for street lighting, other utilities, and all night security lights. The gas rate schedules are categorized into residential, commercial, and industrial.

Fuel and Gas Cost Adjustment

The rates contain a fuel cost adjustment clause in the electric rates and a gas cost adjustment clause in the gas rates which allow the recovery of monthly fuel, gas and purchased power costs that vary above or below the costs which are included in the basic rates. Electric basic rates are subject to an adjustment of plus or minus the amount of change in the price of fuel above or below a basic cost of $0.016 per kWh sold. The gas basic rates are subject to an adjustment of plus or minus the amount of change in the price of gas sold above or below a basic cost of $0.22 per CCF sold.

Governmentally Imposed Fees, Taxes or Payments

The rates as previously approved by various rate ordinances adopted by the City Council may be adjusted without further action by the City Council to reflect the increase or decrease of fees, taxes or other required payments to governmental entities or for governmental or municipal purposes which may be hereafter assessed, imposed, or otherwise required, and which are payable out of or are based upon revenues of the Systems.

Beginning in March 2000, two new governmental assessments resulting from regulatory changes in the Texas electric utility industry, including the open access wholesale transmission charges, were added to CPS' electric billings as regulatory adjustments. These costs are updated annually. The first pass-through charge constitutes the net deficit payment for CPS that has resulted from the PUCT's wholesale transmission pricing mechanism. For residential customer rates, this adjustment adds an additional $.00102 per kWh based on the calendar year 2002 pricing. The second pass-through charge being assessed is CPS' share of the cost to fund the staffing and operation of the Independent System Operator ("ISO") for ERCOT, as well as other market-related costs. ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas. For residential customers, this charge increases bills by an additional $0.00170 per kWh. Current charges are effective as of January 2003.

TEN-YEAR ELECTRIC CUSTOMER STATISTICS

	Fiscal Years Ended January 31,										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2003[1]
RESIDENTIAL											
Average Monthly kWh/ Customer	969	1,001	1,036	1,109	1,059	1,140	1,104	1,190	1,141	1,154	1,166
Average Monthly Bill/ Customer	$ 67.87	$ 65.55	$ 66.61	$ 71.86	$ 69.49	$ 74.37	$ 72.84	$ 85.55	$ 77.53	$ 81.54	$85.50
Average Monthly Revenue/kWh	$ .0700	$ .0655	$ .0643	$ .0648	$ .0656	$ .0652	$ .0660	$ .0719	$ .0680	$ .0707	$.0733
COMMERCIAL AND INDUSTRIAL											
Average Monthly kWh/ Customer	9,885	10,130	10,370	10,691	10,603	10,966	10,874	11,145	11,116	11,334	11,701
Average Monthly Bill/ Customer	$555.86	$518.99	$517.77	$538.08	$539.73	$550.73	$554.06	$629.98	$594.33	$631.54	$686.82
Average Monthly Revenue/kWh	$ .0562	$ .0512	$ .0499	$ .0503	$ .0509	$ .0502	$ .0510	$ .0565	$ .0535	$ .0557	$.0587
ALL CUSTOMERS[2]											
Average Monthly kWh/ Customer	2,163	2,241	2,255	2,361	2,303	2,425	2,383	2,475	2,404	2,434	2,467
Average Monthly Bill/ Customer	$131.90	$124.82	$124.22	$131.41	$129.42	$135.12	$134.50	$154.65	$142.08	$151.31	$159.94
Average Monthly Revenue/kWh	$ .0610	$ .0557	$ .0551	$ .0557	$ .0562	$ .0557	$ .0564	$ .0625	$ .0591	$ .0622	$.0648

(1) Twelve months ended April 30, 2003.
(2) Includes only native load transactions.

TYPICAL RESIDENTIAL ELECTRIC AND GAS BILLS OF SEVEN TEXAS CITIES[1]

Usages: 1,000 Kilowatt hours for Electric, 5,000 Cubic Feet for Gas[2]

City	Electric Bill	Gas Bill	Total Bill
SAN ANTONIO	$ 74.06	$39.09	$113.15
Austin	76.09	41.42	117.51
Dallas	84.30	35.38	119.68
Fort Worth	84.30	36.93	121.23
Houston	88.37	38.70	127.07
El Paso	108.20	29.17	137.37
Corpus Christi	93.65	44.00	137.65

(1) Based upon twelve month average billings ending April 30, 2003 including Fuel and Gas Cost Adjustment.
(2) San Antonio's average monthly residential usage for the twelve months ended April 30, 2003 w*as* 1,166 kWh and 3,625 cf.

HISTORICAL RECORD OF CITY OF SAN ANTONIO GENERAL FUND BENEFITS FROM CITY'S ELECTRIC AND GAS SYSTEMS

(Dollars in Thousands)

	Fiscal Years Ended January 31,										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2003[2]
Payments To City[1]	$124,883	$119,852	$122,922	$137,588	$138,543	$144,555	$145,474	$185,006	$168,135	$172,236	$180,047

(1) Payments to the City, which are not to exceed 14% of CPS' gross revenues, include cash payments and the refunding of charges for furnishing the City electricity and gas service, and for a street light replacement program.
(2) Twelve months ended April 30, 2003.

FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY

	Fiscal Years Ended January 31,					
	1999	2000	2001	2002	2003	2003[1]
ELECTRIC SYSTEM						
SALES IN KWH						
Residential	$ 6,571,130,507	$ 6,492,198,648	$ 7,180,458,966	$ 7,053,649,349	$ 7,248,869,894	$ 7,332,562,714
Commercial & Industrial	6,850,842,576	6,928,943,413	7,284,582,129	7,454,710,237	7,732,905,220	8,005,011,073
Street Lighting	82,763,574	82,799,874	85,071,320	83,732,990	77,694,161	78,543,856
Public Authorities	2,059,881,694	2,108,671,495	2,083,526,539	1,954,332,433	1,829,765,716	1,556,562,197
Other Utilities	775,100,480	797,612,402	1,193,152,718	679,079,809	502,552,040	672,021,881
ANSL[2]	17,155,478	17,734,042	18,357,113	18,934,799	19,358,876	19,501,807
Total Sales in kWh	$16,356,874,309	$16,427,959,874	$17,845,148,785	$17,244,439,617	$17,411,145,907	$17,664,203,528
AVERAGE NUMBER OF CUSTOMERS						
Residential	480,155	490,162	502,847	515,359	523,424	523,902
Commercial & Industrial	52,062	53,101	54,469	55,884	56,855	57,011
Street Lighting	108	108	113	108	115	117
Public Authorities	4,748	4,871	4,915	4,958	5,375	5,482
Other Utilities	15	18	15	14	13	13
ANSL[2]	9,480	9,709	9,963	10,126	10,239	10,225
Total Customers	546,568	557,969	572,322	586,449	596,021	596,750
KWH SALES PER CUSTOMER						
Residential	13,685	13,245	14,280	13,687	13,849	13,996
Commercial & Industrial	131,590	130,486	133,738	133,396	136,011	140,412
GAS SYSTEM						
SALES IN MCF						
Residential	11,925,297	10,027,172	12,776,625	11,539,816	12,088,082	12,444,153
Commercial	7,745,215	7,445,991	8,470,980	8,419,746	8,888,993	9,226,640
Industrial	2,449,971	2,039,142	2,102,943	1,764,023	1,494,910	1,419,036
Public Authorities	2,074,226	1,761,990	2,065,447	2,032,858	1,785,520	1,765,763
Total Sales in MCF	24,194,709	21,274,295	25,415,995	23,756,443	24,257,505	24,855,592
AVERAGE NUMBER OF CUSTOMERS						
Residential	281,463	282,708	284,293	285,353	286,006	286,034
Commercial	18,063	18,071	18,243	18,377	18,536	18,590
Industrial	116	111	109	105	99	97
Public Authorities	1,978	1,963	1,942	1,947	2,079	2,134
Total Customers	301,620	302,853	304,587	305,782	306,720	306,855
MCF SALES PER CUSTOMER						
Residential	42	35	45	40	42	44
Commercial	429	412	464	458	480	496
Industrial	21,120	18,371	19,293	16,800	15,100	14,629

(1) Twelve months ended April 30, 2003.
(2) All Night Security Lighting.

FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE

	Fiscal Years Ended January 31,					
	1999	2000	2001	2002	2003	2003[1]
ELECTRIC SYSTEM						
OPERATING REVENUES						
Residential	$428,482,376	$428,450,476	$516,202,792	$479,471,166	$512,164,406	$537,544,152
Commercial & Industrial	344,063,592	353,055,240	411,772,663	398,563,121	430,872,999	469,875,499
Street Lighting	9,488,795	9,700,336	10,309,664	10,136,063	8,431,030	8,708,781
Public Authorities	90,182,029	94,475,092	105,814,616	94,586,119	95,842,688	87,236,091
Other Utilities	28,965,017	39,079,645	70,225,540	33,906,310	30,209,384	37,175,746
ANSL[2]	2,166,202	2,276,578	2,476,776	2,567,443	4,659,021	4,774,268
Other	6,291,190	6,591,966	7,612,365	9,029,213	9,900,798	9,649,794
Total Revenues	909,639,201	933,629,333	1,124,414,416	1,028,259,435	1,092,080,326	1,154,964,331
OPERATION & MAINTENANCE EXPENSE						
Production	206,673,033	218,951,763	332,738,968	274,845,734	312,328,375	360,477,377
Transmission	4,307,390	4,119,174	4,964,871	7,257,518	9,298,516	9,056,494
Distribution	36,821,365	35,525,566	35,327,750	49,025,626	50,798,655	50,937,107
Regulatory Assessments	2,082,936	2,024,644	29,334,726	16,980,158	22,294,418	23,124,250
Survey and Investigation Costs- Lignite Mine Site	3,557,550	0	0	0	0	0
Customer Accounts	9,472,182	9,201,333	9,808,884	11,571,228	13,187,147	12,859,537
Customer Information	3,299,104	3,208,029	2,889,679	2,800,607	1,662,252	1,649,174
Administrative & General	47,556,788	56,138,066	66,493,780	83,066,794	102,486,169	101,710,073
Payroll Taxes	5,157,585	6,000,364	6,510,470	7,046,769	8,638,622	8,646,959
STP Decommissioning Expense	8,832,000	8,832,000	9,425,500	15,954,000	15,189,000	15,189,000
STP Operating & Maintenance	89,635,987	95,778,995	83,021,438	86,436,829	82,727,552	92,758,739
Total Expenses	417,395,920	439,779,934	580,516,066	554,985,263	618,610,706	676,408,710
Operating Income-Electric	492,243,281	493,849,399	543,898,350	473,274,172	473,469,620	478,555,621
GAS SYSTEM						
OPERATING REVENUES						
Residential	66,142,310	59,747,652	122,384,764	94,442,954	84,616,216	107,987,263
Commercial & Industrial	39,755,534	39,424,731	75,888,206	64,341,480	55,476,154	71,217,814
Public Authorities	7,391,432	6,694,095	14,704,193	12,270,705	9,122,495	11,863,396
Other	947,508	1,152,995	1,578,376	1,531,846	1,813,411	1,633,774
Total Revenues	114,236,784	107,019,473	214,555,539	172,586,985	151,028,276	192,702,247
OPERATION & MAINTENANCE EXPENSE						
Distribution Gas	54,188,891	52,152,732	147,845,960	104,449,769	90,955,067	116,254,399
Distribution	12,894,185	10,820,728	11,954,418	13,385,381	12,071,625	12,213,018
Customer Accounts	4,845,226	4,566,704	4,699,185	5,686,382	6,480,485	6,319,490
Customer Information	812,494	758,037	664,021	939,020	557,340	552,954
Administrative & General	8,852,126	11,611,999	7,191,994	8,058,284	9,912,117	9,816,787
Payroll Taxes	1,093,951	1,225,003	1,273,677	1,371,738	1,573,754	1,601,966
Total Expenses	82,686,873	81,135,203	173,629,255	133,890,574	121,550,388	146,758,614
Operating Income-Gas	31,549,911	25,884,270	40,926,284	38,696,411	29,477,888	45,943,633
Combined Operating Income- Electric and Gas	523,793,192	519,733,669	584,824,634	511,970,583	502,947,508	524,499,254
Non Operating Income	57,528,034	39,319,915	50,268,724	49,022,259	28,547,471	24,747,480
NET REVENUES[3]	$581,321,226	$559,053,584	$635,093,358	$560,992,842	$531,494,979	$549,246,734
DEBT SERVICE						
Senior Lien Obligations	$185,043,933	$208,924,928	$208,566,891	$212,274,086	$211,830,818	$215,976,379
Interest on Commercial Paper	15,473,757	4,708,639	8,181,733	8,191,269	5,327,359	5,165,678
TOTAL DEBT SERVICE	$200,517,690	$213,633,567	$216,748,624	$220,465,355	$217,158,177	$221,142,057
DEBT SERVICE COVERAGE						
Senior Lien Obligations and Commercial Paper[4]	2.90x	2.62x	2.93x	2.54x	2.45x	2.48x
Senior Lien Obligations	3.14x	2.68x	3.05x	2.64x	2.51x	2.54x

(1) Twelve months ended April 30, 2003.
(2) All Night Security Lighting.
(3) Calculated in accordance with the CPS bond ordinances.
(4) Debt Service Coverage on CPS Junior Lien Obligations did not start until May 15, 2003.

FORWARD-LOOKING STATEMENTS

This Official Statement, including the Appendices hereto, contains forward-looking statements. Although CPS believes that in making any such forward-looking statement its expectations are based on reasonable assumptions, any such forward-looking statement involves uncertainties and is qualified in its entirety by reference to the following important factors, among others, that could cause the actual results of CPS to differ materially from those contemplated in such forward-looking statements:

– prevailing governmental policies and regulatory actions, including those of the PUCT, ERCOT, the Nuclear Regulatory Commission ("NRC"), the Environmental Protection Agency ("EPA"), the Texas Commission on Environmental Quality ("TCEQ"), and the Federal Energy Regulatory Commission ("FERC"), with respect to:

- transmission cost rate structure;
- purchased power and recovery of investments;
- operations of nuclear generating facilities;
- acquisitions and disposal of assets and facilities;
- operation and construction of facilities;
- decommissioning costs;
- present or prospective wholesale and retail competition;
- changes in and compliance with environmental and safety laws and policies;
- developments in federal law with respect to the ability of CPS to finance and operate facilities and make energy sales in a manner that permits CPS to finance its facilities with, and honor its existing covenants with respect to, tax-exempt debt;
- continued implementation of the legislation passed during the 1999 session of the Texas legislature to restructure the electric utility industry in Texas or any amendments that may be enacted to that legislation in future Texas legislative sessions;
- power costs and availability, including the continued development, and financial stability of owners, of merchant power plants in Texas;
- weather conditions and other natural phenomena;
- unanticipated population growth or decline, and changes in market demand and demographic patterns;
- changes in business strategy, development plans or vendor relationships;
- competition for retail and wholesale customers;
- access to adequate transmission facilities to meet changing demands;
- pricing and transportation of coal, nuclear fuel, crude oil, natural gas and other commodities and the implementation of fuel procurement strategies by CPS;
- unanticipated changes in interest rates, commodity prices or rates of inflation;
- unanticipated changes in operating expenses and capital expenditures;
- commercial bank market and capital market conditions;
- competition for new energy development and other business opportunities;
- legal and administrative proceedings and settlements;
- inability of the various counterparties to meet their obligations with respect to CPS' financial instruments;
- changes in technology used by CPS and services CPS offers;
- significant changes in CPS' relationship with its employees, including the availability of qualified personnel;
- significant changes in accounting policies material to CPS; and
- actions of rating agencies.

Any forward-looking statement speaks only as of the date on which such statement is made, and CPS undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for CPS to predict all of such factors, nor can it assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

MANAGEMENT DISCUSSION

As described herein, CPS adopted Statement 34 of the Governmental Accounting Standards Board ("GASB") during its fiscal year ended January 31, 2002, which required the preparation of a Management Discussion and Analysis ("MD&A") in connection with the annual financial report of CPS for that year. The MD&A set forth below pertains to the financial results of CPS for the 12-month period ended April 30, 2003.

The operating results of the Systems reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and other operating costs, utility industry regulation and deregulation, environmental regulation, economic growth of the community, population, weather, and other matters, the nature and effect of which cannot at present be determined.

Comparison of 12 Months Ended April 2003 and 2002

Total revenue for the 12-month period ending April 2003 was $1.456 billion, a 17.3% increase from the comparable previous 12 months. Total electric and gas operating revenue of $1.408 billion rose $225.2 million, or 19.0%, from the prior period. Representing about 83% of CPS' total revenue, the electric system operating revenue was $1.207 billion. Electric fuel recoveries increased $101.8 million, or 35.9%, due to higher fuel costs. Electric non-fuel recoveries rose $3.9 million, a 0.5% increase over the last period. Total electric sales for the period of 17.7 billion kWh were about 1.7% greater, which reflected a 1.3% higher customer base and a 0.4% greater usage per customer. Temperatures were somewhat milder during the previous 12-month period. Electric customers totaled 594,561 as of April 2003. The customer count methodology was changed effective with April 2003 financial reports to reflect the number of active contracts versus the number of bills mailed. Regulatory recoveries added $25.8 million to total electric revenue, a 35.5% increase over the prior period. Unbilled electric operating revenues totaled $52.0 million for the current period and were not included in the prior period. CPS began recording unbilled revenue on a monthly basis beginning in November 2002.

Gas system operating revenue totaled $201.5 million, an increase of 43.2% from the previous 12 months, due mainly to higher gas cost recoveries resulting from a 36.7% greater unit cost of gas. Natural gas prices began to increase in the winter season of 2002-2003, reflecting market conditions. Gas sales increased 3.6%, reflecting the more extreme winter temperatures during the current period. Gas customers totaled 305,872 at April 2003. The customer count methodology was changed effective with April 2003 financial reports to reflect the number of active contracts versus the number of bills mailed.

Non-operating revenue of $47.3 million decreased 17.6%, due primarily to lower investment yields during the last 12 months, reflecting the current market conditions. Most CPS cash and investment balances were also lower than during the previous period.

Total expenses were $1.407 billion, an increase of 17.8%. Greater electric fuel, purchased power, and distribution gas costs, as well as higher STP non-fuel and depreciation expense contributed to the variance. Electric fuel and purchased power costs of $324.1 million increased $84.5 million, or 35.3%. Total generation and other power requirements were about the same. However, the generation mix during the current period reflected a much lower amount of nuclear generation, the least costly type, due to planned and forced outages at STP. This was replaced with a greater amount of purchased and other energy, and coal generation. In addition, gas-fueled generation was at a much higher unit cost during this 12-month period. As a result, the average electric production unit cost of fuel increased 33.3%. Distribution gas costs totaled $117.0 million, an increase of $36.4 million. Gas prices rose during the late 2002-2003 winter season, reaching record highs in February 2003. A number of factors, including the extremely cold weather nationwide and the onset of war in the Middle East, affected market conditions and demand for this commodity, especially during January through April 2003. Due to planned cost-containment techniques, CPS purchased only a relatively small amount of gas at an increased market price that rose to more than $20 per MCF in February 2003. A 6.4% increase in purchased gas volume requirements was due to greater customer demand reflecting the colder weather during the winter of 2002-2003.

STP nuclear plant non-fuel operating and maintenance expenses, including decommissioning costs, increased 34.7%, and totaled $112.4 million. Higher production maintenance costs reflected two planned refueling outages during the current 12-month period, whereas the prior period included only one. Also, Unit 2 was down for maintenance most of the winter of 2002-2003 to repair a turbine blade failure and excessive turbine vibration. Increases in non-cash decommissioning and employee benefits costs also contributed to the variance. The higher employee benefits costs reflected a $2.7 million non-cash accounting adjustment for an additional pension liability/expense accrual recorded in December 2002.

CPS non-fuel operating and maintenance expenses of $271.1 million were $16.1 million, or 6.3%, higher for the period. Costs for greater staffing and related benefits were incurred, reflecting a shift of more labor during the current 12-month period to expense as some major capital projects have been completed, rescheduled, or delayed. Expenses for sales promotions rose, reflecting the greater activity in these areas. Expenses for premiums related to property insurance increased, which reflected the current insurance market. Efforts to maintain or improve system reliability continued. Other system repair, maintenance, and overtime expenses were related to storm outages and flooding in the summer months of fiscal year 2003. Additional costs were also attributed to the J.T. Deely plant's Unit 1 and Unit 2 overhauls during the fall of 2002 and early months of 2003, and the first major planned overhaul at the Arthur von Rosenberg combined-cycle plant during November 2002 through January 2003.

Regulatory assessments expense of $23.1 million was essentially the same as the prior period. Higher PUCT assessments were offset by lower ERCOT-related charges during the current period. Greater ERCOT-related costs were seen last year in the months immediately after the consolidation into a single statewide control area in July 2001.

Depreciation expense increased $32.7 million, or 17.4%, to $221.2 million. The current period reflects the implementation of new depreciation rates. A depreciation study completed during the latter months of fiscal year 2003 resulted in updated and slightly higher rates.

Interest and debt-related costs of $157.8 million were slightly lower than the prior period, down $2.5 million. The current period included $7.1 million in costs for the cash defeasance transaction recorded in August 2002. However, this was offset by lower bond and Tax-Exempt Commercial Paper ("TECP") interest costs. The allowance for funds used during construction decreased moderately. The current period included lower capitalized interest rates reflecting the current interest rate market.

Payments to the City of San Antonio totaled $180.0 million, an increase of 10.1%. The higher City Payment reflected the higher revenues for the current period.

Income before contributions totaled $49.0 million, an increase of 5.1%. The inclusion of unbilled revenue in the current period, greater non-fuel revenue from electric sales, and lower interest and debt-related costs all contributed to the variance.

After recording $47.2 million in Contributions in Aid of Construction ("CIAC"), the overall change in fund net assets totaled $96.2 million for the 12 months ended April 2003, as opposed to $106.8 million for the prior period, before including the cumulative effect of the change in accounting policy. The previous period accounting policy change related to the inclusion of the employee heath and welfare plans in the financial statements. After recording that item, the change in fund net assets for the prior period was $236.8 million.

CPS' total debt service and other interest requirements were $230.7 million, slightly higher than the prior period. Debt service requirements this period included lower interest costs on bonds and TECP, which was offset by slightly higher Parity Bond current maturities and the costs for the cash defeasance transaction recorded in August 2002. Major debt transactions during the 12 months ended April 30, 2003 included the following: (1) in August 2002, $144.2 million par value of 1997 Parity Improvement Bonds were legally defeased with cash, resulting in a net accounting loss of $7.1 million; (2) in September 2002, CPS issued $576.7 million of Revenue and Refunding Bonds to refund $445.1 million in certain outstanding New Series Bonds and to reimburse prior construction expenditures of $150.0 million. The bonds were sold at a combined net premium of $56.8 million. Total Senior Lien Obligations outstanding at April 30, 2003 amounted to $2.5 billion, and the balance of TECP outstanding was $350.0 million. The Series 2003 Junior Lien Bonds were not delivered until May 15, 2003.

For the 12 months ended April 30, 2003, total expenditures for new construction and net removal costs totaled $324.0 million. Major construction projects and capital expenditures included underground and overhead electric distribution system initiatives for reliability and service improvements; various power plant improvement projects; the purchase of four gas-powered generating peaking units; the purchase of three sets of aluminum railcars to replace aging steel cars; progress on constructing several transmission substations and lines within the service area; the completion of the Business Information Systems project; and facility improvements, including the Northside Customer Service Center, which opened in August 2002. Actual expenditures for new construction and net removal costs were funded from the following sources: $266.8 million from the Repair and Replacement Account; $41.4 million from CIAC; $11.1 million from debt, primarily bond proceeds; and $4.7 million from the Overhead Conversion Fund

IMPLEMENTATION OF NEW ACCOUNTING POLICIES

The financial reporting for the fiscal year ended January 31, 2003 includes some accounting changes that are discussed herein. In addition, other accounting and reporting changes occurred during the prior reporting year and continued into the fiscal year ended January 31, 2003. The most significant changes in the fiscal year ended January 31, 2002 were the implementation of GASB 33, Accounting and Financial Reporting for Nonexchange Transactions and GASB 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. GASB 33 required a change in accounting for CIAC, which are generally contributions received from customers to fund construction of CPS facilities. These were formerly treated as depreciable assets, but are now reflected as equity contributions. In addition, GASB 34 requires that a MD&A of the significant financial and operating activities and events and their impact on CPS' financial reports be included with each annual financial report.

The purpose of GASB 34 was to create new information and restructure much of the information that governments have presented in the past to provide a more comprehensive discussion of their annual financial performance. Another change in reporting for CPS for the year ended January 31, 2002, was pursuant to GASB 14, The Financial Reporting Entity, which involved additional reporting and disclosures for net assets accumulated to pay liabilities of the employee health and welfare plans.

During the fiscal year ended January 31, 2003, CPS began to record a monthly accrual for unbilled revenues and completed a study to update its depreciation rates. Also, some additional footnote disclosures to the financial statements were included in accordance with GASB 38, Certain Financial Statement Note Disclosures.

These accounting changes and the effects on the financial statements are described in greater detail in the MD&A for the fiscal year ended January 31, 2003 and in the notes to the audited financial statements for such year.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

The Electric Utility Industry Generally

The electric utility industry in general has been, or in the future may be, affected by a number of factors that could impact the financial condition and competitiveness of an electric utility such as CPS and the level of utilization of generating, transmission, and distribution facilities.

CPS cannot determine with certainty what effects such factors will have on its respective business operations and financial condition, but the effects could be significant. The following is a brief discussion of certain of these factors. However, this discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Series 2003 Bonds being issued by the Corporation should obtain and review such information.

FERC Authority

In 1992, pursuant to the Energy Policy Act of 1992 (the "Energy Act"), the FERC required utilities under FERC jurisdiction to provide access to their transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. Municipal Utilities like CPS are subject to FERC orders requiring provision of wholesale transmission service to other utilities, qualifying cogeneration facilities, and independent power producers. Under FERC rules promulgated subsequent to the Energy Act, FERC further expanded open access wholesale transmission by requiring public utilities operating in interstate commerce to file open access nondiscriminatory transmission tariffs. Because the interconnected ERCOT grid operates outside interstate commerce, and because PURA95 and SB 7, discussed below, provide comparable wholesale transmission authority to the PUCT for utilities in ERCOT pursuant to which the PUCT has required open access of transmission facilities in ERCOT, the exercise of FERC authority relating to open access transmission has not been a major factor in the operation of the wholesale market in ERCOT. In 2000, FERC required that regional transmission organizations ("RTO") be established and that interstate electric utilities participate or explain why they can not participate in these organizations. FERC also initiated regional discussions intended to explore creations of a few large RTOs in the interstate grid that may encompass transmission pricing and interconnection elements resembling features of the ERCOT open access program. The ERCOT open access system is administered by an ISO conducting many of the functions that would be administered by an RTO. See "DESCRIPTION OF PHYSICAL PROPERTY - ELECTRIC SYSTEM - Interconnected System". More recently, FERC has issued a notice of proposed rule making intended to establish a standardized transmission service and wholesale electric market design, with protections against market power and undue discrimination in the interstate wholesale electric market, similar to features already in place within ERCOT implemented pursuant to PURA95.

Proposed Federal Deregulation Legislation

During several past sessions of the United States Congress, numerous bills have been introduced that have included electric industry restructuring elements of various types. In the current session of Congress, energy bills are under development in both the House and Senate that include electric titles incorporating such restructuring elements. Topics that could become part of any final legislation include authorization of multi-state Regional Energy Services Commissions that may exercise jurisdiction over wholesale electric market design and transmission infrastructure; FERC authority to issue transmission development certificates including the power of eminent domain in areas designated by the Secretary of Energy as "congestion zones"; FERC certification and oversight of a FERC-approved electric reliability organization for the interstate grid; authorization of FERC requirements for transmission open access applicable to unregulated utilities in interstate commerce; authorization of FERC establishment of performance- and incentive-based rate treatments; FERC authority to establish an electronic information system relating to wholesale electric energy price and availability; prohibitions of certain market practices including false information and round-trip trading and related expansion of FERC enforcement authority; repeal of the Public Utility Holding Company Act of 1935; repeal of the co-generation purchase and sale requirements; requirements for utilities to consider adoption of various electric standards including net metering, real-time pricing and time-of-use metering; and Federal Trade Commission authority to adopt rules providing for certain consumer protections and disclosures. Many of these provisions would not apply to municipal utilities or to intrastate entities in ERCOT, but those classifications could change.

Because of the number and diversity of these issues, the City is not able to predict the final forms and possible effects of any legislation, which ultimately may be produced by the Congress. Further, CPS is unable to predict whether any such legislation will be enacted into law. Further, the City is unable to predict the extent, if any, to which any such electric utility restructuring legislation may have a material, adverse effect on the financial operations of the Systems.

Electric Utility Restructuring in Texas; Senate Bill 7

Legislation was enacted by the Texas Legislature in 1995 that restructured wholesale electric rates and services. In order to promote wholesale electric competition, such legislation directed the PUCT to adopt rules requiring all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. The PUCT implemented its initial transmission open access rules in January 1997.

During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition that began in 2002. SB 7 continues electric transmission wholesale open access and fundamentally redefines and restructures the Texas electric industry. The following discussion applies primarily to ERCOT, the interconnected portion of the Texas electric grid in which CPS is located.

SB 7 includes provisions that apply directly to Municipal Utilities such as the CPS electric system, as well as other provisions that will govern investor owned utilities ("IOUs") and electric co-operatives ("Electric Co-ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy supplier, as well as the retail customers of those Municipal Utilities and Electric Co-ops that elect, on or after that date, to participate in retail electric competition. Provisions of SB 7 that apply to the CPS electric system, as well as provisions that apply only to IOUs and Electric Co-ops are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which the electric system could choose to directly participate in the future.

SB 7 requires IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000 and to have unbundled their generation, transmission/distribution, and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies, and possibly operating divisions, that may be owned by a common holding company, but which must operate largely independent of each other. The services offered by such separate entities must be available to other parties on a non-discriminatory basis. Municipal Utilities and Electric Co-ops which opt-in to competition are not required to unbundle their electric system components. CPS is taking the steps necessary to unbundle its pricing structure so that it will be in a position to participate in a competitive market in the event that the CPS Board and the City Council choose to opt-in to competition. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Service Area".

Generation assets of IOUs are owned by "Power Generation Companies", which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they will otherwise be unregulated and may sell electricity at market prices. IOU owners of transmission and/or distribution facilities are "Transmission and Distribution Utilities" and are fully regulated by the PUCT. Retail sales activities are performed by new companies called "Retail Electric Providers" ("REPs") which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas, or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from Power Generation Companies, power marketers, or other parties and may resell that electricity to retail customers at any location in Texas (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). Transmission and Distribution Utilities and Municipal Utilities and Electric Co-ops that have chosen to participate in competition are obligated to deliver the electricity to retail customers, and all of these entities are required to transport power to wholesale buyers. The PUCT is required to approve the construction of new Transmission and Distribution Utilities' transmission facilities, and may order the construction of new facilities to relieve transmission congestion. Transmission and Distribution Utilities are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than the PUCT. Each type of unbundled company of the formerly bundled IOUs is prohibited from providing services that are provided by the other types of unbundled companies.

SB 7 also provides a number of consumer protection provisions. Each service area within Texas that participates in retail competition has a designated "Provider of Last Resort"; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each Municipal Utility and Electric Co-op that opts-in to retail competition may designate itself or another entity as the Provider of Last Resort for its service territory, and the respective Municipal Utility or Electric Co-op, rather than the PUCT, will set the rates for such respective Provider of Last Resort.

Beginning September 1, 1999, each IOU was required to freeze its then existing rates (except for a fuel factor passthrough) and is required to continue to serve its retail customers at such rates until 2002. Beginning January 1, 2002, the unbundled REP of the IOU that held the certificate to provide retail service to an area ("Affiliated REP") was required to reduce electric rates by 6% below the frozen rates and offer that reduced rate ("price to beat") to all residential and small commercial retail customers in the area formerly served by the IOU. The Affiliated REP may not sell electricity to residential or small commercial customers at any other rate until either 40% of the residential or small commercial customers in the area have chosen to be served by other REPs or until January 1, 2005, whichever occurs first. SB 7 does allow Affiliated REPs to compete for industrial customers, and for certain aggregated commercial loads owned by a common entity. The price to beat provisions of SB 7 have no direct impact on CPS if the CPS Board and the City Council elect not to participate in retail competition, and would be relevant primarily to competition outside CPS' service area if CPS does elect to participate and to compete outside.

SB 7 preserves the PUCT's regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for a transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and/or independent members, and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 directs the PUCT to determine electric wholesale transmission open access rates on a 100% "postage stamp" pricing methodology.

Under SB 7, IOUs may recover a portion of their "stranded costs" (the net book value of certain "non-economic" assets less market value and certain "above market" purchased-power costs) and "regulatory assets", which is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market-based rates in the open competition market. Such stranded costs are based, in large measure, on the amount of stranded costs associated with the respective IOUs determined in the PUCT's April 1998 Potentially Strandable Investment (ECOM) Report: 1998 Update. SB 7 establishes the procedure to determine the amount of IOU stranded costs and regulatory assets. The PUCT has determined the stranded costs which have been and will be collected through a non-bypassable competitive transition charge collected from the end retail electric users within the IOU's service territory as it existed on May 1, 1999. The charge is collected primarily as an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing and refinancing such bonds is secured by a qualified rate order of the PUCT that creates the "competitive transition charge". Neither the State of Texas nor the PUCT may amend the qualified rate order in any manner that would impair the rights of the "securitized" bondholders.

Municipal Utilities and Electric Co-ops are largely exempt from the requirements of SB 7 that apply to IOUs. While IOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of Municipal Utilities and Electric Co-ops have the sole discretion to determine whether and when (after January 1, 2002) to open their service territories to retail competition. However, if a Municipal Utility or Electric Co-op has not voted to open its territory, it will not be able to compete for retail energy customers at unregulated rates outside its traditional service territory. While IOUs must unbundle their generation, transmission and distribution, and retail sales activities, Municipal Utilities and Electric Co-ops retain the discretion to determine whether to unbundle those business activities. As stated above, though CPS is taking steps to unbundle its prices, it has no plans to unbundle its business activities into separate legal entities.

The greatest potential impact on CPS' electric system from SB 7 could result from a decision by the City Council and the CPS Board to participate in a fully-competitive market, particularly in light of the fact that CPS is among the lowest cost producers of electric energy in Texas. CPS currently believes that it is taking all steps necessary to prepare for possible competition in the unregulated energy market, should the City Council and the CPS Board make a decision to opt-in. CPS further believes that calendar year 2008 is the earliest that CPS would participate in the deregulated retail electric energy market.

A decision of the City Council and the CPS Board to participate in full retail competition would permit CPS to offer electric energy service to customers located in areas participating in retail choice that are not presently within the certificated service area of CPS. The City Council and the CPS Board could likewise choose to open the CPS service area to competition from other suppliers while choosing not to have CPS compete for retail customers outside its traditional service area.

As discussed above, Municipal Utilities and Electric Co-ops will also determine the rates for use of their distribution systems after they open their territories to competition, although the PUCT will determine the terms and conditions applicable to access to those systems. SB 7 also permits Municipal Utilities and Electric Co-ops to recover their stranded costs, through collection of a non-bypassable transition charge from their customers if so determined by such entities through procedures that have the effect of procedures available to IOUs under SB 7. Unlike IOUs, the governing body of a Municipal Utility determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. Municipal Utilities and Electric Co-ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by CPS as to the magnitude of its stranded costs, if any, would be made in conjunction with the decision as to whether or not to participate in retail competition.

A Municipal Utility that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate relationships and anticompetitive practices. The PUCT will establish by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the transmission and distribution facilities of Municipal Utilities electing to compete at retail. If a Municipal Utility decides to participate in retail competition, its customers are subject to being charged a fee of $0.50 per megawatt hour beginning six months prior to implementation of customer choice. The PUCT may increase the fee to $0.65 per megawatt hour under certain circumstances. The fee is a contribution to a statewide fund targeted at property tax replacement, low-income programs, and customer education.

Among other provisions, SB 7 provides that nothing in the act or in any rule adopted under it may impair any contracts, covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities, and that nothing in the act may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants or other exemption of interest or tax-exempt status. The bill also improves the competitive position of Municipal Utilities by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply, and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of Municipal Utilities are made exempt from disclosure under the open meetings and open records acts, and the right of municipal utilities to enter into risk management and hedging contracts for fuel and energy is clarified.

Environmental Restrictions of Senate Bill 7

SB 7 contains specified emissions reduction requirements for certain older electric generating units which would otherwise be exempt from the TCEQ's (formerly the Texas Natural Resource Conservation Commission) permitting program by virtue of "grandfathered" status. Under the bill, annual emissions of nitrogen oxides ("NOx") from such units are to be reduced by 50 % from 1997 levels, beginning May 1, 2003 and completed by April 30, 2004. The requirements may be met through an emission allowances trading program that has been established by the TCEQ on a regional basis. CPS applied for state permits from the TCEQ, as required for five CPS generating stations, comprising 12 gas-fired units, and the permits are now final. The NO_x reductions required for SB 7 have already begun and NO_x emissions have been reduced by over 45% system-wide from baseline levels. CPS may require future additional expenditures for emission control technology.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation is directed at all units, including CPS' coal plants, called Chapter 117 regulations. This regulation requires a 50% reduction in NO_x emissions beginning May 1, 2005 and completed by April 30, 2006. It is possible that over the upcoming years the EPA, the State of Texas, and local air quality districts may issue even more stringent regulations governing emissions from many types of power plants. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission controls will be required at the coal plants in the near future because the EPA has determined to control mercury emissions from power plants. In addition, new rules could also affect CPS' combustion turbines, with regard to hazardous air pollutants such as formaldehyde. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. While it is too early to determine the extent of any such changes, such changes could have a material impact on the cost of power generated at affected electric generating units.

RESPONSE TO COMPETITION

In preparation to operate successfully in the new competitive environment created by the enactment of SB 7, CPS has developed a marketing plan that focuses on retaining the retail customers in its historic service areas and on expanding its wholesale customer base. Programs concentrate on meeting the customers' needs (including new products and services), deferring utility deposits for some customers, improving the facilities in which customers transact business with CPS, and offering electronic payment plans. In addition, CPS has improved internal and external communications, promoted participation in a wide variety of community initiatives, maintained active involvement with regulatory issues, and provided greater focus on the strategies and objectives at the corporate and business unit levels which have been identified as critical to success.

Looking to the future, CPS plans to continue to focus on diversifying revenue sources by offering new energy-related products and services, continuing to provide low cost generation and high levels of reliability to the communities it serves, and working on customer retention by improving and developing strong customer loyalty. As a step in diversifying its energy resource plan as required of all public utilities by SB 7, CPS has entered into 15-year and 20-year contracts for 160 megawatts of wind-generated electricity from the Desert Sky Wind Project in Pecos County, Texas, approximately 266 miles west of the City of San Antonio. With this capacity, CPS has one of the most aggressive renewable energy programs in Texas, with wind-energy capacity representing 4.06% of the 2002 summer peak load of 3,937 megawatts.

With respect to State and national legislative action regarding competition, CPS will continue to participate actively in the legislative process to voice the interests of Municipal Utilities and play an integral part in shaping the new environment in which it will operate. CPS continues to evaluate the price components of the energy services it provides, recognizing that the price for electricity will be a paramount factor for succeeding in a deregulated environment. Cost containment initiatives coupled with additional phases of debt management strategies will continue in the years ahead.

In conjunction with the onset of deregulation and retail competition, overall merchant plant activity in ERCOT has been increasing in recent years. In the past, ERCOT protocol required its members to maintain a 15% reserve capacity, but that protocol was discontinued in 2000. According to information posted at the PUCT website, as of December 6, 2002, at least 20,010 MW of wholesale market new generation capacity has been added in Texas since wholesale competition was introduced in September 1995. Although not a "merchant" plant, CPS' Arthur von Rosenberg Plant is included in the above amount, as CPS is an active participant in the wholesale market. In addition, 7,561 MW of capacity is currently under construction in Texas, and another 8,047 MW has been announced for possible construction at a future time. The new merchant plants have contributed to an increase in the amount of short- to intermediate-term energy purchases by CPS to augment its nuclear, coal and gas generation capacity.

Strategic Planning Initiatives

CPS has a comprehensive corporate strategic plan that is designed to help make CPS a more efficient and more competitive utility that delivers value to customers and the City. Major parts of the plan include restructuring and unbundling of rates, formulating a wholesale and retail marketing plan, reorganizing CPS along functional lines, and maintaining a debt and asset management program as further discussed below. These efforts will also have the ongoing support of the CPS Governmental Affairs office, located in Austin, Texas, whose primary role is to review proposed Federal and State legislative actions affecting the electric industry and to represent CPS' interests in these areas.

Business plans for each business unit support the corporate business plan. Mission statements, strategic objectives, strategies, and metrics and targets are an integral part of each plan. Major initiatives and key action plans necessary to accomplish the objectives and meet or exceed the targets are also included in each plan. Status reports are provided to the CPS Board and senior management on a quarterly basis. During the past several years, various task forces have been created to analyze and recommend methods to improve CPS' competitive position in the following areas: strategic alliances, marketing, organizational restructuring, continuous improvements for work processes, information and communications systems, and corporate culture.

CPS has completed its Business Information System project, a major three-year initiative that began in 1999. This project, costing $74.5 million, has replaced the utility's business information systems with the latest software and hardware technology and allows for much more extensive information gathering and reporting capabilities by all the major functional areas of the utility. The new systems are critical to CPS. Once they are fully integrated and fine-tuned, they will improve CPS' ability to respond to customers in the competitive environment. The Financial Information, Materials Management and Work Management Systems were implemented during December 2001. The Customer Information System was implemented in August 2002.

Debt and Asset Management Program

CPS has developed a debt and asset management program ("Debt Management Program") which is designed to lower the debt component of energy costs, maximize the effective use of cash and cash equivalent assets, and enhance financial flexibility in the future. An important part of the Debt Management Program is debt restructuring through the increased use of variable rate debt, and interest rate swaps where feasible. It is anticipated, however, that the variable rate exposure of CPS will not exceed 20% of its total outstanding debt. The program also focuses on the use of unencumbered cash and available cash flow to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to result in lower interest costs, additional funds for strategic initiatives, and an increased net cash flow. The issuance of the Junior Lien Obligations in May 2003 was part of the Debt Management Program.

Acquisition of Military Base Facilities

On January 14, 2000, CPS purchased the electric and gas systems of the former Kelly Air Force Base. These facilities include both the area privatized and the portion of Kelly that remains under Air Force control, which is now a part of Lackland Air Force Base. CPS is the full service electric and gas provider for the Kelly USA Business Park. CPS provides a variety of electric and gas services for Lackland Air Force Base under a General Services Administration contract.

On July 22, 2002, the Brooks City Base Property was conveyed to the City. On October 1, 2002, CPS took ownership of the electric and gas infrastructures. Installation of all electric and gas metering was completed as of November 15, 2002. CPS is the full service provider for both electric and gas systems.

CPS has submitted a utility privatization proposal to the Army to become the full service provider for the electric and gas infrastructures at both Fort Sam Houston and Camp Bullis. Negotiations with the Army are near completion, and legal documents are being prepared for signature. CPS' acquisition of the systems is projected to occur in July 2003. CPS will be the owner and full service provider for both the gas and electric systems.

On February 24, 2003, CPS received unsuccessful bidder notification from the Defense Energy Support Center regarding the Texas Regional Demonstration Project (TRD) for Randolph and Lackland Air Force Bases' utility privatization proposals. No award was made. CPS will continue to serve the bases for any emergency repair that may arise. Additionally, CPS remains open to any future requests for utility privatization with TRD at their request.

Current Economic Developments

CPS worked with local economic development agencies to successfully locate 18 new companies into the CPS service territory during calendar year 2002. These companies have the potential to create in excess of 2,000 new jobs. This trend continued during the first quarter of 2003 with the location announcement of two new firms, including Toyota Motor Manufacturing Texas.

Work continues among CPS, Toyota Motor Manufacturing ("Toyota"), San Antonio Water Systems ("SAWS"), the City, Bexar County and the State to finalize a participation agreement which will serve as the roadmap for the construction and establishment of Toyota's sixth automotive assembly plant in North America on a site in south Bexar County, Texas. Toyota plans to break ground in late 2003 and produce approximately 150,000 Tundra trucks annually, beginning in 2006. The new plant will represent an $800 million investment by Toyota and is expected to bring approximately 2,000 new jobs to the region. CPS will initially supply an estimated 32 MW electric load and gas transport for the delivery of 770,000 MMBtu/year for the project. The participation agreement calls for Toyota to obtain electricity and natural gas services exclusively from CPS for 15 years from the start of production of the project. Significant load increases can also be expected in the coming years as suppliers locate new facilities close to the assembly plant. CPS is working with several Tier 1 suppliers to Toyota. A special Suppliers Park is being considered that will house and accommodate specific suppliers to the Toyota facility.

The Toyota announcement has already begun paying dividends for San Antonio in terms of placing the community on the "radar screen" of other corporations conducting site location analyses. For example, as has been publicly reported in the local newspaper, San Antonio is one of several cities across the United States that The Boeing Company is considering for the location of its next generation 7E7 commercial aircraft assembly facility. The location decision by Boeing is expected before the end of 2003.

City's Study

The City retained R.W. Beck and Associates in September 1998 to analyze the options available to the City, City Council and the CPS Board regarding the sale of part or all of the electric systems in light of pending electric energy market deregulation. After review of the final report, the City Council decided in April 2001 not to change ownership and operation of the electric system and not to opt-in to the deregulated retail market beginning in January 2002.

CONSTRUCTION PROGRAM

Comprehensive programs for planning and construction to meet current and future electric and gas systems needs are continually being reviewed and updated. CPS utilizes computer-based mathematical models for its forecasting processes. CPS bases its near-term construction and operating needs on a five-year forecast. This short-term annual forecast is supported by a 35-year electric resource plan and a 25-year transmission facilities plan. These assumptions are subject to substantial change and will be revised as necessary to maintain CPS' competitive position.

In addition, CPS expects to see continued growth in its customer base for the electric and gas systems due to projected population growth in the San Antonio area. The energy sales forecast predicts annual increases of 3.4% and 0.4% in electric and gas sales, respectively, over the next 25 years.

The fall 2002 forecast projected a peak demand growth rate averaging 3.0% per year over the fiscal years 2004 to 2028. CPS has continued to expand its electric customer extensions, with ongoing construction growth in this area. The capital projects in fiscal year 2003-2004 are being funded with savings realized under the Joint Operating Agreement (the "JOA") with Texas Genco L.P. "Texas Genco", and other litigation proceeds, transfers from the Repair and Replacement Account, CPS Senior Lien Obligations proceeds, CPS Junior Lien Obligation proceeds, and other sources.

A capital improvement plan is made for planning purposes and may identify projects that will be deferred or omitted entirely in future years, and in addition, the proposed funding sources for the plan may be modified to meet changing conditions. In addition, as conditions change, new projects may be added that are not currently identified. CPS' current $2.077 billion, five-year capital improvement plan is forecasted from February 1, 2003 to January 31, 2008. The majority of the expenses to be incurred are for construction projects for electric distribution, electric generation, gas facilities and general properties.

Over the five year period covered by the current capital plan, construction funding from bond proceeds average approximately $143 million per year, with other sources of funding for the plan consisting of litigation proceeds, CIAC, the Overhead Conversion Fund, and the Repair and Replacement Account.

DESCRIPTION OF PHYSICAL PROPERTY

ELECTRIC SYSTEM

Generating Plants

CPS operates 16 electric generating units, three of which are coal-fired and 13 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. CPS also has a 28% interest in STP's two nuclear generating units. When both units of STP operate as planned, they provide approximately one-third of CPS' annual electric load. The nuclear units provided 28.2% of the electric system load during fiscal year 2002-2003 and 24.7% of the load for the 12 months ended April 30, 2003. See "DESCRIPTION OF PHYSICAL PROPERTY - ELECTRIC SYSTEM - South Texas Project".

The J.T. Deely Plant, located at Calaveras Lake southeast of the City, consists of two units that are equipped to burn coal. Also located at Calaveras Lake and sharing its cooling capability are the J.K. Spruce Plant and the O.W. Sommers Plant. Like the Deely Plant units, the J.K. Spruce Plant burns low sulfur western coal from the Powder River Basin area of Wyoming. Additional agreements with other suppliers are initiated as needed for additional purchases of coal and petroleum coke. These three coal units generated 55.0% of the electric system load for fiscal year 2002-2003 and 57.3% of the load for the 12 months ended April 30, 2003. The O.W. Sommers Plant comprises two units, which are capable of operating on either natural gas or fuel oil.

CPS entered into a financial lease/leaseback transaction with an affiliate of Unicom Corporation involving CPS' J.K. Spruce Unit No.1 in June 2000. Unicom Corporation has subsequently merged into Exelon Corporation.

The V.H. Braunig Plant is located on Braunig Lake, also southeast of the City. It has three units which can operate on either natural gas or fuel oil.

The Arthur von Rosenberg Plant, located adjacent to the V.H. Braunig Plant, was placed in commercial operation in June 2000. The new plant encompasses a combined cycle operation to generate 15% more electric power from natural gas than other gas generation methodologies. The plant also utilizes an environmental control system to produce Nox emissions that are below other existing CPS plants and 95.0% lower than the national average for fossil fuel fired plants.

The peak load for both fiscal year 2002-2003 and for the 12 months ended April 30, 2003 was 3,937 megawatts. With a generating capacity of 5,056 megawatts, this provided a reserve margin of 22.1% for both these periods. See "Generating Capability" below. CPS' historical peak load of 4,091 megawatts was set in fiscal year 2000-01.

CPS purchased four General Electric, simple-cycle, natural gas turbines in July 2002. The turbines have a capacity of 45 megawatts each and will serve as peaking units. The turbines are expected to be placed in service during the calendar year 2004. CPS is currently considering an application for a permit to construct a coal-faired generating unit for its base load.

Both Calaveras Lake and Braunig Lake have additional space and cooling capability for future generating units. These lakes, which cover approximately 5,000 surface acres, are man-made and utilize treated sewage effluent and runoff waters. CPS was a pioneer in the use of non-potable, recycled water for cooling purposes, thereby saving higher, potable quality underground water for other uses.

SAWS is obligated to provide 40,000 acre feet of wastewater per year to CPS for $2 million per year, with price escalation beginning in 2004. CPS may increase this amount by one firm 5,000 acre feet per year option, and two contingent 5,000 acre feet options which are dependent on the availability of the sewage effluent, at prices escalated to the date of exercise. CPS projects that these contract volumes, along with water available under existing permits, will provide sufficient cooling capacity for any additional generation units at these lakes.

While STP and the plants at Calaveras and Braunig lakes now provide most of CPS' generation, three older plants still provide significant generation during peak load periods. They are the W.B. Tuttle Plant, the Mission Road Plant and the Leon Creek Plant. The Mission Road Plant is scheduled to be retired at the end of the current fiscal year. These plants burn only natural gas and are cooled by ground water recirculated through cooling towers.

CPS owns 1,286 aluminum railroad cars which are used in unit trains to haul coal from mines in Wyoming and other locations to the J.T. Deely Plant and the J.K. Spruce Plant. CPS performs its own car maintenance and servicing at its car maintenance shops located at Calaveras Lake.

Generating Capability

Plant[1]		Fuel	Year Installed	Net Capability MW[2]	Total Capability MW[2]	
STP (28% interest)	Unit 2	Nuclear	1989	350		
	Unit 1	Nuclear	1988	350	700	Nuclear
J.K. Spruce Plant[3]	Unit 1	Coal	1992	595		
J.T. Deely Plant	Unit 2	Coal	1978	415		
	Unit 1	Coal	1977	415	1,425	Coal
A.von Rosenberg Plant[4]	Unit 1	Gas	2000	481		
O.W. Sommers Plant	Unit 2	Gas/Oil	1974	435		
	Unit 1	Gas/Oil	1972	445		
V.H. Braunig Plant[5]	Unit 3	Gas/Oil	1970	420		
	Unit 2	Gas/Oil	1968	240		
	Unit 1	Gas/Oil	1966	225		
W.B. Tuttle Plant	Unit 4	Gas	1963	160		
	Unit 3	Gas	1961	100		
	Unit 2	Gas	1956	100		
	Unit 1	Gas	1954	65		
Leon Creek Plant	Unit 4	Gas	1959	95		
	Unit 3	Gas	1953	65		
Mission Road Plant	Unit 3	Gas	1958	100	2,931	Gas/Oil
Total Capability owned by CPS				5,056	5,056	
Purchased Power:						
Desert Sky Wind Farm		Wind	2002	160	160	Wind
Total Capability including Wind				5,216	5,216	

(1) As of April 30, 2003.
(2) For gas/oil fueled units, the capabilities shown are the gas ratings.
(3) Net capability increased by five megawatts in May 2002.
(4) Net capability reflects summer rating.
(5) Net capability for Unit 3 increased by 20 megawatts in June 2002.

South Texas Project

CPS owns 28% of the two-unit STP nuclear power plant located on a 12,220 acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles from the City. Participants in the STP and their shares therein are as follows:

Participants	% Ownership	MW
Texas Genco, L.P.	30.8	770
City Public Service	28.0	700
AEP Texas Central Company	25.2	630
City of Austin - Austin Energy	16.0	400
	100.0	2,500

Since November 1997, the STP has been maintained and operated by a non-profit Texas corporation ("STP Nuclear Operating Company") financed and controlled by the owners pursuant to an operating agreement among the owners and STP Nuclear Operating Company. A five-member board of directors governs the STP Nuclear Operating Company, with each owner appointing one member to serve with the STP Nuclear Operating Company's chief executive officer. All costs and output continue to be shared in proportion to ownership interests.

During the 12 months ended December 31, 2002, the STP Units 1 and 2 operated at 99.2% and 75.0% of their net capacities, respectively. During the fall of 2002, Unit 2 completed a full replacement of its four steam generators and a refueling over a 65-day period. The Unit 1 steam generators were replaced in the spring of 2000. In mid-December 2002 following the refueling outage, the Unit 2 low-pressure turbines experienced a blade failure (a non-nuclear related problem) and the unit was shutdown for repairs. The turbine generator repairs and testing were completed and Unit 2 returned to full service in March 2003.

During a routine refueling and maintenance outage for Unit 1 beginning in late March 2003, inspection of the reactor vessel revealed that a small quantity of residue, about the size of one-half of an aspirin, was located outside of 2 of the 58 instrument guide tubes which enter the bottom of the reactor vessel. Analysis indicates the residue came from reactor coolant fluid. In order to assure that the cause may be fully determined and the repairs completed in a safe and effective manner, it is anticipated that Unit 1 will be shutdown through the summer of 2003. Unit 2 remains online and operating at full power. CPS owns sufficient generation capacity to serve its native electric load without STP Unit 1, and a combination of CPS' remaining generation capacity and purchased power will be used to compensate for the lost capacity due to the shutdown of Unit 1. A majority of the replacement power will come from natural gas-fired generation which costs more than power from STP. As a result, the Unit 1 outage will cause higher electric bills for CPS customers this summer. Otherwise, the repairs and outage costs are not expected to have a material adverse effect on the financial position or operations of CPS.

Five-Year South Texas Project Capacity Factor

	Calendar Year Ended December 31,					
	1998	1999	2000	2001	2002	2003[1]
Unit 1	99.1%	88.0%	78.2%	94.4%	99.2%	88.3%
Unit 2	91.1	89.4	96.1	87.1	75.0	55.6
Total	95.1	88.7	87.2	90.8	87.1	72.0

(1) Twelve months ended April 30, 2003.

The NRC evaluates plant performance by analyzing two distinct inputs: inspection findings from the NRC's inspection program and performance indicators that are reported by the licensee. Inspection findings and performance indicators are given a color designation based on their safety significance. The current plant assessment for STP can be found at either www.nrc.gov/NRR/OVERSIGHT /ASSESS/STP1/stp1_chart.html and www.nrc.gov/NRR/OVERSIGHT/ASSESS/STP2/stp2_chart.html or by writing to this address, USNRC Public Document Room, Washington, D. C. 20555.

The NRC rules require that each holder of a nuclear plant operating license submit to the NRC a decommissioning plan which contains, among other things, a cost estimate for decommissioning such plant and either a funding plan or a guaranty method for covering decommissioning costs for such plant. The participants in STP have filed a decommissioning plan for the STP in compliance with these rules, which includes the establishment of a trust into which each participant will annually pay, throughout the life of the STP, amounts which, when accumulated with investment income, will provide the funds required by the rules. Actual decommissioning costs could vary substantially from the estimate of such costs depending on future regulatory requirements, the method used for decommissioning, and other factors, and the amounts in the trust may or may not be adequate to pay these costs. As of December 31, 2002, the CPS contribution for the trust to decommission STP exceeded NRC requirements by $114.1 million.

Joint Operating Agreement

CPS and Texas Genco entered into a Joint Operating Agreement effective July 1, 1996. The agreement provides that the two entities will jointly dispatch their generating plants (other than STP) in order to take advantage of the most efficient plants and favorable fuel prices for each entity. CPS and Texas Genco now share equally the benefits achieved through joint dispatch of their combined portfolio of power plants, and this arrangement is expected to continue through the term of the agreement, which ends in 2009.

Transmission System

CPS maintains a transmission network for the movement of large amounts of electric power from generating stations to various parts of the service area and to or from neighboring utilities as required. This network is composed of 138 and 345 kV lines with autotransformers to provide the necessary flexibility in the movement of bulk power.

Interconnected System

The electric system is integrated with 92 other utilities, municipalities, independent power producers, power marketers, and co-operatives in Texas to form ERCOT, covering a large portion of Texas. The ERCOT system is operated entirely within the State of Texas and is connected to other reliability councils through two direct current lines, providing only limited import/export capability. CPS and the nine utilities below are the major generating and transmission entities in ERCOT:

CenterPoint Energy
American Electric Power Service Corporation
Oncor Electric Delivery Company, subsidiary of TXU US Holdings Company
Lower Colorado River Authority
Austin Energy
Texas Municipal Power Authority
Brazos Electric Power Co-operative
South Texas Electric Co-op/Medina Electric Co-op
City of Brownsville Public Utilities Board

The transmission facilities of the nine above entities, along with CPS, have been integrated into a single control area. The primary purpose is to facilitate the balancing of electric generation and load in a competitive retail market place.

Pursuant to the PUCT's open access transmission rule, discussed under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Transmission Access and Rate Regulation", these ERCOT members and other wholesale market participants jointly established, by a filing with the PUCT, the ERCOT organization as independent system operator and an integrated electronic transmission information network. ERCOT's responsibilities, which were augmented under SB 7 for the pending retail competitive market, include daily administration of the ERCOT transmission tariffs, including alternate dispute resolution procedures, implementation of a PUCT-approved loss compensation method, coordination of the scheduling of ERCOT generation and transmission, directing the redispatch of ERCOT generation and transmission transactions on a nondiscriminatory basis for economic purposes and to preserve system reliability, and administering the electronic transmission information network. ERCOT does not purchase or sell bulk electricity, nor dispatch generation facilities. The ERCOT electronic transmission information network is intended to permit all wholesale market participants to have contemporaneous, real-time access to the availability of and pricing for ancillary transmission services such as spinning reserve, responsive reserve, load following, and dynamic scheduling. Beginning July 31, 2001, ERCOT began operating the interconnected system as a single control area, in contrast to the multiple control areas historically in place, as part of the transition to the retail competitive market, implemented on January 1, 2002. ERCOT's costs of converting to a single control area and of administering system operations for the competitive retail market are recovered through an administrative fee assessed to system participants, including CPS. CPS recovers the fee through the billing adjustment discussed above under "CUSTOMER RATES - Governmentally Imposed Fees, Taxes or Payments".

Interconnection operating agreements among the ERCOT transmission-owning utilities, now administered by ERCOT, provide standby power in case of outages and emergency firm power should capacity deficiencies occur in a particular service area. These arrangements serve to reduce the standby capacity, which each utility would otherwise need. Membership in ERCOT provides CPS with an additional level of electric service reliability.

Distribution System

The distribution system is supplied by 83 substations strategically located on the high voltage 138/345 kV transmission system. The central business section of the City is served by nine underground network systems, each consisting of four primary feeders operated at 13 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt spot grid system. This system is well designed for both service and reliability.

Approximately 7,291 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of approximately 285 miles of three-phase distribution lines, 82 miles of three-phase Downtown Network distribution lines, and 3,060 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground distribution systems. Presently 70,773 street light units are in service; the vast majority of the lights are high-pressure, sodium vapor units.

GAS DISTRIBUTION SYSTEM

Supply Pressure System

The supply pressure system consists of a network of approximately 200 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 psig and 274 psig, and supplies gas to approximately 225 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. Supervisory Control and Data Acquisition computer system ("SCADA") monitors the gas pressure and flow rates at many strategic locations within the supply pressure system, and most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Distribution System

The gas distribution system consists of approximately 4,386 miles of 2 to 16-inch steel mains and 1-1/4 to 6-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure. Critical areas of the distribution system are remotely monitored by SCADA.

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OTHER ELECTRIC AND GAS SYSTEMS STATISTICS

	Electric System[1]				Gas System[1]
	Transmission System	Overhead Distribution System	Underground Resid. Distr. System (URD) & Downtown Network (DN)	Generation System Gas Pipe Line	Distribution System[2]
Substations	14[3]	69			
Miles of Lines	1,368	7,291	3,915 (UD)[4] 82 (DN)		
Kilovolts	138/345	13.2/34.5	13.2/34.5		
Miles of Main (Generation: South Gate Supply Line and Other)				69	4,586
Main Sizes (inches)				24 – 30	1 1/4 - 30
Main Pressures (psig)				275 - 1,118	33 - 274
Miles of Main (North Gate Pipeline)					17
Main Sizes (inches)					24
Main Pressures (psig)					931-1,118

(1) As of April 30, 2003.
(2) Supply Pressure System and Distribution System.
(3) Includes switchyards.
(4) Includes commercial, industrial and residential customers (UD).

GENERAL PROPERTIES

Operation Control System

The control center of CPS operations is located at the CPS Jones Avenue facility. From this location, system operators use SCADA to monitor and control the CPS electric and gas transmission and distribution systems. All substations, power plants and major gas regulating points are continually monitored and displayed on one-line diagrams on video screens. Any abnormality registers an alarm and the system operator can bring up on another screen detail of the control points and, with a mouse, operate the various switches and valves as required. In addition to the control capability, the system gathers data that is recorded on the computer for various reporting needs, such as loads, peaks, and BTU content. In 1999, SCADA was upgraded and expanded. Additional updates and improvements are planned in the current fiscal year 2003-2004.

CPS begin construction of a new Primary Control Center to be located on the east side of San Antonio, at an approximate cost of $26 million, for the electric and gas transmission and distribution systems. Ground breaking was held in March 2003 and construction is expected to be completed by the summer of 2004. The SCADA currently located at the Jones Avenue facility would become the secondary control center to ensure continued reliability of utility service to CPS' customers in the event of loss of the Primary Control Center.

Support Facilities

The operating systems are supported by modern shops for the maintenance of such items as meters, transformers, communication equipment, vehicles, railroad cars and heavy construction equipment. These shops, together with warehouses, supervisory offices, service centers and vehicle storage, are strategically located throughout the area to minimize driving time to work locations.
General Offices and Customer Service Centers

The Main Office Complex is located at the intersection of Navarro and Villita Streets in the central business district of San Antonio. The administrative, financial, business information systems, and engineering functions are handled at this location. The Main Office Complex is comprised of 11 floors of modern, efficient office space (with adjacent parking) and the Navarro Office Building/garage facility (with three additional floors for office use) which is connected by an enclosed walkway. CPS' customer service centers are able to provide any information concerning customer accounts or process customer payments. Customer service centers are geographically located on the north, south, east, and west sides of the service area as well as in the central business district. These centers are convenient to the customers' homes, are in locations more accessible to freeways, provide ample parking, and many reduce downtown traffic. In 2002 CPS acquired and renovated an existing structure to create the Northside Customer Service Center/Telephone Call Center to serve as a customer service center, the primary telephone contact location and additional office space for CPS personnel. The facility was re-developed into an environmentally friendly and energy conscious facility demonstrating forms of renewable and alternative energy.

Construction Centers and Service Centers

CPS maintains four construction centers, each of which houses electric/gas construction, repair/maintenance services, support personnel for administration/planning/engineering/training and warehouse/storage functions.

CPS maintains two service centers. One center serves as the primary central garage for heavy equipment and vehicle repair/maintenance functions with a separate building housing a central printing shop and warehousing/storage. The other service center houses the system wide control and electric/gas monitoring function, providing dispatching for response to emergency services/outages and meter repair services.

Assembly Building

The Villita Assembly Building is located near the Main Office Complex and is used for CPS sponsored meetings and events. The majority of leasing is to local civic, community, and non-profit organizations for major banquets, meetings and social events. The main hall has a capacity to accommodate 2,000 people as an auditorium or 1,200 for a dinner function.

Vehicles and Work Equipment

CPS owns a complete fleet of automobiles, trucks and work equipment. The garage facilities located at CPS' service and construction centers, are where most of the maintenance on this equipment is performed. Major maintenance is performed at the Salado Street Central Garage Service Center.

SUMMARY OF INSURANCE PROGRAMS

CPS maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major financial risks. The property insurance program provides $3.47 billion of replacement value for property and boiler, machinery loss coverage including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductibles for the property insurance policy range from $250,000 for general property to $1.7 million for a CPS turbine generator. The liability insurance program includes (1) $100 million of excess general liability coverage, (2) unlimited excess workers compensation coverage, (3) $30 million of directors and officers coverage, and (4) $25 million of fiduciary liability coverage. Other property and liability insurance coverage includes employee travel, event insurance, and commercial crime. CPS also maintains insurance reserves, which totaled $9.4 million as of April 30, 2003, to cover losses under the self-insurance portion of the insurance program.

As required by NRC regulations, CPS and the other participants in STP maintain nuclear liability, worker liability, and property insurance, each of which includes provisions for retrospective assessments depending on occurrences at STP and other commercial nuclear plants. CPS will be liable for 28% of the premiums and any retrospective assessments with respect to STP insurance, and for costs of decontamination, repairs or replacement of damaged property in excess of policy limits.

LITIGATION

CPS is involved in various legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals and discrimination cases. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or operations of CPS.

In seven pending condemnation cases to support the Van Raub substation and transmission line in Kendall and Comal Counties, counsel for the landowners has challenged the right of the City to condemn these properties claiming that certain parts of the bond ordinances authorizing the currently outstanding Senior Lien Obligations having to do with the selection process for CPS Trustees are contrary to law. The first of these cases was resolved in favor of CPS and the City on May 5 and three others are scheduled for hearing in July 2003. Legal counsel for CPS is of the opinion that these claims are without merit and that the Board's composition and the City's right to condemn property for the Systems are valid and legal under State and Federal law.

On the date of delivery of the Series 2003 Bonds being issued by the Corporation, CPS will execute and deliver a certificate to the effect that, except as disclosed herein, no litigation is pending or threatened against CPS, as of that date, affecting the net revenues of the Systems transferred to the City by CPS or questioning the proceedings and authority under which the same is made; that neither the existence or boundaries of CPS nor the title of officers is being contested; and that none of the proceedings of CPS relating to such Series 2003 Bonds has been repealed, revoked, rescinded, or amended.

APPENDIX E

AUDITED FINANCIAL STATEMENTS FOR THE CITY OF SAN ANTONIO, TEXAS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002 AND INDEPENDENT AUDITOR'S REPORT

CITY OF SAN ANTONIO

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

March 14, 2003

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2002. Through our dedication and commitment to excellence, the City maintained its bond ratings with the nationally recognized rating agencies: Fitch, Inc. at AA+, Standard & Poor's Public Finance Ratings Services, a division of McGraw-Hill Companies, Inc. at AA+, and Moody's Investors Service, Inc. at Aa2. The ratings reflect strong financial management and position with continued tax base growth for the foreseeable future.

This report is prepared and presented by the City's Finance Department. Accordingly, the responsibility for the accuracy, completeness and fairness of the data and presentation, including all disclosures, rests with the management of the City. The public accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA, have audited the financial statements contained herein. As reflected in the independent auditors' report, the City's financial statements are presented fairly in all material respects.

The CAFR is presented in three sections: introductory, financial, and statistical.

- The introductory section contains the transmittal letter, a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, and a list of principal officials.

- The financial section includes the independent auditors' report, management's discussion and analysis (MD&A), the basic financial statements, which consist of government-wide and fund financial statements and notes to the financial statements, other required supplementary information other than MD&A, and other supplementary information.

- The statistical section consists of selected financial and demographic information presented on a multi-year basis.

In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and OMB Circular A-133, and the State of Texas Single Audit Circular. The independent auditors' report on the basic financial statements, management's discussion and analysis (required supplementary information), required disclosures and schedules are included in the financial section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular are in separate documents. As in the past, the City will prepare and submit recommendations on any single audit findings of noncompliance with applicable regulations for corrective action in order to achieve compliance in the future.

As noted above, included in the financial section of the CAFR is Management's Discussion and Analysis (MD&A) which presents a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter complements MD&A and should be read in conjunction with it. The City of San Antonio's MD&A can be found immediately following the report of the independent auditors.

THE REPORTING ENTITY AND CITY SERVICES

Reporting Entity

The City is a home rule city that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two-year terms, limited to two consecutive terms. San Antonio is located in South Central Texas, approximately seventy-five miles south of the state capital of Austin and serves as the county seat for Bexar County. As of September 30, 2002, the City's geographic area was approximately 430.19 square miles. The United States Census Bureau cites the City as the third largest city in the state of Texas and ninth largest city in the country. The estimated population grew from 1,226,250 in fiscal year 2001 to 1,241,100 in fiscal year 2002, an increase of 1.21%.

Pursuant to the reporting standards contained in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Reporting Entity", other related entities are included in the CAFR as blended or discretely presented component units. Blended component units are those entities that are considered as part of the City's operations but are legally separate entities. Those entities are the City of San Antonio Health Facilities Development Corporation, the City of San Antonio Industrial Development Authority, the San Antonio Fire and Police Pension Fund, the San Antonio Fire and Police Retiree Health Care Fund, and the City of San Antonio Texas Municipal Facilities Corporation.

Entities that require discrete presentation are the San Antonio Development Agency (SADA), the City of San Antonio Education Facilities Corporation (SAEFC), the Greater Kelly Development Authority (GKDA), the San Antonio Housing Trust Foundation, Inc. (SAHTF), the San Antonio Local Development Company, Inc. (SALDC), Brooks Development Authority (BDA), the San Antonio Water System (SAWS) and City Public Service (CPS). SAWS and CPS are independently managed, municipally owned utility systems that operate under quasi-independent boards of trustees.

For additional details on each of these entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, Footnote No. 1, entitled "Reporting Entity".

Services

The City provides a vast array of municipal services. These services include but are not limited to fire and police protection, street and sidewalk maintenance, libraries, parks, and solid waste disposal. In addition, the City maintains preventive health services, and facilitates economic and neighborhood development. These services are funded from various sources which include ad valorem taxes, hotel/motel tax, sales taxes, grants, user fees, revenues from municipally owned utilities, and bond proceeds.

City Public Service (CPS) is one of the largest municipally owned utilities in the country. It provides electric and gas services to the greater San Antonio area. CPS operations and debt service requirements for capital improvements are funded by revenue derived from charges to its customers. The City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. In this report, CPS is included as a major discretely presented component unit. CPS is governed by a Board of Trustees which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. Additional information regarding CPS is discussed in the section "Infrastructure Development".

San Antonio Water System (SAWS) provides water, wastewater, chilled water, steam and reuse water services to the San Antonio area. SAWS is a City owned, separate consolidated entity that addresses water related issues in a coordinated and unified manner. Revenues from its customers fund SAWS' operations, capital improvements, and related debt service requirements. Similar to CPS, the City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. SAWS is governed by a Board of Trustees that includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. SAWS is included as a major discretely presented component unit, and it is discussed further in the "Infrastructure Development" section.

THE REPORTING ENTITY AND CITY SERVICES (Continued)

Services (Continued)

The San Antonio Development Agency's (SADA) mission is to focus on housing with emphasis on activities inside Loop 410 while continuing the implementation of the City's Urban Renewal Program. It may designate for urban renewal such areas, as it deems advisable, subject to approval by the City Council and the federal agency that administers the overall program. A majority of SADA's funding is provided from the City as pass-through grants. The board of SADA is composed of seven members appointed by the City Council.

The City of San Antonio Education Facilities Corporation (SAEFC) formerly the San Antonio Higher Education Authority, was established in accordance with State law for the purpose of aiding non-profit institutions of higher education in providing educational and dormitory facilities. This corporation is authorized to issue revenue bonds for the purposes previously mentioned, but said bonds are not obligations of the City. An eleven member Board of Directors appointed by the City Council governs the SAEFC for two-year terms.

The Greater Kelly Development Authority (GKDA) is charged with the task of all issues related to the closure, conversion, redevelopment, and future use of Kelly Air Force Base. The GKDA is also responsible for reviewing all options related to the most appropriate uses of the property on the base and surrounding areas. An eleven member Board of Directors appointed by the City Council governs the GKDA.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) was organized for the purposes of supporting charitable, educational and scientific undertakings, and to provide housing for low and moderate-income families. The SAHTF is also responsible for the administration and operations of the City's Housing Trust Fund, established for the same purpose noted above. An eleven member Board of Directors appointed by the City Council governs the SAHTF.

The San Antonio Local Development Company, Inc. (SALDC) was established in 1978 to help small businesses in South Central Texas realize business growth and job creation by facilitating access to a diverse package of intermediate and long-term loans. The SALDC administers the following loan programs: Small Business Administration (SBA) 504 Loan Program, SBA Microloan Program, Economic Development Administration (EDA) Revolving Loan Fund (RLF), Inner City Loan Program and the Housing and Urban Development (HUD) Enterprise Community Loan Program. The City Council appoints thirty-three Trustees to oversee SALDC, from which eleven members serve as the Board of Directors and govern the activities of the corporation.

Brooks Development Authority (BDA) was designed to improve mission effectiveness, reduce the cost of providing quality installation support, and promote economic development on Brooks Air Force Base and in the surrounding community. Dedicated funds will provide basic municipal services at the base while continuing to develop it as a technology and business park. An eleven member Board of Directors appointed by the City Council governs the BDA for two-year terms.

ECONOMIC OVERVIEW

As a community, San Antonio has positioned itself for long-term growth and prosperity by successfully following a strategy to diversify its economy and improve quality-of-life for all citizens. City government has been an integral part by implementing "A Strategic Plan for Enhanced Economic Development" through the collaborative efforts of San Antonio, Inc., a group of economic development organizations within San Antonio. Furthermore, the City is undertaking on-going infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as providing incentive, assistance and attraction programs that are geared to businesses of all sizes. Both government and citizens are working toward increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in San Antonio. As a result of the North American Free Trade Agreement ("NAFTA"), San Antonio has been able to capitalize on international trade opportunities by becoming a distribution point and center for companies doing business in Mexico. San Antonio is the closest major U.S. city to Mexico's biggest markets, and it enjoys close cultural and business ties to that nation. San Antonio's leading industries include

ECONOMIC OVERVIEW (Continued)

biomedical research and health services, international trade and distribution, information technology and security, telecommunications, tourism, financial services, and the military.

Employment Sectors

The nonagricultural employment sectors distribution for the San Antonio metropolitan area as of September 2002, according to statistics provided by the Texas Workforce Commission is as follows:

Industry Sector	Percentage of Total Employment	Jobs Gained/(Lost) (9/01 to 9/02)	%Increase (9/01 to 9/02)
Services	32.4%	2,500	1.1%
Retail & Wholesale Trade	24.0%	(1,800)	(1.0%)
Government	18.4%	2,800	2.1%
Manufacturing	7.2%	(700)	(1.3%)
Finance, Insurance & Real Estate	7.0%	(1,000)	(1.9%)
Construction	6.0%	1,600	3.7%
Transportation, Communication, & Public Utilities	4.7%	(2,100)	(5.8%)
Mining	0.3%	200	9.1%
Total	100.0%	1,500	.2%

The total number of San Antonio's nonagricultural jobs in September 2002 was 733,000. The City's largest employment sectors are Services, Retail and Wholesale Trade, and Government, which comprise about 75% of the area's employment. The largest growth in raw employment came in the government sector with a gain of 2,800 jobs (or 2.1%), while the largest percentage growth came in the mining industry with a growth rate of 9.1%, although this was from a small base of employment. Of the sectors with a more substantial employment base, construction showed the largest percentage increase in employment with an increase of 3.7%. The largest decline in raw employment came in the transportation, communication, and public utilities industry with a loss of 2,100 jobs, resulting in the largest percentage decline of (5.8%).

The City's health care sector, a component of Services, provides major health care services through its medical, research, education, and development facilities. The City's biomedical industry continues to dominate as the largest industry segment in the San Antonio economy. The Greater San Antonio Chamber of Commerce's Biomedical Economic Impact Study 2001 announced that this industry had a total direct economic impact of $8.1 billion in 2000. This industry provides 14% of all jobs in the San Antonio area, employing more than 96,000 with an annual payroll of $3 billion. Between 1990 and 1999, the economic impact of the health care industry nearly doubled (97.2% increase). Additionally, employees in the health care sector earn more than the San Antonio average wage.

San Antonio is unique because our research institutions have a strong array of expertise in basic and applied research talents in instrumentation, pharmacology, diabetes, cancer therapy, transplant medicine, geriatric medicine, dental medicine, specialized medical instruments, and information security technologies. These strengths provide San Antonio with a rich collection of world-class research facilities, affording us the opportunity to capitalize and leverage this significant combination of resources.

Some of the biomedical assets that the City possesses are: the Air Force Center for Environmental Excellence (AFCEE), BioMedical Enterprises, Biomedical Development Corporation, BioNumerik, Brooke Army Medical Center (BAMC), Brooks City-Base, the Cancer Therapy and Research Center (CTRC), Conceptual Mindworks, Inc, DPT Laboratories, ILEX Oncology, Inc., Incell Corporation, KARTA Technologies, Lipitek International, Mission Pharmacol, Probetex, OsteoBiologics, Philips Semiconductor of San Antonio, Research Dynamics, Inc., Sony Semiconductor Company of America, Southwest Foundation for Biomedical Research (SFBR), Southwest Oncology Group, Southwest Research Institute (SwRI), TEKSA Innovations, Texas Blood and Tissue Center,

Employment Sectors (Continued)

Texas Research Park Foundation, the University of Texas at San Antonio (UTSA), University Hospital, University of Texas Health Science Center (UTHSC), USAF School of Aerospace Medicine, U.S. Army Institute of Surgical Research, U.S. Army Medical Department Center and School, and USAF Wilford Hall Medical Center.

The University of Texas at San Antonio is adding two new significant assets to this impressive list of biomedical assets. UTSA is constructing a bioprocessing facility at Brooks City-Base that will house labs containing two or three fermenters ranging from about 40 liters to possibly 350 liters, a purification/downstream processing area and a cell culture area, a 2,400 square foot common lab with smaller fermenters for training and research, and an analytical lab.

UTSA will begin construction on a new $83 million Biotechnology, Science and Engineering building. The facility will consist of 227,000 square feet for lecture halls; research and teaching laboratories; and seminar, conference, and classrooms to accommodate students in the College of Sciences and Engineering. The facility will also be home to the new doctoral degree programs in cell and molecular biology, computational biosciences, and bioengineering. The completion and eventual operation of the facilities will be vital to the continued development of the health and biotechnology industries in San Antonio.

Additionally, San Antonio has three major military hospitals which have positively impacted the City for decades. The United States Air Force's largest medical facility, Wilford Hall Medical Center (WHMC) is an acute care facility, which provides complete medical care to military healthcare beneficiaries in the south central United States, and specialized care to patients from all over the world. WHMC contains the only Eye Bank within the Department of Defense and operates the only military programs for liver transplantation and allogenic bone marrow transplantation. The Brooke Army Medical Center (BAMC) is an ultra modern, state-of-the-art acute care facility that provides trauma care and graduate medical education, and contains the world-renowned Institute of Surgical Research Burn Center. Both WHMC and BAMC support the surrounding local communities by participating fully in the trauma and emergency medical care of the San Antonio and South Texas civilian communities. The Audie L. Murphy Memorial Veterans Hospital is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, and The Audie L. Murphy Research Services, which is dedicated to medical investigations. It serves forty-one counties and a veteran population of 300,000 throughout South Texas.

Yet another significant industry within San Antonio is the information technology and security industry. According to a recent study of the economic impact on San Antonio, that was commissioned by the Greater San Antonio Chamber of Commerce, this industry employs over 11,000 people with an annual payroll of $500 million and has an economic impact of $3.4 billion. With organizations such as the Air Intelligence Agency and the Center for Infrastructure Assurance and Security at the University of Texas at San Antonio, the city has a reputation for excellence in information security.

Past terrorist events resulted in unforeseen national defense strategies. The nation is faced with having to protect its citizens from the direct effects of biological warfare. In addition, a more concentrated effort to mitigate or prevent biological terrorism has been generated in the information security industries. As a result of San Antonio's rich biosciences and information technology industries, the City has positioned itself to surface as the world's foremost Homeland Security Solutions City. A collaborative effort among the numerous organizations within San Antonio with skills and expertise in homeland security will play a pivotal role in making San Antonio a key player in the nation's homeland security efforts and build upon the city's designation as the second-most prepared city in the country behind New York City.

The hospitality industry represents another major component of the Services sector. San Antonio's natural, historic, cultural and recreational attractions have long made it one of the top vacation and convention destinations in the country. This has resulted in an increase in tourism activity, economic impact and employment

Employment Sectors (Continued)

opportunities related to the hospitality industry. The City's proactive management practices and marketing efforts resulted in approximately 1,153 reported conventions in fiscal year 2002, with 1,026,938 associated room nights and an estimated economic impact of $555.1 million. The San Antonio Convention & Visitors Bureau (SACVB) has booked approximately 4.5 million room nights from November 2002 through 2022.

The military continues to represent a principal component of the San Antonio economy. As of September 30, 2002, the military employed approximately 73,189 military, civilian and part-time guard and reserve personnel with an estimated direct economic impact of about $4.8 billion. Three major active installations comprise the military sector: Lackland Air Force Base, Randolph Air Force Base, and U.S. Fort Sam Houston. In addition, Brooks Air Force Base property was conveyed to the Brooks Development Authority (appointed by City Council) on July 22, 2002, with the resident military missions remaining as tenants in the newly established Brooks City-Base Technology and Business Center.

The military presence within San Antonio will be further enhanced with the relocation of US Army South to Ft. Sam Houston. The relocation of this prestigious organization to the city is expected to take place in 2003 and will bring approximately 500 jobs with an estimated annual payroll exceeding $42 million and an annual economic impact of $200 million.

Additionally, San Antonio's stature as a location for corporate headquarters is growing. The City has attracted some major business enterprises to locate their operations in the City. Toyota Motor Manufacturing North America, Inc., has entered into an agreement with the City to invest $400,000,000 in an automotive manufacturing plant that will produce 150,000 Tundra trucks per year and employ 1,800 employees. Construction is scheduled to commence in 2003 with production occurring in 2006. Infonxx, which is a call center that provides directory assistance services announced that it will expand its operation in San Antonio by employing an additional 2,000 workers. The company plans to complete this expansion by December 2003. The City has also entered into an agreement with a large developer to develop a major area in the City to include a PGA Resort with two golf courses, the construction of a major hotel, and construction of residential homes. The development area is in the Northeast part of the City, outside the City limits but within the Extraterritorial Jurisdiction Area and covers approximately 2,597.6 acres of land.

United Services Automobile Association (USAA), a leading insurance agency, continues to be the City's largest private sector employer. Clear Channel Communications, Inc., also headquartered in San Antonio, is a global leader in the out-of-home advertising industry with radio and television stations, and other entertainment venues in forty countries around the world. New headquarters have also been built for San Antonio's energy company, the Valero Energy Corporation, which merged recently with Ultramar Diamond Shamrock. Clarke American Checks, the third largest producer of checks and financial forms in the country with headquarters in San Antonio, expanded its local presence in 1999 with the addition of a major customer service center.

San Antonio is being recognized as a center for national and international business service operations. This is evidenced by companies such as J.P. Morgan, Chase, Citicorp, World Savings & Loan, Boeing, QVC, Kraft, and other companies which have established substantial business operations in San Antonio that provide billing services, technical and communications services, financial services, customer service and other functions to their entire organizations.

Business Climate and Outlook

In response to the terrorism events of September 11, 2001, the Mayor appointed a Blue Ribbon Commission on San Antonio's Economy. The commission was comprised of seven task forces that evaluated the local economy and made recommendations to counter the economic slowdown resulting from the terrorism.

Business Climate and Outlook (Continued)

San Antonio's healthy economy and positive business climate are enhanced by elements key to continued economic growth, such as an advanced telecommunications system, significant recent accomplishments in the area of higher education, and strong workforce development programs. Also enhancing San Antonio's business appeal is the high quality-of-life the City offers and a cost-of-living that is well below the national average. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including championship golf courses, theme parks, historical attractions, museums, professional sporting attractions and a lively performing arts environment.

The City's Economic Development Department (EDD), in coordination with the private, non-profit San Antonio Economic Development Foundation, continues to attract major corporations to the area and help local businesses expand. Although the nation's economy experienced a downturn in 2002, job growth continued in San Antonio with approximately 2,017 new jobs created through economic development programs. Companies that located or expanded business operations in San Antonio in 2002 include J.P. Morgan, Chase, Boeing, United Health, San Antonio Aerospace, Inc., and World Savings. Another 100 automotive manufacturing jobs are already confirmed for 2003 with the recent announcement by Royal Oak Industries to establish manufacturing operations in San Antonio.

The Industry Development Division of the City's EDD continues to focus on working with the Greater Kelly Development Authority in the successful redevelopment of KellyUSA, formerly Kelly Air Force Base, which officially closed on July 13, 2001. EDD is also working with the Brooks Development Authority to make Brooks City-Base an economic success. In addition, EDD is working with Fort Sam Houston to explore ways that the City can help this local installation become more cost efficient, reduce infrastructure support costs, preserve jobs and enhance economic development opportunities.

KellyUSA
At KellyUSA, the Greater Kelly Development Authority (GKDA) continues implementation of the community's 1995 Initial Base Adjustment Strategy Committee strategic plan. To date, GKDA has successfully created over 5,300 new commercial jobs and leased out 75% of the available and marketable space with sixty-tenant leases executed. Commercial tenants include major aerospace industry players such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Electric, General Dynamics, and Pratt & Whitney. Boeing employs over 2,000 personnel as they continue to expand and grow their operations at KellyUSA. Over the past two years, GKDA has also completed over $105 million in new construction and facility upgrades and has planned a $108.6 million capital improvement program for the next five years. As part of these improvements, in April of 2002 KellyUSA opened the Advanced Technology Center which provides a curriculum in avionics.

With the completion of the City's Air Cargo Study in July 2002, planning is also underway to establish air cargo operations at KellyUSA. In addition, GKDA is partnering with the City, the Port of Corpus Christi, the Texas Department of Transportation and major railroad companies to establish inter-modal operations at KellyUSA with critical linkage to the planned Kelly Parkway. The success of this initiative is key to creating Inland Port San Antonio and establishing San Antonio as a major center of logistics and distribution for NAFTA trade.

Brooks City-Base
Congress, by passing special legislation in October 1999 which was then amended in September 2001, granted the Air Force special authority to improve mission effectiveness and reduce the cost of providing quality installation support at Brooks Air Force Base (AFB). This special authority allowed Brooks AFB to transfer and lease back federal land in a more streamlined manner without being subjected to some existing federal property statutes and presents an opportunity for high quality, multiple-use development in a unique public-private partnership with the Air Force. Development of underutilized real property, including sale or lease of Air Force assets, is part of an integrated strategy for transforming the base into a technology and business center.

Business Climate and Outlook (Continued)

Brooks City-Base (Continued)
The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the "Air Force") and the City designed to retain the Air Force missions and jobs at Brooks AFB, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks AFB and in the surrounding community. Both the City and the Air Force are partnering to utilize City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park (the "Park"), a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology.

The Park was officially established on July 22, 2002, which resulted in the transfer of 1,310 acres of land and improvements conveyed by Brooks AFB to the Brooks Development Authority ("BDA"). The Air Force is the Park's anchor tenant and is leasing back additional facilities, as necessary, to perform its missions. The City is now providing municipal services to include fire and police services. Electric, gas and water utilities have been transferred by the BDA to City Public Service (CPS) and the San Antonio Water System (SAWS), City-owned utilities. The BDA has also contracted with Grubb & Ellis, a national real estate developer and property management firm to manage Park facilities and to facilitate the park in the attraction of new tenants and jobs.

Fort Sam Houston
In April 2000, the U.S. Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center and two other buildings at Fort Sam Houston. The three buildings total about 500,000 square feet in space and are located in a designated historic district, had been vacant for some time and in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease the property to commercial tenants. FSHRP is currently seeking tenant sublease commitments necessary to secure financing for an estimated $50 million in renovations to the buildings. On September 17, 2002, the U.S. Army announced that U.S. Army South (USARSO) will relocate from Puerto Rico to Fort Sam Houston in 2003. The relocation will bring up to 500 new jobs to San Antonio with an annual economic impact of approximately $20,000,000. The Army intends to lease facilities from the FSHRP clearing the way for renovation to begin on these historic facilities. The continued success of this unique public-private partnership at Fort Sam Houston is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities and generating net cash flow for both the Army and FSHRP. This initiative supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army also intends to extend this initiative to include other properties at Fort Sam Houston currently available for redevelopment.

San Antonio Technology Accelerator Initiative (SATAI)
SATAI is a collaborative effort that identified opportunities for economic development for San Antonio's technology industries. Four technology cluster groups (Biosciences, Information Technology, Telecommunication, and Aerospace) were identified as San Antonio's competencies. Today SATAI has 1,100 members and is instrumental in developing and implementing initiatives that accelerate entrepreneurial job creation and increase community income through the growth of the technology sector of the San Antonio economy. SATAI promotes San Antonio technology through its new web site, airport advertisements, speaker's bureau publications, press opportunities, a regional technology calendar and, by working with the Convention and Visitors' Bureau to attract technology conventions to San Antonio.

San Antonio, Inc.
San Antonio, Inc. was established by City Council ordinance on May 24, 2001 for the purpose of providing a higher level of coordination and collaboration on economic development initiatives. Executive and volunteer leaders from more than sixty local economic development organizations serve in the organization's Directors/Resource Tier, Executive Board, and the Board of Governors. Member organizations include local

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

San Antonio, Inc. (Continued)
chambers of commerce, business and technology parks, small business advocates, regional and international trade organizations, university systems and local colleges, public schools, the City of San Antonio, Bexar County, and the Alamo Area Council of Governments. San Antonio, Inc. is responsible for implementation and regular updates of the 2001 Strategic Plan for Enhanced Economic Development, a comprehensive economic development strategic plan designed to leverage certain targeted driver industries, maximize San Antonio's location advantages in South Texas, facilitate the business development process, ensure small business opportunities in the new economy, and promote revitalization in targeted areas of our community. During fiscal year 2002, San Antonio, Inc. convened the initial meetings of its Executive Board, hired a full-time staff coordinator through the City's economic development department, developed a comprehensive tracking system for 44 current strategies in the strategic plan and initiated a process for annual updates and revisions of the strategic plan, which culminated in the first San Antonio Inc. Annual Meeting & Economic Roundtable on February 25, 2003.

Aviation Industry Development
The Aerospace Industry continues to be a growing segment of the San Antonio economy with the presence of major industry players such as Boeing, Lockheed Martin, Pratt & Whitney, Cessna, General Electric, Sino Swearingen, Raytheon, Standard Arrow and Chromalloy. A recently completed study, funded through the Greater San Antonio Chamber of Commerce Aerospace Committee, determined that the overall annual economic impact of the Aerospace Industry in San Antonio is over $2.5 billion. In addition, the industry employs about 10,000 people who earn an average annual wage of $38,593. The City expects this industry to continue growing particularly in the areas of maintenance, repair and overhaul and in air cargo.

The City has three airport facilities: San Antonio International Airport, Stinson Municipal Airport and KellyUSA. The International Airport and Stinson Airport are owned by the City and operated by the City's Aviation Department. At KellyUSA, the GKDA has entered into a joint use agreement for use of the KellyUSA runway for commercial air operations. The airport facilities provide San Antonio with a variety of properties, facilities and assets that comprise the nucleus for a viable and expanding aerospace industry. The City has, therefore, identified aerospace as a targeted driver industry in its 2001 Strategic Plan for Enhanced Economic Development.

To support the workforce requirements for growing and sustaining a viable aerospace industry, the community partnered to establish the Alamo Area Aerospace Academy (AAAA), which opened in August 2001. The City has funded the AAAA with $200,000 in fiscal year 2002 and another $150,000 in fiscal year 2003. The inaugural class enrolled 121 high school students of which 94 graduated in May 2002. Of the 25 seniors in this class, 15 are now employed within the aerospace industry in San Antonio. There are currently 127 students in the fiscal year 2003 AAAA class. Complementing this workforce initiative is the Advanced Technology Center that opened at KellyUSA in April 2002 and provides an avionics curriculum. The City in partnership with the Alamo Community College District funded the $3 million facility renovation project housing the Academy.

The City is also in the process of implementing the November 2000 Aviation Strategic Plan. The Plan identifies economic development opportunities at KellyUSA, San Antonio International Airport and Stinson Municipal Airport, specifically in the four business areas of: (1) air cargo; (2) aircraft maintenance, repair and overhaul (MRO); (3) general aviation; and (4) air passenger service. The Aviation Department completed an Air Service Development Program in October 2001 that identifies opportunities for enhancing air passenger service at San Antonio International. In addition, an Air Cargo Study was completed in July 2002 and has identified opportunities for air cargo growth both at KellyUSA and San Antonio International Airport. Aviation is also one of the four industry cluster groups identified in the San Antonio Technology Accelerator Initiative (SATAI).

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

New Business Prospects
As of the third quarter of 2002, the San Antonio Economic Development Foundation, Inc., reported the City had 84 active business prospects. The new businesses are categorized as business services, financial services, fabricated metal products, industrial machinery, electrical equipment, rubber and plastics, nondurable distribution, durable distribution, engineering and professional services, printing and publishing, custom software, engineering and research, transportation equipment, miscellaneous manufacturing, chemical and pharmaceutical and others.

Downtown Development Projects
The centerpiece of downtown revitalization is the Houston Street Redevelopment Project. This effort was spearheaded by Street Retail San Antonio, L.P., which acquired 14 buildings on E. Houston Street between the San Antonio River Walk and Presa Street. The developer invested more than $100 million to create a retail and entertainment district in the heart of downtown. Public improvements included, among other things, river walk, street, sidewalk, landscaping and pedestrian way improvements. Private improvements included renovations to eight buildings located on Houston Street as well as building the new 214-room Hotel Valencia. The planned private developments include specialty retail outlets, restaurants, office space, housing units, clubs and other venues. In addition to the aforementioned improvements, the City recently completed a 704 space multi-level parking garage in the area of Travis and St. Mary's streets, which has alleviated day time corporate parking demand and increased parking for the hotels, restaurants, and night attractions. In addition in 2003, the build-out of the new 100-room Watermark Hotel and the 350-room La Quinta Inn & Suites hotel projects will reshape the downtown skyline. The City will continue its efforts to facilitate the development of a convention headquarters hotel adjacent to the recently enlarged Henry B. Gonzales Convention Center.

International Trade
The Directory of San Antonio Exporters and Support Organizations (published by the City's International Affairs Department) has identified over 700 local companies that export to other nations or provide export assistance.

During fiscal year 2002, the International Affairs Department worked with 122 international delegations that included 2,165 delegates that visited the City. Delegations visited San Antonio from Germany, Israel, Mexico, Japan, Canada, Argentina, Thailand, Qatar, Luxemburg, Spain, Canary Islands, Ireland, China, France, Russia, Czech Republic, Great Britain, Italy, South Africa, and Costa Rica. The value of exports has increased from $563.9 million in 1993 to $2,033.7 million in 1999, the most recent year for which such information is available.

As of September 30, 2002, the North American Development Bank (NADB) had authorized loans and grants totaling approximately $458.7 million for the development and financing of 52 infrastructure projects throughout the 10 states that comprise the U.S.-Mexico border region. These projects represent a total investment of approximately $1.3 billion, and are benefiting an estimated 6 million border residents in the United States and Mexico.

The NADB has been the catalyst to a significant and unprecedented level of investment in environmental infrastructure along the U.S.-Mexico border. NADB participation in these projects represents about 34 percent of the total investment in these projects. Of these, 12 have been completed, 24 are currently under construction or in various stages of completion, and 16 are in the design or bidding stage and are expected to start construction this year. In the area of local capacity building, the NADB to date has authorized technical assistance under its Institutional Development Program (IDP) for 106 projects in 68 communities on both sides of the border.

Infrastructure Development

The City recognizes its obligation to address infrastructure needs and to provide the services required to maintain and continuously improve the living standards of its citizens. Infrastructure, the basic framework or underlying foundation provided by government to support a community's basic needs, including its various components that ensure economic activity, safety, education, and quality of life, are discussed below.

Infrastructure Development (Continued)

Basic Infrastructure Components

Street/Highway System

San Antonio is located at the crossroads of two important Freeways – IH-10 (running east-west) and IH-35 (running north-south) – and is located mid-way between the East and West coasts. San Antonio's roadway system, consisting of approximately 4,242 roadway miles, facilitates the movement of commerce within and through the City. Freeway arteries that intersect the downtown business district include IH-10, IH-35, IH-37, US-90, and US-281. There are three freeway loops including a downtown loop, IH 410, and Loop 1604. Recently completed or ongoing improvements include the widening of segments of Loop 1604, the construction of new interchanges on US-281, IH 410 and IH-10, and a new transportation corridor, the Wurzbach Parkway. Additionally, the Texas Department of Transportation is currently planning the construction of a four-level IH 410/US-281 interchange. In addition the City has implemented the first reversible lane project to mitigate traffic congestion around he SBC Center, which is a mid-size, multi-purpose arena for the San Antonio Spurs Basketball Team, during events. The Texas Department of Transportation's TransGuide or "smart highway" project has been operational in San Antonio since 1995, with ongoing additional expansions and equipment updates. This traffic management system utilizes high-speed computer technology to inform drivers about traffic conditions ahead, thereby enhancing safety, reducing congestion, and providing for more efficient traffic flow. In addition, TransGuide technology incorporated the Amber Alert System, a system used to alert citizens about missing children.

Public Safety

The improved Dispatch Facility, constructed in 2000 and funded with 1998 Certificates of Obligation, will accommodate the requirements for a new public radio system. Currently in the final stage of field testing, it is scheduled to become operational in the first quarter of 2003.

The Police Department continues implementation of the Police Rolling Staffing Plan. The Plan outlines goals to add new police officer positions and civilian positions while redirecting other police officer positions to patrol functions. The cost of implementation over fiscal years 2002-2006 is $45 million. The 2001 Plan was implemented in order to stay proactive with potential rising property and violent crime rates along with projections of an unusual number of police officer retirements, which would leave potential gaps in police staffing. This potential increase in crime is due to recidivism, as a result of early prison releases. With the continuation of the 2001 Plan, the new Patrol Availability Factor goal for fiscal year 2003 will be 39.56% along with the continuation of dedicated directed patrols.

The 1999 Bond Program earmarked $17.4 million for three Vision 2001 technology systems: Field Entry Reporting, Optical Disk Storage and Retrieval, and Supplementary Report Management System. This "Public Safety Integrated Technology System" will provide a comprehensive information management system to increase police officer and detective effectiveness while enhancing customer service. The system will enable officers to enter reports from the field, as well as improve the filing, preparation and storage of important case information. The Police Department currently has a contract with Open Systems Group for the development of a software base for this system. In fiscal year 2002, $4,074,250 was budgeted for this project.

1999 General Obligation Bonds totaling $3,009,000 were allocated to Police Substation Expansion Projects for West, South, North, and Northwest Substations. In fiscal year 2002, $2,935,000 was budgeted for the expansion projects. The Police Substation Expansion Projects continue as scheduled; expansion of five police substations is necessary due to annexation, population growth, and crime trends in order to improve the ability to provide neighborhood policing and improved service delivery. Construction of the North, South and West Substations will be complete in January 2003. The East and Northwest Substations will be complete in December 2003.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Safety (Continued)

In fiscal year 2002, the Police Department continued to provide and improve citizens' convenient access to information and investigative services at Police Substations through enhanced data availability on the Department's Website. Police reports are available to the public at the Police Headquarters Records Office and at the four City of San Antonio Community Link Centers.

The City continues to promote and provide for its Public Safety infrastructure by allocating funding through the budget process for police, fire and Emergency Medical Service (EMS). As of September 30, 2002, Public Safety Infrastructure included 6 police stations, 48 fire stations, which house 48 engine companies, 18 truck companies, 8 brush trucks, 8 Fire command units, 5 EMS command units, 25 full-time EMS units and up to 7 peak period units per day, increasing to 10 units during large citywide special events such as Fiesta and the New Year's Eve celebration.

With regard to Fire and EMS services, fiscal year 2002 included the continued implementation of the Fire Department Master Plan, a five-year rolling plan of comprehensive improvements targeted to enhance services provided such as fire suppression, fire prevention, and emergency medical services. Improvements implemented included continuation of the department's apparatus replacement program. Additionally, the First Responder program was continued with the addition of 1 van, bringing the total to 16. This program is part of a Fire Department initiative to increase the useful life of the more expensive firefighting apparatus. Technology and equipment enhancement upgrades related to Laptop Mobile Data Terminals (LMDTs) were continued in fiscal year 2002.

Parks and Recreation Department

As of September 30, 2002, the City's Parks and Recreation infrastructure included over 187 neighborhood, community and large urban parks, numerous sports complexes, 26 recreation centers, 23 swimming pools, and other special facilities, such as the River Walk, Botanical Gardens, Tower of the Americas, Spanish Governor's Palace, Market Square and La Villita. The total park area covers 13,867 acres. During fiscal year 2002, approximately 25 Parks and Recreation capital improvement projects were completed at a construction cost of over $6.2 million, and an additional 84 Parks and Recreation capital improvement projects were under construction, bidding, or design at the end of the fiscal year.

On May 6, 2000, San Antonio voters approved the collection of an additional 1/8 cent sales and use tax aggregating up to $65 million to purchase and develop as appropriate; (a) large tracts of parkland containing sensitive natural areas over the Edwards Aquifer ($5 million), and (b) linear tracts of land for greenway development along Leon Creek and Salado Creek ($20 million), as well as a 10% operations and maintenance endowment for the Edwards Aquifer Parkland. The parks proposal was the only one of four ballot issues presented to voters on May 6, 2000 that was approved, and will be funded through a temporary 1/8 cent increase in San Antonio's sales and use tax. It is anticipated that the $65 million will be remitted to the City by July 2004.

Planning Department

The City's Citizens Blue Ribbon Redistricting Committee met over the course of several months in fiscal year 2002 to implement a Re-Districting Plan based on the results of the 2000 Census. Numerous Geographic Information System (GIS) and Demographic products were completed for this committee, including staff analysis on population, race, and historic trends. These products supported the submittal of the proposed Re-Districting Plan to the Department of Justice (DOJ). After approval by the DOJ, the GIS Staff created a City-wide GIS Enterprise Data Set of the 2002 City Council Districts. This data is the first to be used by the City Clerk's Office to prepare for registration of City Council Candidates under the 2002 redistricting. After the election, this data will be used for all City information and business processes which service the citizens of San Antonio. During fiscal year 2002, the Southside Balanced Growth Initiative was initiated. The primary goal of this initiative is to

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)
reverse the trend of disinvestments in the southern sector and encourage the balanced growth of the City. Currently outside the City limits, an 83.6 square mile area located 7.5 miles south of downtown will be annexed for limited purposes to extend land use and health safety regulations to the area. This initiative will establish a growth policy for south San Antonio that seeks to develop the area into an integral part of the City and create an overall scenario of sustainable development.

Additionally, this effort seeks to achieve the goals and objectives of the 1997 Master Plan, the 2001 San Antonio Housing Master Plan, and the Community Revitalization Action Group (2000) by utilizing Smart Growth Principles. Through this initiative, the City will encourage the development of attractive, sustainable neighborhoods that are pedestrian oriented and support a mix of uses, provide a range of quality housing options, protect natural resources and open space, support walking, cycling, and bus/rail transit alternatives to driving, revitalize and support existing communities, generate job opportunities, promote quality schools, attract investors and encourage development by making investment easier and profitable, and reduce infrastructure costs by developing closer to the urban area and coordinating development infrastructure. The City added three new Historic Districts, bringing the total of Historic Districts in San Antonio to nineteen. A recent study of the Economic Impact of Historic Designation in San Antonio by Rutgers University showed that Historic District designation increased property values 18% over the normal inflation rate compared neighborhoods of similar character not designated historic. Currently three additional neighborhoods are in various stages of designation. Two of those should be through the designation process by the end of the year.

During the past year the City expanded its Riverwalk areas and created six new River Overlay Districts. The new districts extend along the San Antonio River from the headwaters to the southernmost of San Antonio's Spanish Missions. The overlays regulate development and use of properties using criteria specific to the historical and design setting of each district and will also enhance the City's ability to protect the unique character of the San Antonio River as well as the neighborhoods and businesses near the river.

The Historic Preservation office is also working on an architectural survey of the original thirty-six square mile city limits. The survey, utilizing volunteers from neighborhoods and advocacy groups, is a three-year project to document and identify potential landmarks and historic districts.

The Neighborhood Improvement Challenge Program (NICP) provides neighborhood-based organizations the opportunity to implement small, public improvement projects in partnership with private groups. In fiscal year 2002, the NICP awarded a total of $161,696 to 107 projects ranging from landscaping, murals, park enhancements, and special topics series that include newsletter design, advertising, and promotion and distribution. Although the NICP was not funded for fiscal year 2003, previous funding will enable the scheduling of additional special topics workshops series to be held in the spring of 2003.

As part of the implementation of the Community Building and Neighborhood Planning Program (CBNP), three neighborhood plan projects were initiated. These include the Hays Street Bridge Rehabilitation Project, the Austin Highway Hazard Elimination Safety Program (HESP) and the Olmos Creek Greenway Project. The Hays Street Bridge Project was awarded $2,879,293 through the Texas Equity Act for the 21st Century (TEA 21) enhancement program in 2002. In an effort to raise funds for the City's match, the Planning Department will continue its involvement to coordinate with the citizens committee and to assist with public involvement with Texas Department of Transportation (TxDOT).

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)
Through a Hazard Elimination Safety application submission for TEA 21 funds, $475,000 was awarded to the San Antonio TxDOT district for the construction of medians on Austin Highway from Eisenhauer to Rittiman. The Planning Department, Neighborhood Action Department and the Public Works Department are coordinating the preliminary design and public involvement process with TxDOT.

In April 2002, the City Council adopted a Universal Housing Design Ordinance requiring all single-family houses, triplexes, and duplexes built with City financial assistance to be designed and constructed to accommodate the life span of the owners regardless of disability.
As part of the City's commitment to comply with the 1990 American's with Disabilities Act, 211 facilities have been modified for accessibility and 73 are currently under design. The long-range Building Access Modification Plan (BAMP) projects that an additional 27 facilities will be modified by January of 2005.

Library Facilities
The San Antonio Public Library System consists of a Central Library facility, 18 branches, 1 joint-use facility at the Ronald Reagan High School (a unique partnership between the City and Northeast Independent School District), and 1 bookmobile. The Central Library and 9 of the 18 library branches offer services seven days and three evenings a week. The Ronald Reagan High School/Public Library is open after school hours and evenings four days a week, Saturday and Sunday during the day. The remaining 9 library branches are open 6 days and 4 evenings a week. The addition of Thursday evening hours at these locations provided increased library access and usage for families, students and neighborhood residents.

Over 3.4 million people utilized the Library's collection of print and non-print resources in fiscal year 2002. Citizens borrowed 6% more materials and asked 29% more reference questions than in the prior year. Usage of the Library's website, including access to full-text electronic information databases increased 64% over the previous year. Over 152,000 citizens attended library programs designed for a variety of audiences including children, families and adults.

Airport System
The City's airport system consists of the San Antonio International Airport and the Stinson Municipal Airports, both of which are owned by the City and operated by its Department of Aviation.

San Antonio International Airport is located on approximately 2,600 acres of land that is adjacent to Loop 410 freeway and U.S. Highway 281, and is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and is able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 28 second level gates. Presently, domestic air carriers providing service to San Antonio are American, America West, Atlantic Southeast, Comair, Continental, Delta, Midwest Express, Northwest, Southwest, and United. Mexicana, Aerolitoral and Aeromar are Mexican airlines that provide passenger service to Mexico. The Airport Master Plan design allows for an increase from 28 to 60 gates. It is estimated that current gate facilities are being used at 88% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses including nine rental car companies, which lease facilities at the San Antonio International Airport and Stinson Municipal Airport.

San Antonio International Airport has two designated cargo areas: the West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992. The East Cargo Area is specially designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics (EGL) constructed

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
a processing facility in the year 2000. Expansions of the cargo apron were completed in 1997 and 1999 to accommodate future growth and additional facilities are currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2001 totaled 108,815 tons.

San Antonio International Airport operates and maintains approximately 6,100 parking spaces and 1,000 employee parking spaces for a total of 7,100 parking spaces. A parking study was developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicated that projected peak period demand for airport parking will exceed the available supply by the end of 2004. It is estimated that 2,400 additional parking spaces will be required to satisfy projected demand over the next ten years. The City is in the process of coordinating the facility layout for the new parking improvements and the additional terminal facilities. The design contract for the parking improvements is expected to be awarded in early 2003, while construction of the new parking facilities is anticipated to start before the end of 2003.

In 1999, the Aviation Department completed a Re-engineering Study of its Airports' operations. The study focused on cost efficiency and customer service improvements as well as revenue enhancements. The goal is to achieve a "balance" approach that would weigh costs against level of services that the Department provides to the public. In addition, the Re-engineering Study included recommendations on performance targets to be achieved over a three-year period, as well as an on-going evaluation process to monitor the status of the changes. In addition to the 12 full-time and 30 part-time positions, which were eliminated following the completion of the recent parking improvements, the recommendations involved a net reduction of 26 positions.

It is estimated that by the end of fiscal year 2002, the Re-engineering recommendations will result in an annual operating cost savings of $1.2 million and additional operating revenues of $1.9 million. The combination of the two will produce an annual increase of approximately $3.1 million to the Airport Operating Fund. Contractually, approximately half of this sum will be utilized in reducing the cost of facilities and services to the airlines, while the remaining funds will be available for new capital facility improvements at International and Stinson Airports. In fiscal year 2002, airline costs per enplaned passenger were estimated to be $4.09.

As an adjunct to the Re-engineering improvements, a comprehensive terminal renovation project is underway to improve the quality of services provided to passengers at the San Antonio International Airport. The project, which is estimated to cost $27.5 million, will include state-of-art terminal building amenities and implementation of recommendations from a recently completed Concession Redevelopment Study. Included in the terminal renovations will be redesigned, high-quality retail and food establishments offering a mix of regional and local products at street prices. Concession space will be expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets will be at airside locations.

The City is planning the implementation of a ten year Capital Improvement Program (CIP) pursuant to the Master Plan for San Antonio International Airport. The CIP addresses both terminal and airfield improvements. The capital program includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements and the extension and improvement to two runways, along with supporting taxiways and aircraft apron. The Airport System's overall CIP for fiscal years 2002 through 2011, which may change as circumstances permit, is estimated to be $425.6 million. The CIP includes capital improvements as follows: $124.2 million for terminal related improvements, $51.8 million for parking improvements, $19 million for roadway improvements, $177.1 million for airfield improvements, $8.2 million for cargo facilities, $6.7 million for aircraft apron, $5.9 million for Stinson Airport improvements, and $32.7 million for other improvements. The City plans to pursue a phased approach in the construction of the improvements, whereby capacity is increased to coincide with demand. The City also

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
desires to limit to the extent possible the impact on airline rates and charges. The City, as the owner and operator of the Airport, has received authority to "impose and use" Passenger Facility Charges (PFC) at the $3.00 level, which became effective November 1, 2001. The FAA issued a Record of Decision approving the City's PFC application on August 29, 2001. The CIP also anticipates the approval of a Letter of Intent with the FAA for the commitment of future grants as possible funding sources for some of the planned capital improvements.

Stinson Municipal Airport, established in 1915 and named for the Stinson family, aviation pioneers, is one of the country's first municipally owned airports. During 2001, a process was initiated to develop a new Airport Master Plan for the Stinson Municipal Airport. The Stinson Municipal Airport Master Plan will provide recommendations for airfield and facility improvements needed to meet growing operation demands. The Planning effort will facilitate the development of the Airport to expand its role as a general aviation reliever to the San Antonio International Airport. The expansion of Stinson's facilities are also needed to take advantage of new, complementary business opportunities evolving with the synergy between Brooks City-Base, KellyUSA and the Airport. As part of the master planning process, a Target Industries Analysis is being conducted, which will facilitate development of Stinson properties through the identification of industries and businesses considered to be good prospects for locating at the Airport.

City Public Service
City Public Service (CPS), owned by the City, provides electric and gas services to San Antonio and surrounding areas. As of January 2002, CPS owns and operates 16 electric generating units capable of producing 4,327 megawatts (MW) of power from natural gas, oil and coal. CPS also owns 700 MW of nuclear generating capacity in the South Texas Project plus the rights to another 160 MW of wind generation, which brings the total CPS capacity to 5,817 MW. During fiscal year 2002, CPS's generation was obtained from the following sources: coal, 48.9%; nuclear, 30.5%; and natural gas, 19.5%. Wind energy and purchased power accounted for 1.1%. As the second largest municipally owned utility in the nation, CPS serves more than 592,000 electric customers throughout its 1,566 square-mile service area, and about 307,000 natural gas customers in the urban San Antonio area.

To the citizens' benefit, CPS rates are lower than any major Texas city and among the lowest in the nation. The average CPS residential gas and electric bill ranked second lowest among the 20 largest cities in the United States for the twelve months ending December 2001. CPS remitted over $168 million to the City in fiscal year 2002. Representing a steady and increasing source of revenue for the City, this return helps keep property taxes low and enhances the funding of many city services offered to residents. Additionally, for its August 2002 debt transaction, CPS was awarded a AA+ rating by Standard & Poor's, which is the highest rating they have ever awarded to a publicly owned utility. This rating makes CPS the highest rated publicly owned utility in the nation.

San Antonio Water System
The City's waterworks system, initially acquired in 1925, was included in a consolidation in 1992 of all City owned water related utilities including water, wastewater, and water reuse systems. This consolidation created the San Antonio Water System (SAWS), which now provides water and wastewater service to San Antonio and certain surrounding areas. SAWS provides water and wastewater service to the majority of the population within the corporate limits the City of San Antonio and Bexar County which totals approximately 1.4 million residents. Currently, SAWS provides water and wastewater service to 297,661 and 351,250 customers respectively, including residential, commercial, industrial and irrigation customers. SAWS has 4,076 miles of water mains in place and 4,892 miles of wastewater mains in place.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Housing and Development
The City's administration of housing and infrastructure development initiatives are being accomplished through initiatives such as the Housing Master Plan, Neighborhood Sweeps, Neighborhood Commercial Revitalization, Down Payment Assistance, Owner Occupied Rehabilitation and Reconstruction, Single-Family/Multi-Family Rental Rehabilitation, Affordable Showcase of Homes, Tax Increment Financing, and the Housing Asset Recovery Program managed through the Neighborhood Action Department. In continuation of the Mayor and City Council's community revitalization efforts, the City is developing public policies to support inner city revitalization in distressed areas.

In support of the Mayor and City Council's community revitalization efforts, the Neighborhood Action Department has defined a strategy for data gathering efforts to aid in the development of a comprehensive investment plan for the Community Revitalization Action Group (CRAG) target area, which encompasses the original 1940 city limit boundaries.

Housing Asset Recovery Program
In an innovative approach to revitalization, the Neighborhood Action Department partnered with the Fannie Mae San Antonio Partnership Office utilizing a line of credit to rehabilitate valuable housing stock and thus create affordable housing opportunities for low to moderate-income families in San Antonio. Since 2001, the Housing Asset Recovery Program (HARP) takes a non-productive, residential structure and creates a useful asset for the community. Individuals, non-profit organizations, corporations, or any owner of a single-family home, residential lot, or tract of land can donate or sell the asset to the City. Beyond the flood recovery program, in most instances, the home can remain on the existing lot and is rehabilitated on site. In other cases, such as in school expansion projects, a home may need to be relocated to another city-owned parcel of land. To finalize the HARP transaction, the City refers the "project" to Fannie Mae for rehabilitation and sale. Once the home has been renovated, a licensed real estate broker lists and sells the property on behalf of the City. Net proceeds from the sale of the home are returned to the City for reinvestment in affordable housing and to replenish the line of credit in order to acquire additional projects.

Housing Master Plan
In June 2001, the City was presented with a Housing Master Plan completed by J-QUAD & Associates, LTD, SA Research Corporation, and McConnell, Jones, Lanier and Murphy, LLP. The Master Plan is a result of recommendations found in the Community Revitalization Action Group Report and the Housing Performance Review. Both documents indicated a need for an overall plan to guide housing development in the City.

The Master Plan identifies and provides a series of recommendations for housing initiatives, processes and comprehensive development for the City. The Master Plan also provides a baseline and understanding of current conditions found in San Antonio's housing market as well as presents a definition of continuum of care and affordable housing. The Master Plan also makes a series of recommendations concerning the retooling of programs and processes to enable implementation of the recommendations defined in the plan. These recommendations are currently under review by the City Council Urban Affairs Committee.

Neighborhood Sweep Program
The Neighborhood Action Department coordinated and delivered 24 neighborhood sweeps during fiscal year 2002. Over the last five years, 110 communities have been recipients of this comprehensive service delivery program. The neighborhood sweeps represent an inclusive package of city services, such as code investigations, brush collection, street/pothole repair, graffiti and vacant lot abatement, that are delivered to a 55–60 block area over a period of two weeks. The program is designed to accomplish both short-term "clean-up" goals and long-term community development goals including accessing safe, decent housing and assisting special need populations.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Neighborhood Commercial Revitalization
The Neighborhood Commercial Revitalization (NCR) Program was created to bring renewed interest and investment to San Antonio's older commercial corridors. The NCR Program is currently working in eight target areas throughout the City's urban core. The NCR Program provides financial and technical assistance to community based non-profit organizations that undertake a full-time revitalization effort. The NCR Program is based on identifying and marketing the competitive advantages of these business districts in the hope of attracting private investment in new and existing businesses, thus creating job opportunities and enhancing the quality of life in the surrounding neighborhoods. Collectively, NCR target areas have realized $4,850,500 in private investments and 326 new jobs. During fiscal year 2003, the program will be assessed in an effort to pursue alternatives for greater program success and productivity, as the participants continue to implement strategies that will support inner city revitalization.

Down Payment Assistance Program/Homebuyers Club
In fiscal year 2002, the Neighborhood Action Department provided families with down payment and closing cost assistance toward their purchase of a home. The Department will continue to provide up to $8,000 for families wishing to purchase single family homes in the San Antonio area. In addition, there were 485 participants who attended the City's Homebuyers classes, which provide information on the steps to prepare for homeownership.

Owner Occupied Rehabilitation & Reconstruction Programs
The Neighborhood Action Department administers the Owner-Occupied Rehabilitation and Reconstruction Program that provides loans and grant funds for renovation or reconstruction of housing units for qualifying families. This Program which supported the rehabilitation/reconstruction of 32 properties is funded through the US Department of Housing and Urban Development providing Community Development Block Grant and HOME funds. The Department works closely with the families to determine rehabilitation and/or reconstruction needs based on assessments of the housing structure. The Department is responsible for providing oversight and monitoring of construction activities for the projects. All applicants must meet eligibility and income qualifications.

Rental Rehabilitation Program
The Neighborhood Action Department's Rental Rehabilitation Program provides funds for both single-family and multi-family rental units. It has been noted that much of the rental housing stock within the inner city is substandard and in need of rejuvenation; however, there are numerous challenges associated with ensuring revitalization such as historic integrity, environmental hazard, deferred maintenance and elderly property owners. Funds for this program are made available through the US Department of Housing and Urban Development providing CDBG and HOME funds.

The Rental Rehabilitation Program has a loan product specifically targeted for single-family dwellings. Property owners can borrow up to 100% of the rehabilitation costs; 50% is paid to the City at 5% interest; 50% is forgiven during the Period of Affordability provided the owner complies with the program guidelines. During fiscal year 2002, 198 units were made available to low-moderate income families as a result of assistance through this program.

Tax Increment Financing
In the summer of 2002, the City's Tax Increment Financing (TIF) program was undergoing major review in preparation to revise the TIF guidelines and criteria. This review was completed in Fall 2002 and will work to stimulate major new construction and rehabilitation throughout the City. This program provides a means of presenting incentives that carry real costs by paying public improvement costs from the increased tax revenues generated by the project itself. The public purposes of TIF projects include the redevelopment of blighted areas,

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Tax Increment Financing (Continued)
construction of low and moderate-income housing, provision of employment opportunities, and improvement of the tax base.

The program assessment provided for additional resources in order to efficiently respond to the TIF applications pending. The onset of the revised guidelines will facilitate higher standards of development for TIF projects through additional development requirements. The Neighborhood Action Department is projecting to complete 8 new project applications in fiscal year 2003.

Housing Policy Guide
For the past 16 months, the City has been working with a Task Force to review its housing policies which apply to all housing projects funded through the Community Development Block Grant (CDBG) and the Home Investment Partnership Program (HOME). These HUD programs provide additional resources for the City to address housing issues and the new policies are designed to maximize efficient use of those resources. The new policies ensure that the City will receive some portion of its investment on every housing project while still assisting residents who need safe, sanitary and decent housing.

Neighborhood Development/Partnerships
Neighborhood Development/Partnerships are an innovative strategy being utilized to tackle inner city revitalization through private development. CDBG and HOME funds have been allocated as seed money to stimulate development in urban neighborhoods. The City will release Requests for Proposals to qualified developers to redevelop the Sunny Slope neighborhood and a targeted neighborhood in Council District 4 through housing rehabilitation and construction of new infill housing. The City has already invested millions of dollars in capital improvements in the Sunny Slope area, which should make it attractive for private investors. This pilot program will stimulate increased activity in neighborhoods that have not seen new development in years.

Department of Community Initiatives
The Department of Community Initiatives (DCI) serves as the primary human development agency for the City. In this role, DCI coordinates community-based human investment strategies designed to strengthen families, develop human capital, and provide a community safety net. Additionally, DCI acts as a vehicle for collaboration between public and private organizations. This focused facilitation strives to leverage and maximize resources toward significantly improving the community's human development outcomes. In fiscal year 2003, DCI will invest almost $130 million in human development. The DCI budget supports the City's strong commitment to strengthening long-term economic viability in San Antonio through the development of human capital.

DCI supports human development efforts at all stages of life, beginning with early childhood development and continuing through adult education. DCI carries out these human development strategies primarily through early childhood education, kindergarten readiness, youth development, college scholarships, preparation for transitional employment, long-term job training and adult literacy services, and asset building and asset protection strategies.

DCI's early childhood education goal is to provide high quality and affordable childcare in order to improve workforce participation and prepare children to enter school ready to succeed. Through Head Start, the Child Care Delivery System and local initiatives, the Department will provide childcare to over 16,000 low-income children of parents participating in workforce activities.

The City provides $11 million in In-Kind contributions to the Head Start program to support this early care and education goal. Additionally, the City certified almost $8 million in local expenditures that attracted $12.5 million in federal matching dollars to further underwrite the City's aggressive early care and education initiative. Over the past four years, the City has drawn down proportionately more federal matching early childhood funds

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Department of Community Initiatives (Continued)
than any other Texas community. The Kindergarten Readiness Project strengthens families by empowering parents to serve as their child's first teacher and prepares children for elementary school by developing their mastery of problem solving, communications and life skills. Kindergarten Readiness operates fully in 17 elementary school neighborhoods. To increase public awareness about the issue of school readiness and parental involvement, DCI initiated Early On, a multi-media campaign to disseminate the Kinder Readiness guidelines. Last year, the Kinder Readiness Project engaged over 3,300 parents and 260 teachers in the use of the guidelines. According to a University of Texas at San Antonio (UTSA) research study on the project, 88% of children assessed displayed mastery of the guidelines. The project distributed more than 46,000 brochures through public and private partnerships.

The San Antonio Education Partnership (SAEP) encourages students to stay in school and advance to higher education by providing advising services, college preparation activities and scholarships to students who graduate with a 95% attendance rate and 80% grade point average. Annually, the SAEP serves over 15,000 9th through 12th grade students at the 15 participating high schools. Since the program's inception, over 1,200 scholarship recipients have received their Bachelor's degrees from local colleges and universities.

Funded primarily through the City, Project QUEST serves as an employer and industry driven long-term job training program. Moreover, all the training facilitated through Project QUEST serves the City's five targeted industries by providing them with skilled and educated workers. The program serves undereducated adults who have completed high school or a GED certificate. Since the program's inception in 1993, over 1,800 participants have completed training and have been placed in jobs at an average wage of $9.90.

DCI's Literacy Services Division offers adult education services including GED preparation, adult basic education, English as a Second Language (ESL), and computer literacy. In addition, the Department has implemented a transitional jobs component in partnership with local employers to improve the workplace skills of residents who have a limited work history. This initiative provides comprehensive career readiness and life skills training including intensive job counseling, motivational sessions, financial literacy and job placement. In fiscal year 2002, over 300 adult learners completed these programs and were placed in jobs.

To assist low-income working families transition out of poverty and achieve economic self-sufficiency, DCI has developed the Family Economic Success Program. This program offers asset-building strategies including Volunteer Income Tax Assistance (VITA). Last year, tax preparer volunteers prepared over 2,000 tax returns for low-income working families, which translated in over $2 million returned. DCI will expand VITA services to 14 sites in fiscal year 2003. This expansion will serve over 4,000 families in returning almost $6 million to these families.

Strategic partnerships, which demonstrate a high level of impact and public accountability, will continue to be the key to successfully raising the community's education and skill levels, and improving quality of life. Over the last year, DCI continued to strengthen existing partnerships and form new strategic alliances. For example, the Kindergarten Readiness Project operates in collaboration with Bexar County school districts, childcare centers, UTSA, and community based organizations including Family Services Association, KLRN, AVANCE and YMCA. The Department's other essential partners include but are not limited to the United Way, Annie E. Casey Foundation, Alamo Workforce Development, Inc., (AWD), Smart Start, Tourism Council, employers and congregations.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Technology Services Department (ITSD)
The Information Technology Services Department (ITSD) provides information technology (IT) services, 24 hours a day, 7 days a week, to all City departments and other agencies through information and technology sharing agreements. The Information Technology Vision of the City is to provide business solutions that will enhance the City's effectiveness in serving its employees, citizens, businesses and visitors through the successful use of IT. The City uses IT to be more cost efficient, deliver better and more comprehensive services, and provide easy access to information. Demands for the ability to conduct business electronically, allow for faster response time, increase participation and involvement in government, along with economic pressures to do more with less, are major factors that affect the use of technology at the City.

As the City continues its Security Initiative to institute new security policies, guidelines and operating procedures for all City systems, its goal is to protect the City's infrastructure by reducing risks, complying with laws and regulations, and ensuring business continuity, information integrity and confidentiality. The City is involved with Homeland Defense and Emergency Management Technology Support Systems and with the Dark Screen Project initiated by Representative Ciro Rodriguez. Dark Screen is a consortium of local, county, state and federal entities involved in preventing cyber terrorism. This Dark Screen operation will test the response capabilities of the City and the surrounding regions to a cyber-terrorist attack; will recommend and develop methods for industry, law enforcement, government and academia to cooperatively protect critical infrastructures; and, will serve as a model for other cities in preparing for a cyber-terrorist attack or similar event. ITSD continues to update its business continuity plans and to monitor, maintain, revise and disseminate current security policies, procedures and administrative directives to ensure they are current.

The San Antonio Community Portal provides Internet access to enhance the City's effectiveness and efficiency in serving its employees, citizens, businesses and visitors. The City's website, sanantonio.gov, strives to seamlessly extend services and improve communications between the City and the Community-at-large. During 2002, e-commerce, including on-line payments, was implemented to provide San Antonio stakeholders one-stop access to government information and services.

The Alamo Area Community Information System Initiative (AACIS), an ongoing partnership of non-profit, educational and government agencies, is dedicated to improving the quality of life in San Antonio by making internet access and social service delivery more accessible, particularly to the underserved in our community. In support of AACIS, the City's is hosting a community hub, a device consisting of integrated telecommunication components which will efficiently link local networks, maintained by separate Greater-San Antonio organizations, into a single internet-based metropolitan area network (MAN).

Information Technology is the employment of computer hardware, software, networks and telecommunications to process and distribute information in digital, audio, video and various other forms. The City has developed an Information Technology Plan to provide a coordinated information technology planning effort across all departments of the City and to effectively manage the City's technology investments in concert with its strategic business processes. This plan is intended to be dynamic and is updated annually to reflect changes in technology, trends, and the organization.

In an effort to stabilize the desktop computing environment and to improve technology performance, reliability and service across departments, the City will begin leasing PC equipment on a three-year replacement schedule. This program will establish a standard desktop program for City PCs that will provide a uniform operating platform, consistent support and functionality for end-users.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Technology Services Department (ITSD) (Continued)
The ITSD Customer Service Initiatives will implement Customer First practices by streamlining communication with customers, establishing a 24/7 help desk, publishing service level standards and providing training for professional growth of ITSD and City staff. The GIS/Mapping Initiatives continue to implement the City's GIS Master Plan and the mapping backbone that can be used to satisfy the spatial and mapping requirements of internal and external users.

Enterprise Resource Management (ERM) Project
The Enterprise Resource Management Project is an initiative to reengineer business processes and replace existing software systems in order to improve efficiency, accountability, and to provide enhanced services to the customers of the City. Project sponsors include the City Manager's Office, Director of Finance, and Director of Information Technology Services. The City has hired a consulting firm to assist with this effort. The ERM Project consists of three phases: Phase 1 – needs assessment, definition of "to be processes", and development of the business case was completed in September, 2001; Phase 2 - software and hardware selection which was completed in July 2002; and, Phase 3 - software implementation and integration which will completed by December 2004.

Code Compliance Department
The Code Compliance Department seeks to enhance neighborhoods and their citizens' health, safety and general welfare through efficient and effective City Code enforcement. This Department also strives to promote a higher quality of life by promoting awareness and compliance with City Codes to stabilize and reverse deterioration of neighborhoods.

The Department's fiscal year 2002 staff complement for code enforcement includes 68 Code Enforcement Officers, 10 Dangerous Premises Officers, and 10 Abatement Officers. Each Code Officer patrols the City in marked vehicles equipped with a computer laptop providing effective and efficient code enforcement activities. Monitoring vacant lots is an example of one activity that falls under this Department's jurisdiction of enforcement for improving the quality of life for the citizens of San Antonio.

Public safety is one of the City's major concerns in its enforcement of overgrown vacant lots. Abandoned properties, whether vacant lots or structures, present adverse conditions impacting the quality of life in the community. The Department recognizes these issues and is attempting to increase community awareness and voluntary compliance by encouraging and developing partnerships with neighborhood organizations, community groups, and local businesses to ensure a safer, cleaner and more beautiful San Antonio.

If private property lots are not cleaned by their owners, the City hires a private contractor. Contracting with small businesses to perform the cleanups helps stimulate the local economy, in addition to accomplishing the Department's objectives. The majority of these private contractors are small business operators and/or Historically Underutilized Businesses (HUBs). This business activity is an opportunity that allows small business owners to compete with larger businesses. In fiscal year 2002, $494,460 was expended on vacant lot clean up through these contracts.

Medicine and Healthcare
The City is cognizant of the importance of, and continues to support, its Medical infrastructure. The City is actively involved in promoting the industry, recognizing its significance to San Antonio and its citizens. Major medical research, manufacturing, training and health care facilities located in San Antonio include the Southwest Biomedical Research Institute, high technology biomedical manufacturing, the University of Texas Health Science Center at San Antonio (medical school, dental school, nursing school, allied health sciences school), the

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Medicine and Healthcare (Continued)
University Health System, Wilford Hall Medical Center (United States Air Force), Brooke Army Medical Center, a world renowned burn treatment and research center, and the South Texas Medical Center. The Medical Center contains numerous hospitals, a specialized treatment center and the renowned Cancer Therapy and Research Center that attracts patients nationally and internationally. In addition, Brooks City-Base is a major medical and environmental research facility of which the U.S. Air Force Medical Service is a major tenant.

The San Antonio Metropolitan Health District is the local public health agency for the City. It provides preventive health services, health code enforcement, clinical services, environmental monitoring, animal control, disease surveillance and control, emergency preparedness, health education, dental services, and is the local registrar of vital statistics.

Developmental Services
In May 2001, the San Antonio Municipal Facilities Corporation (an entity created by the San Antonio City Council in February 2001) authorized the execution of a Developmental Agreement for the design, construction, and purchase of a facility for the Development and Business Services Center, a/k/a One Stop. Construction began in January 2002 and is scheduled to be completed and the facility occupied by April 2003. The purpose of this Center is to provide a convenient single source of information and assistance to businesses and organizations that are expanding, developing, or relocating. The Center, centrally located at the northwest corner of South Alamo and South Flores streets on the south side of the City's Central Business District, is a two-story state of the art facility, encompassing approximately 75,000 square feet along with over 300 parking spaces and situated on 5.3 acres of land.

The Center will house an estimated 230 employees of governmental entities and various City departments including Development Services, Planning, Health, Fire Inspections/Fire Marshall, and the Economic Development/Small Business Outreach Program, as well as individuals from various business development organizations, the water, electric, and gas utilities, and related departments of Bexar County.

With the opening of the Development and Business Center, space in the Municipal Plaza Building will be vacated. The Department of Asset Management, in conjunction with the City Architect's Office and with the assistance of various other departments, is developing a plan for the backfill of the vacated space. The focus of this plan is to provide additional space for the overcrowded departments, co-locate certain functions for efficiency, and minimize the amount of rent being paid for leased space in the downtown area.

Contracting Initiatives
In July 2001, the City Council approved the creation of the Contract Services Unit, a division of the Department of Asset Management. This division has focused on creating and promoting City-wide standards and systems for improving the management of contracts through the development and implementation of: 1) standards for contract management, planning, and solicitation; 2) strategies to streamline contract negotiation and approvals; 3) rigorous monitoring practices; and 4) training programs for contract officers. As a part of this process, the Electronic Contract Management System was developed and serves as a central repository for City-wide contracting data. Recent accomplishments of the Unit include completion of training classes on Contract Law and Contract Negotiation, the first two required courses of the Contract Officer Certification Program training. In addition, the Unit has been charged with the review and approval of all Requests for Proposal for professional services contracts. As a part of the Contract Services Unit's efforts to create City-wide standards for contract management, a staff manual is being developed which outlines the various processes related to contracts. Staff will be trained on the content and use of this manual and the manual will be continually updated and available on the City's intranet.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Environmental Services Department
The Environmental Services Fund receives most of its revenues from the Residential Solid Waste Fee, Brush Fee, and the Environmental Fee as collected by City Public Service. Additional revenues to this fund are generated from Licensing and Permitting Fees, Mulch and Brush Disposal Fees, and Out of Cycle Collections. The fund supports both Environmental Management and the Solid Waste Divisions of the Environmental Services Department.

The Solid Waste Division is responsible for the collection of municipal solid waste generated by over 300,000 homes and businesses within the City of San Antonio. The primary services provided by this Division include: bi-weekly collection of residential garbage, weekly curbside collection of residential recyclables, dead animal collection, downtown night garbage collection, and the bi-annual collection of residential brush and bulky items. Other services include Out-Of-Cycle collection requests for brush and bulky items, supporting neighborhood associations and civic groups through the weekend Dial-A-Trailer program, sponsorship of Keep San Antonio Beautiful Association. The Solid Waste Division also provides cleanups for special events, weather related emergencies and high priority needs of the City.

The Environmental Management Division is responsible for ensuring City property and construction projects are in compliance with all federal, state and local environmental rules and regulations. This Division assesses and investigates the environmental conditions of land, air and groundwater for the City. Other major responsibilities of the Division involve administering the City's Air Quality and Household Hazardous Waste (HHW) Programs, monitoring and maintaining the City's closed landfills, and overseeing or performing asbestos assessments and environmental remediation. This division also provides technical support for the City's efforts related to energy conservation and compliance with Senate Bill 5–State legislation requiring 25% reduction in energy consumption by City facilities over the next 5 years.

Public Works Department
The Public Works Department provides public services and infrastructure in a quality manner through the use of modern engineering and management practices. The department provides design, construction, maintenance and renovation of City buildings, streets and drainage facilities, and operates the traffic network.

Significant projects underway include the Northeast Service Center located along the Wurzbach Parkway. The facility consists of vehicle maintenance operations for Purchasing, Street Maintenance Operations under Public Works, and garbage collection services by Environmental Services Department. This facility also includes a 3,000 square foot multi use space for meetings and public use. Construction is expected to begin on Bulverde Fire Station No. 48 and the Guerra Library on Military Drive. The St. Mary's Parking Garage was completed in 2002 and accommodates 704 spaces with office space for lease. The Presa Street Linkage Project completed in 2002 connects the Riverwalk to Houston Street, which includes ADA access to the river. Another downtown project completed in 2002 is the Houston Street Streetscape Enhancements project.

The Capital Programs Division completed 24 street and drainage projects at a cost of $14,353,479. These projects will minimize flooding, reduce the number of potholes, reduce traffic delays, and allow for greater mobility.

The Streets Maintenance Division implemented the first year of the pavement reclaimer that is specifically designed for full-depth street reclamation. The reclaimer also recycles existing asphalt in place instead of having to purchase new asphalt for street maintenance projects. The addition of the reclaimer cut the amount of time it takes to reconstruct street surfaces by 50%. Customer service is improved by minimizing inconvenience to the citizens while working in their neighborhoods. Recycling of the existing asphalt diverts waste from the landfill. The additional paver purchased is used to assist city crews in meeting increased customer demand for paved asphalt projects with smooth riding surfaces and skid resistance to improve safety.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Works Department (Continued)
Neighborhood Accessibility & Mobility Program (NAMP) funding has been increased to $325,000 for each council district and the scope of work under this program has been expanded from sidewalks and speed humps to other transportation improvements such as street maintenance, small street repair, traffic signals, school flashers, pedestrian walkways and medians. The additional funding and expansion of projects under NAMP will be positive for neighborhoods needing specific improvements.

The adoption of the Right of Way (R.O.W.) ordinance by City Council in May 2001 will significantly impact the City's infrastructure by requiring utilities, telecommunications companies and others needing to excavate City streets make repairs to those streets to maintain integrity and life of the streets. Public Works implemented e-commerce processing of R.O.W. permits on-line to improve customer convenience in obtaining street cut permits. The prior system required applicants to drive to the permit office to obtain the permit. This significant improvement makes the process much more convenient for customers. This process also provides R.O.W. staff the opportunity to develop an inventory of all permitted excavations for the purpose of monitoring the integrity of past street repairs.

The record flood of 1998 prompted some major policy changes that have provided a more proactive approach to flood control. One of the major initiatives was to conduct a "buy-out" of properties within the floodplain to prevent the possibility of future catastrophic damage and potential loss of life. The flood of 2002 emphasized the need for continued efforts to be more proactive in flood control efforts. This voluntary buy-out continues today. The adoption of the Unified Development Code (UDC) in May 2001 provided a revised Storm Water Management section and further codified the Floodplain Ordinance. The UDC uses a watershed management approach. Storm Water Engineering is reorganizing to form Watershed Teams for the Leon Creek, Salado Creek and San Antonio River watersheds. The new UDC also developed specific conditions under which floodplain development may occur without jeopardizing the City's goals of natural floodplain preservation and flood mitigation providing for orderly development.

The Interlocal Agreement (ILA) for Regional Flood Control Management Program (RFCMP) forged over the past year to provide for a collaborative and cooperative effort between the City, County, and SARA to deal with water quantity and quality issues. The agreement allows for suburban city participation. Through the ILA, the city will acquire the tools needed to effectively provide storm water master plans for each of the watersheds. This effort will be funded by SARA's ad-valorem tax and is estimated to cost $6 million. The RFCMP will provide for a strategic financial model, an annual and 5 year capital improvement program, standardized design and maintenance criteria, a county-wide water quality model, hydraulic and hydrologic models for each watershed and a unified service delivery by three governmental entities.

An electronic instrumentation and control system was installed on the two flood control tunnels. These tunnels are monitored electronically 24 hours a day, seven days a week. The Foxboro system ensures the control and direction of storm flows into or bypassing the two tunnels. It also monitors the flood level behind the Olmos Basin Dam, which is a critical part of the system that ultimately safeguards the safety of the citizens and commerce in the Downtown Central Business District.

Supporting Infrastructure Components

Convention Center Expansion
The Convention Center Expansion and Renovation Project was completed in 2001. This project was financed from the proceeds of Hotel Occupancy Tax Revenue Bonds sold in March of 1996, and debt service payments are

Supporting Infrastructure Components (Continued)

Convention Center Expansion (Continued)
paid from the collection of a 2% Hotel Occupancy Tax. This construction represents the first major expansion and improvement of the Henry B. Gonzalez Convention Center since 1987. The Convention Center was originally built in 1968 for the San Antonio Worlds Fair, HemisFair. The Convention Center is located within the downtown area of San Antonio and is within walking distance of numerous hotels, retail shops, restaurants, historic amenities, and the City's River Walk.

The Convention Center Expansion Project, which includes 867,495 square feet of additional space to the Center and renovations, construction and upgrades of the original center, is fully operational, with more than 1.3 million gross square feet. The Convention Center boasts 440,000 square feet of contiguous exhibit space, 113,287 square feet of meeting room space with optimum flexibility of up to 59 room divisions. Three hotel quality ballroom/banquet rooms, with the largest at 40,000 square feet is designed to hold up to 4,000 people. The Center also includes two full service banquet kitchens, two loading docks, a pressroom, VIP lounge, dressing rooms, and 29,000 square feet of designated registration areas. The navigable portion of the river construction and the River Walk continuing into Plaza Mexico in HemisFair Park, were completed during the summer of 2001. Interior finishes throughout the Convention Center, East and West Banks, include artist-designed carpet patterns incorporating elements of San Antonio's history and culture. Also featured is an in-house business center to service many of the Convention Center clients. This service is operated by a nationally recognized leader in business center services and enhances the Center's marketability. The completed Convention Center allows the City to improve its competitive position to attract large, revenue generating conventions, and to expand tourism, while enhancing the viability of the local economy for San Antonio.

Alamodome
The Alamodome is a 65,000 seat multi-purpose sports, entertainment, and convention facility. Since opening in May 1993, it has held more than 900 events and has hosted over thirteen million visitors. The Alamodome has enhanced San Antonio's ability to attract major public sporting and entertainment events.

In the fall of 1999 the citizens of San Antonio approved a referendum for the construction of a mid-size, multi-purpose arena for the San Antonio Spurs Basketball Team. This arena, the SBC Center, was completed October 2002 and the Spurs moved to this facility in November 2002. The financial impact of the Spurs departure on the Alamodome remains to be seen, but the facility will continue to be a viable economic generator for the City.

The Alamodome maintains a strong reputation as a host for major events. As a result, the diversity of events that are brought to San Antonio continues to expand. The NCAA will host the Men's Southern Regional Basketball Tournament in 2003, the Men's Final Four Basketball Tournament in 2004, and the 2005 Women's Volleyball Championship. In the next five years, the Alamodome will increasingly become a community facility in addition to serving as a multi-purpose venue for major sporting events, convention activities and concerts as well as civic, religious, and social events. With the increased number of booking dates and improved scheduling flexibility as a result of the departure of the Spurs, the Alamodome will continue to court high-school football games, meeting room and trade show events, family shows and concerts.

Efforts are ongoing to secure recurring events for the Alamodome. The Alamodome negotiates with promoters of recurring events to hold their events at the Alamodome for a sustained period of time, usually five (5) years. These events include; the San Antonio Boat Show; Ringling Brothers Barnum & Bailey Circus; Disney on Ice; Arena Motor Cross; Monster Truck Show; the Texas Classic High School Football Kickoff Game; House Beautiful Show; and American Cheer Power.

ECONOMIC OVERVIEW (Continued)

Supporting Infrastructure Components (Continued)

Nelson W. Wolff Municipal Stadium
The Nelson W. Wolff Baseball Stadium opened in April 1994 and has a seating capacity of 6,500. It has a multi-purpose design which allows for events such as professional baseball, concerts, boxing, and high school, college, and amateur sports. The stadium is home to the San Antonio Missions, a *double A* minor league baseball team. In 2000, the Missions became a farm club of the Seattle Mariners. The Missions won the Texas League Championship in 2002 for a second time since moving to the stadium.

Other Amenities
The City supports and promotes various other tourism and quality-of-life amenities, including performing arts and cultural entertainment facilities, museums, the San Antonio Zoo, and the preservation of the Alamo, as well as enterprises such as Sea World of Texas, and Six Flags Fiesta Texas. The City also provides support and funding for cultural organizations, from dance performance companies to the Symphony Society of San Antonio, and for facilities including the Witte Museum, the San Antonio Museum of Art, the Southwest Craft Center, the Carver Community Cultural Center, and the Guadalupe Cultural Arts Center.

In addition, San Antonio is home to various professional sports teams including the San Antonio Spurs, the San Antonio Rampage Ice Hockey team, and the San Antonio Missions. San Antonio also hosts two PGA tour events, the Valero Texas Open and Senior PGA SBC Championship.

International Outlook

For the third year, the City's International Affairs Department continues to develop an Export Leaders Program that focuses on small to medium size San Antonio companies with a high potential and strong commitment to develop and expand international markets. The San Antonio Export Leaders Program is a competitive eight-month program that offers the tools, training, consultation and coaching necessary for about fifteen companies to be successful in exporting and offers the participants a new export experience. In its three years, the program graduated 36 companies.

San Antonio continues to develop itself as an INLAND PORT for imports and exports to/from Mexico, Latin America and other regions of the world. This encompasses transportation, manufacturing and logistics facilities, professional services and value-added services involved in producing, marketing and moving freight within, into and out of the San Antonio area. Over the past nine years, the City has operated three commercial trade offices in Mexico's three largest cities: Mexico City, Guadalajara, and Monterrey. The trade office in Mexico City has expanded to service seven southeastern Mexican states of Oaxaca, Chiapas, Quintana Roo, Veracruz, Campeche, Tabasco and Yucatan.

The City's commitment to international trade is evidenced in the City's new International Center which houses the North American Development Bank, International Conference Center, the Trade Commission of Mexico, Mexican State Trade Office, the Free Trade Alliance San Antonio, the U.S. Department of Commerce, the City's International Affairs Department, and the Convention & Visitors Bureau.

Budgetary Controls

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end, however, encumbrances generally are appropriated as part of the following year's budget. For the

Budgetary Controls (Continued)

fiscal year beginning October 1, 2001, the Government Finance Officers Association of the United States and Canada ("GFOA") presented an award of Distinguished Budget Presentation to the City.

As demonstrated by the statements and schedules in the Financial Section of this report, the City continues to meet its responsibility for sound financial management. As in the Financial Section, all monetary amounts presented in the remainder of this letter are expressed in thousands, except where noted.

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics

Pension and Postemployment Retirement Benefits
The City provides pension retirement benefits for its eligible employees through two plans. For uniformed Fire an Police employees, retirement benefits are provided through the Fire and Police Pension Fund, a single-employer defined benefit retirement plan. Contribution and benefit levels are established under State statute. For fiscal year 2002,active members contributed 12.32% of covered payroll, or $21,808 and the City contributed 24.64%, or $43,615.

The City provides all other eligible employees, exclusive of fire and police employees, retirement benefits through the Texas Municipal Retirement System (TMRS), a nontraditional, joint contributory, hybrid defined benefit plan. TMRS is a statewide agent multiple-employer public employee retirement system. Contributions to the system are actuarially determined. The required contribution from City employees is 6%, while the City matches at a rate of approximately 11.63%. Both the City and its covered employees made the required contributions of $23,147 and $11,947 respectively. For additional information on the City's pension plans, see Note 8 in the notes to the financial statements.

With respect to postemployment health benefits, the City provides benefits for all non-uniformed City retirees and for all, pre-October 1, 1989 uniformed fire and police retirees. The cost of the program is reviewed annually and actuarially determined costs of medical claims are funded jointly on a pay-as-you-go basis with the City contributing 2/3 and the retirees contributing 1/3 of the cost. As of September 30, 2002, 1,405 retirees were participating in the program and currently there are 6,650 active civilian employees who may become eligible for this program in the future.

The second postemployment health benefit program provides retirement health care benefits for eligible fire and police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). Contribution and benefits levels are established under the City's collective bargaining agreements with the Fire and Police Unions, respectively. The benefits of this plan are financed on a prefunded basis. For fiscal year 2002, the City contributed $15,300 to the Fund and active employees and retirees contributed $1,222. Recent actuarial studies have resulted in different results and indicate that the current contribution levels are not sufficient to amortize the unfunded liability of the Fund. The City continues to review the Fund in order to develop a comprehensive framework for a long-term solution. For additional information on City's postemployment health benefits, please see Note 9, of the notes to the financial statements.

Cash and Investment Management
The City's investment policies are governed by state statute and the City's own written investment policies. Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; investment diversification, yield, maturity, and the quality and capability of investment management; and include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "investment strategy statement" that specifically addresses each fund's investment. Each investment strategy statement will describe strategy

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Cash and Investment Management (Continued)
objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

The City is authorized to use demand accounts, time accounts, and certificates of deposit, and other permissible investments including Obligations of the U.S. Treasury and U.S. Agencies, Obligations of States and Cities, Commercial Paper, Repurchase Agreements, Money Market Funds, and Investment Pools. The City's investment portfolio includes investment in callable obligations, but does not contain any derivative products. It is not the City's policy to use such investment vehicles or strategies in its portfolio, nor does the City leverage its investments.

At September 30, 2002, investable City funds were 86.71% invested in obligations of the United States, or its agencies and instrumentalities, and 10.79% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 2.50% of the City's portfolio includes the convention center debt service reserve fund of $16,999, which was invested in fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and the City's investment policy objectives, which are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings. For additional information on Cash and Investments, please see Note 3 of the notes to the financial statements.

Risk Management Programs
For the fifth time in eleven years, the Insurance Reserve Fund maintained a positive net assets balance of $3,103 for the fiscal year 2002. Whereas, the Workers' Compensation Fund reflected a negative net assets balance of $2,505. The Insurance Reserve and Workers' Compensation Funds carried cash reserves at September 30, 2002 in the amount of $14,182 and $12,922, respectively.

The Risk Management Division Safety Office has continued aggressive efforts this year to promote Accident Prevention/Loss Control projects. This year 3,216 employees received formal classroom training on a number of subjects, totaling 15,112 classroom hours collectively. Training classes include Defensive Driving, First Aid and CPR, Drug and Alcohol Awareness training for commercial drivers and supervisors, New Employee Safety Orientations, Professional Truck Driving, Supervisor's Accident Investigation training, Hazardous Chemicals training, Ergonomics Awareness, and other specialized training courses. The Safety Office has spent in excess of 2,141 hours in delivering the aforementioned formal training.

In addition, the Safety Office continues to improve the quality of safety and health education to serve the needs of all City employees by developing customized training programs and updating training materials and/or training methods. The Safety Office has also provided Departments 1,801 hours of technical assistance and one-on-one informal training on a variety of safety and health topics in fiscal year 2002. It has initiated the use of a more comprehensive format during consultative visits with Departments this year to assist in identifying and evaluating both safety, health and liability risk exposure. Loss Control abatement measures are recommended wherever possible. Preventing cumulative trauma and repetitive motion injuries have continued to receive major focus by the inspection and evaluation of employee work environments with recommendations for adjustments or changes when needed. Facility inspections and accident investigations are also conducted by the Safety Specialists. Review of accident statistics continues to represent a significant area of responsibility for the Section in order to assist Departments in identifying and correcting negative trends in frequent and loss severity. This year, 5,122 employee driver evaluations were processed with records being updated.

Employee Benefits Program
The City's Self-Insurance Fund continues to experience increased expenses due to rising health care costs, increased prescription drug costs, increased claims volume and changing employee demographics. The City

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics (Continued)

Employee Benefits Program (Continued)
continues to focus on cost containment programs such as: hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization to assist in managing the rising cost of medical care. Such strategies have been effective for the City in managing medical cost in a changing health care industry. The City is in the process of hiring a Case Management Nurse and Utilization Review Specialist to support the cost containment programs and aid in identifying additional cost savings. The City has also utilized the services of an outside consultant to conduct a three-year actuarial study and plan design review for the Employee Benefits program. The total cost savings for fiscal year 2003, as a result of plan changes, is estimated at $805. In fiscal year 2002, the Employee Benefits Fund had cash reserve of $1,042 and a deficit net assets balance of $13,000. For additional information on the City's risk and employee benefits programs, please see Note 12, of the notes to the financial statements.

Debt Administration
The City utilizes a comprehensive, debt management financial planning program (The Debt Management Plan), which is updated annually. The Debt Management Plan is a major component of the City's financial planning. The model projects financing needs while measuring and assessing the cost and timing of each debt issuance. It involves comprehensive financial analysis which utilizes computer modeling, and incorporates variables such as interest rate sensitivity, assessed values changes, annexations, and current ad valorem tax collection rates. Use of this financial management tool has assisted the City in meeting its financing needs by facilitating timely and thorough planning which has allowed the City to capitalize on market opportunities.

Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "Aa2", "AA+" and "AA+" bond rating by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Public Ratings Services, a division of McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") respectively. The positive trend in the City's credit strength is evidenced by S&P's rating upgrade in December 1998 from "AA" to its current "AA+" and Fitch's rating upgrade in October 1999 from "AA" to "AA+". For additional information on the City's long-term debt, please see Note 6 of the notes to the financial statements.

OTHER INFORMATION

INDEPENDENT AUDIT

State statutes require that an annual audit by an independent certified public accountant be conducted. The City's Audit Committee selected the accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA in 2002. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and related OMB Circular A-133. The Independent Auditors' Report on the basic financial statements, management's discussion and analysis (required supplementary information), required disclosures and schedules are included in the Financial Section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996 and OMB Circular A-133 are in a separate document.

SPECIAL ELECTION ISSUES

On November 6, 2001 the citizens of San Antonio approved three charter amendments during a special election. Proposition one creates the position of independent City Auditor, providing that the appointment and removal of the Internal Auditor will be by the City Council. The proposition provides that all employees of the Internal Audit Department will work for the City Auditor, and the department will work to perform financial, fiscal compliance and other audits as directed.

(Monetary Amounts Expressed in Thousands)

SPECIAL ELECTION ISSUES (Continued)

Proposition two provides the appointment of the City Attorney by the City Manager to be confirmed by the City Council. The proposition provides that the City Manager may remove the City Attorney with advice of the City Council, and that an assistant city attorney may perform the duties of the City Attorney, at the City Attorney's discretion.

Proposition three removes certain licensed professionals and executive job classifications from Municipal Civil Service coverage and protection. It specifically mentioned assistant directors of City departments, architects, assistant auditors, attorneys, dentists, doctors, engineers, psychologists, veterinarians, and part-time and seasonal employees. The proposition also provides for alternate members to the Municipal Civil Service Commission.

AWARDS

San Antonio's appeal to its citizens, potential businesses and visitors stems from its historical beauty, high quality of life and low cost of living. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended September 30, 2001. This was the 26th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. The report must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. The Certificate of Achievement is valid for a period of one year and we believe the current CAFR continues to meet the Certificate of Achievement Program's requirements.

In March 2002, the City's Aviation Department received the FAA's "Texas 2001 Outstanding Airport of the Year" award for the San Antonio International Airport. This award is given to one airport in each of the five states in the FAA's Southwest region. It is presented in recognition of an airport's overall management in its use of Federal funds, diligence in planning and implementing projects, airport maintenance, use of airport improvement program resources and compliance with FAA safety standards.

The City of San Antonio was recognized by the Department of Justice in July of 2002 for its compliance with the Americans with Disabilities Act (ADA) in a meeting in Washington, D.C. The City was high-lighted for its' efforts to follow the guidelines of Project Civic Access, a wide-ranging federal initiative to ensure that state facilities, counties, cities, towns, and villages comply with the ADA. The Department of Justice is featuring a story and photographs of San Antonio and its residents on the ADA web page at www.ada.gov.

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2002, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division. Each member of the Department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Manager, Assistant City Managers, Assistants to the City Manager, and their staff, for their continued support.

Respectfully Submitted,

Milo Nitschke
Director
Finance Department

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio, Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

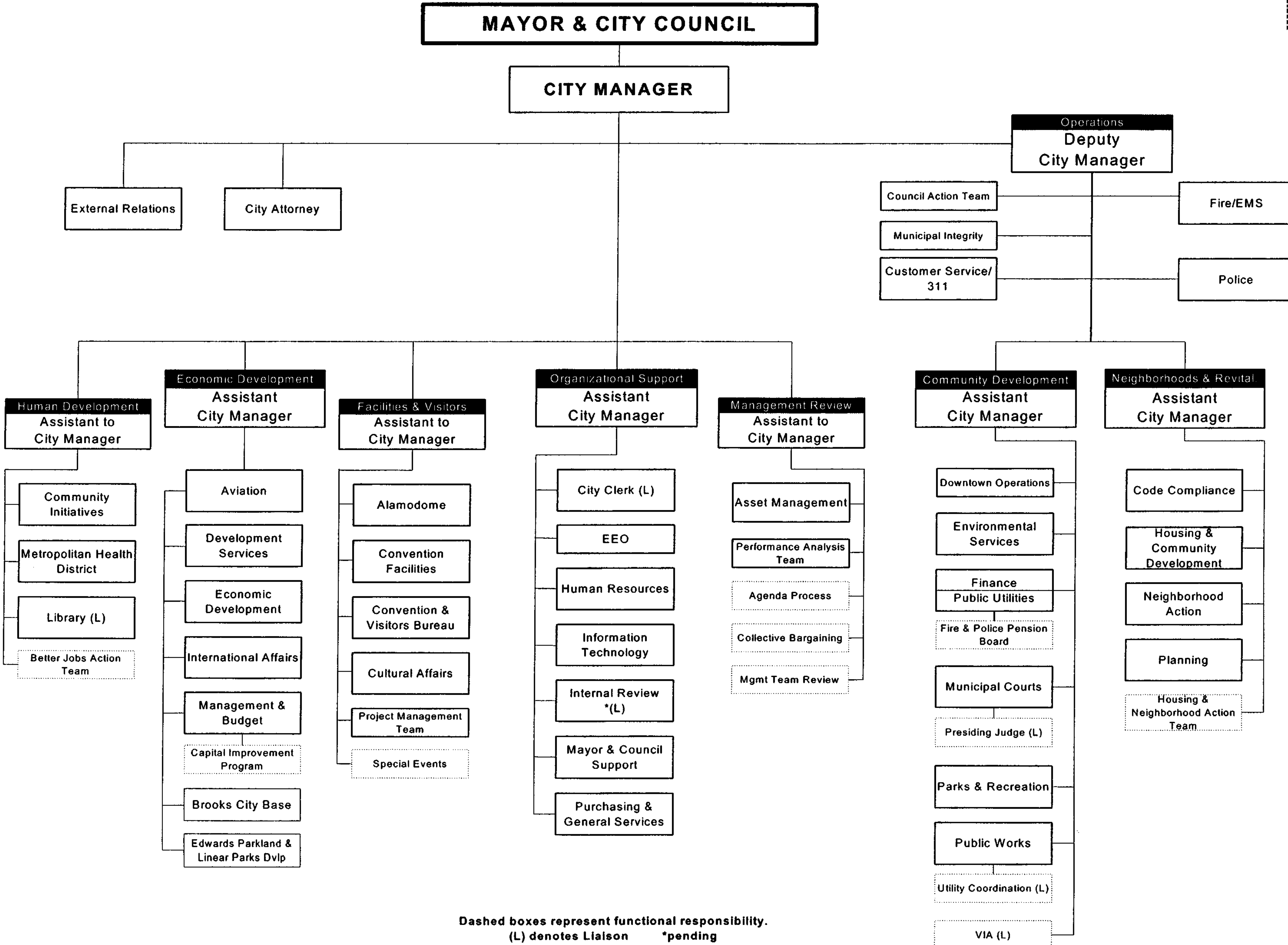
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of San Antonio for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2001. This was the 26th consecutive year that the City has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

City of San Antonio



Dashed boxes represent functional responsibility.
(L) denotes Liaison *pending
June, 2002

CITY OF SAN ANTONIO, TEXAS

Incorporated December 14, 1837 *Charter Adopted October 2, 1951*
Council - Manager Form of Government

CITY COUNCIL
Edward D. Garza, Mayor

Bobby Perez
John H. Sanders
Antoniette Moorhouse
Enrique Martin
Nora X. Herrera
Enrique M. Barrera
Julian Castro
Bonnie Conner
Carroll W. Schubert
David Carpenter

CITY MANAGER
Terry M. Brechtel

DEPUTY CITY MANAGER
J. Rolando Bono

ASSISTANT CITY MANAGER
Travis M. Bishop

ASSISTANT CITY MANAGER
Christopher J. Brady

ASSISTANT CITY MANAGER
Melissa Byrne Vossmer

ASSISTANT CITY MANAGER
Jelynne L. Burley

ASSISTANT TO THE CITY MANAGER
Roland A. Lozano

ASSISTANT TO THE CITY MANAGER
Frances A. Gonzalez

ASSISTANT TO THE CITY MANAGER
Erik J. Walsh

MEMBER OF THE GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES & CANADA

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City of San Antonio
Texas

Financial Section

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City of San Antonio
Texas

Independent Auditors' Report

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112 East Pecan, Suite 2400
San Antonio, TX 78205-1585

RJW
Robert J. Williams
Certified Public Accountant
P.O. Box 34058
San Antonio, TX 78265-4058

LEAL & CARTER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
11122 Wurzbach Rd. / Suite 200
San Antonio, Texas 78230-2573

Independent Auditors' Report

The Honorable Mayor
and Members of City Council
City of San Antonio, Texas:

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of and for the year ended September 30, 2002, which collectively comprise the City of San Antonio, Texas' basic financial statements as listed in the accompanying table of contents under "Basic Financial Statements." These financial statements are the responsibility of the City of San Antonio, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain discretely presented component units and blended component units included in the governmental and fiduciary funds of the City of San Antonio, Texas, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP and Leal & Carter, P.C., acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, are based solely on the reports of the other auditors.

	Percent not jointly audited	
	Total assets	Total revenue
Government-wide		
Governmental activities	0%	0%
Business-type activities	0%	0%
Discretely presented component units	24%	13%
Fund statements		
Major funds	0%	0%
Aggregate remaining fund information	76%	19%

	Percent audited by KPMG separately		Percent audited by Leal & Carter separately		Percent audited by Robert J. Williams separately	
	Total assets	Total revenue	Total assets	Total revenue	Total assets	Total revenue
Government-wide						
Discretely presented component units	0%	0%	1%	1%	0%	0%
Fund statements						
Aggregate remaining fund information	5%	3%	0%	0%	0%	0%

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City of San Antonio, Texas has implemented a new financial reporting model, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective October 1, 2001.

The Management's Discussion and Analysis on pages 1 through 11, the Budgetary Comparison schedule on page 111, and Schedules of Funding Progress and Employer Contributions on pages 112 through 114 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We, and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we, and the other auditors, did not audit this information and express no opinion on it.

KPMG LLP Robert J. Williams CPA Leal & Carter, P.C.

February 28, 2003

City of San Antonio
Texas

Management's Discussion and Analysis

(Required Supplementary Information)

(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2002. This discussion and analysis is intended to assist readers in focusing on significant financial issues, changes in the City's financial position, and identifying any significant variances from the adopted budget. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the financial statements provided in this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City exceeded its liabilities by $2,466,912 (net assets). Of this amount, $116,612 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $455,756, an increase of $10,808 compared to the fiscal year 2001 fund balance. The total unreserved fund balance of $124,698 is available for spending at the government's discretion. Of this amount, $52,297 is designated and $72,401 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $53,658, or 10.4% of the total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction of the City of San Antonio's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business financial presentation.

The *statement of net assets* is a presentation of the City's assets and liabilities, including capital and infrastructure assets, and long-term liabilities. This statement reports the difference between assets and liabilities as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information regarding increases and decreases to the government's net assets for the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, sanitation, health services, environmental protection and control, culture and recreation, convention and tourism, conservation, urban redevelopment and housing, welfare and economic development opportunity. The business-type activities of the City include the airport system, parking system, and environmental services.

In addition, the basic financial statements provide information regarding the City's legally separate discretely presented component units. Component unit financial information is reported separately from the primary government in the government-wide financial statements.

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are used to present financial information detailing resources that have been identified for specific activities. The focus of the fund financial statements is on the City's major funds, although non-major funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into three types: governmental, proprietary, and fiduciary. Fund financial statements allow the City to present information regarding fiduciary funds, since they are not reported in the government-wide financial statements.

Governmental funds. Governmental funds are used for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

As the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The City of San Antonio maintains five individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund, debt service fund and the general obligation bond fund, all of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each nonmajor governmental fund is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the functions presented in business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its airport, parking and environmental services funds. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions, including, self-insurance programs, other internal services and information technology services. The services provided by these funds predominantly support the governmental rather that the business-type functions. They have been included within the governmental activities in the government-wide financial statements that are reported alongside the business activities.

Proprietary fund financial statements provide separate and more detailed information for the airport, parking, and environmental services funds. The airport and parking funds are considered major funds of the City while internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. Fiduciary funds are not reflected in the government-wide financial statements as the resources of those funds are not available to support the City's programs and operations. The accounting for fiduciary funds is much like that used for the proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information on the City's General Fund budget, which is adopted on an annual basis. A budgetary comparison statement has been provided for this funds in order to demonstrate budgetary compliance with this budget.

Government-wide Financial Analysis

GASB 34, Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments, requires that the City provide a comparative analysis of government-wide data. Since this is the first year of implementation, the comparative data is not available for this fiscal year. In future years, when prior year information is available, the City will be in a position to provide the government-wide data comparisons on governmental and business-type activities as required by GASB.

City of San Antonio
Net Assets
September 30, 2002

	Governmental Activities	Business-type Activities	Total Primary Government
Current and Other Assets	$ 632,243	$ 222,870	$ 855,113
Capital Assets	2,938,157	276,008	3,214,165
Total Assets	3,570,400	498,878	4,069,278
Other Liabilities	129,128	14,633	143,761
Long-term Liabilities	1,184,719	273,886	1,458,605
Total Liabilities	1,313,847	288,519	1,602,366
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,036,269	152,261	2,188,530
Restricted	109,693	52,077	161,770
Unrestricted	110,591	6,021	116,612
Total Net Assets	$ 2,256,553	$ 210,359	$ 2,466,912

For the year ended September 30, 2002, total net assets exceeded liabilities by $2,466,912. The largest portion of the City's net assets (89%) is its investment in capital assets less any related debt used to acquire those assets that is still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment. In addition, as of September 30, 2002 the City is required to report infrastructure assets in its financial statements for the first time.

Capital assets are used to provide services to the citizens of San Antonio and are not available for further spending. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Of the total net assets, 6% ($161,770) represent resources that are subject to external restrictions on how they may be used. The remaining 5% ($116,612) represent unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

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City of San Antonio
Changes in Net Assets
For the fiscal year ended September 30, 2002

	Governmental Activities	Business-type Activities	Total Primary Government
REVENUES:			
Program Revenues:			
Charges for services	$ 133,821	$ 94,814	$ 228,635
Operating Grants and Contributions	183,849	5,040	188,889
Capital Grants and Contributions	16,400		16,400
General revenues:			
Property Taxes	225,740		225,740
Other Taxes	233,851		233,851
Revenues from Utilities	171,632		171,632
Investment Earnings	13,504	3,365	16,869
Net Decrease in Fair Value of Investments	(423)	(74)	(497)
Miscellaneous	12,269	7,610	19,879
Gain on Sale of Capital Assets	1,703	50	1,753
Capital Contributions	481		481
Total Revenues	992,827	110,805	1,103,632
EXPENSES:			
Primary Government:			
Governmental Activities:			
General Government	77,887		77,887
Public Safety	414,382		414,382
Public Works	131,010		131,010
Sanitation	7,909		7,909
Health Services	78,662		78,662
Environmental Protection and Control	194		194
Culture and Recreation	76,400		76,400
Convention and Tourism	49,754		49,754
Conservation	15		15
Urban Redevelopment and Housing	17,038		17,038
Welfare	133,818		133,818
Economic Development Opportunity	27,322		27,322
Commercial Paper Fees	13		13
Interest on Long-term Debt	54,628		54,628
Business-type Activities:			
Airport System		41,941	41,941
Parking Facilities		8,693	8,693
Environmental Services		48,223	48,223
Total Expenses	1,069,032	98,857	1,167,889
Increase/(Decrease) in Net Assets before transfers	(76,205)	11,948	(64,257)
Transfers	2,072	(2,072)	
Net Increase/(Decrease) in Net Assets	(74,133)	9,876	(64,257)
Beginning Net Assets	2,330,686	200,483	2,531,169
Ending Net Assets	$ 2,256,553	$ 210,359	$ 2,466,912

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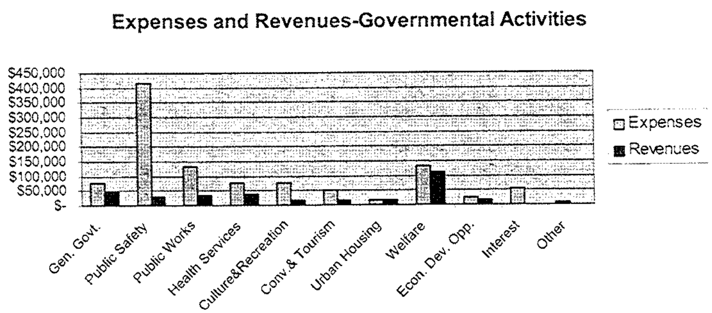
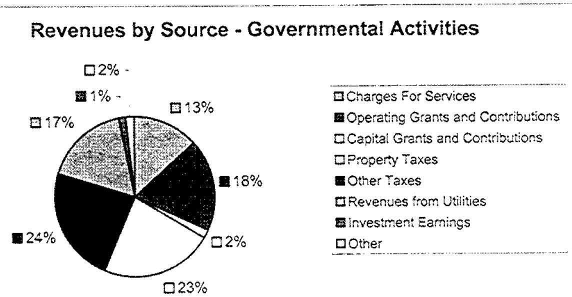
Governmental Activities
The City's total revenues were $1,103,632 for the fiscal year ended September 30, 2002. Revenues from governmental activities totaled $992,827 and revenues from business-type activities totaled $110,805. General revenues represented 61% of the City's total revenue, while charges for services and operating grants provided 39% of revenue received in fiscal year 2002.

Expenses for the City totaled $1,167,889. Governmental activity expenses totaled $1,069,032, or 92% of total expenses.





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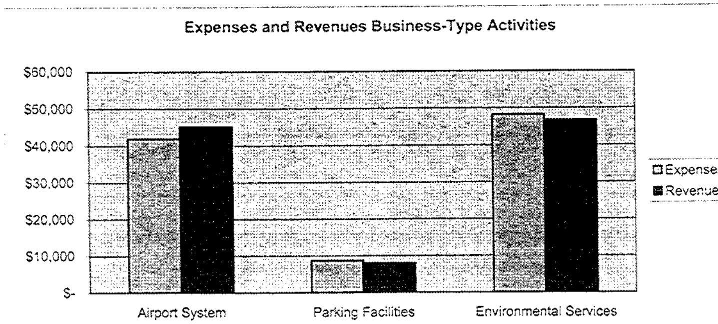
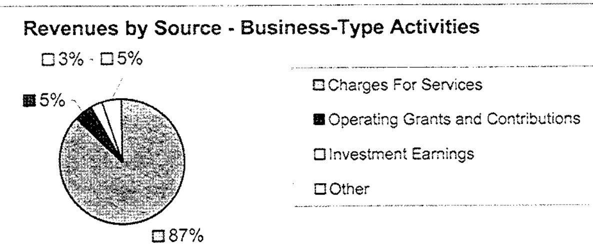
Business-type Activities
Program revenues for the City's business-type activities totaled $99,854. Expenses for business-type activities were $98,857. The remaining revenue was a result of interest and other miscellaneous items.





Financial Analysis of Governmental Funds

Activities of the Primary Government's General Fund, Special Revenue Funds, and Debt Service Funds are considered general government functions. The General Fund is the City's general operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted as to expenditure. The Debt Service Funds are used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations.

Revenues from taxes increased by $24,928 which was primarily attributable to: (1) a $13,605 or 10.84% increase in property tax revenue for the General Fund, (2) a $3,274 or 2.39% increase in sales tax revenue in the General Fund, and (3) a $5,958 or 7.27% increase in property tax revenue for the Debt Service Fund as a result of increased property valuation, new construction, and annexation. Revenues for the utilities category, which is represented in the City's General Fund decreased by $16,706 or 8.89% which is primarily attributed to a decrease of $17,293 in the City's payment from CPS which is based on CPS' gross revenues. CPS revenues are impacted by variables such as fuel costs, weather, types of electric generation used as well as other factors.

The total fund balance of the General Fund at year-end was $62,452, a decrease of $33,746 from the total fund balance of $96,198 for the close of fiscal year 2001. The total unreserved fund balance for fiscal year 2002 is $53,658, which represents $33,861 in designated and $19,797 in undesignated fund balance. The undesignated fund balance, which represents amounts available for additional appropriations, in the General Fund at the close of the fiscal year decreased by $29,640 from the previous year.

The total fund balance of the Debt Service Fund at year-end was $89,348 a increase of $1,051 from the total fund balance for the close of fiscal year 2001. The entire fund balance is reserved for payment of debt service.

The total fund balance for the Capital Projects - General Obligation Bonds fund at year-end was $91,400, an increase of $35,386 from the total fund balance for the close of fiscal year 2001. The unreserved fund balance all of which makes up the undesignated fund balance in the General Obligations Bonds Fund was $52,828.

General Fund Budgetary Highlights

Significant Variances in Budget Appropriations
General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 66,430	$ 69,352	$ 57,213
Public Safety	347,042	354,820	351,557
Public Works	9,971	10,325	10,245
Health Services	13,696	13,716	14,076
Sanitation	2,566	2,567	2,663
Welfare	17,476	18,318	17,662
Culture and Recreation	61,237	62,403	59,755
Economic Development and Opportunity	6,723	8,324	7,632
Transfers to other funds	69,458	74,881	76,102
Total	$ 594,599	$ 614,706	$ 596,905

Changes in original budget appropriations to the final amended budget appropriations were a $20,107 increase in appropriations. This increase can be summarized by the following discussion.

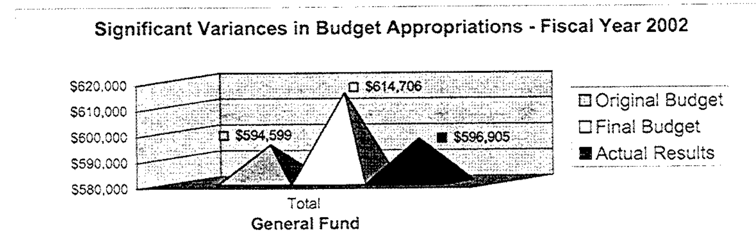
General government had a $2,922 budget increase composed of an increase of $10,784 of budget carry forwards and a $7,862 budget decrease. Of the $7,778 increase in public safety, $2,260 was due to budget carry forwards, $4,464 was funded out of budget decreases in general government and $1,054 was budgeted from available fund balance. Public works had a $354 budget increase composed of an increase of $359 of budget carry forwards and a $5 budget decrease. The $20 budget increase in health services was due to a $22 budget increase of budget carry forwards and a $2 budget decrease. Sanitation had a $1 increase due to budget carry forwards. Of the $842 increase in welfare, $876 was an increase for budget carry forwards and $34 was for budget decreases. The culture and recreation $1,166 increase was due to $930 for budget carry forwards and $236 was funded from decreases in general government. The $1,601 increase in economic development and opportunity was due to a $1,322 increase in budget carry forwards and $279 was funded from decreased budget transfers in the general fund. The $5,423 increase in transfers was due to $2,811 in budget carry forwards and $2,612 was funded from various government functions for the Brooks City-Base project.

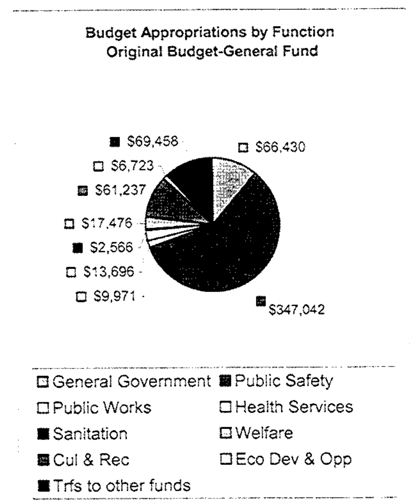
Final budgeted appropriations for the General Fund were $614,706 while actual expenditures were $596,905, creating a positive variance of $17,801 in the following functions. Significant variances are as follows:

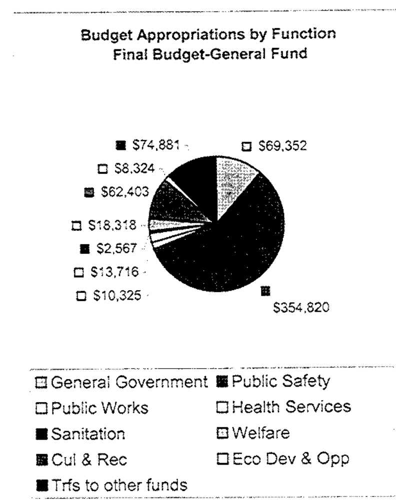
- General Government had a $12,139 positive variance composed of $3,803 of budgeted salaries, $2,403 of anticipated payments to the Bexar County Detention Center and $5,933 of appropriations identified for various one-time projects yet to be completed

- Public Safety had a positive variance in the amount of $3,263 attributable to $1,316 in savings in salaries in the Police Department, $950 in contractual services due to an unrealized budgeted increase in police clothing allowance and an adjustment for the Public Safety Radio Project, $90 in unrealized capital expenditures, $473 in unrealized commodities such as supplies and repairs and maintenance, and $434 in unrealized insurance expenditures
- Culture and Recreation had a $2,648 positive variance composed of $1,720 of savings in temporary services and salaries in the Parks and Recreation Department, $237 of savings in salaries in the Library Department, $576 of unrealized commodities such as supplies, library resources, and repairs and maintenance, and $115 of savings in other expenditures such as insurance
- Transfers to other funds reflect a negative variance in the amount of $1,221 due to the inclusion of the Human Development Fund actual net activities in the amount of $1,448 which are budgeted in a Special Revenue Fund. For presentation purposes the Human Development Fund is included with the General Fund. In addition, there were $227 of budgeted transfers, which were not made during the fiscal year.

The following charts provide a comparison of the City's budget appropriations.







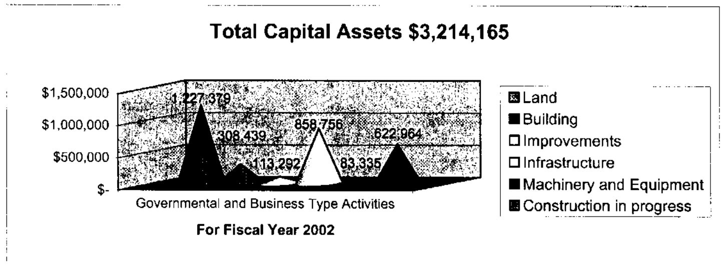
Capital Assets

The City of San Antonio's investment in capital assets for its governmental and business-type activities as of September 30, 2002, amounts to $3,214,165 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, and machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was 2.15 percent (3.53 percent decrease of governmental activities and a 5.68 percent increase for business-type activities). The City's infrastructure assets are included in fiscal year 2002.

The following schedule provides a summary of the City's capital assets:

Capital Assets (Net of Depreciation)
As of September 30, 2002

	Governmental Activities	Business-type Activities	Total Primary Government
Land	$ 1,215,391	$ 11,988	$ 1,227,379
Buildings	233,466	74,973	308,439
Improvements	26,747	86,545	113,292
Infrastructure	858,756		858,756
Machinery and Equipment	78,899	4,436	83,335
Construction in progress	524,898	98,066	622,964
Total capital assets	$ 2,938,157	$ 276,008	$ 3,214,165



Change in Capital Assets
September 30, 2002

	Governmental Activites	Business-Type Activities	Total
Beginning Balance	$ 3,038,497	$ 261,162	$ 3,299,659
Additions	134,174	23,449	157,623
Deletions	(153,222)	(1,517)	(154,739)
Accumulated Depreciation	(81,292)	(7,086)	(88,378)
Total	$ 2,938,157	$ 276,008	$ 3,214,165

Additional information on the City's capital assets can be found in Note 4 of the notes to the financial statements.

Debt Administration

At the end of the current fiscal year, the City of San Antonio had a total of $1,293,801 in bonds, certificates, revenue bonds and commercial paper outstanding, an increase of 16% over last year. Additional information on the City of San Antonio's long-term debt, including descriptions of the new issues, can be found in Note 6 in the Notes to the Financial Statements.

City of San Antonio's Outstanding Debt
September 30, 2002

	Governmental Activities	Business-type Activities	Total
Bonds Payable:			
General Obligation Bonds	$ 669,473	$ 12,855	$ 682,328
Tax-Exempt Commercial Paper	20,800		20,800
Tax-Exempt Certificate of Obligation	145,405	915	146,320
Taxable Cerificate of Obligation	9,780		9,780
Revenue bonds	179,393	255,180	434,573
Total	$ 1,024,851	$ 268,950	$ 1,293,801

On September 30, 2001, outstanding general obligation and revenue bonds, certificates, and commercial paper debt totaled $1.112 billion. In November 2001, the City issued additional debt in the amount of $150 million. The $150 million was comprised of $84,945 in general obligation bonds and $65,195 in tax-exempt certificates of obligation. The general obligation bonds and certificates of obligation are to be utilized to fund capital improvement projects to include streets, drainage, flood control, park, and public safety. Also, a portion of the general obligation bonds was used to redeem $15 million in commercial paper, and refund $6 million of the City's outstanding tax supported debt. Additionally, in May 2002, the City issued $251 million in general obligation forward refunding bonds, which were used to refund $256 million of the City's outstanding tax supported debt.

In March 2002, the City issued $130 million in Airport System Revenue Bonds. Proceeds of the bonds will be used to fund airport system improvements and renovations.

Standard & Poor's, Moody's and Fitch's underlying rating for City obligations are as follows:

	Std&Poor's	Moody's	Fitch
General Obligation/ Certificate of Obligation	AA+	Aa2	AA+
Airport	A+	A1	A+
Airport PFC	A-	A2	A+
Convention Center	A+	A	A
Parking	A+	A2	A+

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2002 was $44,120,535, which provides a debt ceiling of $4,412,054.

Requests for Information

This financial report is designed to provide a general overview of the City's position for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, P.O. Box 839966, San Antonio, TX 78283-3966.

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City of San Antonio
Texas

Basic Financial Statements

STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2002
(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets				
Cash and Cash Equivalents	$ 156,717	$ 4,507	$ 161,224	$ 321,832
Investments	316,598	11,289	327,887	37,996
Receivables (net)	109,955	6,572	116,527	146,213
Due from Fiduciary Funds	344		344	
Due from Other Governmental Agencies	36,704		36,704	1,873
Internal Balances	3,283	(3,283)		
Inventories of Materials and Supplies, at Cost	6,051	663	6,714	104,639
Prepaid Expenses	32	17	49	29,018
Deposits	1,064		1,064	
Restricted Assets:				
Cash and Cash Equivalents		52,229	52,229	64,287
Investments		145,592	145,592	1,000,115
Receivables - Accrued Interest		426	426	8,757
Prepaid Expenses		478	478	
Capital Assets:				
Non-depreciable	1,740,289	110,054	1,850,343	667,796
Depreciable, net	1,197,868	165,954	1,363,822	5,622,460
Prepaid Rent Long Term - Leaseback				575,551
Unamortized Debt Expense	1,495	4,380	5,875	33,122
Total Assets	3,570,400	498,878	4,069,278	8,613,659
Liabilities				
Accounts Payable and Other Current Liabilities	98,919	10,205	109,124	200,633
Deferred Revenues	19,929	784	20,713	130
Accrued Interest	7,966	4	7,970	
Accrued Bond and Certificate Interest		3,640	3,640	5,595
Due to Other Governmental Agencies	2,314		2,314	2,546
Noncurrent Liabilities:				
Due within one year	106,568	8,839	115,407	107,012
Due in more than one year	1,078,151	265,047	1,343,198	4,576,462
Total Liabilities	1,313,847	288,519	1,602,366	4,892,378
Net Assets				
Invested in Capital Assets, net of related debt	2,036,269	152,261	2,188,530	2,650,990
Restricted for:				
Debt Service	91,340	28,650	119,990	22,192
Capital Projects				7,400
Specific Purpose Programs	13,698		13,698	
Operations and Maintenance		1,660	1,660	
Equipment Renewal and Replacement		1,500	1,500	721,193
Improvement and Contingency		20,267	20,267	
Perpetual Care:				
Expendable	1,740		1,740	
Nonexpendable	1,378		1,378	
Other purposes	1,537		1,537	
Unrestricted	110,591	6,021	116,612	319,506
Total Net Assets	$ 2,256,553	$ 210,359	$ 2,466,912	$ 3,721,281

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

FUNCTION/PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS — PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT: TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
General Government	$ 77,887	$ 47,835	$ 395	$ 0	$ (29,657)	$ 0	$ (29,657)	
Public Safety	414,382	18,897	10,821	1,331	(383,333)		(383,333)	
Public Works	131,010	22,062	1,672	12,235	(95,041)		(95,041)	
Sanitation	7,909				(7,909)		(7,909)	
Health Services	78,662	14,438	21,991		(42,233)		(42,233)	
Environmental Protection and Control	194		17	374	197		197	
Culture and Recreation	76,400	10,817	6,448	1,035	(58,100)		(58,100)	
Convention and Tourism	49,754	18,148			(31,606)		(31,606)	
Conservation	15			63	48		48	
Urban Redevelopment and Housing	17,038		16,031	830	(177)		(177)	
Welfare	133,818	230	110,669	5	(22,914)		(22,914)	
Economic Development Opportunity	27,322	1,394	15,805	527	(9,596)		(9,596)	
Commercial Paper Fees	13				(13)		(13)	
Interest on Long-term Debt	54,628				(54,628)		(54,628)	
Total governmental activities	1,069,032	133,821	183,849	16,400	(734,962)		(734,962)	
Business-type Activities								
Airport System	41,941	40,119	5,040			3,218	3,218	
Parking Facilities	8,693	7,978				(715)	(715)	
Environmental Services	48,223	46,717				(1,506)	(1,506)	
Total business-type activities	98,857	94,814	5,040			997	997	
Total primary government	$ 1,167,889	$ 228,635	$ 188,889	$ 16,400	(734,962)	997	(733,965)	
Component units:								
San Antonio Water System	134,067	134,705	0	6,950				$ 7,588
City Public Service	1,223,532	1,200,846		73,096				50,410
Other Component Units	39,004	31,403		16,480				8,879
Total component units	$ 1,396,603	$ 1,366,954	$ 0	$ 96,526	0	0	0	66,877
General Revenues:								
Taxes:								
Property Taxes					225,740	0	225,740	0
General Sales and Use Taxes					157,593		157,593	
Selective Sales and Use Taxes					3,628		3,628	
Gross Receipts Business Taxes					22,518		22,518	
Occupancy Taxes					45,007		45,007	
Penalties and Interest on Delinquent Taxes					5,105		5,105	
Revenues from Utilities					171,632		171,632	
Investment Earnings					13,504	3,365	16,869	57,648
Net (Decrease) in Fair Value of Investments					(423)	(74)	(497)	
Miscellaneous					12,269	7,610	19,879	13,844
Gain (Loss) on Sale of Capital Assets					1,703	50	1,753	(159)
Capital Contributions					481		481	
Transfers (net)					2,072	(2,072)		
Total General Revenues, Special Items, and Transfers					660,829	8,879	669,708	71,333
Cumulative Effect of Change in Accounting Policy								139,074
Change in Net Assets					(74,133)	9,876	(64,257)	277,284
Net Assets - Beginning					2,330,686	200,483	2,531,169	3,443,997
Net Assets - Ending					$ 2,256,553	$ 210,359	$ 2,466,912	$ 3,721,281

The accompanying notes are an integral part of these financial statements.

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—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2002
(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets					
Cash and Cash Equivalents	$ 4,087	$ 25,006	$ 28,423	$ 85,954	$ 143,470
Investments	8,080	63,659	68,665	143,446	283,850
Receivables	81,881	10,345	193	88,782	181,201
Allowance for Uncollectibles	(8,321)	(1,217)	(26)	(62,488)	(72,052)
Prepaid Expenditures	27			5	32
Due from Other Funds	12,435	325		2,549	15,309
Due from Other Governmental Agencies	381		2,292	33,756	36,429
Inventories of Materials and Supplies, at Cost	2,659			1,685	4,344
Deposits				353	353
Total Assets	$ 101,229	$ 98,118	$ 99,547	$ 294,042	$ 592,936
Liabilities and Fund Balances					
Liabilities:					
Vouchers Payable	$ 2,435	$ 0	$ 2,579	$ 20,936	$ 25,950
Accounts Payable - Other	2,304		3,176	14,749	20,229
Accrued Payroll	3,458			1,590	5,048
Accrued Leave Payable	4,823			937	5,760
Deferred Revenues	25,729	8,722	2,291	14,057	50,799
Due To:					
Other Funds	28	48	101	27,614	27,791
Other Governmental Agencies				1,603	1,603
Total Liabilities	38,777	8,770	8,147	81,486	137,180
Fund Balances:					
Reserved:					
Reserved for Encumbrances	6,108		38,572	192,654	237,334
Reserved for Inventories	2,659			1,685	4,344
Reserved for Prepaid Expenditures	27			5	32
Reserved for Debt Service		69,857			69,857
Reserved for Convention Center Project		19,406			19,406
Reserved for Other Restricted Purposes		85			85
Unreserved:					
Designated	33,861				33,861
Designated: Special Revenue Funds				15,725	15,725
Designated: Permanent Funds				2,711	2,711
Undesignated	19,797		52,828		72,625
Undesignated: Special Revenue Funds				60,311	60,311
Undesignated: Capital Projects Funds				(71,742)	(71,742)
Undesignated: Permanent Funds				11,207	11,207
Total Fund Balances	62,452	89,348	91,400	212,556	455,756
Total Liabilities and Fund Balances	$ 101,229	$ 98,118	$ 99,547	$ 294,042	$ 592,936

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
AS OF SEPTEMBER 30, 2002
(In Thousands)

Fund Balances - Total Governmental Funds		$ 455,756
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets		
Land and Land Improvements	1,215,391	
Construction In Progress	524,898	
Buildings	367,649	
Improvements	59,395	
Infrastructure Assets	1,939,300	
Machinery and Equipment	48,499	
Less: Accumulated Depreciation	(1,259,290)	
Total Capital Assets		2,895,842
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds.		31,435
Internal service funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.		60,535
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Governmental bonds payable	(1,042,630)	
Premium on bonds	(18,674)	
Deferred Amount on Refunding	556	
Leases Payable	(7,592)	
Amounts received from notes & loans	(3,374)	
Unamortized Debt Expense	1,495	
Accrued Interest	(7,964)	
Arbitrage Rebate	(1,580)	
Compensated Absences	(107,252)	
		(1,187,015)
Net assets of governmental activities		$ 2,256,553

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues					
Taxes:					
Property Taxes	$ 139,336	$ 87,979	$ 0	$ 284	$ 227,599
General Sales and Use Taxes	140,085			17,508	157,593
Selective Sales and Use Taxes	3,628				3,628
Gross Receipts Business Taxes	26,042				26,042
Occupancy Taxes				45,007	45,007
Penalties and Interest on Delinquent Taxes	1,822	1,185		57	3,064
Licenses and Permits	13,302				13,302
Intergovernmental	2,889		2,921	181,018	186,828
Revenues from Utilities	171,234				171,234
Charges for Services	24,631			59,942	84,573
Fines and Forfeits	10,829				10,829
Miscellaneous	10,296		108	13,483	23,887
Interest	1,879	3,520	2,237	4,773	12,409
Net (Decrease) in Fair Value of Investments	(120)		(74)	(159)	(353)
In-Kind Contributions				14,504	14,504
Total Revenues	545,853	92,684	5,192	336,417	980,146
Expenditures					
Current:					
General Government	56,155			8,678	64,833
Public Safety	350,756			13,484	364,240
Public Works	10,180			56,949	67,129
Health Services	13,934			62,608	76,542
Environmental Protection and Control				391	391
Sanitation	2,654				2,654
Welfare	16,991			116,169	133,160
Culture and Recreation	59,454			15,531	74,985
Convention and Tourism				49,764	49,764
Conservation				63	63
Urban Redevelopment and Housing				17,469	17,469
Economic Development and Opportunity	7,330			18,578	25,908
Capital Projects			37,652	80,285	117,937
Debt Service:					
Principal Retirement		66,295			66,295
Interest		49,092			49,092
Issuance Costs		1,656			1,656
Total Expenditures	517,454	117,043	37,652	439,969	1,112,118
Excess (Deficiency) of Revenues Over (Under) Expenditures	28,399	(24,359)	(32,460)	(103,552)	(131,972)
Other Financing Sources (Uses)					
Long-Term Debt Issued		261,930	62,925	65,195	390,050
Payments to Refunded Bond Escrow Agent		(257,467)			(257,467)
Amounts from Notes and Loans				3,374	3,374
Redemption of General Commercial Paper		(15,000)			(15,000)
Premium on Long-term Debt		13,113	2,050	4,385	19,548
Transfers In	11,198	22,834	3,159	126,628	163,819
Transfers Out	(73,343)		(288)	(87,913)	(161,544)
Total Other Financing Sources (Uses)	(62,145)	25,410	67,846	111,669	142,780
Net Change in Fund Balances	(33,746)	1,051	35,386	8,117	10,808
Fund Balances, October 1	96,198	88,297	56,014	204,439	444,948
Fund Balances, September 30	$ 62,452	$ 89,348	$ 91,400	$ 212,556	$ 455,756

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

Net change in Fund Balances - Total Governmental Funds		$ 10,808
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Expenditures for capital assets	115,968	
Less current year depreciation	(77,304)	38,664
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		5,780
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.		
Bond and loan amounts	(412,972)	
Bond costs	1,554	
Redemption of commercial paper	15,000	
Payments to Escrow Agent	257,467	
Amortization of Bond Premiums and Deferred Charges (net)	385	
Principal payments	66,295	(72,271)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(39,235)
Internal service funds are used by management to charge the cost of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.		(17,879)
Change in net assets of governmental activities		$ (74,133)

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2002
(In Thousands)

	Business-Type Activities – Enterprise Funds: Airport System	Parking Facilities	Nonmajor Enterprise Fund-Environmental Services	Total	Governmental Activities: Internal Service Funds
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 3,556	$ 331	$ 620	$ 4,507	$ 13,247
Investments	8,924	851	1,514	11,289	32,748
Receivables:					
Other Accounts	2,427	70	1	2,498	121
Less: Allowance for Uncollectibles	(488)	(69)		(557)	
Accrued Interest	26	2	6	34	115
Accrued Revenue	787	33	3,777	4,597	7
Due From Other Funds					22,329
Due From Other Governmental Agencies					441
Less: Allowance for Uncollectibles					(166)
Inventories	580	68	15	663	1,707
Prepaid Expenses	17			17	
Deposits					711
Total Current Assets	15,829	1,286	5,933	23,048	71,260
Restricted Assets:					
Debt Service Accounts:					
Cash and Cash Equivalents	3,546	121		3,667	
Investments	27,488	939		28,427	
Prepaid Expenses	478			478	
Receivables-Accrued Interest	152	4		156	
Due From Other Funds		48		48	
Construction Accounts:					
Cash and Cash Equivalents	38,335	3,881	122	42,338	
Investments	92,424	9,357	293	102,074	
Receivables-Accrued Interest	221	22	1	244	
Operations and Maintenance:					
Cash and Cash Equivalents		486		486	
Investments		1,171		1,171	
Receivables-Accrued Interest		3		3	
Improvement and Contingency Accounts:					
Cash and Cash Equivalents	5,063	439	149	5,651	
Investments	12,294	1,058	358	13,710	
Receivables-Accrued Interest	13	2	1	16	
Due from Other Funds	2,621			2,621	
Other Restricted Accounts:					
Cash and Cash Equivalents	87			87	
Investments	210			210	
Receivables-Accrued Interest	7			7	
Total Restricted Assets	182,939	17,531	924	201,394	
Capital Assets:					
Land	2,970	8,125	893	11,988	
Buildings	112,133	18,985	46	131,164	178
Improvements Other Than Buildings	145,825	1,639	3,025	150,489	194
Machinery and Equipment	10,282	759	3,423	14,464	102,194
Construction in Progress	86,651	10,916	499	98,066	
Total Capital Assets	357,861	40,424	7,886	406,171	102,566
Less: Accumulated Depreciation	118,883	8,667	2,613	130,163	60,251
Net Capital Assets	238,978	31,757	5,273	276,008	42,315
Unamortized Debt Expense	3,710	670		4,380	
Total Assets	$ 441,456	$ 51,244	$ 12,130	$ 504,830	$ 113,575

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2002
(In Thousands)

	Business-Type Activities – Enterprise Funds: Airport System	Parking Facilities	Nonmajor Enterprise Fund-Environmental Services	Total	Governmental Activities: Internal Service Funds
LIABILITIES					
Current Liabilities:					
Vouchers Payable	$ 251	$ 9	$ 734	$ 994	$ 2,651
Accounts Payable-Other	5,129	76	1,639	6,844	41,161
Accrued Payroll	247	65	347	659	508
Accrued Leave Payable	140	20	127	287	180
Deferred Revenues	784			784	
Accrued Interest			4	4	2
Due to Other Funds	2,173			2,173	9,521
Total Current Liabilities (Payable from Current Assets)	8,724	170	2,851	11,745	54,023
Current Liabilities (Payable from Restricted Assets)					
Vouchers Payable	1,688	1	19	1,708	
Accrued Bond and Certificate Interest	3,356	284		3,640	
Current Portion of Bonds and Certificates	6,185	1,140		7,325	
Due to Other Funds	478			478	
Lease Purchase			133	133	370
Other Payables	649	445		1,094	
Total Current Liabilities (Payable from Restricted Assets)	12,356	1,870	152	14,378	370
Total Current Liabilities	21,080	2,040	3,003	26,123	54,393
Noncurrent Liabilities					
Revenue Bonds (Net of Current Portion)	224,150	24,845		248,995	
General Obligation Bonds and Certificates (Net of Current Portion)		12,630		12,630	
Unamortized Premium on New Series Bonds	436	481		917	
Less: Deferred Amount on Refunding		(528)		(528)	
Accrued Leave Payable	700	103	633	1,436	902
Lease Purchase			544	544	335
Due to Other Governmental Agencies					711
Other Payables			1,053	1,053	
Total Noncurrent Liabilities	225,286	37,531	2,230	265,047	1,948
Total Liabilities	246,366	39,571	5,233	291,170	56,341
NET ASSETS					
Invested In Capital Assets, net of related debt	140,596	6,672	4,993	152,261	41,610
Restricted:					
Debt Service	27,822	828		28,650	
Operations and Maintenance		1,660		1,660	
Renewal and Replacement		1,500		1,500	
Improvements and Contingency	20,267			20,267	
Unrestricted	6,405	1,013	1,904	9,322	15,624
Total Net Assets	$ 195,090	$ 11,673	$ 6,897	$ 213,660	$ 57,234
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(3,301)	
Net assets of business-type activities.				$ 210,359	

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues					
Charges for Services	$ 40,119	$ 7,978	$ 46,717	$ 94,814	$ 132,983
Total Operating Revenues	40,119	7,978	46,717	94,814	132,983
Operating Expenses					
Personal Services	15,243	3,699	21,547	40,489	30,081
Contractual Services	4,796	1,175	20,256	26,227	69,015
Commodities	1,121	198	2,873	4,192	5,113
Materials					14,908
Other	928	510	1,745	3,183	26,347
Depreciation	7,376	591	290	8,257	15,397
Total Operating Expenses	29,464	6,173	46,711	82,348	160,861
Operating Income (Loss)	10,655	1,805	6	12,466	(27,878)
Nonoperating Revenues (Expenses)					
Interest and Other	2,889	390	86	3,365	1,395
Net (Decrease) in Fair Value of Investments	(42)	(25)	(7)	(74)	(79)
Other Nonoperating Revenue	7,398	17	195	7,610	3,444
Gain (Loss) on Sale of Fixed Assets	22	(19)	47	50	1,703
Interest and Debt Expense	(10,784)	(2,128)	(11)	(12,923)	(43)
Other Nonoperating Expense	(239)	(46)		(285)	
Total Nonoperating Revenues (Expenses)	(756)	(1,811)	310	(2,257)	6,420
Change in Net Assets Before Contributions and Transfers	9,899	(6)	316	10,209	(21,458)
Capital Contributions	5,040			5,040	481
Transfers In (Out)					
Transfers In		350		350	5,139
Transfers Out	(1,288)	(306)	(828)	(2,422)	(5,342)
Total Transfers	(1,288)	44	(828)	(2,072)	(203)
Change In Net Assets	13,651	38	(512)	13,177	(21,180)
Net Assets - Beginning	181,439	11,635	7,409		78,414
Net Assets - Ending	$ 195,090	$ 11,673	$ 6,897		$ 57,234
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(3,301)	
Change in net assets of business-type activities.				$ 9,876	

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities					
Cash Received from Customers	$ 40,422	$ 8,058	$ 46,069	$ 94,549	$ 133,167
Cash Payments to Suppliers for Goods and Services	(8,123)	(1,931)	(24,848)	(34,902)	(114,419)
Cash Payments to Employees for Service	(15,433)	(3,669)	(21,507)	(40,609)	(30,086)
Other Nonoperating Revenues	7,398	17	195	7,610	3,444
Net Cash Provided by (Used for) Operating Activities	24,264	2,475	(91)	26,648	(7,894)
Cash Flows from Non-Capital Financing Activities					
Transfers In from Other Funds		352		352	4,948
Transfers Out to Other Funds	(1,440)	(306)	(1,038)	(2,784)	(18,539)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(1,440)	46	(1,038)	(2,432)	(13,591)
Cash Flows from Capital and Related Financing Activities					
Acquisitions and Construction of Capital Assets	(14,081)	(2,929)	(73)	(17,083)	(15,967)
Proceeds from Issuance of Long-Term Debt	130,857			130,857	
Principal Payments on Long-Term Debt	(5,080)	(1,220)	(32)	(6,332)	(99)
Interest Paid on Long-Term Debt	(9,012)	(2,154)	(7)	(11,173)	(4)
Debt Issuance	(2,265)			(2,265)	
Principal Payments on Notes					(315)
Interest Paid on Notes					(41)
Proceeds from Sale of Assets	22		177	199	2,521
Net Cash Provided by (Used for) Capital and Related Financing Activities	100,441	(6,303)	65	94,203	(13,905)
Cash Flows from Investing Activities:					
Purchases of Investment Securities	(692,386)	(62,526)	(9,850)	(764,762)	(148,911)
Maturity of Investment Securities	590,621	61,022	9,808	661,451	158,788
Interest on Notes					17
Interest on Investments	2,816	483	111	3,410	1,668
Net Cash Provided by (Used for) Investing Activities	(98,949)	(1,021)	69	(99,901)	11,562
Net Increase (Decrease) in Cash and Cash Equivalents	24,316	(4,803)	(995)	18,518	(23,828)
Cash and Cash Equivalents, October 1	26,271	10,061	1,886	38,218	37,075
Cash and Cash Equivalents, September 30	$ 50,587	$ 5,258	$ 891	$ 56,736	$ 13,247

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	Business-Type Activities Enterprise Funds: AIRPORT SYSTEM	Business-Type Activities Enterprise Funds: PARKING FACILITIES	Business-Type Activities Enterprise Funds: NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	Business-Type Activities Enterprise Funds: TOTALS	Governmental Activities: INTERNAL SERVICE FUNDS
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities					
Operating Income (Loss)	$ 10,655	$ 1,805	$ 6	$ 12,466	$ (27,878)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Depreciation	7,376	591	290	8,257	15,397
Other Nonoperating Revenues	7,398	17	195	7,610	3,444
Changes in Assets and Liabilities:					
(Increase) In Other Accounts Receivable	(155)	(70)	(1)	(226)	(27)
Decrease In Allowance for Uncollectibles	46	70		116	166
(Increase) Decrease In Accrued Revenues	(36)	79	(647)	(604)	47
Decrease In Due from Other Funds					217
Decrease In Due from Other Gov'tl Agencies					77
(Increase) Decrease In Inventories	(9)	(31)	3	(37)	365
(Increase) In Prepaid Expenses	(29)			(29)	
Decrease In Deposits			13	13	78
Increase (Decrease) In Vouchers Payable	78	(21)	(92)	(35)	249
Increase (Decrease) In Other Payables	(1,318)	5	101	(1,212)	(45)
Increase In Due to Other Funds					21
Increase In Accrued Payroll	52	13	40	105	2
Increase (Decrease) In Accrued Leave Payable	(242)	17	1	(224)	(7)
Increase In Deferred Revenue	448			448	
Net Cash Provided by (Used for) Operating Activities	$ 24,264	$ 2,475	$ (91)	$ 26,648	$ (7,894)
Noncash Investing, Capital and Financing Activities:					
Acquisitions and Construction of Capital Assets from Capital Contributions	$ 5,040	$	$	$ 5,040	$ 481
Net (Decrease) in Fair Value of Investments	$ (42)	$ (25)	$ (7)	$ (74)	$ (79)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FIDUCIARY NET ASSETS/BALANCE SHEET
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2002
(In Thousands)

ASSETS	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Current Assets			
Cash and Cash Equivalents	$ 71,199	$ 11	$ 7,446
Security Lending Collateral	125,235		
Investments, at fair value:			
US Government and Agency Issues	147,167	27	53
Corporate Bonds	140,838		
Preferred Common Stock	612,282		
Other	269,724		
Total Investments, at fair value	1,170,011	27	53
Receivables:			
Other Accounts	11,348		284
Accrued Interest	6,531		2
Accrued Revenue	566		
Prepayments	13		
Total Current Assets	1,384,903	38	7,785
Capital Assets			
Computer Equipment	76		
Buildings	556		
Total Capital Assets	632		
Less: Accumulated Depreciation	278		
Net Capital Assets	354		
Total Assets	1,385,257	38	$ 7,785
LIABILITIES			
Vouchers Payable	1,332	3	1,448
Accounts Payable- Other	33,166		5,993
Accrued Payroll	38		
Due to Other Funds			344
Securities Lending	125,235		
Total Liabilities	159,771	3	$ 7,785
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	$ 1,225,486	$ 35	

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS:		
Contributions:		
Employer	$ 58,969	$
Employee	23,030	
Other Contributions		21
Total Contributions	81,999	21
Investment Earnings:		
Net (Decrease) in Fair Value of Investments	(154,836)	
Real Estate Income, net	180	
Interest and Dividends	33,530	1
Securities Lending	2,395	
Other Income	286	
Total Investment Earnings	(118,445)	1
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(5,036)	
Securities Lending Expenses:		
Borrower Rebates	(1,874)	
Lending Fees	(181)	
Net Investment Income	(125,536)	1
Total Additions	(43,537)	22
DEDUCTIONS:		
Benefits	69,706	
Refunds of Contributions	501	
Administrative Expense	1,060	12
Salaries, Wage and Employee Benefits	613	
Total Deductions	71,880	12
Change in Net Assets	(115,417)	10
Net Assets - Beginning of Year	1,340,903	25
Net Assets - End of Year	$ 1,225,486	$ 35

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2002
(In Thousands)

ASSETS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Assets:				
Cash and Cash Equivalents	$ 0	$ 303,593	$ 18,239	$ 321,832
Investments	22,902	11,019	4,075	37,996
Receivables:				
Notes			15,411	15,411
Other Accounts	22,851	97,062	3,721	123,634
Accrued Interest	537	6,528	103	7,168
Inventories of Materials and Supplies	4,029	100,610		104,639
Due from Other Governmental Agencies			1,873	1,873
Prepaid Expenses	1,072	27,227	719	29,018
Total Current Assets	51,391	546,039	44,141	641,571
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	493	13,612		14,105
Investments	22,367	26,324		48,691
Receivables-Accrued Interest		655		655
Construction Accounts:				
Cash and Cash Equivalents	30,955			30,955
Investments	81,417			81,417
Repair and Replacement Account:				
Investments		588,557		588,557
Conservation Accounts:				
Investments	7,400			7,400
Other Restricted Accounts:				
Cash and Cash Equivalents		17,425	1,802	19,227
Investments	5,007	269,043		274,050
Receivables			5,716	5,716
Receivables-Accrued Interest		2,386		2,386
Total Restricted Assets	147,639	918,002	7,518	1,073,159
Capital Assets:				
Land	58,793	54,889	10,397	124,079
Infrastructure			36,564	36,564
Buildings			146,957	146,957
Utility Plant in Service	1,794,131	6,300,740		8,094,871
Machinery and Equipment	100,541		2,431	102,972
Construction in Progress	339,399	190,717	1,002	531,118
Utility Property Leased		18,785		18,785
Nuclear Fuel - Net		269,902		269,902
Held for Future Use		12,599		12,599
Total	2,292,864	6,847,632	197,351	9,337,847
Less: Accumulated Depreciation	643,936	2,393,468	10,187	3,047,591
Net Capital Assets	1,648,928	4,454,164	187,164	6,290,256
Prepaid Rent Long Term-Leaseback		575,551		575,551
Unamortized Debt Expense	5,532	27,590		33,122
Total Assets	$ 1,853,490	$ 6,521,346	$ 238,823	$ 8,613,659

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2002
(In Thousands)

LIABILITIES	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Liabilities:				
Accounts Payable and Other Current Liabilities	$ 19,032	$ 160,369	$ 9,447	$ 188,848
Sewer Collections Payable	190			190
Deferred Revenues			130	130
Notes Payable	516		3,626	4,142
Due to Other Governmental Agencies			2,546	2,546
Total Current Liabilities (Payable from Current Assets)	19,738	160,369	15,749	195,856
Current Liabilities (Payable from Restricted Assets):				
Accrued Bond and Certificate Interest	5,595			5,595
Current Portion of Bonds and Certificates	25,045	77,825		102,870
Other Payables	11,090		505	11,595
Total Current Liabilities (Payable from Restricted Assets)	41,730	77,825	505	120,060
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	703,410	2,512,035		3,215,445
Commercial Paper	185,000	350,000		535,000
Unamortized Premium	1,639	10,542		12,181
Less: Unamortized Discount on New Series Bonds	(15,542)			(15,542)
Deferred Amount on Refunding	(8,572)	(145,729)		(154,301)
Long-Term Lease/Notes Payable	2,930	656,135	81,210	740,275
Other Payables	1,729	235,598	6,077	243,404
Total Noncurrent Liabilities	870,594	3,618,581	87,287	4,576,462
Total Liabilities	932,062	3,856,775	103,541	4,892,378
NET ASSETS				
Invested in Capital Assets, net of related debt	866,324	1,690,076	94,590	2,650,990
Restricted for Renewal and Replacement		720,221	972	721,193
Restricted for Debt Service	17,265		4,927	22,192
Restricted for Conservation	7,400			7,400
Unrestricted	30,439	254,274	34,793	319,506
Total Net Assets	$ 921,428	$ 2,664,571	$ 135,282	$ 3,721,281

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

		Program Revenues		Net (Expense) Revenue and Changes In Net Assets			
	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTALS
San Antonio Water System	$ 134,067	$ 134,705	$ 6,950	$ 7,588	$	$	$ 7,588
City Public Service	1,223,532	1,200,846	73,096		50,410		50,410
Nonmajor Component Units	39,004	31,403	16,480			8,879	8,879
Total	$ 1,396,603	$ 1,366,954	$ 96,526	7,588	50,410	8,879	66,877
General Revenues:							
Investment Earnings				5,300	51,925	423	57,648
(Loss) on Disposal of Capital Assets				(159)			(159)
Miscellaneous					7,062	6,782	13,844
Total General Revenues				5,141	58,987	7,205	71,333
Cumulative Effect of Change in Accounting Policy					139,074		139,074
Change in Net Assets				12,729	248,471	16,084	277,284
Net Assets - Beginning				908,699	2,416,100	119,198	3,443,997
Net Assets - Ending				$ 921,428	$ 2,664,571	$ 135,282	$ 3,721,281

The accompanying notes are an integral part of these financial statements.

TABLE OF NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of San Antonio (City) have been prepared in conformance with generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

A. Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, "The Reporting Entity." The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials, and accordingly, the definition of the financial reporting entity is based on accountability.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable (blended), and (c) component units, which the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statement No. 14 outlined below, potential component units were evaluated for inclusion or exclusion in the reporting entity, and further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others only discretely presented.

The following criteria (as set forth in GASB Statement No. 14) were used in the evaluation of potential component units of the City:

1) Legally separate

2) Financial accountability
   a) Appointment of a voting majority
   b) Imposition of will
   c) Financial benefit to or burden on the City
   d) Fiscal dependency

3) The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete.

4) Service rendered by the potential component unit is provided entirely or almost entirely to the City.

The criteria outlined above were excerpted from GASB Statement No. 14. For a more detailed explanation of the criteria established by this Statement, we refer the reader to the Codification of Governmental Accounting and Financial Reporting Standards, as of June 30, 2002, published by GASB, Section 2600. Based upon the application of the criteria outlined above, the following is a brief review of component units included in the reporting entity:

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended with the Primary Government (the relationship among the following component units and the City meet the criteria, as set forth in GASB Statement No. 14, for inclusion in the Reporting Entity and is such that the financial statements are blended in with those of the City):

As set forth in GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, the City excludes fiduciary funds and component units that are fiduciary in nature from the government-wide financial statements. The City's component units that are fiduciary in nature are the San Antonio Fire and Police Pension Fund and the San Antonio Fire and Police Retiree Health Care Fund. These component units are presented in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

City of San Antonio Health Facilities Development Corporation

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of, the City as a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner, to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The HFDC is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

City of San Antonio Industrial Development Authority

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979, in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City as an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects which may further the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The IDA is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

San Antonio Fire and Police Pension Fund

The San Antonio Fire and Police Pension Fund (Pension Fund) is a Single Employer Defined Benefit Plan established in accordance with state law. The Pension Fund is administered by a nine member Board of Trustees, including three City Council Members. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state law. Benefit levels are also set by state law. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers upon retirement.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Fire and Police Retiree Health Care Fund

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide post employment healthcare benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these post employment healthcare benefits for eligible uniformed employees of the City. The Health Fund is administered by a nine member board of trustees, including three City Council Members, and is funded primarily by contributions from the City and contributions made by retirees on behalf of their dependents. City and retiree contribution rates are established pursuant to Fire and Police collective bargaining agreements.

City of San Antonio Texas Municipal Facilities Corporation

The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in accordance with state law for the purposes of and to act on behalf of the City in acquisition, construction, equipping, financing, operation and maintenance of land and other municipal facilities for the City. The TMFC is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

Discretely Presented With the Primary Government (the relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statement No. 14, for inclusion in the reporting entity, and accordingly are included, however are such that the financial statements are discretely presented alongside, but not blended with those of the City):

San Antonio Water System

On February 13, 1992, the City Council determined it was in the best interest of the citizens of San Antonio and the customers served by the water and wastewater utilities to consolidate all water utilities, agencies, and activities into one institution. It was determined that the best mechanism for effecting the consolidation of all water systems, agencies, and activities into a single institution was through a refunding of all the then outstanding water and sewer bonds. The consolidation was consummated on May 19, 1992 with the creation of the San Antonio Water System (SAWS) which included the former City Water Board, Alamo Water Conservation and Re-use District, and the City's Sewer and Stormwater system.

Additionally, it was further determined by the City Council that the interests of the citizens and customers could best be served by placing authority for management and control of SAWS, as consolidated, in a Board of Trustees. This Board of Trustees includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. The rates for user charges and bond issuance authorizations are approved by the City Council.

City Public Service

City Public Service (CPS), a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS is governed by a Board of Trustees which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. The rates for user charges and bond issuance authorizations are approved by the City Council.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Development Agency

The San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the State of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate, for urban renewal, such areas, as it deems advisable, subject to approval by the City Council and the Federal Agency, which administers the overall program. SADA receives a majority of its operating funds from the City as pass-through grant funds and is governed by a seven member Board of Commissioners appointed by the City Council.

San Antonio Education Facilities Corporation

The City of San Antonio Higher Education Authority (SAHEA) was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and as its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to the San Antonio Education Facilities Corporation (SAEFC). The Act authorizes the SAEFC to issue revenue bonds for these purposes on behalf of the City but the bonds are not obligations of the City. SAEFC is governed by an eleven member Board of Directors appointed by the City Council for two-year terms.

Greater Kelly Development Authority

The Greater Kelly Development Corporation (GKDC) was established in 1996 as the local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base (Kelly). In November 1999, the City established the Greater Kelly Development Authority (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA will have the powers previously enjoyed by the GKDC while at the same time clarifying such powers and preserving the property tax exempt status of prior commercial tenants at Kelly. The GKDA is a special district and political subdivision of the State of Texas and was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The GKDA is governed by an eleven member Board of Directors, appointed by the City Council. The City Council also has the ability to remove appointed members of the organization's governing board at will. The GKDA is authorized to issue bonds to finance any project as permitted by Texas Law, but said bonds are not obligations of the City.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Housing Trust Foundation, Inc.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) is a non-profit corporation incorporated in 1990 under the laws of the State of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, specifically for providing housing for low and middle income families and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, a Private Purpose Trust Fund of the City. The Housing Trust Fund was established by the City for the purposes of providing additional and continuing housing opportunities for low and moderate income families; promoting public health, safety, convenience, and welfare; and revitalizing neighborhoods and the downtown area through appropriate housing activities. SAHTF is governed by an eleven member Board of Directors appointed by the City Council. SAHTF administers The San Antonio Housing Trust Finance Corporation.

San Antonio Local Development Company, Inc.

The San Antonio Local Development Company, Inc. (SALDC) is a non-profit corporation organized in 1978 under the laws of the State of Texas and the auspices of the City. SALDC was formed to participate in the Neighborhood Business Revitalization Program (NBRP), which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration, and the U.S. Department of Housing and Urban Development (HUD). SALDC is governed by a thirty-three member Board of Trustees, appointed by the City Council, and an eleven member Board of Directors appointed from the Board of Trustees. SALDC, under agreement with the City, administers and operates a revolving loan fund, NBRP that provides qualifying local businesses with loans under economic development programs administered by the SBA. SALDC also administers, by agreement with the City, a U.S. Department of Commerce Title IX Revolving Loan Fund, SBA MicroLoan Program and a HUD 108 Fund. Currently, SALDC has an outstanding note payable to HUD, which is guaranteed by the City.

Brooks Development Authority

The Brooks Development Authority (BDA) is a special district and political subdivision of the State of Texas. It was established on September 27, 2001, as a defense base development authority in accordance with state law for the purposes of and to act on behalf of the City in improving mission effectiveness, reduce the cost of providing quality installation support through improved capital asset management and promote economic development on Brooks Air Force Base and in the surrounding community. An eleven member Board of Directors appointed by the City Council governs the BDA for two-year terms and will oversee the Brooks Technology and Business Park in support of the Brooks City-Base Project.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office. The addresses are as follows:

Discretely Presented Component Units

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298
Contact Person: Alex Hinojosa
Telephone No. (210) 704-7410

City Public Service
P.O. Box 1771
San Antonio, Texas 78296-1771
Contact Person: Richard E. Williamson
Telephone No. (210) 353-2397

San Antonio Development Agency
115 E. Travis, Suite 800
San Antonio, Texas 78205
Contact Person: Felix Lopez
Telephone No. (210) 225-6833 ext. 203

San Antonio Education Facilities Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

Greater Kelly Development Authority
143 Billy Mitchell Blvd., Ste 6
San Antonio, Texas 78226
Contact Person: Bruce Miller
Telephone No. (210) 362-7800

San Antonio Housing Trust Foundation, Inc.
2515 Blanco Rd.
San Antonio, Texas 78212
Contact Person: John Kenny
Telephone No. (210) 735-2772

San Antonio Local Development Company, Inc.
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

Brooks Development Authority
8030 Challenger Drive
Brooks City-Base, Texas 78235
Contact Person: Virginia Cobarrubias
Telephone No. (210) 536-6710

Blended Component Units

San Antonio Health Facilities Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Industrial Development Authority
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Fire and Police Retiree Health Care Fund
300 Convent Street, Suite 2500
San Antonio, Texas 78205
Contact Person: Paul Villarreal
Telephone No. (210) 220-1385

San Antonio Fire and Police Pension Fund
311 Roosevelt
San Antonio, Texas 78210-2700
Contact Person: Warren Schott
Telephone No. (210) 534-3262

San Antonio Texas Municipal Facilities Corporation
P.O. Box 839966
San Antonio, Texas 78283
Contact Person: Milo Nitschke
Telephone No. (210) 207-8620

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS and SAWS would be misleading. CPS and SAWS have been identified as major discretely presented component units both as they relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements. Discretely presented component units with different fiscal year ends from the City are the San Antonio Water System with a fiscal year end of December 31, and City Public Service with a fiscal year end of January 31. In 2001, the San Antonio Water System changed its fiscal year-end from May 31 to December 31. Please refer to Note 1S for more information.

Related Organizations

The City Council appoints the members to the Board of Directors for the San Antonio Housing Authority. However, the City's accountability for this entity does not extend beyond making appointments to the Board of Directors and the coordination and approval of strategic plans.

B. Basic Financial Statements – GASB Statement No. 34

Effective October 1, 2001, the City implemented the provisions of GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments". In conjunction with the implementation of GASB Statement No. 34, the City has also implemented GASB Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus, an amendment of GASB Statement No. 21 and No. 34", as well as a portion of GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Measurement and Recognition for Certain Liabilities and Expenditures in Governmental Funds". These statements comply with the requirements of the new reporting model. The significant changes in accounting due to the adoption of these standards include the addition of management's discussion and analysis, the presentation of net assets and the categorization thereof, the use of the accrual basis of accounting in the government-wide financial statements, the inclusion of certain required supplementary information, the elimination of the effects of internal service fund activities, reflecting depreciation on capital assets, the focus on major funds and the removal of non-matured arbitrage and compensated absence liabilities from the governmental funds.

Government-wide and Fund Financial Statements

Under the new governmental financial reporting model, the basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, the City has opted to early implement infrastructure reporting. The implementation requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of the capital assets, as well as the related depreciation, to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements – GASB Statement No. 34 (Continued)

Government-wide Financial Statements (Continued)

The Statement of Net Assets reflects both short-term and long-term assets and liabilities. In the Government-wide Statement of Net Assets governmental activities are reported separately from business type activities. Governmental activities are supported by taxes and intergovernmental revenues whereas business type activities are normally supported by fees and charges for services Long-term assets, such as capital assets, infrastructure assets and long-term obligations are now reported with the assets of governmental activity. The components of net assets, previously shown as fund balances, are presented in three separate components; 1) Invested in Capital Assets, net of related debt, 2) Restricted, and 3) Unrestricted. Interfund receivables and payables between governmental and business type activities have been eliminated in the governmental-wide Statement of Net assets, which minimize the duplicating of assets and liabilities within the governmental and business type activities. Major component units are reported in the statement of net assets as well.

The Statement of Activities reflect both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales tax, intergovernmental revenues, etc.). Direct (gross) expenses of a given function or segment are offset by program revenues, and operating and capital grants. Program revenues must be directly associated with the function of business-type activity. The new presentation allows users to determine which functions are self-supporting, and which rely on the tax base in order to complete their mission. Internal service fund balances, whether positive or negative have been eliminated against the expenses and program revenues shown in the governmental activities of the Statement of Activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the internal service fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the internal service funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets. The only reconciling item is the internal service fund allocation.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: Governmental Funds, Proprietary Funds and Fiduciary Funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported in separately in the Fund Financial Statements. Nonmajor funds are independently presented in the combining statements.

The criteria used to determine if a governmental or enterprise funds should be reported as a major fund is a follows: The total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type (that is, total governmental or total enterprise funds), and total assets and liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

The following is a brief description of the major governmental funds that are each presented in a separate column in the fund financial statements:

The General Fund is always presented as a major fund.

The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs except that which is accounted for in proprietary type funds.

The General Obligation Bonds Capital Project Fund accounts for financial resources obtained through the issuance of general obligation bonds to be used for acquisition or construction of major capital facilities such as drainage, library improvements, excluding those financed by proprietary type funds and trust funds.

The following is a brief description of the major enterprise funds that are each presented in a separate column in the fund financial statements:

The Airport System accounts for the operation of the San Antonio International Airport and Stinson Municipal Airport. Financing for the Airport System operations is provided by user fees.

The Parking System accounts for the operations of the City's parking facilities. Financing for the Parking Facilities Operations is provided by user fees

1. Governmental Funds

General Fund - The General Fund of the City is the primary operating fund, which accounts for all financial resources of the general government except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than private-purpose trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

Permanent Funds - This fund is a new governmental fund type established by GASB Statement No. 34. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry.

2. Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

2. Proprietary Funds (Continued)

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in this fund.

3. Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Pension Trust, Retiree Health Care Trust, Private Purpose Trust Funds, and Agency Funds. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The statement of net assets and the statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year they are levied. Other taxes and fees are recognized as revenue in the year they are earned. Revenue from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied. .

Program Revenues are presented in the Government-wide Statement of Activities. The City reports program revenues into three categories: 1) Charges for services, 2) Operating grants and contributions and 3) Capital grants and contributions. (Further descriptions of these three categories follow.) They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by transactions with outside parties who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those funds to specific programs. Investment earnings that are legally restricted to specific programs are also reported as program revenues.

1) **Charges** for services are revenues that are generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, golf course fees, and food establishment licenses. Fines and forfeitures are also reported under charges for services.

2) **Operating** grants and contributions are those revenues that are restricted in the way they may be spent - either for operations of a particular program or to purchase a capital asset for a particular program.

3) **Capital** grants and contributions are also restricted revenues; the funds may only be spent to purchase capital assets for specified programs.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

All governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. Revenues are recognized in the accounting period in which they become available and measurable. For this purpose, the City considers revenues, other than grants, to be available if the revenues are collected within sixty days after year-end. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider are met. Grant funds received in advance and delinquent property taxes are recorded as deferred revenue until earned and available. Gross receipts and sales taxes are considered available when in the hands of intermediary collecting governments and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain. Expenditures are recognized in the accounting period in which the fund liability is incurred. However, compensated absences, debt service expenditures, claims and judgments and arbitrage rebate are recorded only when the liability is matured.

The reported fund balance (net current assets) for each fund is considered a measure of "current financial resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "current financial resources" during the period.

Special reporting treatments are applied to governmental fund inventories and prepaid expenditures to indicate that they do not represent "current financial resources", since they do not represent net current assets. Such amounts are generally offset by fund balance reserve accounts.

Proprietary, Pension Trust, Private Purpose Trust, and Retiree Health Care Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred. These funds are accounted for on a cost of services or "economic resources" measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. The reported Proprietary Fund net assets is segregated into three components: 1) invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

Proprietary funds report both operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses and Changes in Fund Net Assets. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and street lot fees are operating revenues of the Parking Fund. This definition is consistent with GASB Statement No. 9 which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered nonoperating.

The City's enterprise funds, pension trust, private purpose trust and retiree health care funds and business-type activities, as well as its discretely presented component units apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The City and its discretely presented major proprietary component units, CPS and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

CPS' operating revenue includes receipts from energy sales and miscellaneous revenue related to the electric and gas systems operations. This includes late payment fees, rental income, jobbing and contract work, ancillary services, and merchandise sales. Operating expenses include those expenses that result from the ongoing operations of the electric and gas systems. SAWS' principal operating revenues are charges to customers for water and wastewater services. Operating expenses include the cost of service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues consist primarily of investment income, including the changes in fair value of investments. The amortization of net gains from the lease-leaseback and the sale of water rights in prior years are also included. Some miscellaneous income from renting general property and miscellaneous service is also recorded in nonoperating when it's not directly identified with the electric, gas, water and wastewater systems.

CPS changed its policy for accounting for assets accumulated to pay liabilities for the employee health and welfare benefits. As a result of this change in policy, a cumulative effect of adjustment in the amount of $139,074 was recorded in fund net assets.

E. Future GASB Implementations

GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14", provides criteria for determining whether certain organizations might be included in the financial reporting entity as component units based on the nature and significance of their relationship with the City, is effective for fiscal years beginning after June 15, 2003. The City has not fully determined the effect that implementation of Statement No. 39 will have on the City's financial statements.

With regard to GASB Statement No. 38, the City is reviewing the disclosure requirements regarding disaggregation of receivable and payable balances. These disclosure requirements will be implemented in fiscal year 2003. All other components of GASB Statement No. 38 have been implemented in fiscal year 2002.

F. Cash, Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's Investment Policy. City cash is required to be deposited in FDIC-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized which enables the City to have one central depository. Investments are pooled into two primary categories, operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. As of September 30, 2002, the City's investment portfolio did not contain any derivative products nor is it leveraged in any way, except as noted in the Fire and Police Pension Fund. For a listing of authorized investments, see Note 3.

The City, CPS and SAWS account for and report investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The Fire and Police Pension Trust and the Fire and Police Health Care Fund report investments at fair value in accordance with GASB Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The City's policy with respect to money market investments, which had a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, SAWS and CPS consider all highly liquid investments with an original maturity of approximately ninety days or less to be cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories and Prepaid Items

Inventories of materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in, first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for inventories. Under the consumption method, inventory acquisitions are recorded in inventory accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

Prepaid items are goods and services that are paid for in advance. These payments reflect costs applicable to future accounting periods, and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

H. Capital Assets and Depreciation

1. Primary Government (City)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported on the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. With the implementation of GASB Statement No. 34, the City has established capitalization thresholds for infrastructure and machinery and equipment which includes computer equipment. Retroactive reporting of all infrastructure assets is reported in the financial statements and the estimated useful lives and capitalization thresholds applied are as follows:

Assets	Useful Life Years	Capitalization Threshold
Buildings	15-40	$100
Improvements (Other than buildings)	20-40	$100
Machinery and Equipment	5-15	$5
Furniture and Office Equipment	5-10	$5
Infrastructure	15-100	$250

2. City Public Service (CPS)

The CPS utility plant is stated at the cost of construction, including costs of contracted services, direct equipment material and labor, indirect costs, including general engineering, labor, equipment, and material overhead, and an allowance for funds used during construction (AFUDC). CPS computes AFUDC using rates which approximate the cost of borrowed funds, or the short-term investment rate for other funds used for construction. AFUDC is applied to projects estimated to cost in excess of $250 and require thirty days or more to complete.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

2. City Public Service (CPS) (Continued)

In 2001 and prior years, CPS computed depreciation using the straight-line method over the estimated service lives of the depreciable property using class lives for certain asset categories and specifically assigned lives for certain assets. In 2002, CPS computed depreciation using the straight-line method over the estimated service lives of the depreciable property using specifically identified service lives for each asset type. Total depreciation and depletion, as a percentage of total depreciable assets net of nuclear fuel, was 2.99 percent in 2002.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS' share of the STP generation that is available for sale to CPS customers. The charge is included in fuel expense monthly. For further discussion regarding the STP, see Note 10.

3. San Antonio Water System (SAWS)

The SAWS' capital assets in service are recorded on the basis of cost. Assets acquired through capital leases are recorded on the cost basis and are included in utility plant service. Assets acquired through contributions, such as those from land developers, are capitalized and recorded in the plant accounts at estimated fair value at date of donation. SAWS capitalizes certain interest costs on revenue bonds and commercial paper associated with newly constructed utility plant additions. Maintenance, repairs, and minor renewals are charged to operating expense, while major plant replacements are capitalized.

SAWS' capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully amortize the costs of the asset group over their estimated average useful life. The following estimated average useful lives are used in providing for depreciation of the SAWS' capital assets:

Structures and improvements	50 years
Pumping and purification equipment	10 - 50 years
Distribution and transmission system	25 - 50 years
Collection system	50 years
Treatment facilities	25 years
Equipment and machinery	5 - 20 years
Furniture and fixtures	20 - 50 years
Computer equipment	5 years
Software	3 years

I. General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, interest earned within the Debt Service Fund, and transfers from other funds.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

In the governmental fund financial statements, the City accrues annual leave and associated employee related costs when matured (payable from available resources) for City non-uniformed employees and uniformed fire and police employees. In addition, the City accrues the matured portion of the City's uniformed fire and police employees accrued sick leave pay, holiday pay and bonus pay. Compensatory time is also accrued for the matured portion of the City's non-uniformed non-exempt employees as well as uniformed police officers.

For governmental fund types, the matured current portion of the liability resulting from the accrual of these compensated absences is recorded in the respective governmental fund and reported in the fund financial statements, while the entire vested liability is reported in the government-wide financials. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary fund.

K. Insurance

Activity for the City's self-insurance programs is recorded in the Internal Service Funds. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, extended sick leave, and employee wellness are included.

The City is insured for property and casualty liability. As of the fiscal year end, Allianz Insurance Company insured the City's property, while the North River Insurance Company of New Jersey provided excess liability coverage. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made, and claims incurred but not reported prior to the end of the fiscal year.

The City also provides employee health, workers' compensation, and unemployment benefits under its self-insured programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims for employees that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third party administrators. In addition, the City has excess workers' compensation coverage through the North River Insurance Company as of September 30, 2002. The City records all workers' compensation loss contingencies, including claims incurred but not reported.

Employee health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits. Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent". A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 12.

L. Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund equity represent tentative plans identified by management and are subject to change. Designations are utilized in the City's governmental funds for amounts which have been designated for subsequent year's expenditures and amounts allocated to making future improvements and replacements. Such designations will be reflected on the fund financial statements.

(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Revenue Recognition

Governmental fund types record revenues on the modified accrual basis of accounting and are reported as such in the fund financial statements. That is, revenues are recorded when they are both measurable and available to finance current operations or when they are considered susceptible to accrual. Revenues from property taxes, sales taxes, municipal court fines and fees, licenses, interest revenue and charges for services are recorded on the modified accrual basis of accounting, therefore, are considered susceptible to accrual. The City's availability period is no more than 60 days beyond the end of the fiscal year. When collections are delayed beyond the normal time of receipt due to unusual circumstances, the amounts involved are still recognized as revenues of the current period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider have been met. Proprietary-type funds record revenues when earned. In the government-wide financial statements, all revenues are recorded when earned.

CPS revenues are recorded when billed. Customers' meters are read and bills are rendered monthly. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned under the accrual basis.

N. Allocation of Indirect Expenses

The City recovers indirect costs in the General Fund through the application of departmental indirect cost rates. These rates are developed and documented in the City's departmental indirect cost rate plan. In this plan, each department is classified by function. Indirect costs are budgeted by department and are used as a basis for the City's actual indirect cost allocation. Base rates are then applied to actual indirect costs recovered and indirect costs are reclassified to reduce general government expenditures. For fiscal year 2002, general government expenditures were reduced by $6,511, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of $4,037 and $2,474, respectively.

O. Nuclear Decommissioning

CPS, together with the other owners of the STP, filed with the Nuclear Regulatory Commission (NRC) a certificate of financial assurance for the decommissioning of the nuclear plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1995, the owners conducted a review of decommissioning costs. The results estimated CPS' share of decommissioning costs at approximately $270,000 in 1994 dollars, which also exceeded NRC minimum requirements. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2002, CPS had accumulated approximately $145,900 of decommissioning funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amount of $61,400 at December 31, 2001. Based upon the 1998 decommissioning study, the annual level funding into the trust of $15,900 for 2002, was expensed by CPS.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts and debt issuance costs are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the funds in which proceeds of debt issuances are recorded.

Q. Elimination of Internal Activity

Eliminations of internal activity, particularly those related to internal service fund transactions, are needed to make the transition from governmental funds to government-wide activities. The overriding objective in "eliminating the effects of internal service fund activity" is to adjust the internal charges to cause a break-even result. Eliminating the "effect" of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. Net income derived from internal service fund activity would cause a pro rata reduction in the charges made to the participating funds/functions. Conversely, an internal service fund net loss would require a pro rata increase in the amounts charged to the participating funds/functions. Therefore, eliminations made to the statement of activities removes the "doubling up" effect of internal service fund activity. The residual internal balances between the governmental and business–type activities are reported in the statement of net assets and the internal balance amounts that exist within the governmental funds or within business-type funds are eliminated. The City reports internal service fund balances in both governmental and business-type activities based on the pro-rata share of the amounts charged to the participating funds/functions.

The City has three internal service funds: Other Internal Services, Information Technology Services, and Self-Insurance Funds. Other Internal Services and Information Technology Services charges users fees for requested goods or services. Building maintenance charges, a component of the Other Internal Services Fund, are based on the space occupied by departments. Through the tracking of these charges to the applicable departments, the net income or loss will be allocated back to the user department based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year. The net income or loss generated by the Self-Insurance Funds is allocated back based on the same allocation by which the revenues are received.

R. Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditure is restricted to certain allowable costs. In situations where both restricted and unrestricted net assets are expended to cover allowable expenses, the City will first expend the restricted net assets and cover additional costs with unrestricted net assets. The City reserves the right to selectively defer the use of restricted assets.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Change in Fiscal Year

On April 3, 2001, the SAWS' Board of Trustees approved the changing of the fiscal year from a year-end of May 31st to December 31st. Management has taken all necessary actions to effect the change, including the preparation of their Comprehensive Annual Financial Report for the seven-month period ending December 31, 2001, as well as notification to bondholders, nationally recognized municipal security information repositories, and others, of the change in the fiscal year. The change in fiscal year to calendar year was approved to increase the effectiveness and efficiency for the implementation of capital improvement programs, rate studies and other financial planning.

T. Other Budget Disclosures

Excess of expenditures, transfers and encumbrances over appropriations occurred as follows:

Excess of Expenditures, Transfers and Encumbrances Over Appropriations

Fund/Expenditures	Appropriations	Expenditures, Transfers and Encumbrances	Excess of Expenditures, Transfers and Expenditures over Appropriations
General Fund:			
Health Services	$ 13,717	$ 14,076	$ 359
Sanitation	2,567	2,663	96
Transfers	74,881	76,102	1,221
Special Revenue Funds:			
Hotel Motel Capital Improvements	$ 9,977	$ 20,139	$ 10,162
Emergency Medical Services	37,821	38,311	490
Debt Service Fund	$ 115,968	$ 117,044	$ 1,076
Permanent Funds:			
San Jose Burial Park	$ 412	$ 684	$ 272

The excess expenditures over appropriations were fully offset by excess actual revenues or fund balances. No deficit fund balances resulted from these excesses.

2. PROPERTY TAXES

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1st, and become delinquent the following February 1st. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. The portion of property tax receivable, net of allowances for uncollectible amounts, that is considered available, is offset by deferred revenues in the governmental fund financial statements. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation. The tax rate approved by City ordinance for the year ended September 30, 2002 was $0.57854 per $100 taxable valuation, which means that the City has a tax margin of $1.92146 per $100 taxable valuation and could raise an additional $760,660 per year based on the net taxable valuation of $39,587,584 before the limit is reached.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

City monies are deposited in demand accounts at the City's approved depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata share of highly liquid investments, including U.S. Treasury securities, U.S. Government Agency securities, and Repurchase Agreements with original maturities of ninety days or less, summarized by fund type and included in the combined statement of net assets as Cash and Cash Equivalents. Overdrafts which result from a fund overdrawing its share of pooled cash are reported as inter-fund payables by the overdrawn fund and as inter-fund receivables of the contributing funds.

Collateral is required for demand deposits and certificates of deposit at 100% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Collateral pledged for demand deposits and certificates of deposit is required to be held in the City's name by the trust or safekeeping department of a bank other than the pledging bank.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a fair value adequate to cover the deposits and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository or federal depository insurance.

The City entered into Repurchase Agreements in connection with the investment of certain bond proceeds. Although these Repurchase Agreements are considered securities for purposes of credit risk classification, due to their 100% overnight liquidity, they are included with Cash and Cash Equivalents in the combined statement of net assets.

The investment policy of the City is governed by state statute and by its own written investment policy. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. Government Agency securities with original maturities of more than ninety days. Each fund's pro rata share of these longer-term investments is combined with similar non-pooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. Government Agency securities, and are reported as investments in the combined statement of net assets, as of September 30, 2002.

The City accounts for and reports investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". The City's policy with respect to money market investments which have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. The decrease in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $497 for the year ended September 30, 2002. The City does not participate in external investment pools.

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund Board of Trustees. Investments of the Pension Fund are reported at fair value and include: corporate bonds; preferred stock; U.S. Treasury securities; U.S. Government Agency securities; notes, mortgages and contracts; and real estate. Equity and fixed income securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Gains and losses on sales and exchange of securities are recognized on the trade date. Investments that do not have an established fair value are reported at estimated fair value. No investments in any one organization (other than those issued by the U.S. Government) represent five percent or more in plan assets.

(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102% and 105% for domestic and international securities, respectively, of the loaned securities be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities and irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote.

As of September 30, 2002, the Pension Fund had lending arrangements outstanding with a total fair value of $121,680 which were fully collateralized with cash and securities. Related to these loaned securities, cash collateral of $125,235 is recorded in the accompanying statements. Net income for the year ended September 30, 2002 under the securities lending arrangement was $339.

The Pension Fund has only limited involvement with derivative and other structured financial instruments and does not use them for trading purposes. The Pension Fund's investment philosophy in bond portfolios has centered on using derivatives and other structured financial instruments only when comparable cash alternatives are not available. Specifically, the Pension Fund has used the following basic guidelines when entering into such transactions: (1) small allocations, (2) no use of leverage, (3) price floors, (4) short maturities to mitigate potential problems with liquidity and (5) attention to credit risk of the issuer. The fair value of structured financial instruments held for the Pension Fund during fiscal year ended September 30, 2002 was approximately $102,364.

The Pension Fund periodically participates in options and futures in order to hedge the value of a portion of its investments. Financial options and futures are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. Total exposure on these options and futures of approximately $43,995 is included in net appreciation (depreciation) in fair value of investments at September 30, 2002.

The Fire and Police Retiree Health Care Fund Board of Trustees administers investments of the Fire and Police Retiree Health Care Fund, a blended component unit. Investments are reported at fair value and short-term investments are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established fair value are reported at estimated fair value. All investment income, including changes in fair value of investments, is reported as additions in the statement of changes in fiduciary net assets. No investments in any one organization (other than those issued by the U.S. Government) represent five percent or more in plan assets.

The investment policies of SAWS and CPS, the City's major discretely presented component units, are governed by state statute, local ordinance, and their own respective written investment policies. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements.

SAWS is permitted by City Ordinance No. 75686 to invest in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, including obligations for which the principal and interest are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or as otherwise permitted by state law. SAWS general depository agreement does not require SAWS to maintain an average monthly balance.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Under the provisions of GASB Statement No. 31, SAWS reports money market investments with a remaining maturity at time of purchase of one year or less at amortized cost, which approximates fair value. As of December 31, 2001, SAWS reports money market investments with a remaining maturity at time of purchase of greater than one year at amortized cost. The difference between the reported amount and fair value was $134 and was deemed immaterial; therefore an unrealized loss was not reported.

CPS cash deposits at January 31, 2002 were entirely insured or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government or Government Agency or U.S. Government guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS' name.

CPS investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. Fair value is determined by using generally accepted financial reporting services and publications and approved dealers and brokers as necessary. The specific identification method is used to determine costs in computing gain or loss on sales of securities.

CPS allowable investments, excluding the Decommissioning Trust and the Employees Health and Welfare Plans, as defined by CPS Board Resolution and Policy, Bond Ordinances, Tax-Exempt Commercial Paper Ordinance, and State Law include U.S. Government or Government Agency or U.S. Government guaranteed obligations, collateralized mortgage obligations issued by the U.S., fully secured certificates of deposit issued by a state, national bank, savings bank domiciled in the State of Texas, direct repurchase agreements, reverse repurchase agreements, defined bankers acceptances and commercial paper, no-load money market mutual funds, and other types of specific secured or guaranteed investments. CPS reports all South Texas Nuclear Project (STP) decommissioning master trust investments and employee health and welfare investments at fair value.

CPS' investments in the STP decommissioning master trust are held by an independent trustee. Trust investments are limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement, and state law. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded.

Investments in the employee health and welfare plans are held by an independent trustee. These investments are limited to those authorized by the plans Administrative Committees, the Trust Agreements, and state law. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded. These investment policies follow the "prudent man" concept.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Combined cash and cash equivalents and investments are presented below as of year end for the City, and its significant discretely presented Component Units, SAWS and CPS. The information is provided to give an indication of the proportionate amount of cash and investments held by each respective entity.

Combined Cash, Cash Equivalents, and Investments

	City [1]	SAWS [2]	CPS [3]
Cash and Cash Equivalents	$ 292,109	$ 31,448	$ 334,630
Security Lending Collateral Cash and Cash Equivalents	125,235		
Investments	1,854,590	166,488	1,227,161
Less: Investments with original maturies of less than ninety days included in cash equivalents	(211,020)	(27,395)	(332,218)
Total	$ 2,060,914	$ 170,541	$ 1,229,573

[1] The following amounts were held by the City in a fiduciary capacity and are excluded from the primary government statement of net assets: Cash and Cash Equivalents of $78,656; Security Lending Collateral-Cash and Cash Equivalents of $125,235; Investments of $1,170,091.

[2] For the seven months ended December 31, 2001

[3] For the fiscal year ended January 31, 2002

	City [1]	SAWS [2]	CPS [3]
Totals from Statement of Net Assets and Fiduciary Fund Statements			
Cash and Cash Equivalents	$ 239,880	$ 0	$ 303,593
Security Lending Collateral Cash and Cash Equivalents	125,235		
Investments	1,497,978	22,902	11,019
Restricted Cash and Cash Equivalents	52,229	31,448	31,037
Restricted Investments	145,592	116,191	883,924
Total Cash, Cash Equivalents and Investments	$ 2,060,914	$ 170,541	$ 1,229,573

[1] The following amounts were held by the City in a fiduciary capacity and are excluded form the primary government statement of net assets: Cash and Cash Equivalents of $78,656; Security Lending Collateral-Cash and Cash Equivalents of $125,235; Investments of $1,170,091.

[2] For the seven months ended December 31, 2001

[3] For the fiscal year ended January 31, 2002

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The composition of Cash and Cash Equivalents included in the financial statements for the City and its major discretely presented Component Units as of the respective year-ends is presented below.

	City	SAWS[1]	CPS[2]
Deposits with Financial Institutions	$ 9,643	$ 63,527	$ 2,305
Less: Deposits with Original Maturities of Greater than Ninety Days		(59,500)	
Investments with Original Maturities of Less than Ninety Days	211,020	27,395	332,218
Cash with Pension/Retiree Healthcare Fiscal Agents	71,216		
Cash with Other Financial Agents	31		
Petty Cash Funds	199	26	107
Total Cash and Cash Equivalents	$ 292,109	$ 31,448	$ 334,630

[1]For the seven months ended December 31, 2001

[2]For the fiscal year ended January 31, 2002

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Healthcare Fund of the City of San Antonio have been approved by the Funds' Board of Directors and are invested as authorized by Texas State Statutes.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits with financial institutions are classified into three categories of custodial credit risk based upon the following:

Category	Description
1	Deposits insured by the FDIC or collateralized with securities held by the City or the City's agent in the City's name.
2	Deposits collateralized by securities held by the pledging bank's agent in the City's name.
3	Deposits uncollateralized which include deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the City's name.

Accordingly, deposits of the City, SAWS and CPS are categorized by custodial credit risk as follows:

Units	Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
City Deposits:					
With Financial Institutions	$ 9,643	$ 28,809	$ 28,809	$ 0	$ 0
Deposits with Agents	71,247	71,247	71,247		
SAWS Deposits:					
Demand and Savings Accounts	4,027	7,329	7,329		
Certificates of Deposits	59,500	59,500	59,500		
CPS Deposits:					
With Financial Institutions	2,305	10,797	10,797		

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Health Care Fund of the City of San Antonio are classified as Category 1. The Fire and Police Pension Fund also had securities lending collateral - cash and cash equivalents in the amount of $125,235 which is not categorized for custodial credit risk as it had been invested in a securities lending collateral investment pool.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments are classified into three categories of custodial credit risk based upon the following:

Category	Description
1	Includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name.
2	Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
3	Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

Accordingly, the investments of the City, SAWS, and CPS are categorized below to give an indication of the level of custodial credit risk assumed:

Total Investments By Category

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
City:					
Corporate Bonds	$ 140,838	$ 0	$ 0	$ 140,838	$ 140,838
Preferred Stock	582			582	582
Common Stock	611,700			611,700	611,700
U.S. Treasury & Government Agency Securities	733,561			733,561	734,854
Repurchase Agreements		16,999		16,999	16,999
Total Categorized Investments	1,486,681	16,999	0	1,503,680	1,504,973
Investments not Categorized:					
Money Market Mutual Fund				91,189	91,189
Notes, Mortgages, Contracts				113,639	113,639
Real Estate Investments				56,543	56,543
Venture Capital Partnerships and Other Alternative Investments				89,539	89,539
Total City	$ 1,486,681	$ 16,999	$	$ 1,854,590	$ 1,855,883
SAWS:					
First Union Bank Held in Escrow	$ 0	$ 24,747	$ 0	$ 24,747	$ 24,904
U.S. Treasury & Government Agency Securities	82,241			82,241	82,569
Total SAWS	$ 82,241	$ 24,747	$ 0	$ 106,988	$ 107,473
CPS:					
U.S. Treasury & Government Agency Securities	$ 948,098	$ 0	$ 0	$ 948,098	$ 950,932
South Texas Nuclear Project Decommissioning Master Trust:					
U.S. Treasury & Government Agency Securities	144,222			144,222	144,222
Employee Health and Welfare:					
Corporate bonds	18,498			18,498	18,498
Common stock	67,668			67,668	67,668
U.S. Treasury & Government Agency Securities	28,113			28,113	28,113
Global Bonds	5,980			5,980	5,980
Foreign equities	5,127			5,127	5,127
Total Health and Welfare Investments Categorized	125,386			125,386	125,386
Investments not Categorized:					
Money Market Mutual Fund				9,455	9,455
Total Employee Health and Welfare	125,386			134,841	134,841
Total CPS	$ 1,217,706	$	$	$ 1,227,161	$ 1,229,995

(amounts are expressed in thousands)

4. CAPITAL ASSETS

Capital asset activity for governmental activities, to include Internal Services Funds, for the year ended September 30, 2002 was as follows:

Capital Assets - Governmental Activities

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land	$ 1,206,632	$ 8,759	$ 0	$ 1,215,391
Construction in Progress	440,562	84,336		524,898
Total Non-Depreciable Assets	1,647,194	93,095		1,740,289
Depreciable Assets				
Buildings	367,827			367,827
Improvements	59,712	356	(479)	59,589
Infrastructure	1,939,300			1,939,300
Machinery and Equipment	262,713	40,723	(152,743)	150,693
Total Depreciable Assets	2,629,552	41,079	(153,222)	2,517,409
Accumulated Depreciation				
Buildings	(124,370)	(9,991)		(134,361)
Improvements	(31,599)	(1,243)		(32,842)
Infrastructure	(1,023,913)	(56,631)		(1,080,544)
Machinery and Equipment	(58,367)	(24,836)	11,409	(71,794)
Total Accumulated Depreciation	(1,238,249)	(92,701) (1)	11,409	(1,319,541)
Total Depreciable Assets, net	1,391,303	(51,622)	(141,813)	1,197,868
Total Capital Assets, net [1]	$ 3,038,497	$ 41,473	$ (141,813)	$ 2,938,157

1 **Depreciation expense was charged to governmental functions as follows:**

General Government	$ 7,193
Public Safety	11,393
Public Works	57,727
Health Services	125
Welfare	102
Culture and Recreation	371
Convention and Tourism	18
Urban Redevelopment and Housing	375
Depreciation on capital assets held by the City's internal service funds is charged to various functions based on asset usage	15,397
Total Depreciation Expense for Governmental Activities	$ 92,701

1 The capital assets of internal service funds are included in governmental activities. In fiscal year 2002, internal service fund capital assets increased by $18,206, decreased by $13,985, resulting in an ending balance of $102,566. Depreciation expense of $15,397 resulted in an ending accumulated depreciation balance of $60,251, to arrive at a net book value of $42,315.

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(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended September 30, 2002 was as follows:

Capital Assets - Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land				
Aviation Fund	$ 2,970	$ 0	$ 0	$ 2,970
Parking Fund	8,125			8,125
Non-Major Funds	893			893
Total	11,988			11,988
Construction in Progress				
Aviation Fund	67,504	19,147		86,651
Parking Fund	8,557	2,359		10,916
Non-Major Funds	410	89		499
Total	76,471	21,595		98,066
Total Non-Depreciable Assets	88,459	21,595		110,054
Depreciable Assets				
Buildings				
Aviation Fund	112,133			112,133
Parking Fund	18,985			18,985
Non-Major Funds	46			46
Total	131,164			131,164
Improvements				
Aviation Fund	145,825			145,825
Parking Fund	1,639			1,639
Non-Major Funds	3,025			3,025
Total	150,489			150,489
Machinery and Equipment				
Aviation Fund	9,674	1,079	(471)	10,282
Parking Fund	810	33	(84)	759
Non-Major Funds	3,643	742	(962)	3,423
Total	14,127	1,854	(1,517)	14,464
Total Depreciable Assets	295,780	1,854	(1,517)	296,117
Accumulated Depreciation				
Buildings				
Aviation Fund	(45,874)	(2,636)		(48,510)
Parking Fund	(6,972)	(482)		(7,454)
Non-Major Funds	(226)	(1)		(227)
Total	(53,072)	(3,119)		(56,191)
Improvements				
Aviation Fund	(59,416)	(3,901)		(63,317)
Parking Fund	(428)	(75)		(503)
Non-Major Funds	(20)	(104)		(124)
Total	(59,864)	(4,080)		(63,944)
Machinery and Equipment				
Aviation Fund	(6,536)	(839)	319	(7,056)
Parking Fund	(728)	(34)	52	(710)
Non-Major Funds	(2,877)	(184)	799	(2,262)
Total	(10,141)	(1,057)	1,170	(10,028)
Total Accumulated Depreciation	(123,077)	(8,256)	1,170	(130,163)
Total Depreciable Assets, net	172,703	(6,402)	(347)	165,954
Total Capital Assets, net	$ 261,162	$ 15,193	$ (347)	$ 276,008

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(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

CPS and SAWS capitalize interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62 issued by the Financial Accounting Standards Board. CPS and SAWS capitalized construction period interest in the amount of $7,062 and $4,169, respectively. Capital asset activity for CPS and SAWS was as follows:

Capital Assets - City Public Service

City Public Service [1]	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land	$ 53,336	$ 1,558	$ (5)	$ 54,889
Land held for future use	12,599			12,599
Construction in Progress	144,510	274,283	(228,076)	190,717
Total Non-Depreciable Assets	210,445	275,841	(228,081)	258,205
Depreciable Capital Assets				
Utility Plant in Service	6,098,970	228,479	(26,709)	6,300,740
Utility Property Leased	18,785			18,785
Nuclear Fuel	258,236	11,666		269,902
Total Depreciable Assets	6,375,991	240,145	(26,709)	6,589,427
Accumulated Depreciation				
Utility Plant in Service	(1,996,773)	(188,999)	31,442	(2,154,330)
Utility Property Leased	(138)	(66)		(204)
Nuclear Fuel	(223,816)	(15,118)		(238,934)
Total Accumulated Depreciation	(2,220,727)	(204,183)	31,442	(2,393,468)
Total Depreciable Assets, net	4,155,264	35,962	4,733	4,195,959
Total Capital Assets, net	$ 4,365,709	$ 311,803	$ (223,348)	$ 4,454,164

Capital Assets - San Antonio Water System

San Antonio Water Systems [2]	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land	$ 58,316	$ 477	$ 0	$ 58,793
Construction in Progress	319,251	49,420	(29,272)	339,399
Total Non-Depreciable Assets	377,567	49,897	(29,272)	398,192
Depreciable Assets				
Utility Plant in Service	1,763,749	30,747	(365)	1,794,131
Machinery and Equipment	98,159	3,836	(1,454)	100,541
Total Depreciable Assets	1,861,908	34,583	(1,819)	1,894,672
Accumulated Depreciation				
Utility Plant in Service	(565,799)	(25,462)	365	(590,896)
Machinery and Equipment	(50,337)	(3,992)	1,289	(53,040)
Total Accumulated Depreciation	(616,136)	(29,454)	1,654	(643,936)
Total Depreciable Assets, net	1,245,772	5,129	(165)	1,250,736
Total Capital Assets, net	$ 1,623,339	$ 55,026	$ (29,437)	$ 1,648,928

[1] For the fiscal year ended January 31, 2002
[2] For the seven months ended December 31, 2001

(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

Construction-in-progress relating to the Capital Assets is comprised of the following:

Construction-In-Progress: Assets-Governmental Activities

	Project Authorization	Expended to Sept. 30, 2002	Committed	Required Future Financing
Buildings	$ 40,207	$ 34,920	$ 5,287	None
Streets and Bridges	192,124	92,901	99,223	None
Storm Drainage and Flood Prevention	126,738	123,643	3,095	None
Improvements Other Than Buildings	292,270	265,055	27,215	None
Total	$ 651,339	$ 516,519	$ 134,820	None

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(amounts are expressed in thousands)

5. DUE (TO) FROM OTHER FUNDS

The following is a summary of interfund receivables and payables for the City as of September 30, 2002:

Summary Table of Interfund Receivables and Payables
As of September 30, 2002

	Due From Other Funds	Due To Other Funds
General Fund:		
Airport System	$ 30	$ 0
Fiduciary Funds	337	
Internal Service Funds		16
Nonmajor Governmental Funds	12,068	12
Total General Fund	12,435	28
Debt Service Funds:		
General Obligation Bonds	19	
Parking Facilties		48
Nonmajor Governmental Funds	306	
Total Debt Service Funds	325	48
General Obligation Bonds:		
Debt Service Funds		19
Nonmajor Governmental Funds		82
Total General Obligation Bonds		101
Airport System Fund:		
Airport I&C Fund from the Airport Operating Fund	2,143	
Airport I&C Fund from the Airport Debt Service Fund	478	
Airport Operating Fund to the Airport I&C Fund		2,143
Airport Debt Service Fund to the Airport I&C Fund		478
General Fund		30
Total Airport System Fund	2,621	2,651
Parking Facilities:		
Debt Service Funds	48	
Total Parking Facilities	48	
Fiduciary Agency Funds:		
General Fund		337
Nonmajor Governmental Funds		7
Total Fiduciary Agency Funds		344
Internal Service Funds:		
General Fund	16	
Internal Service	9,500	9,500
Nonmajor Governmental Funds	12,813	21
Total Internal Service Funds	22,329	9,521
Nonmajor Governmental Funds:		
General Fund	12	12,068
Debt Service Funds		306
General Obligation Bonds	82	
Fiduciary Agency Funds	7	
Internal Service Funds	21	12,813
Nonmajor Governmental Funds	2,427	2,427
Total Nonmajor Funds	2,549	27,614
Total	$ 40,307	$ 40,307

5. DUE TO (FROM) OTHER FUNDS (Continued)

As of September 30, 2002, $113 was owed to the Internal Service Funds by a Nonmajor Special Revenue Fund for loans made to fund improvements and leasing agent commissions at the International Center. This amount is scheduled to be collected in fiscal year 2003. In addition, a loan of $478 was made by the Airport Improvement Contingency Fund to the Aviation Debt Service Fund in fiscal year 2002 for prepaid bond costs in connection with a Forward Refunding. Repayment is expected on April 8, 2003. The remaining balances represent short term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year end. Of the $12,435 due from other funds in the General Fund, $10,579 is a result of overdraws of pooled cash.

6. LONG-TERM DEBT

A. Primary Government (City)

1. Governmental Activity Long-Term Debt

The City maintains a proactive debt management policy. The City's debt management plan employs a comprehensive analysis of the City's financial resources and capital improvement costs. Incorporated into the plan are long-term cash flow projections for the City's infrastructure needs, annexation plans, growth in assessed valuations and the revenue generating capacity of certain enterprise and self-supporting operations. The objective of the planning process is to minimize the cost of funds, minimize the impact on taxes and/or rate structures and maximize the benefits of capital improvements. Consistent with overall debt management is maintaining strong credit-worthiness. Routine comprehensive financial analysis and strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its Aa2/AA+/AA+ bond rating by Moody's Investors Service, Standard & Poor's Public Finance Ratings Services and Fitch, Inc., respectively as of September 30, 2002.

The City's on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2002. In November 2001, the City issued the following: $84,945 General Improvement and Refunding Bonds, Series 2001 and $65,195 Combination Tax and Revenue Certificates of Obligation, Series 2001. The bonds are secured by a pledge of ad valorem taxes while the certificates are secured by a pledge of ad valorem taxes and revenues from certain revenue generating operations.

The General Improvement and Refunding Bonds, Series 2001 were utilized to refund a portion of the City's outstanding tax supported debt, fund capital improvement projects to include streets and pedestrian improvements; drainage improvements; flood control with park improvements; parks and recreation facilities improvements; library system improvements; and public safety improvements. The Series 2001 General Improvement and Refunding Bonds are retired serially in the years 2002 through 2022 and bear interest rates ranging from 3.000% to 5.250%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2001 will be utilized to fund capital improvements to include public safety, including constructing new fire stations and renovating and improving existing fire stations; street, sidewalk, bridge, and drainage improvements; improvements and renovations to existing municipal facilities; the acquisition of buildings, construction of street and drainage improvements and utility relocation related thereto, and demolition of buildings, relating to KellyUSA; construction of park improvements; the purchase of materials, supplies, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, street and public work purposes; the implementation of a new Enterprise Resource Management System, including development and installation costs relating thereto; and professional services related to the construction and financing of the aforementioned projects. The certificates are retired serially in the years 2003 through 2014 and bear interest rates ranging from 4.000% to 5.250%.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Additionally, in May 2002, the City issued $251,280 of General Improvement Forward Refunding Bonds, Series 2002, of which $239,910 is recorded in governmental funds and $11,370 is recorded in proprietary funds. Delivery of the bonds occurred on May 8, 2002. These obligations were issued to advance refund $256,125 of outstanding long-term debt, of which $244,535 was recorded in governmental funds and $11,590 was recorded in proprietary funds. The obligations bear interest ranging from 4.000% to 5.250% and will be retired serially in the years 2002 through 2013.

A portion in the amount of $7,112 of the net proceeds from the sale of the 2001 General Improvement and Refunding Bonds, including $92 of the original issue premium, was applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2001 refunding, the City will realize a total reduction of $1,332 in debt service payments. Through the transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $926.

The net proceeds from the sale of the 2002 Forward Refunding bonds, which included an original issue premium of $13,638, were applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2002 refunding, the City will realize a total reduction of $23,561 in debt service payments, of which $22,570 is allocated to governmental funds. Through the transactions, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $19,662, of which $18,924 is allocated to governmental funds.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year ended September 30, 2002 for governmental activity debt:

Governmental Activity Long-Term Debt

Issue	Original Amount	Final Principal Payment[1]	Interest Rates (%)[1]	Balance Outstanding October 1, 2001	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2002
General Obligation Bonds[2,3]							
1988 Refunding	$ 132,978	2006	7.250-7.400	$ 4,008	$	$ 0	$ 4,008
1992 Refunding	380,540	2013	5.200-5.750	259,255		259,255	0
1993 Refunding	92,165	2014	4.000-8.000	78,435		7,340	71,095
1994	30,450	2004	5.800-6.000	3,850		1,200	2,650
1996	35,330	2015	5.100-5.250	28,475		1,375	27,100
1996A Refunding	82,235	2016	4.375-6.000	75,565		1,385	74,180
1996B Refunding	6,030	2008	6.350-6.700	4,435		525	3,910
1998 Refunding	30,855	2018	4.500-5.000	29,395		785	28,610
1998 Forward Refunding	53,950	2008	5.500-6.000	44,260		7,340	36,920
1998A Refunding	47,955	2019	4.000-4.750	47,040		855	46,185
1999	12,000	2020	5.375-6.000	12,000		360	11,640
2000	27,565	2020	4.500-5.000	27,565		910	26,655
2000A	15,615	2021	5.250-5.375	15,615			15,615
2001	84,945	2022	3.000-5.250		84,945	285	84,660
2002 Refunding	239,910	2013	4.000-5.250		239,910	3,665	236,245
Subtotal	$ 1,272,523			$ 629,898	$ 324,855	$ 285,280	$ 669,473
Tax -Exempt Commercial Paper							
Series 2000	$ 15,000	2020	5.000	$ 15,000	$ 0	$ 15,000	$ 0
Series 2001	32,700	2004	1.200-3.450	32,700		11,900	20,800
Subtotal	$ 47,700			$ 47,700	$	$ 26,900	$ 20,800
Tax -Exempt Certificates of Obligation							
Series 1988	$ 4,400	2002	7.300	$ 275	$	$ 275	$ 0
Series 1992	17,655	2013	5.200-5.750	7,620		7,620	0
Series 1994	9,900	2004	5.750-6.000	1,260		375	885
Series 1996	8,415	2015	5.100-5.400	6,805		330	6,475
Series 1996A	12,515	2016	4.375-5.250	10,355		485	9,870
Series 1998	4,315	2018	4.625-5.000	3,730		315	3,415
Series 1998A	36,535	2019	4.000-4.750	33,585		1,560	32,025
Series 1999	4,230	2020	5.750-6.000	4,230		125	4,105
Series 2000	8,490	2020	4.500-5.000	8,490		280	8,210
Series 2000A	8,810	2021	5.250-5.375	8,810			8,810
Series 2000C	6,415	2020	5.000-5.500	6,415			6,415
Series 2001	65,195	2014	4.000-5.250		65,195		65,195
Subtotal	$ 186,875			$ 91,575	$ 65,195	$ 11,365	$ 145,405
Taxable Certificates of Obligation							
Series 1988	$ 6,700	2008	9.400-9.500	$ 3,925	$	$ 3,925	$ 0
Series 1996	6,160	2015	6.550-7.125	5,100		3,050	2,050
Series 1996B	7,375	2016	6.350-7.250	6,230		255	5,975
Series 2000B	1,755	2021	7.450-7.550	1,755			1,755
Subtotal	$ 21,990			$ 17,010	$ 0	$ 7,230	$ 9,780
Hotel Occupancy Tax Revenue Bonds[4]							
Series 1996	$ 182,012	2026	4.700-5.700	$ 180,773	$	$ 1,380	$ 179,393
Total	$ 1,711,100			$ 966,956	$ 390,050	$ 332,155	$ 1,024,851

[1]A portion of the outstanding principal applicable to certain series of bonds was advance refunded, prior to maturity, by the Series 1988, 1992, 1993, 1996A, 1996B, 1998, 1998A, and 2002 refunding bonds. Proceeds from the refunding bonds along with a cash contribution from the City's Debt Service Fund were utilized to purchase securities, guaranteed by the United States of America, which were irrevocably deposited into escrow accounts whose principal is scheduled to mature on such dates that when added to interest earned in the escrow accounts, is fully sufficient to make timely payment on the refunded bonds. The refunded bonds represent a legal defeasance and are not a liability of the City.
[2]Accretion of interest on the 1988 General Improvement Refunding Bonds for Fiscal Year 2002 resulted in an increase of $6,832 in General Obligation Bonds Payable. This increase is reflected on the Combined Balance Sheet but is not shown on the above table.
[3]As of October 1, 2001, all outstanding Golf Course debt was reclassified to Governmental Debt. These balances are now reflected in the above table.
[4]A portion of the Hotel Occupancy Tax Revenue Bonds, Series 1996 were sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from the date of delivery and will be payable only at maturity or redemption. The interest accreted through Fiscal Year 2002 resulted in an increase of $10,947 in Revenue Bonds Payable. The accreted interest is reflected on the Combined Balance Sheet but is not shown on the above table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all General Obligation Bonds, Tax Exempt Commercial Paper, Certificates of Obligation, Hotel Occupancy Tax Revenue Bonds, outstanding as of September 30, 2002, are as follows:

Principal and Interest Requirements

Year Ending September 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Tax Exempt Commercial Paper Principal	Tax Exempt Commercial Paper Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Hotel Occupancy Tax Revenue Bonds Principal	Hotel Occupancy Tax Revenue Bonds Interest	Total Annual Requirements
2003	$ 47,155	$ 33,227	$ 11,400	$ 510	$ 6,550	$ 7,835	$ 2,045	$ 8,756	$ 117,478
2004	48,205	31,007	9,400	190	9,420	7,471	2,785	8,658	117,136
2005	45,134	33,695			9,525	7,033	3,515	8,522	107,424
2006	44,129	31,573			9,970	6,580	4,255	8,346	104,853
2007	48,585	24,488			10,505	6,075	5,105	8,091	102,849
2008-2012	250,380	82,897			58,665	21,745	28,521	47,468	489,676
2013-2017	114,985	31,965			39,400	7,147	16,041	68,943	278,481
2018-2022	70,900	8,278			11,150	980	57,820	27,172	176,300
2023-2027							59,306	8,685	67,991
Total	$ 669,473	$ 277,130 [1]	$ 20,800	$ 700	$ 155,185	$ 64,866	$ 179,393 [1]	$ 194,641	$ 1,562,188

Total Principal & Interest Payable Within One Year

	General Obligation Bonds	Tax Exempt Commercial Paper	Certificates of Obligation	Hotel Occupancy Tax Revenue Bonds	Total Annual Requirements
Principal	$ 47,155	$ 11,400	$ 6,550	$ 2,045	$ 67,150
Interest	33,227	510	7,835	8,756	50,328
Total	$ 80,382	$ 11,910	$ 14,385	$ 10,801	$ 117,478

1 Accretion of interest on the 1998 General Improvement Bonds for the year ended September 30, 2002 resulted in an increase of $6,832 in General Obligation Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

2 A portion of the Hotel Motel Occupancy Tax Revenue Bonds (Series 1996) were sold as Capital Appreciation Bonds (CABS). Interest on the CABS accretes from the date of delivery and will be payable only at maturity or redemption. The interest accreted through September 30, 2002 resulted in an increase of $10,947 in Revenue Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Authorized But Unissued General Obligation Debt

Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized But Unissued
1-26-80 [1]	Drainage and Flood Control	$ 21,637	$ 17,413	$ 4,224
1-26-80 [1]	Fire Protection	4,257	2,125	2,132
1-26-80 [1]	Libraries	4,978	3,926	1,052
1-26-80 [1]	Street, Bridge, and Related Improvements	43,287	34,035	9,252
5-07-94	Street Improvements	25,600	25,600	
5-07-94	Drainage Improvements	34,400	34,400	
5-07-94	Parks and Recreation	41,600	41,600	
5-01-99	Streets and Pedestrian Improvements	41,300	36,590	4,710
5-01-99	Drainage	19,000	14,165	4,835
5-01-99	Flood Control	12,200	12,200	
5-01-99	Parks and Recreation	24,200	18,164	6,036
5-01-99	Library System	13,200	6,426	6,774
5-01-99	Public Safety	30,300	20,045	10,255
Total		$ 315,959	$ 266,689	$ 49,270

1 In addition to the debt authorized on May 1, 1999, the City has authority pursuant to an election held on January 26, 1980 to issue $16,660,000 in bonds. The City does not currently intend to issue the bonds authorized in 1980.

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2002 was $44,120,535 which provides a debt ceiling of $4,412,054. The total outstanding debt that is secured by an ad valorem tax pledge is $838,428.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed $2.50 for each one hundred dollars of assessed valuation of taxable property. There is no limitation within the $2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from $1.50 tax rate calculated at 90% collections.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

Interfund Borrowings

As an alternative to the issuance of external debt to finance certain projects/purchases, the City has determined that the use of available cash balances in the Internal Service Equipment Replacement Funds is a viable option. In certain instances, after an evaluation of project/purchase funding requirements, it has been determined that some funds or operations may require temporary financing. As an option, the City has authorized such internal temporary financing from available cash balances in the Internal Service Equipment Replacement Funds to meet these needs.

In June 1999, a loan was authorized from the City's Internal Service Fund to the International Center Special Revenue Fund to assist in the financing of permanent building improvements and leasing agent commissions. The principal amount of the note is $200 with an annual interest rate of 6% and a repayment period of October 1999 through September 2003. In December 1999, a second loan was authorized from the City's Internal Service Fund to the International Center Fund to cover additional permanent building improvements. The principal amount of the note is $137 with an annual interest rate of 6% and a repayment period of December 1999 through September 2003. In September 1999, a third loan was authorized from the City's Internal Service Fund to the International Center Fund to cover additional permanent building improvements. The principal amount of the note is $62 with an annual interest rate of 6% and a repayment period of April 2000 through September 2003. Revenues from the International Center rentals will be utilized to meet the annual principal and interest requirements of the notes. As of September 30, 2002, the remaining balance for the notes payable from the International Center Fund have been recorded as a governmental liability. The following is an annual debt service schedule:

Principal and Interest Requirements

Year Ending September 30,	Principal	Interest	Total Annual Requirements
2003	$ 113	$ 7	$ 120

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

Leases

The City leases property and equipment from others. Leased property having elements of ownership are recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property, not having elements of ownership, are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when matured in the governmental fund financial statements. Total expenditures for operating leases for the fiscal year ended September 30, 2002 were approximately $2.9 million.

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for governmental activities are as follows:

Asset:	
Machinery and Equipment	$ 11,756
Less: Accumulated Depreciation	(3,061)
Total	$ 8,695

As of September 30, 2002, the City (excluding discretely presented component units) had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

Leases - Governmental Activities

	Capital Leases	Operating Leases	Total
Governmental Activities:			
Fiscal year ending September 30:			
2003	$ 3,166	$ 2,649	$ 5,815
2004	2,543	2,248	4,791
2005	2,077	1,770	3,847
2006	734	1,672	2,406
2007	390	780	1,170
2008-2012		2,971	2,971
2013-2017		3,277	3,277
2018-2022		2,821	2,821
Future Minimum Lease Payments	8,910	$ 18,188	$ 27,098
Less: Interest	(613)		
Present Value of Future Minimum Lease Payments	8,297		
Less: Current Portion	(2,867)		
Capital Leases, net of current portion	$ 5,430		

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt

Proprietary long-term debt applies to those City operations that relate to business and quasi-business activities where net income and capital maintenance are measured (Enterprise and Internal Service Funds). Long-term debt, which is to be repaid from proprietary funds resources, is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

Airport System: The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt is equally and ratably secured solely by a first lien on and pledge of the Gross Revenues of the Airport System. Gross Revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the System and its facilities. In March 2002, the City sold $92,470 City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2002 (GAR Bonds), which will be utilized to provide funds for the construction, improvements, equipment, renovation, and additions to the International Airport and to pay costs of issuances thereof. The bonds are retired in years 2005 to 2027 and have interest rates ranging from 5.00% to 5.75%.

On April 19, 2001, the City Council approved the sale of the City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003. Delivery of these obligations is expected to occur on or about April 8, 2003. The principal amount is $50,230 with maturities from 2004 through 2013, and interest rates from 5.50% to 6.00%. These bonds are special obligations of the City payable from gross revenues of the City's airport system. Proceeds will be combined with a cash contribution from the City and used to refund other Airport System obligations.

Additionally, in March 2002, the City sold $37,575 of City of San Antonio, Texas Passenger Facility Charge (PFC) and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002, which will be available for purposes of acquiring and constructing PFC eligible airport-related projects. The Series 2002 PFC Bonds are secured by and payable from PFC revenues, with additional security provided by a pledge of the Subordinate Net Revenues of the Airport System subordinated to the timely payment of debt service on all parity bonds. The bonds are retired in years 2003 to 2027 and have interest rates ranging from 4.00% to 5.75%. GAR and PFC bonds are insured by Financial Guaranty Insurance Company and are rated Aaa/AAA/AAA by Moody's Investors Service, Standard & Poor's Public Finance Ratings Services and Fitch, Inc., respectively. Total annual principal and interest requirements for the Airport System are shown in the table at the end of this section.

Parking System: The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters and retail/office space. Long-term debt is allocated to the Parking System on a pro-rata basis from proceeds received from the issuance of general obligation and certificate of obligation debt and is paid from revenues derived from the operation of the Parking System. This allocated debt is additionally secured by an ad valorem tax pledge. Additionally, during fiscal year 2000, Revenue bonds were issued to construct two new parking garages; renovate certain existing facilities; and provide signage. The bonds are payable from and secured by a first lien on and a pledge of the gross revenues derived from the ownership and operation of the City's Parking system. The bonds are retired serially in years 2004 to 2024 and bear interest rates from ranging from 5.000% to 5.750%.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

In May 2002, the City issued $251,280 of General Improvement Forward Refunding Bonds, Series 2002 of which $239,910 was reported in governmental funds and $11,370 was reported in proprietary funds. Delivery of the bonds occurred on May 8, 2002. These obligations were issued to advance refund $256,125 of outstanding long-term debt, of which $244,535 was reported in governmental funds and $11,590 was reported in proprietary funds. The obligations bear interest ranging from 4.000% to 5.250% and will be retired serially in the years 2002 through 2013.

The net proceeds from the sale of the 2002 Forward Refunding bonds, which included an original issue premium of $13,638, were applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2002 refunding, the City will realize a total reduction of $23,561 in debt service payments, of which $991 will be realized by the Parking Fund. Through the transactions, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $19,662, of which $738 was realized by the Parking Fund. Total annual principal and interest requirements for the Parking System are shown in the table at the end of this section.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

The following table is a summary of changes in revenue bonds, general obligation bonds and tax-exempt certificates of obligation for the fiscal year ended September 30, 2002.

Proprietary Long-Term Debt

Issues	Original Amount	Final Principal Payment	Interest Rates (%) [1]	Balance Outstanding October 1, 2001	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2002
Airport System							
Revenue Bonds:							
Series 1992 Refunding	$ 3,130	2009	6.100	$ 3,130	$ 0	$ 0	$ 3,130
Series 1992	21,655	2006	5.500-5.750	9,675		1,720	7,955
Series 1993 Refunding	73,785	2013	7.000-7.375	55,545		3,085	52,460
Series 1996	38,000	2014	5.700-5.750	19,225		275	18,950
Series 2001	17,795	2016	5.375	17,795			17,795
Series 2002	92,470	2027	5.000-5.750		92,470		92,470
Series PFC	37,575	2027	4.000-5.750		37,575		37,575
Subtotal	$ 284,410			$ 105,370	$ 130,045	$ 5,080	$ 230,335
Parking System							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 24,845	$ 0	$ 0	$ 24,845
General Obligation:							
Series 1992 Refunding	16,785	2013	5.200-5.750	11,330		11,330	
Series 1996A Refunding	495	2014	4.650-5.400	495			495
Series 1998A Refunding	1,155	2013	4.000-5.250	1,155			1,155
Series 2002 Refunding	11,370	2013	4.000-5.250		11,370	165	11,205
Tax Exempt Certificates of Obligation							
Series 1992	1,735	2013	5.200-5.750	1,245		1,245	
Series 1994	700	2004	5.750-6.000	90		25	65
Series 1996	1,105	2015	5.100-5.400	895		45	850
Subtotal	$ 58,190			$ 40,055	$ 11,370	$ 12,810	$ 38,615
Total	$ 342,600			$ 145,425	$ 141,415	$ 17,890	$ 268,950

[1] A portion of the outstanding principle applicable to certain series of Parking System bonds and certificates of obligation were advance refunded prior to maturity, by the Series 1988, 1992, 1993, 1996A, 1998A, and 2002 refunding bonds. Proceeds from the refunding bonds along with a cash contribution from the City's Debt Service Fund were utilized to purchase securities, guaranteed by the United States of America, which were irrevocably deposited into escrow accounts whose principle is scheduled to mature on such dates that when added to interest earned in the escrow accounts, is fully sufficient to make timely payments on the refunded bonds. The refunded bonds represent a legal defeasance and are not a liability of the City.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to revenue bonds, general obligations, and certificates of obligation outstanding at September 30, 2002, are as follows:

Proprietary Long-Term Debt

Year End Sept. 30:	Airport System Principal	Airport System Interest	Airport System Total	Parking System Principal	Parking System Interest	Parking System Total
2003	$ 6,185	$ 13,425	$ 19,610	$ 1,140	$ 2,041	$ 3,181
2004	6,570	13,044	19,614	1,590	1,995	3,585
2005	8,060	12,632	20,692	1,670	1,921	3,591
2006	8,575	12,140	20,715	1,760	1,839	3,599
2007	8,505	11,616	20,121	1,830	1,751	3,581
2008-2012	56,440	48,935	105,375	10,535	7,248	17,783
2013-2017	56,985	29,700	86,685	7,375	4,804	12,179
2018-2022	34,305	17,362	51,667	8,560	2,715	11,275
2023-2027	44,710	7,289	51,999	4,155	362	4,517
Total	$ 230,335	$ 166,143	$ 396,478	$ 38,615	$ 24,676	$ 63,291

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

Leases

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for business-type activities are as follows:

Asset:		
Machinery and Equipment	$	709
Less: Accumulated Depreciation		(59)
Total	$	650

As of September 30, 2002, the City (excluding discretely presented component units) had future minimum payments under capital leases with a remaining term in excess of one year for business-type activities as follows:

Leases - Proprietary Activities: Nonmajor Enterprise Fund

		Capital Leases
Proprietary Activities		
Fiscal year ending September 30:		
2003	$	156
2004		156
2005		156
2006		155
2007		117
Future minimum lease payments		740
Less: Interest		(63)
Present Value of Future minimum Lease Payments		677
Less: Current Portion		(133)
Capital Leases, net of current portion	$	544

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt

Long-Term Obligations and Amounts Due Within One Year

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 629,898	$ 324,855	$ 285,280	$ 669,473	$ 47,155
Tax-Exempt Commercial Paper	47,700		26,900	20,800	11,400
Tax-Exempt Certificates of Obligation	91,575	65,195	11,365	145,405	6,010
Taxable Certificates of Obligation	17,010		7,230	9,780	540
Hotel Tax Revenue	180,773		1,380	179,393	2,045
	966,956	390,050	332,155	1,024,851	67,150
Less: Unamortized (Discount)/Premium		19,548	874	18,674	1,626
Deferred Amount on Refunding		(720)	164	(556)	(196)
Total Bonds Payable	966,956	408,878	333,193	1,042,969	68,580
Other Liabilities:					
Accrued Arbitrage Rebate Payable	694	907	21	1,580	381
Capital Leases	5,049	5,083	1,835	8,297	2,867
Compensated Absences	79,210	77,691	42,807	114,094	34,740
	84,953	83,681	44,663	123,971	37,988
Total Governmental Activities Long-term Liabilities	$ 1,051,909	$ 492,559	$ 377,856	$ 1,166,940	$ 106,568
Business-type Activities:					
Bond Payable:					
General Obligation Bonds	$ 12,980	$ 11,370	$ 11,495	$ 12,855	$ 1,065
Revenue Bonds	130,215	130,045	5,080	255,180	6,185
Tax-Exempt Certificates of Obligation	2,230		1,315	915	75
	145,425	141,415	17,890	268,950	7,325
Less: Unamortized (Discount)/Premium	(641)	1,558		917	
Deferred Amount on Refunding	(96)	(457)	25	(528)	
Total Bonds Payable	144,688	142,516	17,915	269,339	7,325
Other Payables:					
Aviation	992	507	851	649	5
Parking	997	142	694	445	5
Nonmajor Fund	1,069	25	41	1,053	1,084
Total Other Payables	3,058	674	1,586	2,147	1,094
Capital Leases-Nonmajor Fund		708	32	677	133
Compensated Absences	1,948	300	525	1,723	287
Total Other Liabilities	5,006	1,682	2,143	4,547	1,514
Business-type Activity Long-term Liabilities	$ 149,694	$ 144,198	$ 20,058	$ 273,886	$ 8,839

The accreted interest for Fiscal Year 2002, resulted in an increase of $10,947 in Hotel Tax Revenue Bonds Payable in governmental activites and an increase of $6,832 in General Obligation Bonds Payable. The accreted interest in the amount of $17,779 is reflected on the governmental fund combined statement but is not reflected in this table.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt (Continued)

Compensated Absences

The following is a summary of compensated absences for the year ended September 30, 2002:

Governmental Activities					
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 5,760	$ 28,800	$ 34,560	$ 78,452	$ 113,012
Internal Service Funds		180	180	902	1,082
Total Governmental Activities	$ 5,760	$ 28,980	$ 34,740	$ 79,354	$ 114,094

Business-Type Activities			
Fund	Current	Long-Term	Total
Aiport	$ 140	$ 700	$ 840
Parking	20	103	123
Non-Major Fund	127	633	760
Total Business-Type Activities	$ 287	$ 1,436	$ 1,723

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt (Continued)

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2002, there were thirty-five series of Industrial Revenue Bonds, twenty-one series of Health Facilities Development Bonds, and eleven series of Education Facility Revenue Bonds outstanding. The aggregate principal amount payable for the one series of Industrial Revenue Bonds, the one series of Health Facilities Development Bonds, and the four series Education Facility Revenue Bonds issued after October 1, 1997 was $5,500, $15,500, $58,080, respectively. The aggregate principal amount payable for the remaining series of Industrial Revenue Bonds, Health Facilities Development Bonds, and Education Facility Revenue Bonds issued prior to October 1, 1997 is $112,490, $80,581, and $67,720, respectively.

The City also facilitates the issuance of tax exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from and secured by a pledge of rental receipts. As of June 30, 2002, there were twenty-three series of tax exempt revenue bonds outstanding with an aggregate principal amount payable of $112,345 and an aggregate principal amount issued of $130,300.

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Facilities Airport Revenue Bonds, Series 1995 and Special Airport Facilities Revenue Refunding Bonds, Series 1999. The bonds are payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third party trustee in-lieu of lease payments to the City. These payments are sufficient to pay when due the principal, premium, interest on and purchase price of the bonds. The aggregate principal amount payable for the Special Facilities Airport Revenue Bonds, Series 1995 and for the Special Airport Facilities Revenue Refunding Bonds, Series 1999 at September 30, 2002 was $4,600 and $3,973, respectively.

The Municipal Facilities Corporation was created in 2001 to aid and act on behalf of the City to acquire, construct, equip, finance, operate and maintain land and municipal facilities for the City. The City of San Antonio, Municipal Facilities Corporation Lease Revenue Bonds, Series 2001 were issued to finance the acquisition and construction of a municipal office facility which, in turn, is leased to the City. The bonds are secured by the property financed and are payable solely from the lease payments made by the City sufficient to pay principal and interest on the bonds and are subject to annual budget appropriations. The bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2002, the Municipal Facilities Corporation Lease Revenue Bonds outstanding totaled $13,955.

Neither the City, the State of Texas, nor any political subdivision is obligated in any manner for repayment of the aforementioned bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS)

As of January 31, 2002 the Bond Ordinances for New Series Bonds issued on and after August 6, 1992 contain, among others, the following provisions:

Funds in CPS's General Account shall be pledged and appropriated to be used in the following priority: (a) for maintenance and operating expenses of the systems, (b) for payments of the New Series Bonds, including the establishment and maintenance of the reserve therefore, (c) for the payment of any obligations inferior in lien to the New Series Bonds which may be issued, (d) for an amount equal to 6% of the gross revenues of the systems to be deposited in the Repair and Replacement Account, (e) for cash payments and benefits to the City not to exceed 14% of the gross revenues of the systems, and (f) any remaining net revenues in the General Account to the Repair and Replacement Account.

The maximum amount in cash to be transferred or credited to the General Fund of the City from the net revenues of the systems during any fiscal year shall not exceed 14% of the gross revenues of the systems less the value of gas and electric services of the systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system. The percentage of gross revenues of the systems to be paid over or credited to the General Fund of the City each fiscal year shall be determined (within the 14% limitation) by the governing body of the City. The net revenues of the systems are pledged to the payment of principal and interest on the New Series Bonds. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the systems.

The City agrees that it will at all times maintain rates and charges for the sales of electric energy, gas, or other services furnished, provided, and supplied by the systems to the City and all other consumers which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

(a) all maintenance and operating expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502, as amended, Texas Government Code;
(b) the interest on and principal of all New Series Bonds, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the New Series Bonds;
(c) to the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the Commercial Paper), the interest on and principal of all Notes (as defined in said ordinance), and
(d) a legal debt or obligation the systems as and when the same shall become due.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

Revenue Bonds

A summary of revenue bonds is as follows:

City Public Service Revenue Bonds

Bond Series	Maturities	Weighted-Average Interest Rate on Outstanding Bonds	2002
Tax Exempt New Series Bonds, 1992-2001	2003-2021	5.223%	$ 2,445,270
Taxable New Series Bonds, 1998-2001	2003-2021	6.674%	144,590
Total New Series Bonds Outstanding		5.317%	2,589,860
Less: Current Maturities of Bonds			77,825
Total Revenue Bonds, net of current maturities			$ 2,512,035

Principal and interest amounts due for the next five years and thereafter to maturity are:

City Public Service

Principal and Interest Requirements

Year	Principal	Interest	Total
2003	$ 77,825	$ 136,336	$ 214,161
2004	100,015	132,686	232,701
2005	120,335	127,615	247,950
2006	126,635	121,369	248,004
2007	134,515	114,766	249,281
2008-2012	776,510	463,969	1,240,479
2013-2017	740,305	250,425	990,730
2017-2021	513,720	60,431	574,151
Totals	$ 2,589,860	$ 1,407,597	$ 3,997,457

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

In November 2001, CPS issued $115.3 million of New Series 2001 Revenue Refunding Bonds at a true interest rate of 3.84 percent. The bonds were sold at a combined net premium of $10.5 million.

The refunding bonds were issued to refund $122.5 million in certain outstanding 1992 New Series Bonds, and were $7.2 million less than the amount of bonds refunded. The refunding transaction resulted in cash flow savings of $14.2 million, which equates to a present value savings of $11.7 million, or 9.6 percent of the par amount of refunded bonds. This transaction resulted in loss for accounting purposes of $2.4 million which has been deferred and will be amortized over the shorter of life of the refunded or refunding bonds.

Long-Term Debt Activity

Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2001	Additions During Year	Deletions During Year	Balance Outstanding January 31, 2002
Revenue and Refunding Bonds							
1992 Tax-exempt	$ 700,805	2017	6.048	$ 254,155	$ 0	$ 132,540	$ 121,615
1994-A Tax-exempt	684,700	2014	5.008	595,805		30,235	565,570
1994-C Tax-exempt	56,000	2006	5.008	42,710			42,710
1995 Tax-exempt	125,000	2018	5.500	112,300		3,000	109,300
1997 Tax-exempt	350,000	2020	5.738	332,570			332,570
1997 Tax-exempt	311,170	2014	5.509	245,880		1,575	244,305
1998A Tax-exempt	785,515	2021	4.918	767,160		24,010	743,150
1998B Taxable	99,615	2020	6.343	97,045		1,655	95,390
2000A Tax-exempt	170,770	2017	5.374	170,770			170,770
2000B Taxable	50,425	2021	7.403	50,425		1,225	49,200
2001 Tax-exempt	115,280	2011	3.843		115,280		115,280
				2,668,820	115,280	194,240	2,589,860
Less Bond current maturities				71,755	6,070		77,825
Less Bond discount/(premium)				3,485	(10,528)	3,499	(10,542)
Less Bond acquisition costs				158,691	5,611	18,573	145,729
Revenue Bonds, Net				2,434,889	114,127	172,168	2,376,848
Tax-Exempt Commercial Paper (TECP)				252,800	97,200		350,000
Long-term Debt, Net				$ 2,687,689	$ 211,327	$ 172,168	$ 2,726,848

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS)

On April 30, 1992, City Ordinance No. 75686 was adopted. This ordinance authorized the issuance of $635,925 Water System Revenue Refunding Bonds, Series 1992, dated April 15, 1992. These bonds were issued to refund, in advance of maturity, $253,065 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 52091, $330,125 of Sewer Revenue Bonds authorized and outstanding under terms of City Ordinance No. 51975, $14,500 of other bonded debt of annexed water districts, and $49,200 of Sewer System Commercial Paper. The purpose of this advance refunding was to release and discharge the covenants contained in City Ordinance No. 52091 and No. 51975 in order to permit the City to consolidate the operations of the water related utilities.

The System: City Ordinance No. 75686 defines SAWS as all properties, facilities, plants owned, operated and maintained by the City and/or the Board of Trustees, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS; provided however, that the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code. See "Stormwater" below.

Funds Flow: City Ordinance No. 75686 requires that Gross Revenues of SAWS be applied in sequence to: (1) current maintenance and operating expenses including a two month reserve based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) payment of amounts required on Inferior Lien Obligations, and (7) transfers to the City's General Fund and to the Renewal and Replacement Fund.

Reuse Contract: SAWS has a contract with City Public Service, the City owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities, are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this contract were $1,167 during the seven months ended December 31, 2001.

SAWS is developing a recycled water system, which will provide non-potable water to various customers now using Edwards Aquifer water. During the seven months ended December 31, 2001, the System generated an additional $252 in revenue from sales of recycled water. Revenue from recycled water sales is recorded as revenue of the System and does have the restrictions of the reuse contract.

Stormwater: In addition to the water related utilities which the Board has under its control, the City Council approved Ordinance No. 77949 on May 13, 1993, which established initial responsibilities over the Stormwater Program with the System and adopts a schedule of rates to be charged for stormwater services and programs. The Stormwater Program is deemed to not be a part of SAWS as the term is defined in City Ordinance No. 75686. Accordingly, operations of the Stormwater Program are not considered when determining compliance with debt covenants contained in City Ordinance 75686 or in calculating payments to be made to the City. In fiscal year 1997, the City Council placed the administrative responsibility with its own staff and entered into an interlocal agreement with SAWS for the provision of services related to certain water quality monitoring functions.

No Free Service: City Ordinance No. 75686 also provides for no free services except for municipal fire-fighting purposes.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds

Senior Lien Water System Revenue Bonds, comprised of Series 1992, Series 1996, Series 1997, Series 1999, and Series 2001, outstanding in the amounts of $594,200 are collateralized by a senior lien and pledge of Gross Revenues of SAWS after deducting and paying the current expenses of operation and maintenance of the System and maintaining an operating reserve for operating and maintenance expenses. At December 31, 2001, these bonds are due in varying amounts, from a low of $13,540 in 2019 to a high of $38,690 in 2012.

Junior Lien Water System Revenue Bonds, comprised of Series 1999, Series 1999-A, Series 2001, and Series 2001-A outstanding in the amount of $134,255 at December 31, 2001, and are collateralized by a junior lien and pledge of the gross revenues of the System after deducting and paying the current expenses of operation and maintenance of the System, maintaining an operating reserve for operating and maintenance expenses, and debt service on senior lien debt. At December 31, 2001, the Junior Lien bonds were due in varying amounts, from a low of $1,920 in 2020 to a high of $10,900 in 2019.

Revenue bonds currently outstanding are as follows:

San Antonio Water System

Purpose	Interest Rates	Amount
Build, improve, extend, enlarge, and repair the System	1.85-6.5%	$ 728,455

The following summarizes transactions of the revenue bonds for the seven months ended December 31, 2001:

	Beginning Balance June 1, 2001	Additions	Reductions	Ending Balance Dec. 31, 2001	Due Within One Year
Bonds Payable	$ 728,455	$ 0	$ 0	$ 728,455	$ 25,045
Less Deferred Amounts					
For issuance discounts/ premiums/losses		1,639	(24,114)	(22,475)	
Total Bonds Payable, Net	$ 728,455	$ 1,639	$ (24,114)	$ 705,980	$ 25,045

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Annual debt service requirements are shown as follows:

San Antonio Water System
Annual Debt Service Requirements
Revenue Bonds

Year Ended December 31,	Junior Lien Revenue and Refunding Bonds		Senior Lien Revenue and Refunding Bonds	
	Principal	Interest	Principal	Interest
2002	$ 4,515	$ 4,857	$ 20,530	$ 33,908
2003	4,640	4,726	22,085	32,610
2004	4,780	4,586	23,480	31,201
2005	4,920	4,436	24,945	29,760
2006	5,075	4,276	26,445	28,229
2007-2011	34,585	18,140	162,845	113,261
2012-2016	41,975	11,170	127,105	68,585
2017-2021	33,765	2,541	95,825	37,024
2022-2026			90,940	13,363
Total	$ 134,255	$ 54,732	$ 594,200	$ 387,941

Capitalized Interest Costs

Interest costs incurred on revenue bonds and short-term commercial paper debt totaled $25,528 during the seven months ended December 31, 2001, of which $4,169 was capitalized as part of the cost of SAWS' utility plant additions.

Leases

SAWS entered into various lease agreements for financing the acquisition of computer equipment, software and heavy equipment. These lease agreements meet the requirements of capital lease for accounting purposes and therefore, are recorded at the present value of the future minimum lease payments as of the inception date. The terms of the leases are for three to five years with payments of $23,869 monthly and $286,435 annually. The annual percentage rate of the leases range from 3.18% to 5.8%. At the end of the respective lease terms, the ownership of the equipment transfers to SAWS. Please note the amounts in this paragraph are not stated in thousands.

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

The future minimum lease obligations as of December 31, 2001, are as follows:

San Antonio Water System Minimum Lease Obligation

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2002	$ 306	$ 35	$ 341
2003	263	78	341
2004	124	8	132
2005	75	1	76
Total	$ 768	$ 122	$ 890

Note Payable

During fiscal year 2000, a contract was entered into between SAWS and CPS whereby SAWS acquired water rights from certain CPS properties. A note was signed for 116 payments of $40 at an interest rate of 7.5%. Total payments on this note are $4,640 including interest. The liability as of December 31, 2001 is included in the statement of net assets for both the current portion of $289 and long-term amount of $2,389. The annual principal and interest requirements are as follows:

San Antonio Water System Principal and Interest Requirements

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2002	$ 289	$ 191	$ 480
2003	311	169	480
2004	336	144	480
2005	362	118	480
2006	390	90	480
2007	420	60	480
2008	452	28	480
2009	118	2	120
Total	$ 2,678	$ 802	$ 3,480

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS

A. Primary Government (City)

Commercial Paper

In October 1999, the City Council of the City of San Antonio, Texas (City Council) adopted an ordinance authorizing the issuance of up to $50,000 in General Improvement Commercial Paper Notes (the Notes). This ordinance provides interim financing to pay project costs for eligible projects and to refund obligations issued in connection with an eligible project. Eligible projects are defined as any project for which there exists, as of the date of the note ordinance, authorized but unissued obligations approved at an election held on May 1, 1999 and projects approved by future elections. The Notes will be issued with various maturities ranging from 1 to 270 days, provided however, that none of the Notes mature later than February 1, 2020.

Under a revolving credit agreement, dated as of December 15, 1999, between the City and Bank One, NA (the Bank) the City may borrow up to an aggregate principal amount of up to $53,699 for the purposes of paying amounts due on the Commercial Paper notes. The notes were issued to pay costs of capital improvements authorized to be financed by the May 1, 1999 election.

The City issued $15,000 of the General Improvement Commercial Paper Notes on July 6, 2000. Proceeds of the notes have been used to provide financing to pay costs for eligible projects. On November 29, 2001, the City issued bonds to refund the $15,000 in outstanding Commercial Paper Notes.

On November 9, 2000, the City Council approved issuance of $35,000 Sales Tax Commercial Paper Notes, Series A. The proceeds from the sale of the Notes are to provide for the planning, acquisition, establishment, development, construction, and renovation of the "Parks Development and Expansion Venue Project" authorized at an election held on May 6, 2000 which includes the acquisition of open space over the Edwards Aquifer Recharge Zone and linear parks along Leon Creek and Salado Creek, and the construction of improvements or additions to such Open Space Parks and Linear Parks. The Notes are supported by an irrevocable direct-pay Letter of Credit, dated as of December 5, 2000 to be issued by Landesbank Hessen-Thuringen Girozentrale, acting through its New York Bank (Helaba or the Bank). The Letter of Credit in an amount equal to $37,589 enables the City to pay at maturity the principal amount of the Notes plus up to 270 days interest.

The City sold $32,700 in Sales Tax Revenue Commercial Paper Notes in fiscal year 2001. As of September 30, 2002, $20,800 of Commercial Paper notes are outstanding with interest rates on the notes between 1.200% and 3.450% and with various maturities ranging from 1 to 131 days. The aforementioned Commercial Paper Notes have been classified as long-term in accordance with the refinancing terms of the revolving credit agreement identified above.

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(amounts are expressed in thousands)

7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

A. Primary Government (City) (Continued)

Revolving Line of Credit

The City uses a revolving line of credit for the Housing Asset Recovery Program. The line of credit is used to preserve housing stock and to revitalize neighborhoods by renovating and rehabilitating property owned by the City that is acquired through various programs (i.e. flood buyouts, facilities expansion, etc.). The City intends to finance their repayment with the proceeds received from the sale of the renovated houses. The amount of the line of credit is $1,250, of which $331 was outstanding as of September 30, 2002.

Revolving Line of Credit

Beginning Balance	Increases	Decreases	Ending Balance
$ 0	$ 331	$ 0	$ 331

B. City Public Service (CPS)

Commercial Paper

In October 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in Tax-Exempt Commercial Paper (TECP). This ordinance as amended provides for funding to assist in the financing of eligible projects, in an aggregate amount not to exceed $450,000. Eligible projects include fuel acquisition and capital improvements to the utility systems (the Systems), and to refinance or refund any outstanding obligations which are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The program's scheduled maximum maturities will not extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $350,000 for the purpose of paying amounts due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 2003, and may be renewed for additional periods.

To date, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of the New Series Bonds and any to be issued in the future.

CPS sold $97,200 of TECP in fiscal year 2002 and $118,000 in 2001, of which $123,600 has been used to fund construction expenditures through January 2002. As of January 31, 2002, $350,000 in principal amount was outstanding, with a weighted average interest rate of approximately 1.36% and an average life outstanding of approximately 80 days.

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

C. San Antonio Water System (SAWS)

Commercial Paper

On January 11, 2001, the City Council authorized SAWS to expand the tax-exempt short-term borrowing program (the "Commercial Paper Program") from $175,000 to $350,000. The purpose of the Commercial Paper Program is to provide funds for the interim financing for the increased level of future expenditures on water resource projects and scheduled maturities of the short-term borrowing under the Commercial Paper Program may not extend past May 14, 2032. The City has covenanted in the ordinance authorizing the Commercial Paper Program (the "Note Ordinance") to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing sufficient to pay the principal of the Commercial Paper Program. The credit facility is maintained under the terms of a revolving credit agreement.

To further support the Commercial Paper Program, on June 2, 2001, the City entered into agreements with the following:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Westdeutsche Landesbank Girozentrale and Landesbank Baden Wurttemberg.
- Issuing and Paying Agency Agreement with Bank One, National Association Chicago, Illinois.

The borrowings under the Commercial Paper Program are equally and ratably secured by and are payable from (i) proceeds from the sale of bonds or additional borrowing under the Commercial Paper Program and (ii) borrowing under and pursuant to the revolving Credit Agreement.

Commercial paper notes of $185,000 are outstanding as of December 31, 2001. The proceeds of the notes have been used solely for the financing of capital improvements of SAWS. The tax-exempt commercial paper notes have been classified as long-term in accordance with the refinancing terms of the Credit Agreement and management's intention to continue the remarketing of the tax-exempt commercial paper notes to maintain a portion of its debt in variable rates. Interest rates on the notes outstanding at year-end range from 1.45% to 2.50% and from 34 to 153 days in maturity. The outstanding notes at December 31, 2001 had an average rate of 1.82% and averaged 85 days to maturity.

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(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS

A. General Plan Information

The City of San Antonio, SAWS and CPS participate in several contributory retirement plans. These are funded plans covering substantial full-time employees. Payroll and contribution information as of the year end for each entity is presented below:

Contributory Pension and Retirement Plans

Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contributions
City	Fire and Police Pension Fund	Single Employer Defined Benefit Plan	$ 176,508	$ 21,808	$ 43,615	$ 65,423
	Texas Municipal Retirement System (TMRS)	Non Traditional Defined Contribution Agent Plan	199,112	11,947	23,147	35,094
Component Units:						
SAWS	[1]Texas Municipal Retirement System (TMRS)	Non Traditional Defined Contribution Agent Plan	51,958	1,008	1,044	2,052
	[2]PMLIC Contract	Agent Multiple Employer Defined Benefit Plan	51,050		2,969	2,969
CPS	[3]CPS All Employees Plan	Single Employer Defined Benefit Plan	165,314	7,981	1,048	9,029

[1] Seven Months ended December 31, 2001
[2] Plan year ended December 31, 2001
[3] Fiscal year ended January 31, 2002

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The City provides retirement benefits for all eligible full-time Fire and Police employees through the Pension Fund. Employees who terminate having five to twenty years of service may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for twenty years or more shall, upon application to the Board of Trustees of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest three years of pay of the last five years of service. The retirement annuity for employees retiring after September 30, 2001 is computed at the rate of 2.25% of this average for each of the first twenty years of service, plus 4.5% of the member's average total salary for each of the next seven years, plus three percent of the member's average total salary for each of the next three years of service, plus 0.5% of the member's average total salary for each of the next four years of service, with fractional years of service prorated based on full months served as a contributing member. In making the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary.

An employee with twenty years and one month of actual service credit may at the time of retirement elect a Backward Deferred Retirement Option Plan (Back DROP). The Back DROP election results in a lump sum payment equal to the number of full months of service elected by an employee that does not exceed the lesser of the number of months of service credit the employee had in excess of twenty years or thirty-six months and a reduced annuity payment.

There is also a provision for a 13th and a 14th pension check. The Board may authorize the disbursement of a 13th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. The Board may authorize a 14th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The 13th and 14th pension checks are paid to each retiree and beneficiary receiving a pension at the time of the disbursement and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year).

If service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, based on the same number of years of the member's pay as used to compute normal retirement benefits. If a member is killed in the line of duty, the member's surviving spouse and dependent children are entitled to a pension based upon actual base salary at time of death.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Contribution requirements of plan members and the City are established and may be amended by State statute. In the current year, the City contributed 24.64% of covered payroll and employees contributed 12.32% of covered payroll. The employer's required contribution of $43,615 and the employee's required contribution of $21,808 were made to the Pension Fund. (See summary of contribution information at Part A of this footnote).

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Effective October 1, 2001, in addition to the changes for credited service and the 14th check as mentioned above, other new provisions include allowing the surviving spouse of an active member to elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a Back DROP election made by a retiring member, increasing the maximum benefit for surviving spouses and dependent children from a 26 to 27 year pension, and increasing cost-of-living increases for all retirees who retired between August 30, 1971 and October 1, 1991.

For the year ended September 30, 2002, the City's annual pension cost of $43,615 for the Pension Fund was equal to the City's required and actual contributions. The annual required contribution was determined as part of the October 2001 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increase of 5.5% per year. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The Pension Fund's unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 2001 was 27.04 years.

Texas Municipal Retirement System

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to city employees. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or calling (512) 476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 5 years, but must leave accumulated contributions in the plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Texas Municipal Retirement System (Continued)

The plan provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contribution requirements are actuarially determined by TMRS's actuary (See summary of TMRS Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the City's employees is 6% and the matching percent is currently 11.63%, both as adopted by the governing body of the City. (See summary of contribution information in Part A of this footnote). Under the state law governing TMRS, the Employer's Contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's twenty-five year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is being amortized over a constant twenty-five year period as a level percent of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

C. San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System, a contract with Principal Mutual Life Insurance Company, and Social Security.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

1. 20 Years of credited service regardless of age, or
2. 25 Years of credited service and at least age 50, or
3. 10 Years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of credited service. Average Compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31, out of the latest ten compensation years prior to normal retirement date which gives the highest average.

The normal retirement benefit under the Principal Mutual contract is equal to:

1. 1.2% of the Average Compensation, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.375% of the Average Compensation, times years of credited service in excess of 35 years.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits. The following information related to the Texas Municipal Retirement System and Principal Mutual Life Insurance has been prepared as of January 1, 2001.

Texas Municipal Retirement System

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The TMRS was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas, and is administered in accordance with the Texas Municipal Retirement System Act. It is the opinion of the TMRS management that the plans in the TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the SAWS-financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, 200%) of the employee's accumulated contributions. In addition, SAWS may grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and SAWS matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages of 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions and contribution requirements are adopted by SAWS within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contribution requirements are actuarially determined by TMRS's Actuary (See Summary of TMRS's Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the employees is 3% of salary, and SAWS matching rate approximates 100% of the employee rate, both as adopted by the SAWS. Under the state law governing TMRS, SAWS' contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to SAWS' matching percent, which are the obligation of SAWS as of an employee's retirement date not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of SAWS to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (Continued)

When SAWS' periodically adopts updated service credits and increases the annuities in effect, the increased unfunded actuarial liability is to be amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is to be amortized over the twenty-five year period, which began January 1, 1998. The unit credit actuarial cost method is used for determining SAWS contribution rate.

Contributions are made monthly by both the employees and SAWS. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. Significant assumptions used in the actuarial valuation of annual required contributions include a rate of return on the investment of present and future assets of 8.0% per year. Additionally, there is no need to project salary increases since the benefit credits earned for service to date are not dependent on future salaries. Likewise, inflation and cost-of-living adjustments are not accounted for in the actuarial study. Assets are valued at amortized cost.

Principal Mutual Life Insurance Company

The contract with Principal Mutual Life Insurance Company (PMLIC) serves as a supplement to the TMRS and Social Security benefits. SAWS' covered payroll at January 1, 2001 under this contract was $51,050.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit plan. Employees are eligible to participate in the plan on January 1 of the calendar year following date of hire. An employee covered by the plan may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. The plan allows an employee to accrue vesting benefits as follows:

Years of Service	Vested Percentage
Less than 5	0%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

Benefits for retired employees are fully guaranteed at retirement. The pension plans unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Life Insurance Co. The plan provisions and contribution requirements are governed by SAWS which may amend plan provisions and is responsible for the management of plan assets.

Significant assumptions used by PMLIC's actuary to compute the actuarially determined contribution requirements include: (a) a rate of return on the investment of present and future assets of 8.5% per year, (b) salary scale from Table S-5 of the Actuary's Pension Handbook, plus 3.4%, and (c) plan expenses according to the expense scales of the Service Agreements.

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Principal Mutual Life Insurance Company (Continued)

The PMLIC contract funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method spreads the total cost of the projected pension benefits for each employee evenly from the date the employee is first eligible for the plan to the employee's assumed retirement date. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. Thus, as of the plan effective date, there are some accumulated Normal Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by the System. Active members are not required to contribute to the plan. Any obligation with respect to the pension plan shall be paid by the System. The actuarial valuation, which was performed for the plan year, ended December 31, 2001 reflects an unfunded frozen initial liability of $8,884.

The PMLIC issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Life Insurance Company, Pension Diversified Retirement Services, Des Moines, Iowa 50392-0001 or by calling (515) 247-5111.

D. City Public Service (CPS)

All Employee Plan

The CPS Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service and to those employees who are ages 55 or older with at least 10 years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service, or age 62 with less than 25 years of service.

The Plan and contribution requirements are sponsored by and may be amended by CPS, acting by and through the General Manager and Chief Executive Officer of CPS. The Plan assets are held in a separate trust that is periodically audited and which financial statements include historical trend information. Additional information may be obtained by writing the Employee Benefits Division of CPS, P.O. Box 1771, San Antonio, Texas 78296 or by calling (210) 978-2484.

Funding levels are established through annual actuarial evaluations and recommendations of an Administrative/Investment Committee, using both employee and employer contributions. Participating employees contribute 5% of their total compensation and are fully vested after completing 7 years of credited service or at age 40. The balance of contributions made amounted to 0.6% and is the responsibility of CPS, considering actuarial information, budgetary compliance, and the need to amend the Plan with legal requirements. (See Summary of Contribution Information at Part A of this footnote).

8. PENSION AND RETIREMENT PLANS (Continued)

D. City Public Service (CPS) (Continued)

All Employee Plan (Continued)

As calculated under GASB Statement No. 27, CPS' annual pension cost and net pension obligation for the fiscal year ended January 31, 2002 were $654 and $0 respectively. The annual required contribution was determined as part of the January 1, 2001 actuarial valuation using (a) the five-year smoothed market method for asset valuation, (b) the projected unit credit for pension cost, and (c) the level dollar open for amortization. The remaining amortization period is 9.89 years and is calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 2001 actuarial valuation include (a) a rate of return on the investment of present and future assets of 8.5 % per year compounded annually, (b) projected salary increases averaging 5.0 %, and (c) post-retirement cost-of-living increases of 2.0 %. The projected salary increases include an inflation rate of 4.0 %.

E. Three Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation as required by GASB Statement No. 27.

Three Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End Of Year	Percentage of APC Contributed
Fire and Police Pension- City of San Antonio	2000	$ 40,238	$ 0	$ 0	$ 40,238	$ 0	$ 0	$ 0	$ 0	100%
	2001	42,065			42,065					100%
	2002	43,615			43,615					100%
TMRS- City of San Antonio	2000	19,352			19,352					100%
	2001	21,610			21,610					100%
	2002	23,147			23,147					100%
CPS All Empoyee Plan [1]	2000	12,288	42	(490)	11,840	(12,231)	(391)	490	99	103%
	2001	5,397	8	(13)	5,392	(5,392)		99	99	100%
	2002	660	8	(14)	654	(753)	(99)	99		115%
TMRS- SAWS [2]	1999	1,576			1,576					100%
	2000	1,593			1,593					100%
	2001	1,044			1,044					100%
PMLIC- SAWS [3]	1999	4,753			4,753					100%
	2000	2,770			2,770					100%
	2001	2,969			2,969					100%

1 Fiscal year ended January 31, 2002
2 Seven months ended December 31, 2001
3 Plan year ended December 31, 2001

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(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

F. Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation by the Texas Municipal Retirement System's (TMRS) actuary are provided in the table below for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Investment Return	8%
Inflation Rate	None
Projected Salary Increases	None
Post Retirement Benefit Increases	None
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost

Location of Schedules of Funding Progress

The Schedule of Funding Progress is located in the "Required Supplementary Information" section of this report. The schedules are designed to provide information about each entity's progress in accumulating sufficient assets to pay benefits due.

9. POSTEMPLOYMENT RETIREMENT BENEFITS

A. Primary Government (City)

In addition to the pension benefits discussed in Note 8, the City provides all their retired employees with certain health benefits under two post-employment benefit programs. The first program is a health insurance plan, which provides benefits for all non-uniformed City retirees and for all, pre-October 1, 1989, uniformed (fire and police) retirees. Currently, there are 6,650 active civilian employees who may become eligible in the future. Employees become eligible for the program when they reach eligibility for the TMRS Pension Plan, discussed in Note 8. At September 30, 2002, there were 1,405 retirees participating in the program which covers eligible expenses at eighty percent after a deductible of $200 (single)/$400 (family) for non-Medicare and $125/$250 for Medicare retirees. The cost of the program is reviewed annually, and actuarially determined costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis shared on a 67% City - 33% retiree cost allocation. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands. For retirees, total expenses for the year were $5,704. For the year ended September 30, 2002, total contributions were as follows:

City	$ 3,305
Employees	1,750
TOTAL	$ 5,055

The second post-employment benefit program of the City provides retirement health care benefits for eligible Fire and Police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). The Fund was originally established as a fund of the City pursuant to the respective Fire and Police collective bargaining agreements to provide postemployment health benefits for San Antonio Fire Fighters and Police Officers who retired on or after October 1, 1989. Effective October 1, 1997, the Fund was created as a separate and distinct statutory trust. The Fund is governed by a nine member Board of Trustees comprised of the Mayor, two City Councilmembers, two active police officers, two active fire fighters, a retiree representative of the Fire Department, and a retiree representative of the Police Department. The Board of Trustees is responsible for the investment of the assets of the Fund. Contribution and benefit levels are determined by the respective collective bargaining agreements with the Fire and Police Associations.

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

The benefits of this plan are financed on a prefunded basis. The City currently makes contributions on behalf of 3,363 active Fire Fighters and Police Officers who may be eligible for benefits under this plan in the future. The benefits of the plan are not available until the employee has completed twenty years of service and the plan is currently providing benefits to 872 eligible retirees. The Program reimburses 80 percent of the amount of eligible claims for standard medical costs and 100 percent for hospitalization costs incurred by the retiree and their eligible dependents. Based on the Police contract, the City contributed 9.4% of base pay plus longevity of all eligible police officers and each police officer contributed $20 per month. Based on the Fire contract, the City contributed 9.4% of base pay plus longevity and fire fighters contributed $20 per month, during the period from January 2001 to May 2002. Beginning in June 2002, the City contributed 8.92% of base pay plus longevity and active fire fighters contributed $40 per month. Please note the number of firefighters and police officers, retirees, and monthly contribution rates in this section are not expressed in thousands. For the year ended September 30, 2002, total expenses for retired employees was $7,007 and total contributions were as follows:

City	$ 15,354
Employees and Retiree Dependent Premiums	1,222
TOTAL	$ 16,576

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Fund and whether the existing financing of the Fund can be reasonably expected to be adequate over a long period of time. The Board of Trustees had an actuarial valuation performed as of July 1, 2000 and the results of that study indicated that based on employer contributions of 9.4% of covered payroll (base pay plus longevity) plus the employee monthly contributions of $20, the unfunded liability of the Fund could be amortized over a 25 year period. Subsequently, the Board of Trustees engaged another actuarial firm to perform an actuarial valuation of the Fund as of October 1, 2001. The actuarial report was issued on May 20, 2002 and the results of this report indicated that the employer and employee contributions mentioned previously were not sufficient to amortize the unfunded liability. Additionally, the study recommended a contribution rate of 13.94% of covered payroll plus the employee monthly contributions of $20 to amortize the unfunded liability of the Fund over a 40 year period. Based on this rate, the total contribution to the Fund would be required to increase from an estimated $17,200 to $25,100, an increase of $7,900 beginning October 1, 2002.

Since then, the Board of Trustees has had another actuarial valuation of the Fund initiated with a valuation date of October 1, 2002. The results of the draft study reflect a recommended contribution rate of 19.52% of covered payroll in addition to employee contributions of $70 monthly. This would result in an increase in the total annual contribution to the Fund of an estimated $20,000 beginning October 1, 2003. The actuary also indicated in their report that a phase-in of increased contributions over a period of time such as ten years would be actuarially acceptable. The recommended funding increase shown in both the 2002 and 2003 studies is primarily attributable to the actuarial assumptions for current benefit health claims costs and future increases in health benefit claims costs.

While the results of both the 2002 and 2003 studies reflect significant changes in contribution levels, the actuarial reports also state that the Fund does not have a short term financing problem. As of September 30, 2002, net assets available for postemployment benefits were $83,600 while benefits payments for the fiscal year ended September 30, 2002 were $7,000. As noted above, contribution and benefit levels are established pursuant to the collective bargaining agreements. The current agreement with the Fire Association will expire September 30, 2005 and has an evergreen clause through September 30, 2015. This agreement was negotiated prior to the issuance of the actuarial valuation as of October 1, 2001, however, the agreement does contain a limited reopener related to contributions to the Fund. The City's current agreement with the Police Association expired on September 30, 2002 but has an evergreen clause through September 30, 2012. The City and Police Officers Association have been in negotiations, however, have been unable to reach terms for a final agreement.

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

The City anticipates it will resume negotiations with the Police Officers Association in June 2003 and will seek to include a comprehensive framework for a long-term solution for the Fund. Additionally, due to the differences in the results of the studies from July 2000 to October 2002, the City in conjunction with both the Fire and Police Associations anticipate having an independent review and valuation performed of the Fund by another actuarial firm.

B. City Public Service (CPS)

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Plan assets are held as part of CPS' Group Health and Life Insurance Plans and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The Plans may be amended by CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs.

These costs approximated $3,400 for 2002. CPS reimbursed certain retirees and their spouses enrolled in Medicare Part B a percentage of the monthly premium, which totaled $207 for fiscal year 2002.

Retired employees and covered dependents contributed $1,300 for their health care and life insurance benefits in fiscal year 2002. There were approximately 2,098 retirees and covered dependents eligible for health care and life insurance benefits. Please note the number of retirees is not stated in thousands.

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1, 2001 valuations are $62,500 for health and $16,900 for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $44,500 for health, $4,900 for life insurance, and $2,500 for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $6,500 in 2002. For the health care plan, the actuarial cost method used is the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 2001 actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5% per year for the health, life, and disability plans, (b) projected salary increases for the plans ranging from 4.5% to 12.0% depending on age for base and other salaries, and (c) medical cost increases projected at 8% for 2002.

C. San Antonio Water System (SAWS)

SAWS provides certain health care and life insurance benefits for retired employees. Substantially all full-time employees who retire from SAWS may become eligible for those benefits. On December 31, 2001, there were 368 retirees with life insurance and 316 retirees with medical coverage. Please note the numbers of retirees are not stated in thousands.

SAWS provides medical and life insurance for retirees and recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance. For the seven months ending December 31, 2001, premiums for medical insurance and life insurance amounted to $1,573 and $29, respectively. Those and similar benefits for active employees are provided through insurance companies.

10. CPS SOUTH TEXAS PROJECT (STP)

Joint Operations

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are Reliant Energy, formerly known as HL&P, Central Power and Light Company (CPL), and the City of Austin. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28% ownership in the STP represents 700 megawatts of plant capacity. At January 31, 2002, CPS' investment in the STP utility plant was approximately $1,700,000, net of accumulated depreciation.

Effective November 17, 1997, the Participation Agreement among the owners of STP was Amended and Restated and the STP Nuclear Operating Company, a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STP Nuclear Operating Company.

Nuclear Insurance

The Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities, was in effect until August 1, 2002. The limit of liability for licensees of nuclear power plants is $9,340,000 per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $83,900 (amount may be adjusted for inflation) for each licensed reactor, but not more than $10,000 per reactor for each nuclear incident in any one year. CPS and each of the other participants of STP are subject to such assessments, and all participants have agreed that any such assessments will be borne on the basis of their respective ownership interests in STP. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $400,000 for the nuclear industry as a whole, provides protection from nuclear-related claims.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1,060,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain on-site property damage insurance in the amount of $2,750,000 of nuclear property insurance, which is above the legally required amount of $1,060,000, but is less that the total amount available for such losses. The $2,750,000 of nuclear property insurance is composed of $500,000 for primary property damage insurance and a layer of excess property damage insurance that would contribute $2,250,000 of additional coverage that is subject to a retrospective assessment from each electric utility which is a member of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at the nuclear plant of any utility insured by NEIL exceed the accumulated funds available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $24,800 during any one policy year.

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10. CPS SOUTH TEXAS PROJECT (STP) (Continued)

Nuclear Decommissioning

CPS, together with the owners of the STP, filed with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that this cost estimate would be reviewed and updated periodically as it could change by a material amount. In 1994, the owners did conduct a review of decommissioning costs. The results showed that CPS' share of decommissioning costs is now approximately $270,000 in 1994 dollars, which also exceeded NRC minimum requirements. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust Assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2002, CPS has accumulated approximately $145,900 of funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amounts of $61,400 at December 31, 2001. Based upon the 1998 and 1994 decommissioning cost study, the annual levelized funding into the trust of $15,900 for 2002 was expensed by CPS.

11. COMMITMENTS AND CONTINGENCIES

A. Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2002. Grants awarded by federal, state and other governmental agencies but not yet earned nor received in cash as of September 30, 2002 were $155,457.

Capital Improvement Program

The City will be undertaking various capital improvements to its airport system during fiscal year 2003. The estimated cost of these improvements is $82,287. Approximately $32,989 of the total will be funded by federal grants.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Litigation

The City is involved in various lawsuits related to alleged personal and property damages, wrongful death, breach of contract, various claims from contractors for additional amounts under construction contracts, property tax assessments, environmental matters, class action and promotional practices, and discrimination cases. The Office of the City Attorney estimates the probable liability for these suits will approximate $10,500 which is included as a component of the reserve for claims liability in the amount of $16,179. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The City makes significant estimates in determining the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Self-Insurance Funds are adequate to cover losses for which the City may be liable. It is not determinable whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the government-wide financial statements.

Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This is a nuisance case alleging that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in Plaintiff's contracting acute lymphoblastic leukemia. Although the trial court has entered against the City a judgment of approximately $20,000, the City believes that $19,980 of such sum ($10,000 in exemplary damages and $9,980 in personal injury damages) is not recoverable by the Plaintiff under a nuisance theory. Even if recoverable, the City believes that damages are capped at $250 under the Texas Tort Claims Act. The City is appealing the judgment.

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Non-compliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual and in the governmental fund type when matured.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Leases

The City leases City-owned property to others which consists of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. Total rental revenue on operating leases for fiscal year ended September 30, 2002 was $3.9 million. As of September 30, 2002, the leases provide for the following future minimum rentals:

Leases Receivable

	Governmental Activities	Aviation	Parking	Total
Fiscal year ending September 30:				
2003	$ 1,950	$ 15,106	$ 167	$ 17,223
2004	1,897	14,275	133	16,305
2005	1,653	14,046	42	15,741
2006	1,428	13,260		14,688
2007	889	1,866		2,755
2008-2012	2,824	6,496		9,320
2013-2017	2,616	4,332		6,948
2018-2022	1,721	886		2,607
2023-2027	750	326		1,076
2028-2032	750	27		777
2033-2037	525			525
2038-2042	467			467
Future Minimum Lease Rentals	$ 17,470	$ 70,620	$ 342	$ 88,432

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill which immediately stopped accepting solid waste. Subsequent to landfill closure, Federal and State laws required the City to incur certain postclosure care costs over a period of thirty years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,800. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a thirty year period. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", the estimated postclosure cost of $3,800 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Environmental Services Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations.

Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year ended September 30, 2002 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,083. This represents a reduction of $41 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

TCEQ Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission (TNRCC), related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City and the new permitee has provided adequate financial assurance for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

Brooks City-Base – Electric and Gas Utilities

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the "Air Force") and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks. On July 22nd, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology & Business Park, a facility which will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

As part of the conveyance, the electric and gas utilities were transferred to City Public Service (CPS), the City's utility. The electric and gas utility systems' infrastructure at Brooks are deficient and require extensive upgrades and improvements. Pursuant to the transfer, the Air Force, BDA, and CPS have committed to make certain improvements and upgrades to the electric and gas utility over a 20 year period. Funding for these improvements include $3,400 from the Air Force and $6,300 from BDA and CPS each, respectively for a total of $16,000.

(amounts are expressed in thousands)

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Brooks City-Base – Electric and Gas Utilities (Continued)

With respect to BDA's obligation of $6,300, the City has agreed, under certain circumstances and if necessary, to assist BDA in funding its obligation. The City has agreed to contribute to BDA on an annual basis an amount equivalent to the incremental increase in the City's payment from CPS derived from Brooks. The City, as the owner of CPS, receives 14% of CPS' gross revenues and this amount represents additional resources available to the City as a result of its increased payment from CPS derived at Brooks. The first payment, if necessary, is due in January 2004 is estimated at $112. Over the 20 year period, the City's annual payments will not exceed $3,400. In the event BDA has exhausted all of its available resources and has been unable to fulfill its obligation of $6,300 by the end of the 20 year term, the City has agreed in good faith to utilize all of its funding options to enable BDA to satisfy its obligation.

Alamodome Soil Remediation

The City has taken an aggressive approach to dealing with environmental issues resulting from the construction of the Alamodome, a multi-purpose domed facility. It is working in conjunction with the Texas Commission on Environmental Quality (TCEQ) on the continued development and implementation of a remediation plan that addresses both on and off-site locations that may contain contaminated soil. As of September 30, 2002, the City has expended approximately $13,402 related to Alamodome soil remediation efforts, inclusive of the supplemental environmental projects, and estimates the remaining cost for soil remediation to be approximately $66. In January 1996, TCEQ issued its Executive Director's Preliminary Report assessing a penalty against the City and VIA Metropolitan Transit (VIA) along with certain technical recommendations for alleged violations in the handling of contaminated soils at the Alamodome site. On February 12, 1997, the City and TCEQ entered into an Agreed Order relating to enforcement actions taken by the Commission against the City and VIA which provided for a reduced penalty amount because of positive actions taken by the City to initiate corrective actions in advance of the Agreed Order.

Under the Agreed Order, the Commission would also defer the remaining portion of the reduced fine upon successful completion, by the City, of certain supplemental environmental projects in the total amount of $628. The City, under separate agreement with VIA, would assume responsibility for the remediation of the remaining sites, with VIA contributing $350 towards these efforts.

The City to date has completed the Supplemental Environmental Projects as identified in the Agreed Order and has received concurrence from the TCEQ that these projects were successfully completed. Additionally, nine of the ten sites that require remedial activity under the Agreed Order have been completed. The TCEQ has provided closure letters for all of these sites. Final remediation is scheduled for fiscal year 2003 for the remaining site.

B. City Public Service (CPS)

Other

Purchase and construction commitments amounted to approximately $2,600,000 at January 31, 2002. This amount includes approximately $81,700 that is expected to be paid for natural gas purchases to be made under the contracts currently in effect through June 2002; the actual amount to be paid will be dependent upon CPS' actual requirements during the contract period and the price of gas. Commitments also include $78,100 for pipeline quality gas to be produced from the City's "Nelson Gardens" landfill under the contract which is currently in effect through the year 2017. Also included is $65,000 for coal purchases through December 2003, $331,500 for coal transportation through

11. COMMITMENTS AND CONTINGENCIES (Continued)

B. City Public Service (CPS) (Continued)

December 2014, and $3,000 for treated cooling water through 2005, based upon the minimum firm commitment under these contracts.

CPS has also committed to purchase $289,400 in wind power and $40,000 in additional natural gas requirements; $73,800 in railcars; $31,900 for generation plant maintenance services; and $44,600 million for distribution system construction and maintenance.

Additional purchase commitments at January 31, 2002, which are related to STP include approximately $335,500 for raw uranium and associated fabrication and conversion services. This amount represents services that will be needed for future refueling through the year 2028.

The Public Utility Commission of Texas (PUC) has promulgated new rules designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule (Rule) mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on the amount of load served by each utility. CPS' cost for calendar year 2001 were approximately $5,600. The estimated cost for calendar year 2002 is approximately $10,800. The decrease in amounts paid for calendar year 2001 is a result of CPS' success in updating the CPS transmission cost of service approved by the PUC. This new cost became effective in January 2001. In March 2000, CPS began recovering these costs from customers.

Joint Operations Agreement

A 1997 Joint Operations Agreement resulted from the litigation settlement with Reliant Energy, formerly known as Houston Lighting & Power, over its management of STP during the construction and early operating periods. The Joint Operating Agreement is an arrangement to jointly dispatch CPS' and Reliant's generating plants to take advantage of the most efficient plants and favorable fuel prices of each utility. CPS receives, in monthly cash payments, ninety percent of the savings realized from the jointly operated systems. This joint operation agreement must result in at least $10,000 in cumulative savings per year to CPS, or Reliant will make up the difference in cash. A similar payment will be made by Reliant to ensure benefits to CPS of $150,000 in savings during the ten-year life of this agreement. In April 2001, Reliant met the Joint Operations Agreement of $150 million cumulative savings obligation.

In August 2001, the Joint Operations Agreement was extended until 2009. Under the extended agreement, CPS will receive the ninety percent of the combined savings achieved under the joint dispatching until the total benefit to CPS reaches $200 million after which the benefit will be shared equally. As of January 31, 2002, CPS' total cumulative savings were $190,300.

Litigation

Additionally, in the normal course of business, CPS is involved in other legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals and discrimination cases. Also, CPS power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

C. San Antonio Water System (SAWS)

Other

SAWS is committed under various contracts for completion of construction or acquisition of utility plants totaling approximately $93,800 as of December 31, 2001. Funding of this amount will come from available revenues of SAWS, contributions from developers, and restricted assets.

Litigation

SAWS is the subject of various claims and litigation which have risen in the ordinary course of its operations. Management, in consultation with legal counsel, is of the opinion that SAWS' liabilities in these cases, if decided adversely to SAWS, will not be material.

12. RISK FINANCING

A. Primary Government (City)

Property and Casualty Liability

At September 30, 2002, the City has excess insurance coverage through North River Insurance Company for liability. The blanket policy provides general and auto liability along with police professional errors and omissions and EMS Medical Malpractice, and Civil Rights and Employee Benefits Liability Coverage. Allianz Insurance Company provides property coverage on the City's building and contents inventory. The City utilizes a third party administrator for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Internal Service Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported, and Departments are assessed premiums to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements did not exceed insurance coverage for each of the past three years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee benefit program including coverage for medical, dental and life insurance, vision, dependent care reimbursement accounts and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Self-Insurance Employee Benefits Insurance Internal Service Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

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12. RISK FINANCING

A. Primary Government (City) (Continued)

Workers' Compensation

The City self-insures for Workers' Compensation. The City is a member of the Texas Municipal League (TML) Workers' Compensation Joint Insurance Fund, an unincorporated association of political subdivisions of the State of Texas. The TML Workers' Compensation Joint Insurance Fund is not intended to operate as an insurance company, but rather is intended to be a contracting mechanism which the City as a member utilizes to administer self-insurance workers' compensation benefits to its employees for claims that occurred prior to September 30, 1986. The City also utilizes third party administrators for the handling of administration, investigation, and adjustment of workers' compensation claims that occurred after October 1, 1986. All loss contingencies, including claims incurred but not reported, if any, are recorded in the City's Self-Insurance Workers' Compensation Internal Service Fund and City departments are assessed premiums to cover expenditures. As of September 30, 2002, the City has excess workers' compensation coverage through the North River Insurance Company. Claims settlements did not exceed insurance coverage for each of the past three years.

Unemployment Compensation Program

The Unemployment Compensation Program of the Self-Insurance Internal Service Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year end, claims were being administered internally by the City and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

Extended Sick Leave Program

The Extended Sick Leave Program of the Self-Insurance Internal Service Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Self-Insurance Employee Wellness Program Internal Service Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program was established to offer City employees short term mental health, marital, and financial counseling, as well as substance abuse intake and assessment. The Program was funded by a transfer from the Workers' Compensation Fund.

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12. RISK FINANCING

A. Primary Government (City) (Continued)

Claims Liability

The liability for the Employees Benefits Program is based on the estimated aggregate amount outstanding at the balance sheet date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the balance sheet date and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims which have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability as management of the City feel it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for the Insurance Reserve and Workers' Compensation Programs is based on an undiscounted rate.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Benefits, and Workers' Compensation Programs for the year ended September 30, 2002.

Schedule of Changes In Claims Liability

Fund	Liability October 1,	Change in Estimates	Claims & Adjustments	Claims Payments	Liability Balance September 30, [1]
Insurance Reserve					
Fiscal Year 2001	$ 18,531		$ 6,434 $	6,434 $	18,531
Fiscal Year 2002	18,531	(2,352)	6,285	(6,285)	16,179
Employee Benefits					
Fiscal Year 2001	$ 3,415	600 $	33,638 $	(33,638) $	4,015
Fiscal Year 2002	4,015	1,351	38,980	(38,980)	5,366
Workers' Compensation[1]					
Fiscal Year 2001	$ 16,858	1,847 $	8,685 $	(8,685) $	18,705
Fiscal Year 2002	18,705	4,500	9,946	(9,946)	23,205

[1] The Workers' Compensation Liability Balance of $23,205 is comprised of $20,879 recorded in the Workers' Compensation Fund and the remaining liability of $2,326 is recorded in Proprietary Funds.

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(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

B. City Public Service (CPS)

CPS is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS purchases commercial liability and property insurance coverages to provide protection in event of large/catastrophic claims. CPS performs actuarial studies periodically to determine its insurance retentions. An actuarial study was last performed in 2001.

In addition, CPS is exposed to risks of loss due to death of, and injuries to, or illness of, its employees. CPS makes payments to external trusts to cover the claims under the related plans. At January 31, 2002, CPS accumulated approximately $131,700 in these external trusts. The trust accounts and related claims liabilities are included in CPS' financial statements. CPS has recorded $25,500 of expense related to these plans for the year ended January 31, 2002.

Based upon the guidance of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the following information is provided regarding the changes in the insurance reserves for property, and employee and public liability claims for the years ended January 31:

City Public Service
Schedule of Changes In Claims Liability

Fund	Liability Balance February 1,	Claims & Adjustments	Claims Payments	Liability Balance January 31,
Property Insurance				
Fiscal Year 2001	10,158	406	(620)	9,944
Fiscal Year 2002	9,944	7	(1,327)	8,624
Employee & Public Liability Claims				
Fiscal Year 2001	5,603	3,117	(2,880)	5,840
Fiscal Year 2002	5,840	2,056	(2,888)	5,008
Employee Health & Welfare Claims				
Fiscal Year 2001	0	0	0	0
Fiscal Year 2002	0	28,022	(24,381)	3,641

The employee health and welfare plan assets are segregated from CPS's assets. They are separately managed by committee whose members are appointed by the CPS General Manager and CEO. These plans have separate financial statements for calendar year 2001. These separately audited financial statements are available upon request from CPS.

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(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

B. City Public Service (CPS) (Continued)

In 2002, CPS entered into two short-term natural gas forward contracts to purchase fixed quantities of natural gas at fixed prices for specific months through February 2002. CPS entered into this contract to help plan natural gas costs and to protect itself against an increase in the market price of the commodity during the winter months of 2002 and the early part of next year. At January 31, 2002, market natural gas prices were lower than the contractual prices. As a result, CPS may incur additional natural gas costs of approximately $2,100 in February 2002 based on the fixed quantities remaining to be purchased. CPS will pass any additional costs through to its customers under the fuel and gas cost adjustment provisions of the rate tariffs.

	2002	2001
Natural Gas Forward Contracts:		
Volume Remaining in MMBtu	560,000	0
Fixed Price per MMBtu	$4.55	0
Natural Gas Two Way Collar:		
Volume Remaining in MMBtu	420,000	0
Ceiling Price per MMBtu	$7.00	0
Floor Price per MMBtu	$4.14	0
Market Price at January 31	$2.25	0

Subsequent to year end, the CPS Board of Trustees approved a policy for energy price risk management. The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas Public Funds Investment Act to allow municipal utilities the ability to purchase and sell energy related fuel oil, and electric energy. The policy approved by the Board requires that general operating procedures and guidelines as well as basic oversight and control structures be in place prior to implementation or operation next fiscal year.

C. San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

SAWS is self administered and self-insured for the first $500 of each worker's compensation and $250 for general liability, automobile liability, public official's liability and $100 for pollution legal liability (new coverage during Fiscal Year 2001) claim whereby any claim which cost exceeded the self-insured retention limit would be covered through SAWS' comprehensive commercial insurance program. For the seven months ended December 31, 2001, there were no reductions in insurance coverage from the previous year and there were no claims which exceeded the self-insured retention limit. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

SAWS had recorded a liability in the amount of $1,729 as of December 31, 2001, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. The claims liability includes medical and rehabilitation costs, which are considered incremental claim adjustment expenses. Changes in the liability amount for the last two fiscal years were:

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12. RISK FINANCING (Continued)

C. San Antonio Water System (SAWS) (Continued)

San Antonio Water System
Schedule of Changes In Claims Liability

Year Ended	Balance at Beginning of Fiscal Year Liability	Claims & Adjustments	Claims Payments	Balance at End of Fiscal Year Liability
May 31, 2000	$ 3,652	$ 714	$ (1,503)	$ 2,863
May 31, 2001	$ 2,863	$ 913	$ (1,602)	$ 2,174
Seven Months ended Dec. 31, 2001	$ 2,174	$ 824	$ (1,269)	$ 1,729

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(amounts are expressed in thousands)

13. INTERFUND TRANSFERS

The following is a summary of interfund transfers for the City for the year ended September 30, 2002:

Summary Table of Interfund Transfers for the year ended September 30, 2002

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
General Obligation Bonds	$ 69	$ 97
Airport System Fund	176	
Parking Facilities	166	350
Internal Service Funds	187	3,000
Nonmajor Governmental Funds	9,966	69,896
Nonmajor Enterprise Funds	634	
Total General Fund	11,198	73,343
Debt Service Funds:		
Nonmajor Governmental Funds	22,834	
Total Debt Service Funds	22,834	
General Obligation Bond Funds:		
General Fund	97	69
Nonmajor Governmental Funds	3,062	219
Total General Obligation Bond Funds	3,159	288
Airport System Fund:		
General Fund		176
Internal Service Funds		138
Nonmajor Governmental Funds		974
Total Airport System Fund		1,288
Parking Facilities Fund:		
General Fund	350	166
Internal Service Funds		35
Nonmajor Governmental Funds		105
Total Parking Facilities Fund	350	306
Internal Service Funds:		
General Fund	3,000	187
Airport System	138	
Parking System	35	
Internal Service Funds	1,030	1,030
Nonmajor Governmental Funds	743	4,125
Nonmajor Enterprise Funds	193	
Total Internal Service Funds	5,139	5,342
Nonmajor Governmental Funds:		
General Fund	69,896	9,966
Debt Service		22,834
General Obligation Bonds	219	3,062
Airport System	974	
Parking Facilities	105	
Internal Service Funds	4,125	743
Nonmajor Governmental Funds	51,308	51,308
Nonmajor Enterprise Funds	1	
Total Nonmajor Governmental Funds	126,628	87,913
Nonmajor Enterprise Funds:		
General Fund		634
Internal Service Funds		193
Nonmajor Governmental Funds		1
Total Nonmajor Enterprise Funds		828
Total	$ 169,308	$ 169,308

(amounts are expressed in thousands)

13. INTERFUND TRANSFERS (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

For the year ended September 30, 2002, the City made several significant one-time transfers. The Other Internal Services Fund made a $4,125 one-time transfer to the Improvement Projects Fund to support the construction of a new automotive service center. In addition, the General Fund made a one-time transfer in the amount of $650. This transfer was intended to provide initial funding for a new special revenue fund, the Brooks City-Base Fund. The Brooks City-Base Fund was created in order to consolidate all Brooks related funds for efficient internal control and monitoring.

Other significant transfers by the General Fund include $615 set aside for the purchase of additional ladder trucks from fiscal year 2006 through fiscal year 2009. This is the second year that funds have been set aside for that purpose as the Master Plan recommended in fiscal year 2001 that $615 in funds be set aside each year through fiscal year 2005. In addition, the General Fund continued its support to the Information Technology Services Fund for the GIS Program which will provide numerous computerized mapping applications in support of various departments. This year's transfer was in the amount of $478.

The Enterprise Resource Management Fund was established in fiscal year 2001 to record all operating revenues and expenditures associated with the development and implementation of the new enterprise system. Funding is provided by transfers from the Improvement Projects Fund. This year's support totaled $1,875.

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(amounts are expressed in thousands)

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the Government-wide Statement of Net Assets.

One element of this reconciliation states, "Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds." The detail of the $31,435 is as follows:

Revenues previously reported as deferred in the fund financial statements	$ 42,565
Receivable applicable to governmental activities, which are not available in the current period	565
Deferred revenues previously reported as income in the fund financial statements	(11,695)
Revenues collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are recognized in governmental funds	$ 31,435

Another element of this reconciliation states, "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds". The details for the decrease related to capital leases is as follows:

Total capital leases reported on the Government-wide Statement of Net Assets	$ 8,297
Less: Short-term available portion reported in fund financial statements	(705)
Net adjustment to decrease fund balance-total governmental funds to arrive at new assets-governmental activities for capital leases	$ 7,592

The details for the decrease related to accrued interest is as follows:

Total Accrued Interest reported on the Government-wide Statement of Net Assets	$ 7,966
Less: accrued interest reporting in the Internal Service Funds	(2)
Net adjustment to increase fund balance-total governmental funds to arrive at net assets-governmental activities for accrued interest	$ 7,964

(amounts are expressed in thousands)

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the Government-wide Statement of Activities.

The details of the increase of revenues that do not provide current financial resources are as follows:

Revenues earned but not recorded in fund financial statements	$ 5,763
Current year property tax revenue unavailable in current period	1,780
Less: Property taxes collected in current year previously earned	(1,763)
Revenues in the Statement of Activities that do not provided current financial resources and are not reported as revenues in the fund financial statements	$ 5,780

The details of the increase of bond costs are as follows:

Issuance costs expended per fund financial statements	$ 1,656
Less: amounts expeneed amounts attritule to current period	(102)
Total bonds costs	$ 1,554

The details of the increase of bond premiums and deferred charges are as follows:

Amortization of bond premiums on long-term debt-Debt Service Fund, previously expensed in the fund financial statements	$ 12,624
Amortization of bond premiums on long-term debt-General Obligation Bonds previously expensed in the fund financial statements	$ 2,050
Amortization of bond premiums on long-term debt-nonmajor governmental funds previously expensed in the fund financial statements	4,385
Less: premiums on bonds and certificates not previously recorded in the fund financial statements	(18,674)
Total amortization of bond premiums and deferred charges (net)	$ 385

(amounts are expressed in thousands)

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities (Continued)

Another element of this reconciliation states, "Some expenses reported in the Statement of Activities are not reported as expenditures in governmental funds." The details of the $39,234 are as follows:

Compensated Absences	$ (32,428)
Amortization Expense	265
Bond Refunding Expense	(5,887)
Interest Expense	(300)
Arbitrage Rebate Expense	(885)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	$ (39,235)

15. DEFICITS IN FUND BALANCES / NET ASSETS

Special Revenue Funds

As of September 30, 2002, deficit fund balance at year-end is reported in the HOME Program and Community Development Program in the amounts of $33 and $168, respectively. The deficit is attributable to projects for which reprogramming of HOME Program and Community Development Program funds will occur subsequent to year-end. Upon reprogramming of funds, the deficit fund balance will be fully funded.

The Golf Course Fund had a deficit fund balance of $781 as of September 30, 2002. The deficit is attributable to a decline in revenues in recent years due to increased competition by the private sector and extreme weather patterns. In addition, increased labor and equipment costs have contributed to the deficit.

Internal Service Funds

As of September 30, 2002, deficit net assets at year-end are reported in the Employee Benefits Program, Workers Compensation Program, and Unemployment Compensation Self-Insurance Funds in the amounts of $13,000, $2,504, and $229, respectively. The City will fund the deficits through assessments charged to various City funds in future years. Strategies such as cost containment programs including hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization are utilized to manage the rising costs of medical care.

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16. OTHER DISCLOSURES

A. Donor Restricted Endowment

The City of San Antonio has three permanent funds: the San Jose Burial Park Permanent Fund, the Carver Cultural Center Endowment Fund and the San Antonio Housing Trust Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these three endowment funds are classified as restricted net assets and are reported in the government-wide financial statements. The principal is required to be retained in perpetuity while the interest is available to cover specific expenditures.

The San Jose Burial Park Permanent Fund generated $68 in interest to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery.

The Carver's Endowment Fund generated $8 in interest. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated $199 in interest. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of this trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed by, construed, regulated and administered in all respects under the laws of the State of Texas.

17. SUBSEQUENT EVENTS

A. Primary Government (City)

Sale of Refunding and New Money General Obligation Debt

On November 21, 2002, the City Council approved the sale of the following obligations:

- $55,850 General Improvement and Refunding Bonds, Series 2002, maturing 2003 through 2023, with interest rates ranging from 2.000% to 5.000%.
- $69,930 Combination Tax and Revenue Certificates of Obligation, Series 2002, maturing 2004 through 2023, with interest rates ranging from 3.000% to 5.000%.

Delivery of the proceeds from the 2002 obligations occurred on December 11, 2002. Proceeds of the Series 2002 obligations will be utilized to refund a portion of the City's outstanding tax supported debt and to finance general improvements to the City, including streets and pedestrian improvements, drainage improvements, parks and recreation facilities improvements, library system improvements, public safety improvements, improvements and renovations to existing municipal facilities, and for other public purposes.

(amounts are expressed in thousands)

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Required Supplementary Information Other Than MD&A

(Unaudited)

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City of San Antonio
Texas

Budgetary Comparison Schedule - General Fund

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2002

	2002			
	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE
	ORIGINAL	FINAL	ACTUAL	(NEGATIVE)
Resources (inflows):				
Taxes	$ 312,356,198	$ 312,592,198	$ 310,912,963	$ (1,679,235)
Licenses and Permits	13,288,960	13,288,960	13,302,392	13,432
Intergovernmental	2,517,179	2,517,179	2,888,626	371,447
Revenues from Utilities	171,396,335	171,396,335	171,234,083	(162,252)
Charges for Services	24,346,744	25,078,687	24,631,495	(447,192)
Fines and Forfeits	13,121,897	13,121,897	10,828,974	(2,292,923)
Miscellaneous	14,468,642	12,977,011	12,054,469	(922,542)
Transfers from other funds	12,151,737	11,444,951	11,198,493	(246,458)
Amounts Available for Appropriation	563,647,692	562,417,218	557,051,495	(5,365,723)
Charges to Appropriations (outflows):				
General Government	66,430,184	69,351,827	57,213,168	12,138,659
Public Safety	347,042,322	354,820,409	351,557,071	3,263,338
Public Works	9,971,350	10,324,699	10,244,816	79,883
Sanitation	2,566,526	2,567,060	2,663,359	(96,299)
Health Services	13,696,002	13,716,542	14,076,213	(359,671)
Culture and Recreation	61,236,892	62,402,981	59,755,427	2,647,554
Welfare	17,475,534	18,317,676	17,662,015	655,661
Economic Development and Opportunity	6,722,970	8,323,656	7,632,008	691,648
Transfers to other funds	69,457,610	74,881,068	76,101,511	(1,220,443)
Total Charges to Appropriations	594,599,390	614,705,918	596,905,588	17,800,330
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	(30,951,698)	(52,288,700)	(39,854,093)	12,434,607
Fund Balance Allocation	30,951,698	52,288,700	39,854,093	(12,434,607)
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	$ 0	$ 0	$ 0	$ 0

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	$ 557,051,495
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(11,198,493)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	$ 545,853,002
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	$ 596,905,588
Differences - budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	(3,350,459)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(76,101,511)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	$ 517,453,618

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function and activity within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City's prepares an annual budget for the General Fund on a modified accrual basis which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year end.

City of San Antonio
Texas

Pension Schedules

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

FIRE AND POLICE PENSION PLAN--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-01	$ 1,285,936	$ 1,539,932	$ 253,996	84%	$ 179,554	141%
10-01-00	1,181,582	1,339,954	158,372	88%	168,944	94%
10-01-99	1,031,786	1,256,746	224,960	82%	162,892	138%

TEXAS MUNICIPAL RETIREMENT SYSTEM--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL (1)	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-01	$ 412,867	$ 532,821	$ 119,954	78%	$ 189,495	63%
12-31-00	388,462	499,824	111,362	78%	168,040	66%
12-31-99	371,118	475,605	104,487	78%	154,797	67%

CITY PUBLIC SERVICE ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-01	$ 713,600	$ 643,500	$ (70,100)	111%	$ 165,300	(42)%
01-01-00	648,100	610,800	(37,300)	106%	148,900	(25)%
01-01-99	563,400	565,000	1,600	100%	138,500	1%

NOTES: (1) Abstracted from City payroll records.

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-01	$ 44,613	$ 55,201	$ 10,588	81%	$ 51,958	20%
12-31-00	44,206	53,974	9,768	82%	51,312	19%
12-31-99	40,495	49,140	8,645	82%	48,145	18%

SAN ANTONIO WATER SYSTEM - PMLIC

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-01	$ 31,341	$ 40,797	$ 9,457	77%	$ 51,050	19%
01-01-00	26,417	46,229	19,812	57%	48,202	41%
01-01-99	23,553	45,391	21,838	52%	48,183	45%

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST THREE FISCAL YEARS

FIRE AND POLICE PENSION - CITY OF SAN ANTONIO

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
9/30/02	$ 43,615	100%
9/30/01	42,065	100%
9/30/00	40,238	100%

TEXAS MUNICIPAL RETIREMENT SYSTEM - CITY OF SAN ANTONIO

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
9/30/02	$ 23,147	100%
9/30/01	21,610	100%
9/30/00	19,352	100%

CPS ALL EMPLOYEE PLAN

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
1/31/02	$ 660	100%
1/31/01	5,397	100%
1/31/00	12,288	100%

SAN ANTONIO WATER SYSTEM - TMRS

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
12/31/01	(1) $ 1,044	100%
5/31/01	1,620	100%
5/31/00	1,593	100%
5/31/99	1,576	100%

SAN ANTONIO WATER SYSTEM - PMLIC

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
12/31/01	(1) $ 2,969	100%
5/31/01	2,770	100%
5/31/00	4,753	100%
5/31/99	3,344	100%

NOTES: (1) Contribution reflects for the seven months ended December 31, 2001, to coincide with San Antonio Water System new fiscal year end.

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
NOTES TO SCHEDULES OF FUNDING PROGRESS

	FIRE AND POLICE PENSION FUND	TMRS - CITY AND SAWS	CPS ALL EMPLOYEE PLAN	PMLIC SAWS
Actuarial Cost Method	Entry-age	Unit Credit	Unit Credit	Entry-age
Method Used to Value Assets	5 year smoothed	Amortized Cost	5 year smoothed	Amortized Cost
Assumed Inflation Rate	4.5%	None	4.0%	None
Assumed Investment Return	8.0%	8%	8.5%	8.5%
Assumed Projected Salary Increases	5.5%	None	5.0%	APH plus 3.4%
Assumed Postretirement Salary Increases	3.3750% to 4.5%	None	2.0%	None
Amortization Method	Level % of payroll	Level % of payroll	Level dollar	Level dollar
Amortization Period	27.04 years	25 years	9.89 years	39 years
Open/Closed Period	Open	Open	Open	Closed

(1) Table S-5 from the Actuary's Pension Handbook

APPENDIX F

FORM OF OPINION OF CO-BOND COUNSEL

VINSON & ELKINS L.L.P.
2300 FIRST CITY TOWER
1001 FANNIN STREET
HOUSTON, TEXAS 77002-6760

LOEFFLER JONAS & TUGGEY LLP
MCCOMBS PLAZA
755 EAST MULBERRY, SUITE 200
SAN ANTONIO, TEXAS 78212

June 26, 2003

WE HAVE ACTED as co-bond counsel for the CITY OF SAN ANTONIO, TEXAS, STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION (the "Corporation") in connection with an issue of bonds (the "Bonds") described as follows:

> CITY OF SAN ANTONIO, TEXAS, STARBRIGHT INDUSTRIAL DEVELOPMET CORPORATION CONTRACT REVENUE BONDS, SERIES 2003 (TAXABLE) (STARBRIGHT PROJECT), dated June 1, 2003, in the principal amount of $24,685,000, maturing and bearing interest all as more fully provided in the Bonds, the Indenture of Trust and the First Supplemental Indenture of Trust (collectively, the "Indenture"), dated as of June 1, 2003, by and between the Corporation and Wells Fargo Bank Texas, N.A. ("Trustee"). The Bonds are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the Indentures.

THE PROCEEDS OF THE BONDS are to be used to pay a portion of certain obligations of the City set forth in the Starbright Agreement (as defined in the Indenture), including the acquisition and conveyance to Toyota Motor Manufacturing North America, Inc. ("Toyota") of certain land for the manufacturing site and reimbursing Toyota for certain site preparation costs (the "City Project"), to fund all or a portion of the Debt Service Reserve Fund, to pay capitalized interest and to pay costs of issuance. Pursuant to the Economic Development Contract, dated as of June 1, 2003, between the City of San Antonio, Texas (the "City") and the Corporation (the "Contract"), the City is unconditionally obligated to pay to the Corporation all amounts necessary to pay principal of, premium, if any, and interest on the Series 2003 Bonds but solely from certain net revenues of the City's electric and gas utility systems that are transferred to the City by the City Public Service Board of the City of San Antonio, Texas ("CPS") subject to the specific terms of the City's ordinances authorizing bonds, notes, public securities and credit agreements payable from net revenues of such utility systems ("Pledged Contract Payments").

WE HAVE ACTED as Co-Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Corporation, the City or CPS or the disclosure thereof in connection with the offer and sale of the Bonds. Our role in connection with the Corporation's Official Statement prepared for use in connection with the offer and sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as Co-Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board of Directors of the Corporation, CPS and the Trustee, the City Council of the City and the City Manager of the City; executed copies of the Indenture and the Contract; customary certificates of officials, agents and representatives of the Corporation, the City, CPS and the Trustee; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined a specimen of the form of registered bond of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that:

(1) The Corporation has been validly created and organized and the transcript of certified proceedings evidences complete legal authority for the execution and delivery of the Indentures and issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective; therefore, the Bonds constitute valid and legally binding special obligations of the Corporation payable solely from the sources provided therefor in the Indentures;

(2) The Bonds are secured by a lien on and pledge of Pledged Contract Payments and other revenues and funds constituting the Trust Estate created under the Indentures (the “Trust Estate”), and are not payable from any other properties or revenues of the Corporation. The Bonds have been duly authorized, executed and delivered by the Corporation, are in full force and effect and constitute legal, valid and binding special obligations of the Corporation, entitled to the benefits of the Indenture.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors and may be limited by general principles of equity which permit the exercise of judicial discretion. The Bonds are secured solely by a lien on and pledge of the Trust Estate as described above. Neither the State, the City, CPS, Bexar County, Texas, nor any political corporations, subdivisions or agency of the State shall be obligated to pay principal or interest on the Bonds and that neither the faith and credit nor taxing power of the State, the City, CPS, Bexar County, Texas, or any other political corporation, subdivision or agency of the State is pledged to the principal of or the interest on the Bonds.

THE CORPORATION HAS RESERVED THE RIGHT TO ISSUE ADDITIONAL BONDS OR INCUR OBLIGATIONS in accordance with and subject to the restrictions contained in the Indenture, secured by a lien on and pledge of the Trust Estate on a parity with the lien securing the Bonds. The Corporation has also retained the right to issue other obligations for any corporate purpose which are not secured by the Trust Estate.

WE EXPRESS NO OPINION as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)