OFFICIAL STATEMENT
DATED JUNE 3, 2004

NEW ISSUE - BOOK-ENTRY ONLY

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

In the opinion of Co-Bond Counsel, named below, assuming continuing compliance by the City after the date hereof with certain covenants contained in the Ordinance authorizing the issuance of the Bonds and subject to the matters described herein, interest on the Bonds under existing statutes, regulations, rulings and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and (2) will not be included in computing the alternative minimum taxable income of individuals or, except as described herein, corporations. See "TAX MATTERS" herein for a description of the opinion and other tax consequences.

$10,390,000
CITY OF SAN ANTONIO, TEXAS
HOTEL OCCUPANCY TAX SUBORDINATE LIEN
REVENUE REFUNDING BONDS, SERIES 2004A

Dated Date: June 1, 2004 **Due: August 15, as shown herein**

The $10,390,000 "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A" (the "Bonds") are being issued by the City of San Antonio, Texas (the "City") pursuant to the laws of the State of Texas, including Chapters 1207 and 1371, Texas Government Code, as amended; Chapter 351, Texas Tax Code, as amended (collectively, the "Applicable Law"); and an ordinance adopted by the City Council of the City (the "City Council") on June 3, 2004 (the "Ordinance"). (See "PLAN OF FINANCING – Authority for Issuance" herein). The proceeds of the Bonds will be used to refund certain outstanding bonds and to pay costs of issuance. (See "PLAN OF FINANCING – Purpose" herein.)

Interest on the Bonds will accrue from the Dated Date shown above, will be payable on February 15 and August 15 of each year, commencing August 15, 2004, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. So long as the Securities Depository is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by The Bank of New York Trust Company, N.A., Jacksonville, Florida, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners. (See "THE BONDS – Book-Entry-Only System" herein.)

The Bonds are subject to optional redemption prior to stated maturity in whole or in part, on August 15, 2012, or any date thereafter, at a price of par plus interest accrued from the most recent interest payment date to the redemption date for the Bonds. The Bonds are also subject to mandatory sinking fund redemption. (See "THE BONDS – Redemption Provisions" herein.)

The Bonds will be issued concurrently and on a parity with the "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B" in the principal amount of $115,105,000* (the "2004B Bonds") and are special obligations of the City payable solely from and equally and ratably secured by a lien on and pledge of the Pledged Revenues which consist primarily of revenues derived by the City from its hotel occupancy tax and other sources and funds, including a Debt Service Reserve Fund. (See "PLAN OF FINANCING – Security for the Bonds" herein). No mortgage of or lien on any of the physical properties forming a part of the City's convention center facilities, or any lien thereon or security interest therein, has been given to secure the payment of the Bonds. The Bonds are limited obligations of the City payable solely from a lien on and pledge of the Pledged Revenues. Neither the ad valorem taxing power of the City, the State of Texas, nor any political subdivision thereof, nor any other funds of the City, are pledged to the payment of the Bonds other than the City's hotel occupancy tax. (See PLAN OF FINANCING – Security for the Bonds" herein.)

This Official Statement describes only the Bonds and not the 2004B Bonds.

Ambac

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS FOR THE BONDS

The Bonds are offered for delivery, when, as, and if issued and received by the initial purchasers (the "Underwriters") named below and subject to the approving opinion of the Attorney General of the State of Texas and the legal opinion of Fulbright & Jaworski L.L.P., San Antonio, Texas, and Escamilla & Poneck, Inc., San Antonio, Texas as Co-Bond Counsel. (See "LEGAL MATTERS" herein.) Certain legal matters will be passed upon for the City by the City Attorney and for the Underwriters by Winstead Sechrest & Minick P.C., San Antonio, Texas, counsel to the Underwriters. It is expected that the Bonds will be available for delivery through the services of DTC on or about June 29, 2004.

J.P. MORGAN SECURITIES, INC.
JACKSON SECURITIES

A.G. EDWARDS & SONS, INC.
CITIGROUP GLOBAL MARKETS

* Preliminary, subject to final pricing of the 2004B Bonds.

STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS

$10,390,000
Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A

$10,390,000 5.000% Term Bond due August 15, 2029 priced to yield 5.240%.
Initial CUSIP Number: 796261 BF 1 [(1)]

[(1)] CUSIP numbers have been assigned to the 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 Bonds. Neither the City, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

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CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL:

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

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Years in Current Position
Terry M. Brechtel	City Manager	13 Years, 4 Months	3 Years, 2 Months
J. Rolando Bono	Deputy City Manager	26 Years, 7 Months	3 Years, 2 Months
Melissa Byrne Vossmer	Assistant City Manager	6 Years, 1 Month	6 Years, 1 Month
Christopher J. Brady	Assistant City Manager	7 Years, 10 Months	4 Years, 4 Months
Jelynne L. Burley	Assistant City Manager	20 Years, 2 Months	2 Years
Frances A. Gonzalez	Assistant City Manager	19 Years, 8 Months	7 Months
Roland Lozano	Assistant to the City Manager	23 Years, 11 Months	3 Years, 2 Months
Erik J. Walsh	Assistant to the City Manager	10 Years	3 Years, 2 Months
Andrew Martin	City Attorney	2 Years, 2 Months	2 Years, 2 Months
Yolanda Ledesma [1]	Acting City Clerk	32 Years, 7 Months	1 Year, 6 Months
Thomas G. Wendorf	Director of Public Works	5 Years, 2 Months	3 Years, 5 Months
Milo Nitschke	Director of Finance	9 Years, 8 Months	2 Years, 8 Months
Peter Zanoni	Acting Director of Management and Budget	7 Years, 2 Months	5 Months

[1] Leticia M. Vacek has been appointed City Clerk and will take office on June 7, 2004.

CONSULTANTS AND ADVISORS:

Co-Bond Counsel	Fulbright & Jaworski L.L.P., San Antonio, Texas and Escamilla & Poneck, Inc., San Antonio, Texas
Co-Certified Public Accountants	KPMG L.L.P., San Antonio, Texas, Leal & Carter, P.C., San Antonio, Texas, and Robert J. Williams, CPA, San Antonio, Texas
Co-Financial Advisors	Coastal Securities, San Antonio, Texas and Estrada Hinojosa & Company, Inc., San Antonio, Texas

USE OF INFORMATION IN THE OFFICIAL STATEMENT

This Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances will this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. The information set forth herein has been obtained from 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 Co-Financial Advisors or the Underwriters. 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 will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANYTIME.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Co-Financial Advisors have provided the following sentence for inclusion in this Official Statement. The Co-Financial Advisors have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Co-Financial Advisors do not guarantee the accuracy or completeness of such information.

The agreements of the City and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Neither the City, the Co-Financial Advisors, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

TABLE OF CONTENTS

	Page
STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS,	ii
and CUSIP NUMBERS	ii
USE OF INFORMATION IN THE OFFICIAL STATEMENT	iv
INTRODUCTION	1
PLAN OF FINANCING	1
Purpose	1
Sources and Uses	2
Concurrent Issue	2
Refunded Bonds	2
Authority for Issuance	3
Security for the Bonds	3
Other Related Financing Matters	4
DEBT SERVICE REQUIREMENTS	5
Debt Service Requirements - Table 1	5
DEBT SERVICE COVERAGE	6
Debt Service Coverage - Table 2	6
THE BONDS	7
General Description	7
Redemption Provisions	7
Paying Agent/Registrar	8
Record Date for Interest Payment	8
Transfer, Exchange, and Registration	8
Limitation on Transfer	9
Defaults and Remedies	9
Amendments	9
Investment of Funds; Transfer of Investment Income	10
Additional Bonds	10
Subordinate Lien Obligations	11
Defeasance	11
Book-Entry-Only System	12
Use of Certain Terms in Other Sections of this Official Statement	13
Payment Record	13
THE HOTEL OCCUPANCY TAX	13
General Description of Hotel Occupancy Tax	13
Allocation of Hotel Occupancy Tax	14
Levy of Hotel Occupancy Tax	14
Historical Municipal Hotel Occupancy Tax Receipts	15
Expansion Hotel Occupancy Tax Revenues – 2% Collection Rate - Table 3	15
5.25% Hotel Occupancy Tax Collections - Table 4	16
1.75% Hotel Occupancy Tax Collections - Table 5	16
Hotel Occupancy Tax – Top Ten Hotels - Table 6	17
Hotel Developments	18
San Antonio Hotel Occupancies and Average Daily Rates/History - Table 7	18
Funds and Flow of Funds	18
BOND INSURANCE	22
Payment Pursuant to Financial Guaranty Insurance Policy	22
Ambac Assurance Corporation	23
Available Information	23
Incorporation of Certain Documents by Reference	23
THE CONVENTION CENTER FACILITIES	24
Existing Facilities	24
Amendment to the Master Plan	24
Convention Activity	25
Convention Statistics - Table 8	25

MANAGEMENT'S DISCUSSION AND ANALYSIS 25
Operating Statistics 25
Hotel Occupancy Taxes Revenues 26
Expenditures from Hotel Occupancy Taxes 26
Terrorist Attacks' Financial Impact on Convention Business 26
INVESTMENTS 26
Legal Investments 26
Investment Policies 27
Additional Provisions 27
Current Investments 28
LITIGATION AND ELECTION 28
General Litigation and Claims 28
City Charter Amendment Election 30
TAX MATTERS 30
Tax Exemption 30
Tax Accounting Treatment of Discount or Premium on Certain Bonds 31
REGISTRATION AND QUALIFICATION OF BONDS FOR SALE 32
LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS 32
LEGAL MATTERS 32
RATINGS 33
CONTINUING DISCLOSURE OF INFORMATION 33
Annual Reports 33
Material Event Notices 34
Availability of Information from NRMSIRs and SID 34
Limitations and Amendments 34
Compliance with Prior Undertakings 35
VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS 35
FORWARD-LOOKING STATEMENTS DISCLAIMER 35
CO-FINANCIAL ADVISORS 35
UNDERWRITING 36
CERTIFICATION OF THE OFFICIAL STATEMENT 36
AUTHORIZATION OF THE OFFICIAL STATEMENT 36

SCHEDULE I Table of Refunded Bonds
APPENDIX A City of San Antonio – General Demographic and Economic Information
APPENDIX B Selected Provisions of the Ordinance
APPENDIX C Form of Co-Bond Counsel Opinion
APPENDIX D Specimen Financial Guaranty Insurance Policy

OFFICIAL STATEMENT
Relating to the

$10,390,000
CITY OF SAN ANTONIO, TEXAS
HOTEL OCCUPANCY TAX SUBORDINATE LIEN
REVENUE REFUNDING BONDS, SERIES 2004A

INTRODUCTION

This Official Statement of the City of San Antonio, Texas (the "City") provides certain information in connection with the sale by the City of its $10,390,000 "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A" (the "Bonds"). This Official Statement describes the Bonds, the Ordinance (defined herein), the City's Hotel Occupancy Tax (defined herein), and certain other information about the City and its Convention Center (defined herein). All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Defined terms used herein without definition are defined in the ordinance authorizing the Bonds adopted by the City Council of the City (the "City Council") on June 3, 2004 (the "Ordinance"). See "APPENDIX B – Selected Provisions of the Ordinance". Copies of such documents may be obtained from the City at the Office of the Director of Finance, City Hall Annex, 506 Dolorosa, San Antonio, Texas 78204 and, during the offering period, from the City's Co-Financial Advisors, Coastal Securities, 600 Navarro, Suite 350, San Antonio, Texas, 78205, or Estrada Hinojosa & Company, Inc., 1485 Frost Bank Tower, 100 West Houston Street, San Antonio, Texas 78205, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement and the Escrow Agreement (hereinafter defined) will be filed with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

This Official Statement describes only the Bonds.

To view the City's "Comprehensive Annual Financial Report" (the "CAFR") which includes audited financial statements for the fiscal year ending September 30, 2003, please refer to www.sanantonio.gov/finance **and click on "CAFR". The City, as permitted by Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), incorporates by reference these audited financial statements which have been filed with the SID (defined herein) and the NRMSIRs (defined herein). If requested of the Director of Finance at the above address, the City will provide the CAFR by electronic mail or upon payment of copying, handling, and delivery charges.**

THE BONDS ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE, TOGETHER WITH THE 2004B BONDS, SOLELY FROM A LIEN ON AND PLEDGE OF THE PLEDGED REVENUES. NEITHER THE TAXING POWER OF THE CITY, THE STATE OF TEXAS, NOR ANY POLITICAL SUBDIVISION THEREOF, NOR ANY OTHER FUNDS OF THE CITY ARE PLEDGED TO THE PAYMENT OF THE BONDS EXCEPT FOR THE CITY'S HOTEL OCCUPANCY TAX. NO MORTGAGE OR LIEN HAS BEEN CREATED ON THE PHYSICAL PROPERTIES OF THE CONVENTION CENTER TO SECURE PAYMENT OF THE BONDS.

PLAN OF FINANCING

Purpose

The City is issuing the Bonds for the purpose of (i) refunding certain of its outstanding Prior Lien Bonds, such obligations are listed in Schedule I hereto (the "Refunded Bonds") and (ii) paying costs of issuance of the Bonds.

(The remainder of this page is intentionally left blank.)

Sources and Uses

The following is a summary of the application of the proceeds of the Bonds and the sources and uses of funds:

Sources of Funds	
Principal Amount of the Bonds	$10,390,000.00
Plus Accrued Interest	40,405.56
Less Original Issue Discount	(346,818.20)
Total Sources of Funds	$10,083,587.36
Uses of Funds	
Escrow Fund Deposit	$ 9,730,681.60
Debt Service Fund Deposit (Accrued Interest)	40,405.56
Underwriters' Discount	69,614.97
Costs of Issuance and Bond Insurance Premium	242,885.23
Total Uses of Funds	$10,083,587.36

Concurrent Issue

On June 3, 2004, the City will authorize the issuance of $115,105,000* of bonds on a parity with the Bonds designated as the "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B" (the "2004B Bonds"), which are expected to be priced on June 22, 2004 and issued and delivered concurrently with the Bonds, to provide proceeds for the purposes of (i) refunding certain of its outstanding Prior Lien Bonds (described below); (ii) funding additions and renovations to the Convention Center (defined herein) as discussed in the Plan (described below); and (iii) paying costs of issuance thereof. The Bonds and the 2004B Bonds (collectively, the "Bonds Similarly Secured") are payable from equally and ratably and secured by a lien on and pledge of the Pledged Revenues (see "PLAN OF FINANCING – Security for the Bonds" herein) and will aggregate $125,495,000*. The City has reserved the right to issue Additional Bonds payable from such Pledged Revenues on a parity with the Bonds and the 2004B Bonds and are included in the term "Bonds Similarly Secured". See "APPENDIX B – Selected Provisions of the Ordinance".

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates or the redemption date, if any, identified on Schedule I (the "Redemption Date") from funds to be deposited with JPMorgan Chase Bank, Dallas, Texas (the "Escrow Agent") pursuant to an Escrow and Trust Agreement dated as of June 3, 2004 (the "Escrow Agreement") between the City and the Escrow Agent.

The Ordinance provides that the City will deposit certain proceeds of the sale of the Bonds with the Escrow Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will be used to purchase certain obligations of the United States of America (the "Acquired Obligations").

Simultaneously with the issuance of the Bonds, the City will give irrevocable instructions to give the required notice, if any, to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to the stated maturity on the Redemption Date, on which date the money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

Grant Thornton LLP, Minneapolis, Minnesota, will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the schedules provided by Coastal Securities to determine that the anticipated receipts from the Acquired Obligations and cash deposits listed in the schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest, and call premium, if any, payment requirements of the Refunded Bonds, and (2) the computations of yield on both the Acquired Obligations and the Bonds, contained in the provided schedules used by Co-Bond Counsel in its determination that the interest on the Bonds is excludable from gross income for federal income tax purposes. Grant Thornton LLP will

* Preliminary, subject to final pricing of the 2004B Bonds.

express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds. See "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein.

By the deposit of the Acquired Obligations and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have satisfied the provisions of Chapter 1207, Texas Government Code, as amended, which provides for such an escrow agreement, and the Refunded Bonds will be deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the Escrow Fund. See "APPENDIX C – Form of Co-Bond Counsel Opinion" herein.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of, redemption premium, if any, and interest on the Refunded Bonds if for any reason the cash balance on deposit or scheduled to be on deposit in the Escrow Fund should be insufficient to make such payment.

Authority for Issuance

The Bonds will be issued under the provisions of applicable laws, including Chapters 1207 and 1371, Texas Government Code, as amended; Chapter 351, Texas Tax Code, as amended (the "Hotel Tax Act" or the "HOT Act"); and the Ordinance. Selected Provisions of the Ordinance are included in APPENDIX B to this Official Statement.

Security for the Bonds

The Bonds are special obligations of the City and are payable, together with the 2004B Bonds, from and are equally and ratably secured by a lien on the Pledged Revenues. "Pledged Revenues" consist of (i) a subordinate lien on the revenues from the 1.75% HOT (described below), plus, (ii) a subordinate lien on the revenues from the 5.25% HOT (described below), plus (iii) a subordinate lien on the earnings of the investment of the 1.75% HOT Fund and the 5.25% HOT Fund, and earnings on the Debt Service Fund, and the Debt Service Reserve Fund. The above liens are subordinate and inferior to the liens in favor of the Prior Lien Bonds (described below) and on a parity with the 2004B Bonds.

The hotel occupancy tax permitted to be imposed by the City pursuant to the HOT Act and Ordinance Number 78834 adopted by the City Council on September 30, 1993, is currently levied at 9%, effective January 1, 1994 (the "Hotel Occupancy Tax" or "HOT"). Of the Hotel Occupancy Tax, 2% is designated as the "Expansion Hotel Occupancy Tax" and can only be used for expansion of existing Convention Center facilities or the payment of obligations issued for such purpose pursuant to the Hotel Tax Act. The Expansion Hotel Occupancy Tax is currently pledged to the Prior Lien Bonds and is **not** part of the Pledged Revenues for the Bonds Similarly Secured; however, the City may, in its discretion, and intends to, make certain debt service payments on the Bonds and the 2004B Bonds from the Expansion Hotel Occupancy Tax. The Pledged 5.25% HOT is equal to three quarters of the remaining 7% municipal Hotel Occupancy Tax which is 5.25%. The Pledged 1.75% HOT is equal to the remaining one quarter of the remaining 7% municipal Hotel Occupancy Tax which is 1.75%. See "THE HOTEL OCCUPANCY TAX – Funds and Flow of Funds".

The City, pursuant to the Ordinance, grants a lien on the Pledged Revenues and the Debt Service Fund and the Debt Service Reserve Fund and the Pledged 1.75% Account and the Pledged 5.25% Account to secure the payment of principal of, redemption premium, if any, and interest on the Bonds Similarly Secured. The City does not grant any lien on or security interest in, or any mortgage of any of the physical properties of the City, including the Convention Center.

THE BONDS DO NOT CONSTITUTE OR CREATE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO THE PLEDGED REVENUES) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS.

The payment of the principal of and interest on the Bonds will be guaranteed pursuant to a financial guaranty insurance policy for the Bonds. See "BOND INSURANCE" herein.

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

Other Related Financing Matters

Amendment to the Prior Lien Bond Ordinance. Concurrently with the adoption of the Ordinance, the City adopted an ordinance on June 3, 2004 (the "1996 Amendatory Ordinance"), amending an ordinance originally adopted on March 14, 1996 (the "Prior Lien Bond Ordinance") which authorized the issuance of its "City of San Antonio, Texas Hotel Occupancy Tax Revenue Bonds, Series 1996" issued in the original aggregate principal amount of $182,012,480.60 (the "Prior Lien Bonds"). The purpose of the amendment is to (1) conform the Prior Lien Bond Ordinance with current Texas law regarding the allocation of General Hotel Occupancy Tax; (2) to allow a pledge on a prior lien basis of the 1.75% HOT; (3) to authorize a common reserve fund for the Prior Lien Bonds and the Bonds Similarly Secured; and (4) to limit the City's ability to issue prospective obligations on a parity with the Prior Lien Bonds. (See "THE HOTEL OCCUPANCY TAX – Allocation of Hotel Occupancy Tax".)

Issuance of Hotel Bonds. The City is currently considering issuing bonds for the construction of a new hotel to be included as part of the Convention Center complex (the "Hotel Bonds"). The Hotel Bonds will not be payable from a parity pledge of Pledged Revenues but may be payable in part from a pledge of surplus Expansion Hotel Occupancy Tax Revenues as well as revenues derived from the operation of the new hotel and other authorized sources.

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DEBT SERVICE REQUIREMENTS

The following schedule reflects the total principal and interest requirements on all outstanding Prior Lien Bonds and Bonds Similarly Secured, taking into account the issuance of the Bonds and the 2004B Bonds and excluding the Refunded Bonds and the bonds refunded by the 2004B Bonds.

Debt Service Requirements * **Table 1**

		2004A Bonds			2004B Bonds [2]			
Fiscal Year	Outstanding Prior Lien Debt Service [1]	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Combined Total Debt Service
2004	$ 9,145,870	$ -0-	$ 106,786	$ 106,786	$ 0	$ 767,609	$ 767,609	$ 10,020,265
2005	3,926,975	-0-	519,500	519,500	500,000	6,007,375	6,507,375	10,953,850
2006	3,926,975	-0-	519,500	519,500	1,075,000	5,979,875	7,054,875	11,501,350
2007	3,926,975	-0-	519,500	519,500	2,000,000	5,920,750	7,920,750	12,367,225
2008	3,926,975	-0-	519,500	519,500	2,625,000	5,810,750	8,435,750	12,882,225
2009	3,926,975	-0-	519,500	519,500	5,600,000	3,039,238	8,639,238	13,085,713
2010	3,926,975	-0-	519,500	519,500	6,425,000	2,874,038	9,299,038	13,745,513
2011	10,911,975	-0-	519,500	519,500	450,000	2,684,500	3,134,500	14,565,975
2012	11,516,975	-0-	519,500	519,500	550,000	2,671,225	3,221,225	15,257,700
2013	11,841,975	-0-	519,500	519,500	600,000	2,655,000	3,255,000	15,616,475
2014	11,826,975	-0-	519,500	519,500	675,000	2,637,300	3,312,300	15,658,775
2015	12,136,975	-0-	519,500	519,500	375,000	2,617,388	2,992,388	15,648,863
2016	11,981,975	-0-	519,500	519,500	500,000	2,606,325	3,106,325	15,607,800
2017	11,656,975	-0-	519,500	519,500	850,000	2,591,575	3,441,575	15,618,050
2018	9,981,975	-0-	519,500	519,500	2,625,000	2,566,500	5,191,500	15,692,975
2019	9,983,813	-0-	519,500	519,500	2,675,000	2,489,063	5,164,063	15,667,376
2020	9,980,525	-0-	519,500	519,500	2,750,000	2,410,150	5,160,150	15,660,175
2021	9,984,635	-0-	519,500	519,500	3,850,000	2,329,025	6,179,025	16,683,160
2022	9,981,515	-0-	519,500	519,500	3,975,000	2,215,450	6,190,450	16,691,465
2023	9,980,310	-0-	519,500	519,500	4,075,000	2,098,188	6,173,188	16,672,998
2024	9,984,595	-0-	519,500	519,500	4,200,000	1,977,975	6,177,975	16,682,070
2025	9,982,660	-0-	519,500	519,500	4,350,000	1,854,075	6,204,075	16,706,235
2026	9,983,365	-0-	519,500	519,500	4,450,000	1,725,750	6,175,750	16,678,615
2027	-0-	-0-	519,500	519,500	6,850,000	1,594,475	8,444,475	8,963,975
2028	-0-	5,070,000	519,500	5,589,500	2,200,000	1,392,400	3,592,400	9,181,900
2029	-0-	5,320,000	266,000	5,586,000	2,250,000	1,327,500	3,577,500	9,163,500
2030	-0-	-0-	-0-	-0-	8,050,000	1,261,125	9,311,125	9,311,125
2031	-0-	-0-	-0-	-0-	8,300,000	1,023,650	9,323,650	9,323,650
2032	-0-	-0-	-0-	-0-	8,550,000	778,800	9,328,800	9,328,800
2033	-0-	-0-	-0-	-0-	8,800,000	526,575	9,326,575	9,326,575
2034	-0-	-0-	-0-	-0-	9,050,000	266,975	9,316,975	9,316,975
	$204,424,938	$10,390,000	$12,840,786	$23,230,786	$109,225,000	$76,700,624	$185,925,624	$413,581,348

* Preliminary, subject to final pricing of the 2004B Bonds.

[1] Debt service adjusted to reflect the Prior Lien Bonds refunded by the Bonds and the 2004B Bonds.

[2] Estimated at a rate of 3.21% during the initial term rates through August 15, 2008; 2.95% thereafter.

DEBT SERVICE COVERAGE

Debt Service Coverage * **Table 2**

	Prior Lien Bond Debt Service Coverage			2004A Bonds and 2004B Bonds			Combined Debt Service Coverage	
Fiscal Year	Available Pledged Revenue [1]	Outstanding Prior Lien Debt Service [2]	Coverage Ratio	Available Pledged Revenues [3]	Outstanding Subordinate Lien Debt Service [4]	Coverage Ratio	Combined Outstanding Debt Service[5]	Coverage Ratio[6]
2004	$ 44,633,474	$ 9,145,870	4.88	$ 34,714,959	$ 874,395	39.70	$ 10,020,265	4.45
2005	45,526,143	3,926,975	11.59	35,409,258	7,026,875	5.04	10,953,850	4.16
2006	46,436,666	3,926,975	11.83	36,117,443	7,574,375	4.77	11,501,350	4.04
2007	47,365,400	3,926,975	12.06	36,839,792	8,440,250	4.36	12,367,225	3.83
2008	48,312,708	3,926,975	12.30	37,576,588	8,955,250	4.20	12,882,225	3.75
2009	49,278,962	3,926,975	12.55	38,328,120	9,158,738	4.18	13,085,713	3.77
2010	50,264,541	3,926,975	12.80	39,094,682	9,818,538	3.98	13,745,513	3.66
2011	51,269,832	10,911,975	4.70	39,876,576	3,654,000	10.91	14,565,975	3.52
2012	52,295,229	11,516,975	4.54	40,674,107	3,740,725	10.87	15,257,700	3.43
2013	53,341,133	11,841,975	4.50	41,487,590	3,774,500	10.99	15,616,475	3.42
2014	54,407,956	11,826,975	4.60	42,317,341	3,831,800	11.04	15,658,775	3.47
2015	54,407,956	12,136,975	4.48	42,271,821	3,511,888	12.04	15,648,863	3.48
2016	54,407,956	11,981,975	4.54	42,317,341	3,625,825	11.67	15,607,800	3.49
2017	54,407,956	11,656,975	4.67	42,317,341	3,961,075	10.68	15,618,050	3.48
2018	54,407,956	9,981,975	5.45	42,317,341	5,711,000	7.41	15,692,975	3.47
2019	54,407,956	9,983,813	5.45	42,317,341	5,683,563	7.45	15,667,375	3.47
2020	54,407,956	9,980,525	5.45	42,317,341	5,679,650	7.45	15,660,175	3.47
2021	54,407,956	9,984,635	5.45	42,317,341	6,698,525	6.32	16,683,160	3.26
2022	54,407,956	9,981,515	5.45	42,317,341	6,709,950	6.31	16,691,465	3.26
2023	54,407,956	9,980,310	5.45	42,317,341	6,692,688	6.32	16,672,998	3.26
2024	54,407,956	9,984,595	5.45	42,317,341	6,697,475	6.32	16,682,070	3.26
2025	54,407,956	9,982,660	5.45	42,317,341	6,723,575	6.29	16,706,235	3.26
2026	54,407,956	9,983,365	5.45	42,317,341	6,695,250	6.32	16,678,615	3.26
2027	54,407,956	-0-		42,317,341	8,963,975	4.72	8,963,975	6.07
2028	54,407,956	-0-		42,317,341	9,181,900	4.61	9,181,900	5.93
2029	54,407,956	-0-		42,317,341	9,163,500	4.62	9,163,500	5.94
2030	54,407,956	-0-		42,317,341	9,311,125	4.54	9,311,125	5.84
2031	54,407,956	-0-		42,317,341	9,323,650	4.54	9,323,650	5.84
2032	54,407,956	-0-		42,317,341	9,328,800	4.54	9,328,800	5.83
2033	54,407,956	-0-		42,317,341	9,326,575	4.54	9,326,575	5.83
2034	54,407,956	-0-		42,317,341	9,316,975	4.54	9,316,975	5.84
	$1,631,291,164	$204,424,938		$1,268,737,756	$209,156,410		$413,581,347	

* Preliminary, subject to final pricing of the 2004B Bonds.
[1] Includes the 5.25%, 1.75%, and the 2.00% Hotel Occupancy Tax revenue; includes projected growth of 2.00% for ten years.
[2] Debt service adjusted to reflect the Prior Lien Bonds refunded by the Bonds and the 2004B Bonds.
[3] Includes the projected 5.25% and 1.75% Hotel Occupancy Tax revenue remaining after payment of Prior Lien Bonds debt service.
[4] Includes the Bonds and the 2004B Bonds; the Series 2004B Bonds are estimated at projected interest rates.
[5] Includes the unrefunded Prior Lien Bonds, the Bonds, and the 2004B Bonds.
[6] Includes the 5.25%, 1.75%, and the 2.00% Hotel Occupancy Tax revenue; includes projected growth of 2.00% for ten years.

Note: To the extent funds are available, the City intends to pay the Prior Lien Bonds, the Bonds, and the 2004B Bonds from the 2.00% HOT collections.

Bond debt service has been structured so that the Pledged Revenues will be sufficient in each year to cover debt service for the Bonds and the 2004B Bonds assuming a 2% annual increase in Hotel Occupancy Tax receipts. See "DEBT SERVICE REQUIREMENTS" above. However, the City has historically applied the Hotel Occupancy Tax receipts to the ongoing activities of the Convention and Visitors' Bureau and the operating expenses of the Convention Center Facilities departments of the City and intends to do so in the future with actual payment of the Bonds Similarly Secured to be made, in part, from the Expansion Hotel Occupancy Tax. Operating revenues of the Convention Facilities are not pledged to the payment of the Bonds Similarly Secured. See the CAFR for unaudited special funds of the City relating to the Hotel Occupancy Tax and the operation of such departments.

THE BONDS

General Description

The Bonds will be dated June 1, 2004 and will bear interest from such date at the rates set forth on the inside cover page hereof payable on February 15 and August 15 of each year, commencing August 15, 2004, until prior redemption or stated maturity. The principal of and interest on the Bonds are payable in the manner described herein under "THE BONDS – Book-Entry-Only System." Defined terms used herein without definition are defined in the Ordinance.

In the event the Book-Entry-Only System (see "THE BONDS – Book-Entry-Only System") is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register maintained by the Paying Agent/Registrar (defined herein), as of the Record Date (defined herein), 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 Paying Agent/Registrar 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 Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Bonds is a Saturday, a Sunday, a legal holiday, or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close or the U.S. Post Office is not open for business, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

Redemption Provisions

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory sinking fund redemption prior to their stated maturity from money required to be deposited in the Debt Service Fund for such purpose and shall be redeemed in part, by lot or other customary methods, at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on August 15 in each of the years as set forth below:

Year	Amount
2028	$5,070,000
2029 (final maturity)	5,320,000

The principal amount of a Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions will be reduced, at the option of the City, by the principal amount of any Bonds of such stated maturity which, at least 50 days prior to the mandatory redemption date (1) has been defeased or acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (2) has been purchased and canceled by the Paying Agent/Registrar at the request of the City with money in the Debt Service Fund, or (3) has been redeemed pursuant to the optional redemption provisions set forth below and not theretofore credited against a mandatory redemption requirement.

Optional Redemption. The Bonds will be subject to redemption prior to maturity, at the option of the City or otherwise, in whole or in part in principal amounts of $5,000 or any integral multiple thereof (and if within a stated maturity by lot by the Paying Agent/Registrar), on August 15, 2012, or on any date thereafter at the redemption price of par plus accrued interest to the date of redemption.

Notice of Redemption. At least 45 days prior to a redemption date for the Bonds (unless a shorter notification period will be satisfactory to the Paying Agent/Registrar), the City will notify the Paying Agent/Registrar of the decision to

redeem Bonds, the principal amount of each stated maturity to be redeemed, and the date of redemption therefor. The decision of the City to exercise the right to redeem Bonds will be entered in the minutes of the governing body of the City.

If less than all Outstanding Bonds of the same stated maturity are to be redeemed on a redemption date, the Paying Agent/Registrar will treat such Bonds as representing the number of Bonds Outstanding which is obtained by dividing the principal amount of such Bonds by $5,000 and will select the Bonds to be redeemed within such stated maturity by lot.

Not less than 30 days prior to a redemption date for the Bonds, a notice of redemption will be sent by United States mail, first class postage prepaid, in the name of the City and at the City's expense, to each Holder of a Bond to be redeemed in whole or in part at the address of the Holder appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed will be conclusively presumed to have been duly given irrespective of whether received by the Holder.

All notices of redemption will (a) specify the date of redemption for the Bonds, (b) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed (c) state the redemption price (d) state that the Bonds, or the portion of the principal amount thereof to be redeemed, will become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, will cease to accrue from and after the redemption date, and (e) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, will be made at the designated payment/transfer office of the Paying Agent/Registrar only upon presentation and surrender thereof by the Holder. If a Bond is subject by its terms to prior redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as herein provided, such Bond (or the principal amount thereof to be redeemed) will become due and payable, and interest thereon will cease to accrue from and after the redemption date therefor, provided money sufficient for the payment of such Bonds (or of the principal amount thereof to be redeemed) at the then applicable redemption price are held for the purpose of such payment by the Paying Agent/Registrar.

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Trust Company, N.A., Jacksonville, Florida (the "Paying Agent/Registrar"). In the Ordinance, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar at all times until the Bonds are duly paid, and the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, must be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as a Paying Agent/Registrar for the Bonds. Upon a change in the Paying Agent/Registrar for the Bonds, the City is required to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid.

Record Date for Interest Payment

The record date for determining the person to whom the semiannual interest on the Bonds is payable on any interest payment date (the "Record Date") is the last business day of the month next preceding such interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the day next preceding the date of mailing of such notice.

Transfer, Exchange, and Registration

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be registered, transferred, assigned, and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration, transfer, and exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration,

transfer, and exchange. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. The new Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New Bonds issued in an exchange or transfer of the Bonds will be delivered to the registered owner or assignee of the registered owner, to the extent possible, within three business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in denominations of $5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount, series, and rate of interest as the Bonds surrendered for exchange or transfer. (See "Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds while the Bonds are issued under DTC's Book-Entry-Only System.)

Limitation on Transfer

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Bonds during the period commencing at the close of business on the Record Date and ending at the opening of business on the next interest payment date.

Defaults and Remedies

If the City defaults in the payment of the principal of and interest on any Bond when due, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinance, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State of Texas. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in payment of principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. The physical properties of the City, including the Convention Center, are not encumbered in connection with the Bonds. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to collect appropriate revenues sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time-consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as Pledged Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce any remedies under the Ordinance would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state courts); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Amendments

The City has reserved the right to amend the Ordinance under the conditions described therein. Certain amendments may be made without the consent of any holders of the Bonds. (See "APPENDIX B – Selected Provisions of the Ordinance".) Other amendments would require the consent of the holders of at least a majority in aggregate principal amount of the Bonds. For a complete description of the manner in which the Ordinance may be amended, see APPENDIX B.

Investment of Funds; Transfer of Investment Income

Money in all funds and accounts created under the Ordinance are permitted to be invested in the manner provided by Texas law in permitted investments provided that the money required to be expended from any fund or account will be available at the proper time or times. Money in such funds may be subjected to further investment restrictions imposed from time to time by ordinances authorizing the issuance of Additional Bonds. All such investments will be valued by the City at least once a year no later than the last business day of the City's Fiscal Year at market value, except that any direct obligations of the United States of America – State and Local Government Series will be continuously valued at their par value or principal face amount. For purposes of maximizing investment returns, money in such funds may be invested, together with money in other funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law, which will not be deemed to be a loss of the segregation of such money or funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such funds are held by or on behalf of each such fund. If and to the extent necessary, such investments or participations therein will be promptly sold to prevent any default.

All interest and income derived from deposits and investments credited to any funds and accounts will be transferred to the designated fund not less frequently than monthly, provided that at any time when the Debt Service Reserve Fund has on deposit an amount less than the Reserve Fund Requirement, all interest and income on from deposits and investments credited to such fund will remain therein.

However, notwithstanding the foregoing, any interest and income derived from deposits and investments of any amounts credited to any fund or account created under the Ordinance may be (1) transferred into any rebate account or subaccount and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in the Ordinance or required in order to prevent interest on any Bonds from being includable within the gross income of the registered owners thereof for federal income tax purposes.

So long as any Bonds remain Outstanding, all uninvested money on deposit in, or credited to, the above described funds and accounts will be secured by the pledge of security, as provided by Texas law.

Additional Bonds

The City reserves the right to issue, for expansion of the Convention Center or any other purpose then authorized by law, one or more installments of Additional Bonds payable from and secured on a parity with the Bonds and the 2004B Bonds; provided, however, that pursuant to the Ordinance, no such Additional Bonds will be issued unless:

No Default; Proper Fund Balances. The City's Director of Finance certifies that, upon the issuance of such Additional Bonds, (i) the City will not be in default under any term or provision of any Bonds then Outstanding or any ordinance pursuant to which any of such Bonds were issued and (ii) the Debt Service Fund will have the required amounts on deposit therein and the Debt Service Reserve Fund will contain the applicable Reserve Fund Requirement or so much thereof as is required to be funded at such time.

Coverage for Additional Bonds. The City's Director of Finance (or other officer of the City having primary responsibility for the financial affairs of the City) certifies that, for the City's most recent complete Fiscal Year or for any consecutive 12-month period out of the most recent 18 months, the Pledged Revenues for the above period are equal to at least 150% of the maximum annual Debt Service Requirements on all Bonds Similarly Secured scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Bonds proposed to be issued. In making a determination of the Pledged Revenues, the City may take into consideration an increase in the portion of the HOT pledged and dedicated to the payment of Prior Lien Bonds and Bonds Similarly Secured that became effective during the period for which Pledged Revenues are determined and, for purposes of satisfying the above coverage tests, make a pro forma determination of the Pledged Revenues for the period of time covered by such certification based on such increased portion of the HOT pledged and dedicated to the payment of the Bonds Similarly Secured being in effect for the entire period covered by the certificate. In addition, the City must satisfy the conditions precedent contained in the ordinance, as amended, authorizing the issuance of the Prior Lien Bonds.

Ordinance Requirements. In all cases, provision is made in the ordinance authorizing the Additional Bonds proposed to be issued for (1) additional transfers into the Debt Service Fund sufficient to provide for the increased Debt Service Requirements resulting from the issuance of the Additional Bonds including, in the event that interest on the Additional Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Debt Service Fund of amounts fully sufficient to pay interest on such Additional Bonds during the period specified in the ordinance, and (2) satisfaction of the Reserve Fund Requirement by not later than the date required by the Ordinance or any other ordinance authorizing Additional Bonds.

Refunding Bonds. If Additional Bonds are being issued for the purpose of refunding less than all previously issued Bonds which are then Outstanding, neither of the certifications described above is required so long as the maximum annual and the average annual Debt Service Requirements in any Fiscal Year after the issuance of such Additional Bonds will not exceed the maximum annual and the average annual Debt Service Requirements for all Bonds Outstanding in any Fiscal Year prior to the issuance of such refunding Additional Bonds with respect to the maximum annual Debt Service Requirements and in the prior Fiscal Year with respect to the Average Annual Debt Service Requirements.

Subordinate Lien Obligations

The City will reserve the right to issue or incur, for any lawful purpose, bonds, notes, or other obligations secured in whole or in part by liens on the Pledged Revenues subordinate to the liens on Pledged Revenues securing payment of the Prior Lien Bonds and Bonds Similarly Secured and the revenues pledged to secure the payment of the Prior Lien Bonds as disclosed in the 1996 Amendatory Ordinance adopted by the City Council on June 3, 2004.

Defeasance

The City may discharge its obligation to the registered owners of any or all of the Bonds to pay principal and interest, within the meaning of the Ordinance when payment of the principal of and interest on such Bonds to the stated maturity thereof or to the redemption date thereof has been made, by depositing with any permitted entity, as specified in Chapter 1207, Texas Government Code, as amended, for such Bonds: (i) money sufficient to pay the principal amount of such Bonds plus interest thereon to the date of maturity or redemption, (ii) Government Obligations (as defined in the Ordinance) certified by an independent public accounting firm to be of such maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption or (iii) a combination of money and Government Obligations together so certified sufficient to make such payment; provided, however, that if any of such Bonds are to be redeemed prior to their respective dates of maturity, provision will have been made for giving notice of redemption as provided in the ordinance authorizing such Bonds. Upon such deposit, such Bonds will no longer be regarded as outstanding or unpaid.

The Ordinance provides that "Government Obligations" means the (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency of instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings and authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding or unpaid; provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York while the 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 City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the 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 Bonds), or redemption or other notices, to the Beneficial Owners (as defined herein), 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 Bonds. The 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 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 DTC's 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 certificates. 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 by the New York Stock Exchange, Inc., the American Stock Exchange LLC, 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 interests in the 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 certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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.

Redemption notices will be sent to DTC. If less than all of the 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 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an "Omnibus Proxy" to the City 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, and interest payments on the 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 City or the Paying Agent/Registrar, on the payment 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, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, 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 City or the Paying Agent/Registrar; disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

Under the Ordinance, the registered owners may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement

With respect to this Official Statement, readers should understand that while the 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 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 are required to be given only to DTC.

Payment Record

The City has never defaulted in payments on its bonded indebtedness.

THE HOTEL OCCUPANCY TAX

General Description of Hotel Occupancy Tax

Pursuant to the provisions of Chapter 351, Texas Tax Code, as amended (the "Hotel Tax Act"), the City is authorized to impose the Hotel Occupancy Tax on persons, based upon the price paid, for the use or possession, or right of use or possession, of rooms ordinarily used for sleeping at any hotel in the City. Currently, the Hotel Occupancy Tax may be imposed only for rooms for which the cost of occupancy is at the rate of $2 or more per day. The municipal Hotel Occupancy Tax of the City currently equals 9% of the consideration paid to the hotel for the right to use or possess the room. Other provisions of the Texas Tax Code authorize the State and counties meeting certain specified qualifications to

impose similar hotel occupancy taxes; therefore, the total hotel occupancy tax in San Antonio for all entities including the City is 15%. Under the Hotel Tax Act, "hotel" means any building or buildings in which the public may, for consideration, obtain sleeping accommodations. The term includes hotels, motels, tourist homes, tourist houses, tourist courts, lodging houses, inns, rooming houses, bed and breakfasts, or other buildings where rooms are furnished for a consideration, but does not include hospitals, sanitariums, or nursing homes. The consideration paid for the room, for purposes of the Hotel Tax Act, includes the cost of the room only if the room is one ordinarily used for sleeping, and does not include the cost of any food served or personal services rendered to the occupant of such room not related to the cleaning and readying of such room for occupancy. To be subject to the Hotel Occupancy Tax, the occupant's use, possession, or right to the use or possession of the sleeping room must be for a period of less than 30 consecutive days. Certain housing facilities owned or leased and operated by an institution of higher education are excluded. These amendments are not expected to have any significant impact on the amount of Hotel Occupancy Tax received by the City. Hotels and other eligible vendors of sleeping accommodations are required to collect the Hotel Occupancy Tax at the time the room charges are received from patrons. The Hotel Occupancy Tax collections for the City are to be turned over to the City with reporting forms in the next succeeding month, a 1% discount for submissions prior to the 20th of such succeeding month is given. Penalties and interest are imposed by the City for delinquent payments and the Hotel Tax Act provides for enforcement of collection of the Hotel Occupancy Tax.

Allocation of Hotel Occupancy Tax

Under the then-applicable provisions of the Hotel Tax Act, the Prior Lien Bonds were restricted to an allocation of 75% of the 7% hotel occupancy tax (which constituted the General Hotel Occupancy Tax in the ordinance authorizing the Prior Lien Bonds) for the acquisition of sites for and the construction, improvement, enlargement, equipping, repairing, operation, and maintenance of Convention Center Facilities. As a result, the City pledged the "Pledged 5.25% HOT", or 5.25% of the Hotel Occupancy Tax into the General Hotel Occupancy Tax Fund for payment of the Prior Lien Bonds.

The Texas Legislature amended the Hotel Tax Act in 2001 to remove the restriction of the allocation of 75% of the General Hotel Occupancy Tax. Under the current provisions of the Hotel Tax Act, the City has the authority to allocate the entire 7% of the Hotel Occupancy Tax by ordinance, consistent with the limitations of the Hotel Tax Act. Under the Ordinance and the 1996 Amendatory Ordinance, the City will designate the remaining 1.75% Hotel Occupancy Tax, or the "Pledged 1.75% HOT", and pledge such revenues to the payment of the Prior Lien Bonds on a first lien basis and to the Bonds Similarly Secured on a subordinate lien basis.

Levy of Hotel Occupancy Tax

Pursuant to the Ordinance, the City levies and covenants that it will continue to levy, while any Bonds remain Outstanding, the Hotel Occupancy Tax on the cost of occupancy of any Qualified Hotel Room at a rate of at least 9% of the consideration paid by the occupant of a Qualified Hotel Room to the hotel, all as authorized by the Hotel Tax Act. The City further covenants that it will enforce the provisions of the Ordinance, or any other ordinance levying a Hotel Occupancy Tax, concerning the collection, remittance, and payment of the Hotel Occupancy Tax. Of the 9%, 1.75% represents the Pledged 1.75% HOT pledged as a prior lien to the payment of the Prior Lien Bonds and as a subordinate lien to the payment of the Bonds Similarly Secured, the collection history of which is set forth in Table 5 below; 2% represents the Expansion Hotel Occupancy Tax pledged to the payment of the Prior Lien Bonds (and which may lawfully be utilized to pay the debt service requirements on the Bonds Similarly Secured but is <u>not</u> pledged for such purpose) as set forth below in Table 3; and 5.25% represents the Pledged 5.25% HOT pledged as a prior lien to the payment of the Prior Lien Bonds and as a subordinate lien to the payment of the Bonds Similarly Secured, the collection history of which is set forth in Table 4.

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Historical Municipal Hotel Occupancy Tax Receipts

Expansion Hotel Occupancy Tax Revenues – 2% Collection Rate [1] **Table 3**

Months	Fiscal Year Ended September 30				
	1999	2000	2001	2002	2003
October	$ 649,918	$ 749,851	$ 680,509	$ 453,164	$ 573,848
November	884,957	637,637	798,201	796,313	817,218
December	466,882	678,396	695,830	583,761	612,502
January	458,106	682,194	717,884	629,571	591,602
February	618,464	534,405	504,621	521,747	539,972
March	830,493	913,055	847,657	929,206	774,913
April	1,170,597	1,142,178	1,347,855	1,354,203	1,193,058
May	870,752	1,074,220	1,009,621	1,114,500	1,050,796
June	784,054	860,398	817,572	950,074	889,456
July	799,138	872,451	958,356	939,963	951,731
August	851,427	949,432	969,876	951,707	1,053,012
September	542,008	706,927	887,969	777,459	870,407
	$8,926,796	$9,801,144	$10,235,951	$10,001,668	$9,918,515

[1] The Expansion Hotel Occupancy Tax consists of 2% more than 7% of the cost of a room and is currently pledged to payment of the Prior Lien Bonds. The proceeds from the Expansion Hotel Occupancy Tax are not pledged to the payment of the debt service requirements on the Bonds Similarly Secured; however, the City intends to pay a portion of the debt service requirements from such source.

Source: City of San Antonio, Department of Finance.

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5.25% Hotel Occupancy Tax Collections [1] — Table 4

Month	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
October	$ -0-	$ 1,510,439.07	$ 1,538,758.49	$ 1,706,034.79	$ 1,961,532.35	$ 1,786,334.70	$ 1,189,584.52	$ 1,506,351.60	$ 1,432,438.64
November	-0-	1,879,622.80	2,361,168.22	2,323,014.48	1,680,740.43	2,094,754.24	2,090,365.52	2,145,198.33	2,014,898.33
December	-0-	1,091,464.77	1,444,832.20	1,223,425.62	1,780,792.71	1,827,798.34	1,532,379.65	1,607,818.26	1,779,431.74
January	-0-	1,199,037.11	1,260,766.48	1,204,667.91	1,790,757.89	1,884,444.19	1,652,623.65	1,552,930.68	1,457,390.61
February	-0-	1,127,257.34	1,396,694.46	1,623,468.92	1,402,813.24	1,324,629.41	1,369,586.10	1,417,577.11	1,783,342.75
March	1,750,343.00	1,798,619.07	2,229,082.60	2,180,042.84	2,396,767.26	2,225,097.55	2,439,166.49	2,034,145.82	2,074,683.45
April	2,472,099.83	2,622,683.44	3,094,149.00	3,072,815.05	2,998,217.35	3,538,208.05	3,555,088.02	3,131,657.95	-0-
May	1,701,179.08	1,941,467.12	1,934,396.95	2,285,725.81	2,819,826.77	2,650,255.70	2,925,693.78	2,758,337.54	-0-
June	1,687,460.03	1,711,111.49	1,844,668.74	2,058,141.67	2,266,924.91	2,146,126.24	2,493,943.82	2,334,819.15	-0-
July	2,082,591.96	2,147,811.43	1,982,878.18	2,097,735.24	2,290,183.47	2,515,695.24	2,467,400.42	2,498,291.54	-0-
August	2,009,668.54	2,220,116.29	2,437,767.30	2,234,998.64	2,483,877.47	2,548,024.29	2,498,089.06	2,764,154.21	-0-
September	1,322,728.64	1,065,555.61	1,369,888.33	1,422,770.09	1,855,681.95	2,330,919.01	2,040,820.33	2,284,845.40	-0-
	$13,026,071.08	$20,315,185.54	$22,895,050.95	$23,432,841.06	$25,728,115.80	$26,872,286.96	$26,254,741.36	$26,036,127.59	$10,542,185.52

[1] The 5.25% Hotel Occupancy Tax collections are the portion of the General Hotel Occupancy Tax designated "Pledged 5.25% HOT" in the Ordinance and pledged as a first and prior lien for the payment of the Prior Lien Bonds and a subordinate and inferior lien for the payment of the Bonds and the 2004B Bonds.

1.75% Hotel Occupancy Tax Collections [1] — Table 5

Month	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
October	$ -0-	$ 503,479.26	$ 512,920.02	$ 568,678.60	$ 654,545.60	$ 595,456.09	$ 396,539.37	$ 502,126.60	$ 452,905.57
November	-0-	626,540.14	787,056.24	774,338.23	559,567.05	697,689.73	696,816.87	715,075.20	696,229.43
December	-0-	363,822.81	481,609.23	408,003.86	593,589.15	609,278.24	510,802.77	535,947.06	593,156.19
January	-0-	399,680.13	420,253.86	401,361.81	596,931.49	628,159.69	550,883.35	517,654.68	485,807.18
February	-0-	375,750.71	465,535.52	541,154.76	467,614.65	441,555.29	456,527.55	472,535.30	594,457.73
March	817,127.88	599,539.20	743,027.49	726,680.81	798,933.31	741,709.57	813,064.60	678,058.02	691,628.27
April	880,488.08	874,226.55	1,031,382.44	1,024,270.38	999,414.59	1,179,444.75	1,185,037.35	1,043,895.63	-0-
May	567,374.64	647,163.21	644,799.64	761,911.54	939,917.66	883,426.91	975,233.37	919,456.16	-0-
June	562,060.68	570,372.86	614,890.18	686,046.53	755,653.60	715,385.75	831,322.54	778,285.06	-0-
July	694,507.79	715,938.63	660,958.96	699,243.22	763,405.38	838,581.71	822,476.04	832,776.46	-0-
August	669,900.57	740,036.75	812,588.36	745,001.47	827,968.51	849,350.34	832,704.31	921,395.30	-0-
September	440,908.27	355,184.65	456,629.31	474,254.32	618,572.50	776,984.38	680,284.02	761,625.50	-0-
	$4,632,367.91	$6,771,734.90	$7,631,651.25	$7,810,945.53	$8,576,113.49	$8,957,022.45	$8,751,692.14	$8,678,830.97	$3,514,184.37

[1] The 1.75% Hotel Occupancy Tax collections are the portion of the Hotel Occupancy Tax designated "Pledged 1.75% HOT" in the Ordinance and pledged as a first and prior lien for the payment of the Prior Lien Bonds upon the adoption of the 1996 Amendatory Ordinance and a subordinate and inferior lien for the payment of the Bonds and the 2004B Bonds.

Hotel Occupancy Tax – Top Ten Hotels [1] **Table 6**

	Fiscal Year Ended September 30									
	1999		2000		2001		2002		2003	
	Rooms	Total Tax Paid [2]	Rooms	Total Tax Paid [2]	Rooms	Total Tax Paid [2]	Rooms	Total Tax Paid [2]	Rooms	Total Tax Paid [2]
Marriott Rivercenter*	1,000	$ 3,926,167	1,000	$ 3,965,005	1,000	$ 4,044,415	1,000	$ 3,979,724	1,000	$ 4,174,290
Hyatt Regency *	633	2,188,298	633	2,236,899	633	2,184,608	633	2,067,109	633	2,099,108
Marriott Riverwalk*	502	2,025,571	502	2,003,212	502	2,089,017	502	1,914,048	502	2,081,821
Hyatt Hill Country Resort**	500	2,272,771	500	2,237,960	500	2,261,223	500	2,243,619	500	1,830,858
Westin Riverwalk*	N/A	N/A	474	1,174,857	474	1,595,330	474	1,589,857	474	1,660,244
Hilton Palacio Del Rio*	481	1,528,232	481	1,686,032	481	1,747,272	481	1,742,380	481	1,634,833
Westin La Cantera Resort***	N/A	N/A	508	1,540,990	508	1,603,559	508	1,667,829	508	1,486,361
La Mansion Del Rio*	337	1,252,607	337	1,243,121	337	1,276,047	337	1,330,527	337	1,351,560
Adam's Mark*	410	962,043	410	955,516	410	952,689	410	915,353	410	772,270
Holiday Inn Riverwalk*	313	817,709	N/A	N/A	N/A	N/A	N/A	N/A	313	758,148
Marriott Plaza San Antonio*	250	793,497	250	836,495	N/A	N/A	N/A	N/A	N/A	N/A
Menger*	313	788,122	N/A	N/A	313	818,497	313	811,615	N/A	N/A
Totals	4,739	$ 16,555,017	5,095	$17,880,087	5,158	$18,572,657	5,158	$18,262,061	5,158	$17,849,493

* These hotels are within walking distance of the Henry B. Gonzalez Convention Center.
** This hotel is near the SeaWorld San Antonio Adventure Park.
*** This hotel is near the Six Flags Fiesta Texas Amusement Park.
(1) Represents approximately 17.83% of total rooms available in the City and approximately 39.99% of the Hotel Occupancy Tax receipts for fiscal year 2003.
(2) Hotel Occupancy Tax is less a 1% discount for payment by the 20th of the following month and include any late charges.

Source: City of San Antonio, Department of Finance.

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Hotel Developments

Recently the Watermark and the Valencia, two new hotels, have opened in the downtown area and the Riverton Suites and LaQuinta are under construction. Also, additional hotels have been announced including the Comfort Inn, the Drury Inn, the Microtel Inn, and the Wingate Inn. All of this development will add more than 700 rooms.

San Antonio Hotel Occupancies and Average Daily Rates/History [1] Table 7

Calendar Year	Room Count	Increase/ Decrease	Average Daily Room Rate	Increase/ Decrease	Hotel Occupancy	Increase/ Decrease
1994	20,178	---	$79.39	---	71.6%	---
1995	21,796	8.0%	$80.83	1.8%	68.2%	(4.7%)
1996	23,661	8.6%	$82.53	2.1%	66.3%	(2.8%)
1997	24,949	5.4%	$85.63	3.8%	64.5%	(2.7%)
1998	25,664	2.9%	$88.27	3.1%	66.1%	2.5%
1999	26,940	5.0%	$89.01	0.8%	65.2%	(1.4%)
2000	27,562	2.3%	$93.11	4.6%	65.5%	0.5%
2001	27,554	0.0%	$93.84	0.8%	63.1%	(3.7%)
2002	28,443	3.2%	$94.84	1.1%	64.4%	2.1%
2003	28,924	1.7%	$92.08	(2.9%)	64.6%	0.3%

[1] During fiscal year 2004, the City changed its methodology for compiling its convention and hotel related statistics. In addition, the City also began using hotel statistics reported by Smith Travel Research ("STR"). STR is the lodging industry's leading information and data provider and maintains the most comprehensive database of hotel performance information. Information is based on hotels in San Antonio.

Funds and Flow of Funds

The General Hotel Occupancy Tax Fund is required pursuant to the Ordinance to be maintained as a separate fund or account on the books of the City. The Debt Service Fund, the Debt Service Reserve Fund, and the Facilities Fund are required to be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City. The Debt Service Fund and the Debt Service Reserve Fund will constitute trust funds held in trust for the registered owners of the Bonds Similarly Secured.

(a) Expansion HOT. The City covenants and agrees that all revenues of the Expansion HOT must be deposited as received in the Expansion HOT Fund and transferred on or before the last Business Day of each month to the following funds in the following order of priority:

(i) First, to the Prior Lien Bonds Debt Service Fund in the amounts and for the uses described in the Prior Lien Bonds Ordinance.

(ii) Second, to the Debt Service Reserve Fund in the amounts and for the uses described in the Prior Lien Bonds Ordinance.

(iii) Third, to the payment of any Subordinate Lien Obligations, including the Bonds Similarly Secured (including Reimbursement Obligations incurred in connection therewith), and reserve funds related thereto, as may be required by any ordinance authorizing the issuance of such Subordinate Lien Obligations.

(iv) Fourth, to the Facilities Fund in the amounts and for the uses described in the Prior Lien Bonds Ordinance.

Notwithstanding the foregoing, as often as the City shall deem necessary, but at least once a month on or before the penultimate Business Day of each month, the City shall determine the amounts necessary from the Expansion HOT to satisfy the foregoing transfers, taking into consideration the money accumulated as of such date in the Debt Service Fund and the amount necessary to be transferred to the Debt Service Reserve Fund as required herein. After making the aforementioned determination, in the event the revenues from the Expansion HOT are not sufficient to satisfy the payment obligations set forth in clauses First through Third above, the City shall retain in the Expansion

HOT Fund any amount necessary (after taking into consideration any lawfully available revenues that may be utilized by the City to pay the debt service requirements on the Subordinate Lien Obligations issued to finance a hotel for the Convention Center) for the timely payment of the debt service requirements on the Subordinate Lien Obligations issued to finance a hotel for the Convention Center, and, to the extent funds are available in the Expansion HOT Fund, will first make transfers to the debt service fund and debt service reserve fund as required by the ordinance authorizing the Subordinate Lien Obligations issued to finance a hotel for the Convention Center. Any money remaining in the Expansion HOT Fund after such transfers and the retention for the payment of the Debt Service Requirements on the Prior Lien Bonds and Bonds Similarly Secured not issued for the hotel for the Convention Center may be transferred to the Facilities Fund to be used by the City for any lawful purpose. Any money retained in the Pledged 1.75% Account and the Pledged 5.25% Account for Debt Service Requirements on the Bonds Similarly Secured needed for such purpose on any Transfer Date shall be immediately transferred to the Debt Service Fund on such Transfer Date.

General Hotel Occupancy Tax. The General Hotel Occupancy Tax revenues are required to be deposited as received to the General Hotel Occupancy Tax Fund and allocated as follows: 25% of the General Hotel Occupancy Tax revenues to the Pledged 1.75% Account and 75% of the General HOT revenues to the Pledged 5.25% Account.

(a) Money in the Pledged 1.75% Account may be used as follows:

(i) First, to transfer any necessary amounts to the Prior Lien Bonds Debt Service Fund required by the Prior Lien Bonds Ordinance as amended by the 1996 Amendatory Ordinance secured by a prior lien on and pledge of the Pledged 1.75% HOT;

(ii) Second, to transfer any necessary amounts to the Debt Service Reserve Fund required by the Prior Lien Bonds Ordinance, as amended by the 1996 Amendatory Ordinance, secured by a prior lien on and pledge of the Pledged 1.75% HOT;

(iii) Third, to transfer any necessary amounts to the Debt Service Fund required by ordinances authorizing the issuance of the Bonds Similarly Secured; and

(iv) Fourth, to transfer any necessary amounts to the Debt Service Reserve Fund required by the ordinances authorizing the issuance of the Bonds Similarly Secured.

(b) Money in the Pledged 5.25% Account may be used as follows:

(i) First, to transfer any necessary amounts to the Prior Lien Bonds Debt Service Fund required by the Prior Lien Bonds Ordinance secured by a prior lien on and pledge of the Pledged 5.25% HOT;

(ii) Second, to transfer any necessary amounts to the Debt Service Reserve Fund required by the Prior Lien Bonds Ordinance secured by a prior lien on and pledge of the Pledged 5.25% HOT;

(iii) Third, to transfer any necessary amounts to the Debt Service Fund required by the ordinances authorizing the issuance of the Bonds Similarly Secured; and

(iv) Fourth, to transfer any necessary amounts to the Debt Service Reserve Fund required by the ordinances authorizing the issuance of the Bonds Similarly Secured.

Investment Proceeds. The investment of the funds created by the Ordinance will be used as follows:

(a) Debt Service Fund earnings will be retained in the Debt Service Fund;

(b) Debt Service Reserve Fund earnings will be retained in the Debt Service Reserve Fund to the extent necessary to restore the Reserve Fund Requirement therein and thereafter transferred to the Debt Service Fund;

(c) Facilities Fund earnings will be retained in the Facilities Fund;

(d) Earnings in the Pledged 5.25% Account and the Pledged 1.75% Account of the General HOT Fund will be retained in each account; and

(e) Construction Fund earnings will be retained in the Construction Fund until the Expansion Project or other lawful project is complete and thereafter any surplus in the Construction Fund will be transferred to the Debt Service Fund.

Debt Service Fund. In the Ordinance the City covenants and agrees that prior to each interest payment date, stated maturity date, and mandatory redemption date for the Bonds there must be transferred into the Debt Service Fund from the Pledged Revenues or from other lawfully available funds an amount equal to the amount required to fully pay the amount then due and payable on the Bonds. The City also covenants and agrees in the Ordinance that by each Transfer Date, the Debt Service Fund, plus any amounts retained in the Pledged 1.75% Account and Pledged 5.25% Account, will be in an amount equal to the accumulation of monthly payments of proportionate monthly payments of the Debt Service Requirement due on the next respective interest or principal payment date of the Bonds. Money credited to the Debt Service Fund are required to be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Bonds issued as term bonds in the open market to be credited against mandatory sinking fund redemption requirements), interest and redemption premiums on the Bonds, plus all paying agent/registrar charges and other costs and expenses relating to such payment.

Debt Service Reserve Fund. The Ordinance requires that an amount equal to the Reserve Fund Requirement (hereinafter defined in "APPENDIX B – Selected Provisions of the Ordinance") be accumulated and maintained therein in accordance with the Ordinance. The Reserve Fund Requirement is required to be recomputed upon the issuance of each series of Common Reserve Fund Bonds. The City will establish and maintain as hereinafter provided a balance in the Debt Service Reserve Fund equal to the Reserve Fund Requirement for the Common Reserve Fund Bonds. The Reserve Fund Requirements for the Common Reserve Fund Bonds is initially $18,683,610*, of which $16,999,830 is presently on deposit therein. The Reserve Fund Requirement must initially be funded at the time of issuance and delivery of each series of Common Reserve Fund Bonds from proceeds of the such bonds. The City will fund any such deficiency with certain proceeds from the 2004B Bonds upon delivery on June 29, 2004. The City may, however, substitute a Debt Service Reserve Fund Surety Bond for cash in the Debt Service Reserve Fund upon written notice to the Insurer, if any.

"Common Reserve Fund Bonds" means the Prior Lien Bonds and the Bonds Similarly Secured.

The "Reserve Fund Requirement" means the amount required to be maintained in the Debt Service Reserve Fund. Such amount must be recomputed upon the issuance of each series of Common Reserve Fund Bonds to be the lesser of (i) 10% of the original principal amount of the Common Reserve Fund Bonds or (ii) the maximum annual Debt Service Requirements scheduled to occur in the then-current and each future Fiscal Year for all Common Reserve Fund Bonds then being issued or (iii) 125% of the average Debt Service Requirements scheduled to occur in the then-current and each future Fiscal Year for all Common Reserve Fund Bonds then Outstanding, including any series of additional Common Reserve Fund Bonds then being issued. Any Variable Rate Obligations issued as Common Reserve Fund Bonds will be assumed to bear interest at a tax-exempt municipal bond index rate available at the time of determining the Reserve Fund Requirement that is selected by the City which is acceptable to the Insurer.

Each increase in the Reserve Fund Requirement resulting from the issuance of Common Reserve Fund Bonds must be funded at the time of issuance and delivery of such series of Common Reserve Fund Bonds by either (i) depositing proceeds of such Common Reserve Fund Bonds or other lawfully available funds, including the Facilities Fund, in not less than an amount to fund the Reserve Fund Requirement upon the delivery of such Common Reserve Fund Bonds, (ii) to the extent permitted by applicable law, providing a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Reserve Fund Requirement, or (iii) retaining revenues in the Debt Service Reserve Fund from the Pledged Revenues, or other lawfully available funds, in approximately equal monthly installments, over a period of time not to exceed 12 months from the date of delivery of such Common Reserve Fund Bonds to accumulate the Reserve Fund Requirement.

The Ordinance also provides for the use of a Debt Service Reserve Fund Surety Bond in lieu of a cash deposit under certain circumstances. Each increase in the Reserve Fund Requirement resulting from the issuance of Common Reserve Fund Bonds will be funded at the time of issuance and delivery of such series of Common Reserve Fund Bonds

*Preliminary, subject to final pricing of the 2004B Bonds.

by depositing to the credit of the Debt Service Reserve Fund either (A) proceeds of such Common Reserve Fund Bonds or other lawfully appropriated funds, including the Facilities Fund, in not less than an amount to fund fully the Reserve Fund Requirement; (B) a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Reserve Fund Requirement; or (C) retaining revenues in the Debt Service Reserve Fund from the Expansion Hotel Occupancy Tax over a period of time not to exceed 12 months from the date of delivery of such Common Reserve Fund Bonds. The City may not employ any Debt Service Reserve Fund Surety Bond unless the rating either for long term unsecured debt of the provider of such Debt Service Reserve Fund Surety Bond or for obligations insured, secured, or guaranteed by, such provider have a rating in the highest letter category by at least two major municipal securities evaluation services.

If the balance of the Debt Service Reserve Fund contains less than the Reserve Fund Requirement (or so much thereof as then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Common Reserve Fund Bonds as described above), or in the event that the City is obligated to repay or reimburse any provider of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), the Ordinance requires the City to transfer such amounts as will be necessary to reestablish in the Debt Service Reserve Fund to the Reserve Fund Requirement and satisfy any repayment obligations to the provider of any Debt Service Reserve Fund Surety from the Pledged Revenues, or any other lawfully available funds, in 12 equal monthly installments. After such amount has been accumulated in the Debt Service Reserve Fund and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond provider and so long thereafter as such fund contains such amount and all such repayment obligations have been satisfied, no further transfers are required to be made, and any earnings on the Debt Service Reserve Fund will be transferred to the Debt Service Fund; provided that, however, if and whenever the balance in the Debt Service Reserve Fund is reduced below such amount or any Debt Service Reserve Fund Surety Bond repayment obligations arise, transfers to such Fund must be resumed and continued in the manner described above to restore the Debt Service Reserve Fund to such amount and to pay such reimbursement obligations.

If as a result of the annual valuation of investments in the Debt Service Reserve Fund, the value of the Debt Service Reserve Fund does not equal the Reserve Fund Requirement, the City will be required to replace such investments or transfer Pledged Revenues, or transfer from other lawfully available money or money in the Pledged Account to the Debt Service Reserve Fund to bring the Debt Service Reserve Fund to the Reserve Fund Requirement over a 12 month period in equal monthly deposits.

Money in the Debt Service Reserve Fund must be used to pay the principal of and interest on the Common Reserve Fund Bonds at any time when there is not sufficient money available in the Debt Service Fund for such purpose, to make any payments required to satisfy repayment obligations to providers of Debt Service Reserve Fund Surety Bonds, and to make the final payments for the retirement or defeasance of the Bonds.

The Ordinance establishes certain requirements to substitute a Debt Service Reserve Fund Surety Bond other than a credit instrument issued by the Bond Insurer.

General Hotel Occupancy Tax. The City covenants and agrees that all revenues of the General Hotel Occupancy Tax must be deposited as received to the General Hotel Occupancy Tax Fund and immediately upon receipt allocated between the Pledged 1.75% Account, 25% of the General Hotel Occupancy Tax revenues, and the Pledged 5.25% Account, 75% of the General Hotel Occupancy Tax revenues.

Money in the Pledged 1.75% Account and the Pledged 5.25% Account may be used on a parity basis (A) for the payment of the Prior Lien Bonds and (B) for the payment of the Bonds as hereinafter described, and after providing for (A) and (B), to restore the Debt Service Reserve Fund to the Reserve Fund Requirement as required by the Ordinance. As often as the City will deem necessary, but at least once a month on or before the penultimate Business Day of each month the City must determine the amounts necessary from the Pledged Revenues to pay the Prior Lien Bonds and the amounts necessary to pay the Bonds Similarly Secured taking into consideration the money accumulated as of such date in the Debt Service Fund and the amount necessary to be transferred to the Debt Service Reserve Fund as required by the Ordinance. After making the aforementioned determination, the City will transfer the amounts so determined to be necessary to the debt service fund for the Prior Lien Bonds and will retain any amount necessary for the timely payment of the Debt Service Requirements on the Bonds in the Pledged 1.75% Account and the Pledged 5.25% Account, and, to the extent funds are available, will make transfers to the Debt Service Reserve Fund as required by the Ordinance. Any money remaining in the Pledged 1.75% Account and the Pledged 5.25% Account after such

transfers and the retention for Debt Service Requirements on the Bonds Similarly Secured may be transferred to the General Account to be used by the City for any lawful purpose. Any money retained in the Pledged 1.75% Account and the Pledged 5.25% Account for Debt Service Requirements on the Bonds Similarly Secured needed for such purpose on any Transfer Date will be immediately transferred to the Debt Service Fund on such Transfer Date.

BOND INSURANCE

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the 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 Bonds which shall become due for payment but shall be unpaid by reason of nonpayment by the City (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/Registrar. The insurance will extend for the term of the 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 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 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 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/Registrar has notice that any payment of principal of or interest on a Bond which has become due for payment and which is made to a Holder by or on behalf of the City 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 paying agent or registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 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 Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

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

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, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $7,670,000,000 (unaudited) and statutory capital of approximately $4,683,000,000 (unaudited) as of March 31, 2004**.** 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 Ratings 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 a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond 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 City of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the 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 "BOND INSURANCE".

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 Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;

2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004; and

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004.

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".

THE CONVENTION CENTER FACILITIES

Existing Facilities

The Henry B. Gonzalez Convention Center is located in the downtown area of San Antonio on the River Walk. There are approximately 10,667 hotel rooms in the downtown area as well as retail shops, restaurants, and historic amenities. The Henry B. Gonzalez Convention Center was originally built as part of the 1968 HemisFair held in San Antonio. The last expansion and improvement of the Henry B. Gonzalez Convention Center was completed in June 2001 (other expansions occurred in 1977 and 1987) and this facility contains 440,000 square feet of contiguous exhibit space. The existing Henry B. Gonzalez Convention Center complex consists of a 28,915 square foot Ballroom A, 21,948 square foot Ballroom B, a new 40,000 square foot Ballroom C, and four junior ballroom areas suitable for meetings, dinners, or dances. The Convention Center also includes the Lila Cockrell Theatre – a 2,536-seat Performing Arts Theatre.

The Convention Center Facilities, the Convention and Visitors' Bureau, and the Alamodome are separate departments of the City each headed by a Director who reports to the City Manager. A special revenue fund is used to account for the proceeds of the General Hotel Occupancy Tax fund (as well as the revenues and commissions of the Henry B. Gonzalez Convention Center and Municipal Auditorium) in order to ensure that legal restrictions with respect to expenditures are met. A separate special revenue fund has also been established for the Expansion Hotel Occupancy Tax. The employees of the Henry B. Gonzalez Convention Center and the Convention and Visitors' Bureau are City employees.

Amendment to the Master Plan

As an "eligible central municipality" under the HOT Act, the City will adopt an amendment to the capital improvement plan for the expansion of its existing Convention Center Facilities to include a Headquarters Hotel located within 1,000 feet of the Henry B. Gonzalez Convention Center (the "Hotel"), the Alamodome, an office building located within the Convention Center complex, and the Municipal Auditorium. The Alamodome, which opened in May 1993, is a facility used for large assembly groups and special events; this facility adds another 160,000 square feet of exhibit space to the Convention Center complex. The Municipal Auditorium is a 5,000 seat performing arts center and multi-purpose meeting facility. In that connection, the City intends to eventually pledge, on a subordinate lien basis, the Expansion Hotel Occupancy Tax to provide additional security for the Hotel Bonds. In addition, a portion of the General Hotel Occupancy Tax is intended to be used for maintenance and operation of the Convention Center Facilities.

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Convention Activity

San Antonio is one of the top convention cities in the country, and the recent expansion of the Henry B. Gonzalez Convention Center has enabled the City to compete for more conventions and larger conventions. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows overall City performance, as well as convention activity booked by the San Antonio Convention and Visitors Bureau, for the years indicated.

Convention Statistics **Table 8**

Calendar Year	Room Nights Sold [1]	Number of Conventions [2]	Convention Attendance [2]	Convention Room Nights [2]	Convention Delegate Expenditures ($ Millions) [2,3]
1994	5,164,219	529	384,307	665,805	$314.7
1995	5,255,310	552	400,751	744,954	$328.1
1996	5,569,917	596	486,383	725,395	$398.3
1997	5,747,771	542	417,492	670,039	$341.9
1998	6,093,945	559	445,151	724,882	$401.0
1999	6,219,742	553	406,539	678,014	$366.2
2000	6,495,654	583	389,448	696,215	$350.8
2001	6,361,879	541	419,970	712,189	$378.3
2002	6,609,110	714	521,278	826,566	$469.6
2003	6,794,915	684	424,951	709,081	$382.8

1 Source: STR, based on hotels in San Antonio.

2 Reflects only those conventions booked by the Convention and Visitors Bureau.

3 For the years of 1994 through 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the International Association of Convention and Visitor 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.

Source: City of San Antonio, Convention and Visitors Bureau.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Statistics

The most recent visitor statistics obtained by the Convention and Visitors Bureau showed 19.95 million visitors came to San Antonio in 2002. The research, conducted by D.K. Schifflet & Associates, represents 7.58 million visitors were overnight leisure travelers and 2.45 million visitors were overnight business travelers. San Antonio's share of U.S. Overnight Leisure Travel volume is 0.77%. That is more than the City's competitors in Houston, Phoenix, Dallas, New Orleans, and Austin. Of the top 10 cities for overnight leisure travel in the United States, San Antonio ranks ninth. San Antonio leads the United States and competing destinations in "satisfaction and value for the money".

Meetings South, a trade publication for meeting planners, has named the Henry B. Gonzalez Convention Center as the "Best Convention Center" in the industry. *Meetings South* covers the meeting industry in the Southern United States and the Caribbean Islands and is published by Stamats Meetings Media. The survey results however were not limited to only business destinations of the South.

San Antonio's convention and group business is competitive with other strong destinations and is supported by the efforts of the Convention and Visitors Bureau sales staff who in 2003, hosted more than 420,000 delegates, utilizing more than 700,000 room nights, translating into an estimated $382.8 million direct delegate expenditures.

Hotel Occupancy Taxes Revenues

The national economic slowdown that began in late 2000 and was compounded by the events of September 11, 2001, initially adversely impacted the HOT revenues. However, the immediate collective efforts of the local tourism industry and an investment in advertising by the San Antonio Convention and Visitors Bureau in late 2001 and early 2002 contributed to San Antonio's strong recovery.

San Antonio's HOT budgeted revenue for fiscal year 2004 is $35.9 million, which is a 3.6% increase from fiscal year 2003 actual revenues. Nationally recognized events such as the 2004 NCAA Men's Final Four Basketball Championships, Disney's "The Alamo" movie premiere, and the convention/group business, are contributing to the City meeting its HOT budgeted revenue projections.

Expenditures from Hotel Occupancy Taxes

By State statute, 7% out of the 9% HOT that the City collects may be allocated to various operational areas. These areas include a minimum of 50% for tourism, not more than 15% for arts, not more than 15% for history and preservation, and 20% may be used for tourism or project improvements; 2% (the Expansion HOT) is dedicated solely to the construction of convention center facility expansion or to the payment of debt service related to such capital improvements.

Terrorist Attacks' Financial Impact on Convention Business

An event similar to the September 11, 2001 terrorist attacks could adversely affect tourism. The collection of HOT is significantly dependent on the level of tourism in the City, and any such event could materially affect the statements in this Official Statement.

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 "Act") and in accordance with an Investment Policy approved by the City Council of the City. The 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 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) bonds issued, assumed, or guaranteed by the State of Israel; (7) 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; (8) 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 (6) or in any other manner and amount provided by law for City deposits; (9) 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; (10) 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; (11) 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; (12) 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; (13) 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; 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", "AAA-m", or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. 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; addresses investment diversification, yield, maturity, and the quality and capability of investment management; and includes 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 will 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 10% 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, 2003, investable City funds, in the approximate amount of $791,651,145, were 88.11% invested in obligations of the United States, or its agencies and instrumentalities, and 9.75% invested in a money market fund, with the weighted average maturity of the portfolio being less than one year. The remaining 2.15% 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 100.2% 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.

LITIGATION AND ELECTION

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 is approximated at $8.9 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 the CAFR. In addition, the City provides the following updated information regarding certain cases:

Sierra Club v. City of San Antonio, et al. In June 1996, Sierra Club filed a lawsuit against thirteen large users of water from the Edwards Aquifer, which included the City. Sierra Club sought temporary and permanent injunctive relief to limit the amounts of water withdrawn from the Edwards Aquifer in order to protect endangered species. In addition, Sierra Club sought injunctive relief against federal agencies to require the agencies to consult with the Fish & Wildlife Service before conducting any further activities in the Edwards Aquifer region.

In August 1996, the District Court granted Sierra Club's request for temporary injunction. The City appealed the District Court's decision arguing that the District Court should abstain from acting and allow the legislatively created Edwards Aquifer Authority ("EAA") to manage groundwater usage. The Fifth Circuit reversed the District Court's decision and remanded the case for further proceedings. Sierra Club filed a Writ of Certiorari to the United States Supreme Court, which was denied in January 1998.

In late March 2002, a number of Defendants filed Motions to Dismiss or Motions for Summary Judgment. The City's Motion urges dismissal on several grounds including Lack of Prosecution and the Burfurd Abstention Doctrine. The Sierra Club has filed a motion for non-suit.

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 contraction of acute lymphoblastic leukemia. Although the trial court entered a judgment of $23 million against the City, the trial court reduced the $6 million award for medical care to $500,000 and the Appeals Court then struck or deleted $10 million in exemplary damages from that judgment. Currently pending is the $7 million award for personal injury damages. The City believes personal injury damages are not recoverable by the Plaintiff under a nuisance theory. Even if recoverable, the City believes that damages are capped at $250,000 under the Texas Tort Claims Act. The City is appealing the judgment to the Supreme Court of Texas.

Rogers, et al. v. City of San Antonio. This case was filed on behalf of the City of San Antonio firefighters who are or were reservist members of the military. Plaintiffs allege they were denied various types of employment rights, benefits and pay because of their military status, in violation of the Uniformed Services Employment Rights Act. If lost, the case could expose the City to liability in the amount of approximately $600,000.

University of Kansas v. City of San Antonio. On September 30, 1999, the City's Community Initiatives Department received a grant from the Department of Labor for the purpose of administering a new "Welfare-to-Work" project. On October 14, 1999, Plaintiff entered into a contract whereby Plaintiff would provide expertise with development of the "Advocates Striving to Create Edgewood Neighborhood Development" (ASCEND) Cooperative Program. The City agreed to make payments for an amount not to exceed $715,000. By letter dated July 30, 2001, the City notified the Plaintiff of its election to terminate the contract. Plaintiff sued for the amount of $387,325.50 allegedly due, plus any additional attorney's fees. In 2003, the Department of Labor issued a finding that disallowed all costs sought by University of Kansas, to include the payment of $143,000 already made by the City. The City has filed an appeal with respect to the $143,000 and that appeal is pending.

Matthew Jackson et al. v. City of San Antonio. This is a Fair Labor Standards Act ("FLSA") lawsuit, with 178 named plaintiffs claiming they were required to report for duty 15 minutes prior to their shift and that they were not compensated for the time, in violation of the FLSA. There are several other allegations based on the FLSA, as well. The lawsuit has been filed on behalf of all of the police officers similarly situated to the 67 plaintiffs. Thus, the potential exists for more officers to join the lawsuit. Damages are not yet measurable, but, if the City is unsuccessful, damages will most likely be well in excess of $1 million, plus reasonable and necessary attorney's fees.

Dorothy Burnley v. City of San Antonio. A City employee claimed a disability based on chronic allergies allegedly resulting from "sick building syndrome" and requested accommodation pursuant to the Americans with Disabilities Act. The City was unsuccessful in its motion for summary judgment and the case was tried to the jury. The jury awarded $165,000 in damages. There is also the possibility that the court could award attorneys' fees in addition to that amount. The final judgment is not yet entered and the City plans to file post-trial motions to set aside the verdict. If those are unsuccessful, then the City will appeal to the Fifth Circuit.

Claudio Esparza and Minerva Esparza v. City of San Antonio. This case involves an intersectional collision. Plaintiffs claimed severe injuries and the case was tried to a jury. Although the jury found the Plaintiff driver partially negligent, the jury awarded significant damages. The potential award for both Plaintiffs is in excess of $350,000. Final judgment is not yet entered and the City intends to file post-trial motions to reduce the damage awards. The City also intends to attempt settlement of the case for a reasonable amount or to appeal to the Fourth Court of Appeals as necessary.

Brooks Hardee, et al. v. City of San Antonio. Brooks Hardee, et al. v. City of San Antonio, Cause No. 2204-CI-05439; Brooks Hardee et al. v. City of San Antonio, Cause No. 2004-CI-05440; and Reed Lehman Grain, Ltd. v. City of San Antonio; Cause No. 2004-CI-05442 are similar lawsuits brought by the same developer/landowner under different entities. These particular lawsuits challenge the City's vested rights determinations for the landowner's projects and seek a declaration that the property is free from many of the City's development regulations and ordinances. These three cases are very recent. The same plaintiff/developer has multiple pending lawsuits against the City and SAWS, most of these filed within the last year. There are approximately 13 related lawsuits brought by the same landowner/developer. These lawsuits all raise complex issues of fact and law and collectively challenge the City's authority to regulate land development. However, the City's legal team is confident that many of the allegations are without merit. Nevertheless, it is proceeding carefully and deliberately to defend its regulations and its power to protect

the public. The City has coordinated its defense with SAWS and hired a team of experienced litigators to challenge the allegations.

City Charter Amendment Election

The City held an election on May 15, 2004, at which voters considered four propositions seeking to amend the City Charter as follows: Proposition 1 was to amend the provisions of the City Charter applicable to the term of office and term limits of members of the City Council; Proposition 2 was to amend the provisions of the City Charter applicable to compensation for members of the City Council and the Mayor; Proposition 3 was to amend the City Charter by establishing an independent Ethics Review Board; and Proposition 4 was to amend the City Charter to permit an individual member of the City Council to hire staff who serve at the will of the councilmember. Of these four propositions, only Proposition 3 establishing an independent Ethics Review Board was approved by the voters and will take effect upon adoption by the City Council. Under current Texas law, the City many not hold another City Charter amendment election for two years.

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Fulbright & Jaworski L.L.P. and Escamilla & Poneck, Inc., Co-Bond Counsel to the City ("Co-Bond Counsel"), to the effect that interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the "Code"), of the owners thereof pursuant to section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Co-Bond Counsel's anticipated opinion is included as APPENDIX C. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a financial asset securitization investment trust, a real estate investment trust (REIT), or a real estate mortgage investment conduit (REMIC). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax is imposed by section 55 of the Code.

In rendering the foregoing opinion, Co-Bond Counsel will rely upon the report of Grant Thornton LLP, as disclosed in "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS", and representations and certifications of the City made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Ordinance by the City subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Co-Bond Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Co-Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Co-Bond Counsel, and Co-Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Issuer as the "taxpayer", and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the Owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Accounting Treatment of Discount or Premium on Certain Bonds

The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the stated redemption price at maturity (as defined in section 1272 of the Code and Treasury Regulations thereunder) of the Discount Bonds. An amount equal to the difference between the initial public offering price of each Discount Bond (assuming that at least ten percent of the Discount Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semi-annual compounding of accrued interest, at the yield to maturity on such Discount Bond. The allocation of such original issue discount will generally result in an amount being treated as interest that is different than the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

Such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the sale or other taxable disposition of a Discount Bond prior to stated maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price (as furnished by the Purchasers) of certain Bonds (the "Premium Bonds"), may be greater than the amount payable on such bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that at least ten percent of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their

own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income purposes and with respect to the state and local tax consequences of owning Premium Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the 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 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

On the Closing Date, the City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding special obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Co-Bond Counsel to the effect that the Bonds are valid and legally binding special obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. In their capacity as Co-Bond Counsel, Fulbright & Jaworski L.L.P and Escamilla & Poneck, Inc. have reviewed the information appearing in this Official Statement under the captions "PLAN OF FINANCING – Refunded Bonds," "THE BONDS" (other than under the subcaptions "Book-Entry-Only System" and "Payment Record" as to which no opinion will be expressed), "THE HOTEL OCCUPANCY TAX – Funds and Flow of Funds", "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (other than the subcaption "Compliance with Prior Undertakings" as to which no opinion will be expressed) to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Co-Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Co-Bond Counsel's 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. The legal fees to be paid Co-Bond Counsel for services rendered in

connection with the issuance of the Bonds are contingent on issuance and delivery of the Bonds. Co-Bond Counsel has been engaged by and only represents the City. The legal opinion of Co-Bond Counsel may be printed on the definitive Bonds, if any, and the form of such opinion is attached hereto as APPENDIX C. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Winstead Sechrest & Minick P.C., San Antonio, Texas.

Neither the Attorney General, Co-Bond Counsel, the City Attorney, nor Underwriters' Counsel has been engaged to investigate or verify, and accordingly neither will express any opinion concerning, the financial condition or capabilities of the City or the sufficiency of the security for, or the value or marketability of, the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

RATINGS

Moody's Investors Service, Inc. ("Moody's), Standard & Poor's, a Division of The McGraw-Hill Corporation ("S&P"), and Fitch Ratings ("Fitch") have rated the Bonds "Aaa", "AAA", and "AAA", respectively, based upon the issuance by Ambac Assurance of its financial guaranty insurance policy relating to the Bonds. An explanation of the significance of such ratings may be obtained from Moody's, S&P, or Fitch. (See "BOND INSURANCE" herein.) The rating of the Bonds by Moody's, S&P, and Fitch reflects only the views of said companies at the time the ratings are given, and the City 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 Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City 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

Under Texas law, including, but not limited to, Chapter 103, Texas Local Government Code, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant, and must file each audit report with the City Clerk. The City's fiscal records and audit reports are available for public inspection during the regular business hours of the City Clerk. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Public Information Act, Texas Government Code, Chapter 552. Thereafter, any person may obtain copies of these documents upon submission of a written request to the City Clerk, City of San Antonio, Texas, 100 Military Plaza, San Antonio, Texas, 78205, and upon paying the applicable charges allowed by the Public Information Act for providing this information.

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 1 through 8 and in the CAFR. The City will update and provide this information within six months after the end of each fiscal year commencing in 2005. The City 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 of Texas and approved by the staff of the SEC.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the CAFR 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 ends September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell 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 status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Ordinance make any provision for liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of the 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 approved by the SEC. The address of the Municipal Advisory Council is 600 West 8th Street, Austin, Texas, 78701, or Post Office Box 2177, Austin, Texas, 78768-2177 and its telephone number is (512) 476-6947.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has 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. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims 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 Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

This continuing disclosure agreement may be amended by the City from time to time 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 City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering, as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorize such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and Beneficial Owners of the Bonds. The City may also repeal or amend the provisions of this continuing disclosure agreement if the SEC amends or repeals the

applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The City has complied in all material respects with all of its previous continuing disclosure agreements in accordance with the Rule for the past five years.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by Coastal Securities on behalf of the City was examined by Grant Thornton LLP, certified public accountants. Such computations were based solely on assumptions and information supplied by Coastal Securities on behalf of the City. Grant Thornton LLP has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The report of Grant Thornton LLP will be relied upon by Co-Bond Counsel in rendering their opinion with respect to the exclusion of interest on the Bonds for federal income tax purposes and with respect to the defeasance of the Refunded Bonds.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, including, but not limited to the information under the headings "THE BONDS – Security for the Bonds" and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding 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 City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. 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 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.

CO-FINANCIAL ADVISORS

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

UNDERWRITING

The Underwriters, for which J.P. Morgan Securities, Inc. is serving as representative, have agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price of $9,973,566.83 (which represents the par amount of the Bonds less an original issue discount of $346,818.20 and less an Underwriters' discount of $69,614.97) plus accrued interest.

The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed from time to time by the Underwriters.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the Underwriters will be furnished a certificate, executed by proper officers of the City, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last financial statements of the City appearing in the Official Statement.

AUTHORIZATION OF THE OFFICIAL STATEMENT

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

* * *

This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Rule.

/s/ Ed Garza
Mayor, City of San Antonio, Texas

ATTEST:

/s/ Yolanda Ledesma
Acting City Clerk, City of San Antonio, Texas

SCHEDULE I

TABLE OF REFUNDED BONDS

CITY OF SAN ANTONIO, TEXAS
HOTEL OCCUPANCY TAX REVENUE BONDS, SERIES 1996
(Capital Appreciation Bonds)

Maturity Date	Yields	Par Amount	Maturity Value
08/15/2011	5.950%	$ 899,666.55	$ 2,215,000
08/15/2012	6.000	900,600.00	2,370,000
08/15/0213	6.050	850,656.10	2,395,000
08/15/2014	6.100	799,300.60	2,410,000
08/15/2015	6.150	649,740.00	2,100,000
08/15/2016	6.200	650,229.25	2,255,000
08/15/2017	6.200	699,876.60	2,580,000
		$5,450,069.10	$16,325,000

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APPENDIX A

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 Census 2000, prepared by the U.S. Census Bureau, found a City population of 1,144,646. The City's Department of Planning estimated the City's population at 1,266,700 for the calendar year ending December 31, 2003. 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 Census 2000. The City's Department of Planning estimated Bexar County's population at 1,536,600 for the calendar year ending December 31, 2003. 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 U.S./Mexico 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 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 448.9 square miles, and having a fiscal year 2004 total market valuation of $49.640 billion[1]. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as

[1] Based on Tax Year 2003 Net Taxable Assessed Valuation certified by Bexar Appraisal District as of January 9, 2004.

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. The areas annexed for limited purposes will add, upon full purpose annexation, 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 addresses 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 respective dates 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 (such requirement now codified at Section 43.052, Texas Local Government Code), 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, 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"), providing for 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 ten 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 2005. The City Manager, the City's chief administrative officer, is appointed by and serves at the pleasure of the City Council.

City Charter Amendment Election

Ordinance No. 98892, passed and approved by the City Council on February 26, 2004, called for a joint special municipal election to be held on May 15, 2004, for the purpose of amending the City Charter, by amending the provisions of the Charter applicable to the term of office and term limits of members of the City Council; by amending the provisions of the Charter applicable to compensation for members of the City Council and the Mayor; by amending the Charter by establishing an independent Ethics Review Board; and by amending the Charter to permit an individual member of the City Council to hire staff who serve at the will of the councilmember. These proposed changes were submitted to a vote as four separate propositions. The voters approved Proposition 3 which amends the Charter to establish an independent Ethics Review Board, which will take effect upon adoption by the City Council; however, the other propositions failed.

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 operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2003 were $204,016,870.

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 13th 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 is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City's fiscal year ended September 30, 2003 were $6,449,286.

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Employees

The following table shows the City's total full-time, part-time, and alternate employee positions authorized and number of positions filled. The number of filled positions shown reflects employees on the payroll for the fiscal years indicated, and the number of employee authorized positions shown reflects positions adopted in the fiscal year budget.

	Fiscal Year Ended September 30									
	2004[1], [2]		2003		2002		2001		2000	
Employee	**Filled**	**Authorized**	**Filled**	**Authorized**	**Filled**	**Authorized**	**Filled**	**Authorized**	**Filled**	**Authorized**
Police	1,940	2,033	1,916	2,025	1,865	2,013	1,940	1,978	1,857	1,963
Police Grant Funded	29	30	39	41	42	51	33	52	32	42
Total Police	1,969	2,063	1,955	2,066	1,907	2,064	1,973	2,030	1,889	2,005
Fire	1,427	1,441	1,443	1,442	1,401	1,469	1,417	1,436	1,359	1,394
Fire Grant Funded	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Fire	1,427	1,441	1,443	1,442	1,401	1,469	1,417	1,436	1,359	1,394
Total Police & Fire	3,396	3,504	3,398	3,508	3,308	3,533	3,390	3,466	3,238	3,399
Civilian	6,450	9,580	6,482	9,680	6,613	7,703	6,323	7,823	6,054	7,537
Civilian Grant Funded	666	980	683	1,209	868	907	807	787	749	888
Total Civilian	7,116	10,560	7,165	10,889	7,481	8,610	7,130	8,610	6,803	8,425
Total	10,512	14,064	10,563	14,397	10,789	12,143	10,520	12,076	10,041	11,824

[1] As of December 25, 2003.
[2] The adopted budget for fiscal year 2004 eliminated 137 civilian positions. The eliminated positions included 76 vacant positions and 61 filled positions. Of the 61 filled positions eliminated, 49 employees were placed in other authorized positions, 1 employee retired, and 11 employees elected not to accept employment offers.

Employee Pension Plan and Benefits

The City's employees participate in a variety of defined pension plans. These plans and contributions made to such plans are further described in Note 8 of the CAFR. The City's required contributions to these plans have been made in accordance with State law. In 2003, the Texas Legislature approved the use of pension obligation bonds payable from taxes or revenues, or both, to enable the City to fund its unfunded actuarially accrued liability with respect to the fire and police pension plan. The City is currently evaluating the use of this technique as it evaluates its pension funding options.

Financial Accounting and Financial Policies

Government-wide Financial Statements

Under the new governmental financial reporting model instituted by GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," a new government-wide financial statement is presented, taking the place of the general purpose combining statements presented in previous annual reports. The government-wide financial statements present financial information about the reporting government as a whole using the "economic resource" measurement focus and full accrual basis of accounting. Fiduciary activities, whose resources are not available to finance the City's governmental programs, are not included in these statements, including component units that are fiduciary in nature. The government-wide statements include a statement of net assets and a statement of activities.

The statement of net assets reflects both short-term and long-term assets and liabilities. Capital assets, infrastructure assets, and debts that are considered long-term will now be reported in the governmental activity column. Net assets, previously known as fund balances in prior annual reports, are now presented in three separate components: invested in capital assets, net of related debt; restricted; and unrestricted. Governmental activities, or

those activities normally financed through taxes, intergovernmental revenue, and other non-exchange revenues, are presented in one column. Business-type activities, or those which are primarily financed by fees charged to outside parties for goods or services, are presented in the next column. Component units are reported in the aggregate, following the primary government's total column.

The statement of activities is presented in a net cost format. Expenses are presented in the far left column, followed by program revenues. General revenues are presented at the bottom of the statement. This new presentation allows users to determine which functions are self-supporting, and which ones rely on the tax base in order to complete their mission. The Governmental activities are divided by function; the business-type activities are entered as one line (for example, Aviation, Solid Waste, etc. are on separate lines). Component units are presented in the same format as the Business-type 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. Some reconciling entries will include those numbers needed to report on the full accrual basis in the government-wide financials from a modified accrual basis, as used in the fund statements. Another reconciling entry will be the elimination of internal service fund activity; the net income (loss) is allocated back to user departments in order to achieve a break-even result in the internal service funds. These allocations will only be reflected in the government-wide statements. Any residual amounts of the internal service funds will be reported in the governmental activity column.

The proprietary funds also have a reconciliation presented on the face of the proprietary fund's Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets. The only reconciling item will be the internal service fund allocation.

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 separate columns in the Fund Financial Statements. Nonmajor funds are individually presented in the combining statements.

Governmental Funds

General Fund. The General Fund of the City accounts for all financial resources 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 expendable 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.

Proprietary Funds

Enterprise Funds. The Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises when 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; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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 type.

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 and Retiree Health Care 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.

Debt Management

The City issues debt for the purpose of financing long-term infrastructure capital improvements. Some of these projects have multiple sources of funding which include debt financing. Infrastructure, as referred to by the City, means economic externalities essentially required to be provided by government to support a community's basic human needs, economic activity, safety, education, and quality of life. Types of debt issued by the City include ad valorem tax-supported bonds and certificates of obligation. Certificates of obligation are typically secured by a pledge of revenues and ad valorem taxes, do not require voter approval, and are issued for smaller programs that support the City's major infrastructure facilities and certain of its revenue-producing facilities. Revenue bonds are utilized to finance long-term capital improvements for proprietary enterprise and self-supporting operations. Currently, revenue bonds have provided the financing required for the City's International Airport facilities, the City's Parking System, the City's Municipal Drainage Utility System (Stormwater System), and the Henry B. Gonzalez Convention Center Expansion.

The long-term infrastructure financing process commences with the identification of major projects throughout the City to be financed with ad valorem tax-supported bonds or certificates of obligation. These City-wide projects typically involve public safety, street improvements, drainage, flood control, construction, and improvements to municipal facilities, as well as quality of life enhancements related to municipal parks. Major projects that are financed with ad valorem tax-supported bonds are presented to the electorate for approval. Upon voter approval, the City is authorized to issue ad valorem tax-supported bonds to finance the approved projects. Bond elections are held as needs of the community are ascertained. Revenue bonds do not require an election and are sold as needed for construction, expansion, and/or renovation of facilities in amounts that are in compliance with revenue bond covenants. The process for any debt issuance begins with the budget process and planned improvements to be made during the ensuing fiscal year.

Utilization of comprehensive financial analysis and computer modeling in the debt management plan incorporates numerous variables such as sensitivity to interest rates, changes in assessed values, annexations, current ad valorem tax collection rates, self-supporting debt, and fund balances. The analytical modeling and effective debt management has enabled the City to maximize efficiencies through refundings and debt structuring. Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "AA+", "Aa2", and "AA+" bond rating by Standard & Poor's, A Division of the McGraw Hill Companies, Inc. ("S&P"), Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings ("Fitch"), respectively.

Debt Service Tax Rate

The combination of successful refundings and low interest rates for bond and certificate of obligation sales has resulted in a decrease in the projected maximum debt service tax rate of $0.3049 per $100 valuation prior to 1992, 1993, 1996, 1998, 2001, 2002, and 2003 refundings to a projected maximum debt service tax rate of $0.2420 per $100 in fiscal year 2011.

The Budget Process

Five-Year Financial Forecast

The staff of the City has provided a Five-Year Financial Forecast (the "Forecast") to the City Council. The Forecast is a financial and budgetary planning tool that identifies emerging issues that will be encountered in the next five years and that will have a fiscal impact on the City's programs and services. In addition, the Forecast serves as a foundation for development of the proposed budget by projecting revenues and anticipated expenditures under a defined set of assumptions. The Forecast allows the City Council and staff to identify financial issues in sufficient time to develop a proactive strategy in order to address emerging policy issues. The Forecast, which was presented to the City Council on May 13, 2004, shows a General Fund shortfall of $21.3 million project for fiscal year 2005. Among the major contributing factors to the shortfall are forecasted expenditure increases associated with health insurance benefits for City employees, a 3% salary increase for all eligible civilian employees, and added expenditures to address one-time and recurring mandates. With respect to expenditures, the fiscal year 2005 projections were based upon the continuation of existing services at the fiscal year 2004 level with adjustments for inflation, rising employee health insurance costs, and added expenditures for mandates. The Forecast also assumed added wage increase-related costs from the firefighter collective bargaining agreement and the recently-approved collective bargaining agreement with the San Antonio Police Officers Association. The five-year General Fund projection also projected a shortfall for fiscal year 2006 of $27.8 million, with no additional shortfalls projected for each of the out-years of the forecast period from fiscal year 2007 through fiscal year 2009. The City Council is in the process of prioritizing spending and making other adjustments for a budget proposal on August 5, 2004.

City staff is currently working on developing a balanced proposed budget for fiscal year 2005 which will be presented to City Council on August 5, 2004. The development of a balanced budget will include potential increased fees and revenues or new fees and revenues. Additionally, reductions and redirections for various City programs will be considered and these program changes will be recurring in nature so that savings will be realized in fiscal year 2006 as well.

Net Taxable Assessed Valuation for Tax Years 1994-2003

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation[1]	Change From Preceding Year	
			Amount	Percent (%)
1994	1995	$ 24,309,875,164	$ 1,829,290,574	8.14
1995	1996	26,793,724,971	2,483,849,807	10.22
1996	1997	28,320,799,143	1,527,074,172	5.70
1997	1998	29,422,284,674	1,101,485,531	3.89
1998	1999	31,253,551,025	1,831,266,351	6.22
1999	2000	33,315,478,862	2,061,927,837	6.60
2000	2001	36,033,321,329	2,717,842,467	8.16
2001	2002	39,587,584,280	3,554,262,951	9.86
2002	2003	41,535,547,008[2]	1,947,962,728	4.92
2003	2004	44,536,795,581[3]	3,001,248,573	7.23

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
[2] Based on Tax Year 2002 Net Taxable Assessed Valuation Bexar Appraisal District certification on September 9, 2003.
[3] Based on Tax Year 2003 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of January 9, 2004.

Debt Obligations – Capital Leases Payable

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf operations equipment, public works equipment, a high capacity trailer, a library automation system, and a hazardous materials ("HAZMAT") vehicle. Shown below is the gross value of the assets at September 30, 2003. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the Council. The following is a schedule of the projected remaining future minimum lease payments under these capital leases together with the present value of the net minimum lease payments as of September 30, 2003.

Description	Lease Termination Date	Present Value of Minimum Lease Payments	Amount Representing Interest	Total Future Minimum Lease Payments
Color Copier	12/01/2007	$ 114,333	$ 25,352	$ 139,685
Computer, Laptop CDPD	05/01/2005	178,030	5,833	183,863
Computer, Mainframe	11/01/2003	67,289	740	68,029
Document Publishing System	04/01/2007	267,408	25,649	293,057
Fire Personal Protective Equipment	11/01/2005	650,186	43,326	693,512
Fire Truck, Aerial	11/01/2005	712,900	47,505	760,405
Fire Truck, Ladder	05/01/2007	502,757	38,108	540,865
Fire Truck, Platform	05/01/2007	514,638	39,009	553,647
Fire Truck, Pumper	11/01/2003	115,296	1,482	116,778
Fire Truck, Pumper	05/01/2005	703,353	23,044	726,397
Fire Truck, Pumper	05/01/2005	703,534	23,050	726,584
Golf Cart Equipment	03/01/2004	19,892	244	20,136
Golf Turf Equipment	11/01/2005	209,141	13,936	223,077
Golf Turf Equipment	05/01/2007	159,404	12,082	171,486
HAZMAT Vehicle	05/01/2005	185,001	6,061	191,062
Library Automation System	05/01/2008	718,282	49,649	767,931
Public Works Equipment	05/01/2007	441,026	33,429	474,455
Stormwater Tractor Trailers	05/01/2008	383,970	26,541	410,511
Street Maintenance Equipment	05/01/2008	3,153,527	217,978	3,371,505
Trailer, High Capacity	05/01/2007	543,775	41,217	584,992
Total		$ 10,343,742	$ 674,235	$ 11,017,977

The adopted fiscal year 2004 budget includes appropriations for a lease purchase arrangement to acquire specialized garbage containers for the City's automated garbage collection pilot program. Funding for this Equipment Lease Purchase Agreement occurred on April 20, 2004 in the principal amount of $317,000.

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Tax Phase-In Agreements

The City may designate areas within the City as a reinvestment zone. Thereafter, the City may enter into a tax phase-in agreement with owners of property within the zone. Before entering into a tax phase-in agreement, each entity must adopt guidelines and criteria for establishing tax phase-ins in the zone, which each entity with taxing authority over the designated property will follow in granting tax phase-ins. The tax phase-in agreement may exempt from ad valorem taxation all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed. The property is exempt on the condition that the property owner makes specified improvements or repairs to the property in conformity with the terms of the tax phase-in agreement. The agreement may include each of the applicable taxing jurisdictions, including the City, for a period of up to 10 years. The City and County tax phase-in agreements are not required to be substantially the same, with the exception of projects located in a State-designated enterprise zone. Since 1989, the City has entered into 53 tax phase-in agreements; 30 are active; and 23 have expired or are inactive. The following table depicts, as of January 26, 2004, 30 active tax phase-in agreements.

Active Tax Phase-In Agreements

Company	Phase-In Period	Phase-In Term (Years)	Percent of Phase-In (Type of Property)
Gruma/Mission Foods	1995-2004	10	Real @ 50%
McCarley/Texas Beverages	1995-2004	10	Real @ 50%
Security Capital/Gaylord Containers	1995-2004	10	Real @ 100%; Personal @ 80%
World Savings & Loan	1995-2004	10	Real & Personal @ 100%
York International	1995-2004	10	Real @ 75%
Silver Rio (Westin Riverwalk Hotel)	1997-2006	10	Real & Personal @ 100%
BDS Properties (Valero)	1997-2006	10	Real @ 100%; Personal @ 80%
HBE Corporation (Adams Mark Hotel)	1997-2006	10	Real & Personal @ 100%
Oberthur Gaming Technologies	1997-2006	10	Real @ 100%
Richter's Bakery	1997-2006	10	Real @ 100%; Personal @ 50%
Takata Seat Belts	1997-2006	10	Real @ 100%; Personal @ 50%
Cadillac Lofts	1998-2007	10	Real @ 90%
Boeing Aerospace [1]	1999-2008	10	Personal @ 90%
Capital Group	1999-2008	10	Real & Personal @ 100%
LCWW Partners (Westin La Cantera Resort Hotel)	1999-2008	10	Real & Personal @ 100%
Clark American [1]	2000-2005	6	Real @ 100%
ALCOA [1]	2001-2010	10	Real @ 100%
San Antonio Aerospace [1]	2001-2010	10	Real @ 100%
Coilplus Texas [1]	2001-2006	6	Real @ 100%
PacificCare Health Systems/Opus South [1]	2001-2006	6	Real @ 100%
Chase Bank Credit Card Services – Phase 1 [1]	2001-2010	10	Personal @ 100%
Chase Bank Credit Card Services – Phase 2 [1]	2001-2011	10	Real & Personal @ 100%
Chase Bank Credit Card Services – Phase 4 [1]	2002-2011	10	Personal @ 100%
H.B. Zachry [1]	2002-2011	10	Real @ 100%
Royal Oak Industries	2002-2011	10	Personal @ 100%
United Healthcare [1]	2002-2007	6	Real @ 100%
Chase Bank Credit Card Services – Phase 3 [1]	2003-2012	10	Real @ 100%
MedLine [1]	2003-2012	10	Personal @ 100%
HEB	2004-2009	6	Real @ 100%
AeroSky	2004-2009	6	Real @ 100%

[1] City policy requires companies receiving a tax phase-in to pay all new employees a living wage.

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 nonagricultural employment in the San Antonio MSA for March 2004 was 729,200, which is 4,300, or 0.59% more jobs than the March 2003 total of 724,900. 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 San Antonio Business Journal Book of Lists 2004, San Antonio's five largest private-sector employers ranked by number of employees are: USAA (United Service Automobile Association), Methodist Healthcare System, SBC Communications, Inc., Baptist Health System, and Citibank; and San Antonio's five largest publicly traded companies, ranked by revenues, are SBC Communications, Inc., Valero Energy Corp., Clear Channel Communications, Inc., Tesoro Petroleum Corp., and Harte-Hanks Inc.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains the largest industry sector in the San Antonio economy. The industry is diversified, with related industries such as research, pharmaceuticals, and manufacturing contributing approximately the same economic impact as health services. According to the *San's Antonio's Healthcare and Bioscience Industry February 2004 Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the total economic impact from this industry sector totaled approximately $11.9 billion in 2002. The industry provided over 100,500 jobs, or approximately 14% of the City's total employment. The healthcare and bioscience industry's annual payroll in 2002 approached $3.6 billion. The 2002 average annual wage of San Antonio workers was $31,332, compared to $33,145 for healthcare and bioscience employees. These 2002 economic impact figures represent growth of 4% over the previous year, or approximately $430 million. In addition, the industry grew by 22% from 1998 through 2002.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has ten major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over $2.5 billion as of January 2004. As of January 2004, approximately 26,757 Medical Center employees provided care for over 3.64 million outpatients and approximately 101,871 inpatients. A survey based on 2002 data of 371,000 patients treated in the Medical Center with estimated billings of $573 million, indicated that 30% or 111,000 came from surrounding counties. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represent approximately $1.7 billion, which is a $42 million increase in 2003 over the previous year. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects already in progress total $141 million, which represent a 26%, increase in 2003 over the previous year. Capital projects planned for the years 2005 through 2009 will add an additional estimated $169 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. The UT Health Science Center received the largest amount of research funding of any South Texas university or institution in fiscal year 2003, garnering $189 million.

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 level one trauma center (the only one in the U.S. Army medical care system) 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 also a level one trauma center (the only one in the U.S. Air Force medical care system) 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).

The two military medical care facilities and the Veterans Hospital partner in a variety of ways, including clinical research and the provision of medical care to military veterans. This partnership is unique and represents a valuable resource to San Antonio and the nation.

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/Department of Molecular Medicine, the Cancer Therapy and Research Center's Institute for Drug Development, The Southwest Oncology Group, and dozens of new biotechnology-related companies, whose work involves various stages of the very complicated drug development process. 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. donated $1.8 million to the Park for a 7,000 square foot, state-of-the-art teleconferencing building that links 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 bioscience 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 guideposts 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 eight of the last 11 cancer drugs approved for general use by the Federal Drug Administration.

Military Installations

The military represents a principal component of the City's economy, which ranks third in its local economic impact. 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-created Brooks Development Authority on July 22, 2002, as part of the Brooks City-Base Project ("Brooks City-Base"). As of September 2003, the total military employment associated with the three active military installations and Brooks City-Base, 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 ("Kelly AFB") 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 redevelopment of the base into a business and industrial park. The new business park, known as KellyUSA, is focused on becoming the Port of San Antonio by: (1) establishing international air cargo operations; (2) developing a Kelly rail port for direct international rail operations including inland port distribution with the Port of Corpus Christi; (3) expanding aviation maintenance, repair, and overhaul (MRO) operations into a renowned international center of excellence for MRO. KellyUSA assets include multi-modal infrastructure, including an 11,400-foot runway for commercial air operations valued at $1.8 billion. To further the redevelopment goals, GKDA has completed over $191 million in new construction and facility upgrades at KellyUSA, including a new 123,000 square foot hangar for Boeing in 2001 and a new office building in 2000 (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 (2003-2008), including the demolition of 5 million square feet in unusable facilities. As of January 2004, redevelopment efforts have resulted in the retention of 7,400 military jobs and the creation of about 5,200 new commercial jobs. GKDA has also executed leases totaling approximately 8 million square feet of the space with 73 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 their continued use. In 2004, GKDA is beginning "Phase II New Facility Development" at KellyUSA that encompasses $364 million in capital projects financed by City, State, federal and private sector funds. GKDA projects that Phase II will generate another 6,400 jobs and increase KellyUSA's economic impact on the community to $4.3 billion annually.

Brooks City-Base 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.

Despite the official closure of Kelly AFB 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. In September 2003, the U.S. Army relocated U.S. Army South Headquarters from Puerto Rico to Fort Sam, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. The Army 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 on these historic facilities to be completed by summer 2004. 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 intends to extend the public-private partnership initiative to include other properties at Fort Sam currently available for redevelopment.

Other Major Industries

Aerospace Industry. The aerospace industry's annual economic impact to the City is $2.5 billion, a figure which represents 5% 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, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta and Continental, 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 three new non-stop passenger routes in the past 12 months and currently has flights to 28 non-stop destinations, with seasonal charter service to Mexico available starting in May 2004. 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, having completed 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 integrator service primarily provided by UPS, FedEx, and Airborne Express. 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. In August 2002, the second class of AAAA commenced with 127 students. In September 2003, the AAAA began its third year with an enrollment of 130 students. This innovative workforce initiative provides high school juniors and seniors a dual-credit aerospace curriculum taught by the Alamo 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 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. Its 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 the IT industry's estimated 11,500 employees totals approximately $500 million. Not captured in this employment number is an additional 4,600 employees of the Air Intelligence Agency located in San Antonio, which is the premier IT agency for the Air Force and the Department of Defense. The success of the AAAA prompted the community to establish a similar academy for IT, which began in August 2002 with an enrollment of 81 high school juniors. The City is focused on leveraging its IT industry assets to serve the nation in developing and implementing the initiatives of the federal Homeland Security Act.

Manufacturing Industry. Toyota Motor Manufacturing broke ground on their sixth North American manufacturing facility on October 17, 2003. Toyota will invest $800 million in this facility, located on 2,000 acres in South San Antonio. Production is scheduled to begin in 2006, and at full production, the facility will produce 150,000 full-size Tundra trucks. With this project, Toyota will create 2,100 construction jobs, 2,000 direct jobs, and 5,300 spin-off jobs. At full operations, the payroll for the 2,000 workers at the facility will total between $90 and $100 million. It is estimated that the rate of return on the City of San Antonio's investment is 18.3%.

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 Electric and Gas Customers

For the Month of December	Electric Customers	Gas Customers
1994	504,810	295,092
1995	516,679	297,654
1996	528,302	299,140
1997	538,729	301,044
1998	548,468	301,842
1999	560,628	302,991
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503
2003	602,185	306,591

Source: CPS.

San Antonio Water System Average Customers per Fiscal Year

Fiscal Year Ended May 31[1]	Water Customers[2]
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
2003	303,917

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

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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		Residential Multi-Family[1]		Other[2]	
	Permits	Valuation	Permits	Valuation	Permits	Valuation
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
2003	6,771	521,090,684	141	2,738,551	13,813	1,041,363,980

[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					
	2003	2002	2001	2000	1999	1998
Amarillo	$ 44,581,868	$ 44,201,183	$ 43,357,043	$ 42,474,995	$ 40,781,524	$ 39,276,557
Arlington	46,483,314	42,293,256	65,948,096	65,264,427	60,092,585	57,095,137
Austin	105,044,871	110,208,923	117,393,240	117,818,293	104,915,700	94,261,113
Dallas	184,263,151	192,542,321	210,130,838	215,412,071	198,740,061	189,502,534
El Paso	48,949,656	47,465,776	46,876,210	45,970,014	43,603,400	41,414,498
Fort Worth	72,772,964	72,632,487	72,975,421	71,543,992	68,142,426	64,116,910
Houston	325,284,697	334,122,179	337,540,694	321,095,967	308,508,700	296,149,172
Irving	36,584,559	38,810,594	43,188,105	44,773,277	42,773,277	37,198,548
Plano	46,876,867	45,309,249	47,327,003	47,325,948	40,483,049	36,058,044
SAN ANTONIO	152,360,840	153,207,656	151,422,401	133,360,785	126,060,252	117,583,252

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County encompassing, in the aggregate, 41 high schools, 69 middle/junior high schools, and 237 elementary schools; and there are an additional 23 charter school districts with a total of 47 schools at all grade levels. 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 90 accredited private and parochial schools at all education levels. In San Antonio, there are six accredited universities which include a medical school, a dental school, and a law school, and four public community colleges, which had a combined enrollment of 90,649 students for the Fall 2003 semester.

Source: Texas Education Agency.

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Employment Statistics

The following table shows current employment estimates by industry in the San Antonio MSA for the period of March 2004, as compared to the prior periods of February 2004 and March 2003.

Employment by Industry

San Antonio MSA[1]	March 2004	February 2004	March 2003
Natural Resources and Mining	2,200	2,200	2,300
Construction	40,100	39,800	39,400
Manufacturing	43,700	43,700	46,000
Trade, Transportation, and Utilities	128,700	128,000	129,100
Information	23,800	23,700	23,200
Financial Activities	59,900	59,900	59,000
Professional and Business Services	86,700	85,600	85,200
Educational and Health Services	98,100	97,700	96,200
Leisure and Hospitality	80,800	78,500	79,900
Other Services	27,400	27,100	27,500
Government	137,800	137,500	137,100
Total Nonagricultural	729,200	723,700	724,900

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio MSA, Texas, and the United States for the period of March 2004, as compared to the prior periods of February 2004 and March 2003.

Unemployment Information *(all estimates are in thousands)*

San Antonio MSA [1]	March 2004	February 2004	March 2003
Civilian Labor Force	829.4	826.9	815.1
Number of Employed	787.5	784.2	772.4
Number of Unemployed	41.9	42.7	42.7
Unemployment Rate %	5.1	5.2	5.2

Texas (Actual) [1]	March 2004	February 2004	March 2003
Civilian Labor Force	10,870.5	10,856.3	10,790.6
Number of Employed	10,218.4	10,192.6	10,073.9
Number of Unemployed	652.1	663.7	716.7
Unemployment Rate %	6.0	6.1	6.6

United States (Actual) [2]	March 2004	February 2004	March 2003
Civilian Labor Force	146,525.0	146,154.0	145,801.0
Number of Employed	137,691.0	137,384.0	136,783.0
Number of Unemployed	8,834.0	8,770.0	9,018.0
Unemployment Rate %	6.0	6.0	6.2

[1] *Source: Labor Market Information Department, Texas Workforce Commission (model-based methodology).*

[2] *Source: Bureau of Labor Statistics, U.S. Department of Labor (Current Population Survey).*

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Employers with 500 or More Employees in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties)[1]

Firm	Product/Service	Firm	Product/Service
Construction:			
Bexar Electric Company	Electrical Contractor	Urban Concrete Contractors	Exterior Concrete, Stucco
CCC Group, Inc.	Industrial Contractor	H.B. Zachry Company	General Contractor
Design Electric	Electrical Contractor		
Finance, Ins., Real Estate:			
American Funds Group	Mutual Funds & Investments	PacifiCare	Health Insurance
Argonaut	Insurance	Randolph-Brooks Federal Credit Union	Federal Credit Union
Bank of America	Banking/Financial	San Antonio Federal Credit Union	Federal Credit Union
Citigroup	Banking/Financial/Insurance	Security Service Federal Credit Union	Federal Credit Union
Frost National Bank	Banking/Financial	USAA	Insurance/Financial Services
The Hartford	Insurance	Washington Mutual Bank	Financial Services
Humana	Health Insurance	Wells Fargo	Financial Services
The Lynd Company	Insurance	World Savings	Savings Deposits And Loans
JP Morgan Chase	Banking/Financial		
Government:			
Bexar County	County Government	San Antonio Fire Department	Fire Department
Brooks City-Base	Military Installation & Ind. Park	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	San Antonio Police Department	Police Department
Fort Sam Houston	Military Installation	Texas Dept. of Transportation	Road Construction/Maintenance
Lackland AFB/37th Training Wing	Military Installation	VIA Metropolitan Transit	Urban Public Transportation
Randolph Air Force Base	Military Installation		
Manufacturing:			
Alamo Concrete Products	Ready-Mix Concrete	Martin Marietta Materials SW, Inc.	Limestone, Asphalt & Concrete
Cardell Cabinetry	Cabinetry	Miller Curtain Company	Curtains & Draperies
Clarke American	Check Printing	Motorola	Industrial Electronics
DPT Laboratories, Inc.	Pharmaceuticals & Cosmetics	S.M.I. Texas	Steel Manufacturing & Fabrication
Friedrich Air Conditioning Co.	Air Conditioning Systems	San Antonio Express-News	Newspaper Publisher
Frito-Lay, Inc.	Snack Foods	San Antonio Shoe, Inc. (SAS)	Men's and Ladies' Shoes
Kinetic Concepts, Inc.	Specialty Medical Products	Scooter Store, Inc.	Medical & Hospital Equipment
L & H Packing Company	Meat Processing	Sony Semiconductor San Antonio	Semiconductors
Lancer Corporation	Beverage Dispensing Equipment	Vulcan Materials	Paving Materials & Cement Products
Medical:			
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	Hospital & Health Care
Allied Home Health Nursing Services	Home Health Care	Methodist Specialty &Transplant Hospital	Hospital & Health Care
Baptist Health System	Hospital & Health Education	Methodist Metropolitan Hospital	Hospital & Health Care
University Health System	Health Care And Trauma Services	Morningside Ministries, Inc.	Residential Care/Home Health Care
Brooke Army Medical Center	Military Health Care	Outreach Health Services	Home Health Care
Center for Health Care Services	Mental Health Case Management	San Antonio State Hospital	Mental Health Care Facility
Christus Santa Rosa Health Care	Hospital & Health Care	San Antonio State School	Mental Retardation Care Facility
Girling Health Care, Inc.	Home Health Care	South Texas Veterans Health Care System	Hospital & Health Care
Guadalupe Valley Hospital	Hospital Services	Southwest General Hospital	Hospital & Health Care
Interim Healthcare San Antonio	Nurses Registry	University Health System	Hospital & Health Care
McKenna Memorial Hospital	Hospital & Health Care	University Physicians Group	Primary & Specialty Health Care
Medical Team, Inc.	Home Health Care	University Health Science Center at S.A.	Professional Health Education
Methodist Children's Hospital	Children's Hospital & Health Care	VNA and Hospice of South Texas	Home Health Care & Hospice Care
Retail:			
Aaron Rents and Sells Furniture	Office & Residential Furniture	H.E. Butt (H.E.B.) Grocery Company	Supermarkets/Gourmet Stores
Ancira Enterprises	Auto Dealerships	Holt Company of Texas	Construction Equipment
Dillard's Department Stores	Department Stores	QVC San Antonio, Inc.	Electronic Customer Service Center
Eckerd's Drugs of Texas, Inc.	Drug Stores	R& L Foods, Inc.	Taco Bell, Pizza Hut, & KFC Stores
Eye Care Centers of America, Inc.	Eyewear	Sun Harvest Farms, Inc.	Natural Foods Grocery Stores
Foley's Department Stores	Department Stores	Tanseco Inc./Div. of Radio Shack	Electronics
Gunn Automotive Group	Auto Dealerships	Target Stores	Discount Stores

[1] *January 2004, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.*

(Table continues on next page.)

Employers with 500 or More Employees in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties) (continued)[1]

Firm	Product/Service	Firm	Product/Service
Services:			
Administaff, Inc.	Professional Employer Organization	Parent/Child Inc.	Early Childhood Dev./Childcare
Advanced Temporaries, Inc.	Temporary Staffing	Peakload Temporary Services	Personnel Staffing
Advantage Rent-A-Car	Vehicle Rental	Pioneer Drilling Company	Oil & Gas Drilling
Air Force Village Foundation	Military Retirement Facility	Regal Cinemas	Movie Theaters
Alamo Community College District	Community College District	RK Group, Inc.	Catering
Alamo Heights School District	Public School District	San Antonio College	Community College
Allen Tharp & Associates	Food Service Consultant	San Antonio School District	Public School District
American Building Maintenance	Contract Janitorial & Maintenance	San Antonio Spurs LLC	Professional Basketball Team
Bill Miller Bar-B-Q Enterprises, Inc.	Restaurants & Catering	Schertz-Cibolo-Universal City School District	Public School District
Boeing Aerospace Support Center	Aircraft Maintenance & Modification	Sears Teleservice Center	Customer Service Consultants
Cadbeck Staffing	Professional Employer Organization	SeaWorld of Texas, Inc.	Marine Life Entertainment
Calling Solutions, Inc.	Integrated Communications	Securitas Security Services USA, Inc.	Security Officer Services
Comal School District	Public School District	Seguin School District	Public School District
East Central School District	Public School District	Six Flags Fiesta Texas	Entertainment Theme Park
Edgewood School District	Public School District	Somerset School District	Public School District
Enterprise Rent-A-Car	Vehicle Rental	South San Antonio School District	Public School District
Floresville School District	Public School District	Southside School District	Public School District
Frontier Enterprises	Restaurant Headquarters	Southwest School District	Public School District
Goodwill Industries of San Antonio	Vocational Services	Southwest Research Institute	Research & Development
Harcourt Assessment, Inc.	Test Publisher	St. Mary's University	Private University
Harlandale School District	Public School District	St. Phillip's College	Community College
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Staff Professionals Inc.	Personnel Staffing
Hyatt Hill Country Resort	Hotel Resort	Standard Aero US	Aircraft Engine Repair
Industry One Staffing	Personnel Staffing	Taco Cabana, Inc.	Restaurants
Judson School District	Public School District	Talent Tree, Inc.	Personnel Staffing
Little Caesar's of San Antonio, Inc.	Pizza Take Out Restaurants	Texas Department of Human Services	State Social Services
Lockheed Martin Kelly Aviation	Aviation Consultants	Treco Services, Inc.	Janitorial Contract Services
Luby's Cafeterias, Inc.	Cafeterias	Trinity University	Private University
Marriott Rivercenter Hotel	Hotel	University of Texas at San Antonio	Public University
McDonald's-Haljohn, Inc.	Fast Food Restaurants	University of The Incarnate Word	Private University
Mi Tierra Restaurant & Bakery	Restaurant & Bakery	VIP Temporaries	Personnel Staffing
MTC, Inc.	Restaurants	Waste Management, Inc.	Solid Waste Collection/Disposal
New Braunfels School District	Public School District	Waterpark Management, Inc.	Resort & Waterpark
North East School District	Public School District	Wendy's of San Antonio Inc.	Fast Food Restaurants
Northside School District	Public School District	Westaff	Personnel Staffing
Our Lady of the Lake University	Private University	YMCA of Greater San Antonio	Health & Fitness/Youth Centers
Transportation, Comm., Utilities:			
AT&T	Telecommunications	Southwest Airlines	Air Service & Transportation
City Public Service	Electric & Natural Gas Utility	Time Warner Cable	Cable TV & Internet Service
Clear Channel Communications	TV & Radio Stations, Advertising	Trans Met Inc.	Freight Transpiration
Qwest Communications	Telecommunications	U.S. Postal Service	Postal Services
San Antonio Water System	Water Utility	United Parcel Service	Parcel Delivery
SBC Communications Inc.	Telecommunications	Valero Energy Corporation	Crude Oil Refinery
SBC Southwestern Bell	Telecommunications	WorldCom	Telecommunications
Wholesale:			
Advantage Sales & Marketing	Packaged Goods/Food Broker	SYGMA Network, Inc.	Distributor
CARQUEST Auto Parts (Straus-Frank Co.)	Automotive Replacement Parts	Tyson Foods, Inc.	Food Service
Color Spot Nurseries/Southwest Division	Nurseries		

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San Antonio Electric and Gas Systems

History and Management

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 bond ordinances authorizing the issuance of the currently outstanding debt by the City's electric and gas systems (the "EG Systems") establish management requirements and provide that the complete management and control of the EG 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 Trustees, San Antonio, Texas" (referred to herein as the "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 EG Systems.

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 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 that 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 EG 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 issuances 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 EG 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.

In 1997, CPS established a 15-member Citizens Advisory Committee (the "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 EG Systems and other aspects of CPS' business.

Service Area and Rates

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 CPS electric service area has been approved by the Public Utility Commission of Texas (the "PUCT").

CPS is currently the exclusive provider of electric service within the service area, including the provision of electric service to some Federal military installations that own their own distribution facilities located within the service area. As discussed below under "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 the City did not intend at that time to opt-in to the deregulated electric market. The City Council has taken no additional action relating to this decision. 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"). ERCOT is a synchronous interconnected electric system that operates wholly within Texas. (See "*Electric Utility Restructuring In Texas; Senate Bill 7*.")

In addition to the area served at retail electric 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 with retail gas, 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 in and around its service area.

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. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility like the EG 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 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 electric rates has ever been filed. CPS is not subject to the annual gross receipts fee payable by public utilities. (See "Electric Utility Restructuring in Texas; Senate Bill 7" herein.)

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.

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 exceed 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. In 2003, the Texas Legislature passed HB 2548, which amended Section 39.203(e) of the PURA. This new law

authorizes the PUCT to require transmission owners such as CPS to construct and/or enlarge transmission facilities in order to ensure reliability or to mitigate transmission system constraints within ERCOT.

Electric Utility Restructuring in Texas; Senate Bill 7. 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 govern investor owned utilities ("IOUs") and electric co-operatives ("Electric Co-ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs, 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, to chose their electric energy supplier. 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 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000 and to unbundle 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.

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 otherwise are 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.

Environmental Restrictions of Senate Bill 7. SB 7 also contains specified emissions reduction requirements for certain older electric generating units which would otherwise be exempt from the Texas Commission on Environmental Quality's ("TCEQ", formerly the Texas Natural Resource Conservation Commission) permitting program by virtue of "grandfathered" status. Under the bill, annual emissions of nitrogen oxides ("NO_x") from such units are to be reduced by 50% from 1997 levels, beginning May 1, 2003 and reported on a yearly basis. 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 annual reporting. It is possible that over the upcoming years the Environmental Protection Agency ("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

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to make CPS more efficient and competitive, while delivering 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.

Debt and Asset Management Program. CPS has developed a debt and asset management program (the "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 its 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 net 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 lower interest costs, fund strategic initiatives, and increase net cash flow. The issuance of the Junior Lien Obligations on May 15, 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 Air Force Base that remains under U.S. Air Force control, which is now a part of Lackland Air Force Base. CPS is the full service electric and gas provider for 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, 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 currently working on addressing all health and safety code violations, and this process is approximately 90% completed. CPS is the full service provider for both the electric and gas systems.

On February 24, 2003, CPS received unsuccessful bidder notification from the Defense Energy Support Center regarding the Texas Regional Demonstration Project (the "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.

In June 2003, Lackland Air Force Base met with CPS for a preliminary discussion regarding a sole source acquisition for electric and gas utility systems. The U.S. Air Force and CPS had several more privatization

discussion meetings between July and December 2003. In January 2004, CPS submitted an unsolicited proposal for the electric and gas utility infrastructures at the Lackland Annex at Camp Bullis and main Lackland Air Force Base. The U.S. Air Force's privatization transfer target date remains set at September 30, 2005.

On September 30, 2003, CPS acquired the electric utility system at Camp Bullis. The Camp Bullis electric distribution system is primarily an overhead system that consists of approximately 10 miles of three-phase equivalent distribution lines with a mixture of wood and concrete poles. CPS crews have completed substantially all the new electric meters and will begin the process of evaluating the overhead distribution system to establish a long-term plan to bring the system to CPS' standards. As part of the transfer, Camp Bullis became a full-service CPS customer for the next 50 years.

On December 1, 2003, CPS acquired the electric utility infrastructure at Fort Sam Houston and became the owner for the electric system at this installation. The Fort Sam Houston electric distribution system is primarily an overhead system that consists of approximately 70 miles of three-phase equivalent distribution lines with a mixture of wood and concrete poles. Over the next several months, CPS crews will install over 1,000 new electric meters and begin the process of evaluating the overhead distribution system to establish a long-term plan to bring the system to CPS' standards. As part of the transfer, Fort Sam Houston became a full-service CPS customer for the next 50 years. CPS is already the owner and full service provider for the gas system at Fort Sam Houston.

Electric System

Generating System. 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 the two-unit nuclear power plant called the South Texas Project (the "STP"). STP is 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	Percent 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
TOTAL	100.0%	2,500

CPS agreed to participate in the STP in 1973. Full power operating licenses were issued by the Nuclear Regulatory Commission on March 22, 1988, for Unit 1 of the STP and March 28, 1989, for Unit 2, and the Units went into commercial operation on August 25, 1988, and June 19, 1989, respectively.

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 continue to be shared in proportion to ownership interests.

Joint Operating Agreement. CPS and Texas Genco Holdings, Inc. entered into the Joint Operating Agreement (the "JOA") 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 to serve the combined loads of both entities. CPS and Texas Genco now share equally the benefits achieved through joint dispatch of their combined portfolio of power plants, and this agreement is expected to continue through the term of the agreement that ends in 2009.

Transmission System. CPS maintains a transmission network for the movement of large amounts of electric power from the 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.

Distribution System. The distribution system is supplied by 83 substations strategically located on the high voltage 138/345 kV transmission system. Approximately 7,331 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 3,160 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground distribution systems. Presently, 70,388 street light units are in service, the vast majority of the lights are high-pressure sodium vapor units.

Gas 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 255 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 4,421 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.

Implementation of New Accounting Policies

During the month of November 2002, CPS began recording unbilled revenue to correctly match monthly revenues (billed and unbilled) with the recorded monthly expenses.

Recent Financial Transactions

On May 15, 2003, CPS sold $250,000,000 in Junior Lien Obligation bonds with approval from the CPS Board and the City Council. These bonds are variable rate demand obligations. CPS has used the proceeds to reimburse itself for costs associated with prior construction and to pay for expansion and improvements to its EG Systems.

On May 30, 2003, CPS restructured its New Series 2002 Bond Escrow to take advantage of favorable interest rates. CPS saved $1.4 million in debt service costs.

On July 30, 2003, CPS issued $90,935,000 in Revenue Refunding Bonds, New Series 2003A with approval from the CPS Board and the City Council. CPS used the proceeds to advance refund $95,980,000 in New Series 1994-A and New Series 1995 bonds. CPS will realize gross savings in future debt service payments of $15.9 million.

On November 5, 2003, CPS issued $350,490,000 in Revenue Refunding Bonds, New Series 2003 (Forward Delivery) with approval from the CPS Board and the City Council. CPS used the proceeds to current refund $375,485,000 in New Series 1994-A bonds. CPS will realize gross savings in future debt service payments of $32.9 million.

City Public Service Operating Statement [1]

	Fiscal Years Ended January 31				
	2004	2003	2002	2001	2000
Operating Revenues					
Electric	$ 1,299,447,574	$ 1,132,788,588	$ 1,028,259,435	$ 1,124,414,416	$ 933,629,335
Gas	204,366,791	168,704,731	172,586,985	214,555,539	107,019,474
Total Operating Revenue	$ 1,503,814,365	$ 1,301,493,319	$ 1,200,846,420	$ 1,338,969,955	$ 1,040,648,809
Less Unbilled Revenue[2]	(2,804,089)	58,384,716	-0-	-0-	-0-
Operating Revenue Net of Unbilled Revenue	1,506,618,454	1,243,108,603	1,200,846,420	1,338,969,955	1,040,648,809
Operating Expenses[3, 4]	942,470,670	740,161,094	688,875,837	754,145,321	520,915,135
Net Operating Income	$ 564,147,784	$ 502,947,509	$ 511,970,583	$ 584,824,634	$ 519,733,674
Non-Operating Income (Net)[3, 5]	23,990,100	28,547,470	49,022,259	50,268,724	39,319,915
Available for Debt Service	$ 588,137,884	$ 531,494,979	$ 560,992,842	$ 635,093,358	$ 559,053,589
Other Deductions:					
Depreciation	$ (228,940,920)	$ (217,036,570)	$ (188,998,839)	$ (197,322,532)	$ (165,177,353)
Interest on Bonds, Other Interest and Debt Expense	(152,296,375)	(159,138,600)	(170,212,516)	(173,114,847)	(174,328,911)
Interest During Construction	3,072,931	6,776,744	7,060,613	12,593,131	13,286,115
Defeasance of Debt	-0-	(7,057,173)	-0-	(2,586,215)	-0-
Payments and Refunds to City	(206,056,680)	(172,235,562)	(168,134,295)	(185,005,847)	(145,473,968)
Total Other Deductions:	$ (584,221,044)	$ (548,691,161)	$ (520,285,037)	$ (545,436,310)	$ (471,694,117)
Available for Debt Service Less Other Deductions	3,916,840	(17,196,182)	40,707,805	89,657,048	87,359,472
Unbilled Revenue[2]	(2,804,089)	58,384,716	-0-	-0-	-0-
Net Income	$ 1,112,751	$ 41,188,534	$ 40,707,805	$ 89,657,048	$ 87,359,472

[1] Unaudited.
[2] See *Implementation of New Accounting Policies*, herein.
[3] Excludes income and expense related to the Employee Health & Welfare Plans.
[4] Excludes investments fair value adjustment.
Source: CPS.

San Antonio Water System

History and Management

In 1992, the City Council consolidated all of the City's 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, unified 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 created 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 water 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 the water 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.

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 9,300 miles of water and sewer mains.

Historical Water Consumption (Million Gallons) [1]

Fiscal Year Ended	Daily Average	Peak Day	Peak Month	Metered Usage	Metered Water Revenue
05/31/1999	159	308	July	53,520	$ 74,317,726
05/31/2000	162	269	August	57,144	80,606,965
05/31/2001	155	267	July	53,047	73,166,293
12/31/2001 [2]	159	274	July	34,839	50,517,854
12/31/2001 [3]	159	274	July	58,097	74,521,211
12/31/2002 [3]	143	222	August	52,303	77,801,600
12/31/2003 [3]	150	303	August	50,576	81,188,187

[1] Unaudited.
[2] On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the seven months ending December 31, 2001.
[3] 12 months ending December 31.
Source: SAWS.

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Water Consumption by Customer Class (Million Gallons) [1]

	2003 [2]	2002[2]	2001[2]	2001[3]	2001	2000	1999
Residential	27,760	28,372	29,003	19,397	28,694	31,008	29,496
Commercial	11,730	11,942	12,371	6,538	12,384	13,536	11,616
Apartment	7,794	7,791	7,718	4,641	7,783	8,148	8,136
Industrial	2,473	2,696	2,670	1,617	2,737	2,724	2,820
Wholesale	136	173	531	770	535	624	528
Municipal	683	876	784	350	914	1,104	924
	50,576	51,850	53,077	33,313	53,047	57,144	53,520

[1] Unaudited.
[2] 12 months ending December 31.
[3] On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the seven months ending December 31, 2001.
Source: SAWS.

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 stormwater quality program with the Board and adopted a schedule of rates to be charged for stormwater drainage services and programs. As of the date hereof, the stormwater 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 306,300 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 2003, the waterworks system had in place 4,251 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between six and 12 inches), and 22,117 fire hydrants distributed evenly throughout the SAWS service area.

Wastewater System. The San Antonio City Council created the City Wastewater System in 1894. A major sewer system expansion program began in 1960 with bond proceeds that for new treatment facilities and an enlargement of the wastewater system. In 1970, the City became the Regional Agent of the Texas Commission of Environmental Quality (formerly known as Texas Water Quality Board). The Regional Agent Boundary encompasses approximately 360 square miles within Bexar County. In 1992, the wastewater system was consolidated with the City's Waterworks and Recycling Systems to form the San Antonio Water System ("SAWS").

SAWS serves the residents of the City, 18 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 403 square miles. SAWS also coordinates with the City of San Antonio for wastewater planning for

the City's total planning area, Extra-territorial Jurisdiction ("ETJ"), of approximately 956 square miles. The population for this planning area is approximately 1.2 million people.

In addition to the treatment facilities owned by SAWS, there are six privately owned and operated sewage and treatment plants within the San Antonio ETJ. There are approximately 321,000 wastewater sewer connections within Bexar County. Of these, SAWS serves approximately just over 290,000 customers.

The Wastewater System is composed of approximately 5,000 miles of mains; three major treatment plants (Dos Rios, Leon Creek and Salado Creek); and a smaller treatment plant (Medio Creek). The three major plants are activated sludge facilities and the small plant is an extended aeration plant. SAWS holds Texas Pollutant Discharge Elimination System ("TPDES") wastewater discharge permits, issued by the TCEQ for each of these four plants which have a combined treatment capacity of 225.7 million gallons per day ("MGD"). In addition, SAWS operates and maintains several small satellite facilities that vary in number and are temporary, pending completion of interceptor sewers that will connect the flow treated at such facilities to the wastewater system. The permitted flows from the Wastewater System's four regional treatment plants represent approximately 98% of the municipal discharges within the ETJ.

Water Reuse System. SAWS owns the treated effluent from its wastewater treatment plants and has the authority to sell non-potable water. The Recycled Water System is in its fourth year of construction and Phase I of the system is complete. Phase I consists of two, North-South transmission lines. Phase II, which consists of interconnections between the two branches of phase I, is in the design stage. Upon completion, the recycled water system will be capable of delivering up to 35,000 acre-feet of recycled water per year.

Chilled Water and Steam System. SAWS owns and 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 chilled water and/or steam service to 23 customers. Various City facilities that include the Henry B. Gonzalez Convention Center and the Alamodome constitute approximately 75% of the downtown system's chilled water and steam annual production requirements. 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. Additionally, under a Memorandum of Agreement with the Brooks Development Authority, SAWS provides operational and maintenance services for the Brooks City Base central thermal energy facility and two small satellite sites. Together, chilled water and steam services produced $12,193,646 in gross revenues for the 2003 fiscal year.

Stormwater 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 regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for fiscal year 2004 is $3,206,210, for which SAWS is reimbursed $2,746,327 from the storm water utility fee imposed by the City.

Water Supply

Until recently, the City obtained 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 five 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 it also includes areas of population ranging from communities with only a few hundred residents to the City and other urban areas with well over one million residents. 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 by 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 management 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. In 1993, the Texas Legislature adopted the Edwards Aquifer Authority Act, which created a new regulatory agency to manage withdrawals from the Edwards Aquifer and to protect springflows. Said agency, known as the Edwards Aquifer Authority, is 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 will be required to supplement withdrawals from the Edwards Aquifer to enable the City to meet the its long-term water needs.

SAWS' Water Resources 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	Actual Assessment
2001	$ 0.0358	$ 0.0358	$ 0.0358
2002	0.0350	0.0708	0.0708
2003	0.0230	0.0938	0.0844
2004	0.0190	0.1128	0.1100
2005	0.0250	0.1378	TBD

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 period 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. SAWS has implemented an aggressive water conservation program, which has reduced pumping to 140 gallons per person per day in 2003 and will reach 132 gallons per person per day over the next five to ten years. This will be accomplished through a diverse set of programming 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. The Community Conservation Committee is a group of stakeholders appointed by the Board of Trustees to advise SAWS on water conservation issues. The Conservation Program is based on partnerships with stakeholders.

SAWS has also developed partnerships with local authorities, groundwater 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 2004 has been appropriated by the United States Department of Agriculture ("USDA") for the Edwards Aquifer region to assist landowners with agricultural irrigation efficiencies. SAWS has partnered with the USDA and farmers to acquire efficient irrigation systems in exchange for Edwards Aquifer water rights. In addition, SAWS has lead the way in demonstrating the water conservation savings and economic benefits of using drip irrigation in South Bexar County. SAWS 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. SAWS 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.

Aquifer Storage and Recovery (ASR). In October 2002, TCEQ authorized SAWS to construct and operate a 60 million-gallon per day water injection and recovery facility in South Bexar County. The Edwards Aquifer has been identified as the source of supply to the South Bexar County ASR project. This storage technology has been successfully proven as an economical and environmentally sensitive alternative to surface water reservoirs in many instances across the nation. The ASR well field pipeline construction is complete and construction of the treatment plant facilities is approximately 80% complete. Phase I/Phase II will be complete in 2003/2005 respectively. Phase I will build infrastructure for an initial storage of 11,250 acre-feet. Phase II builds the infrastructure necessary to expand the storage to 22,500 acre-feet. In addition, to the storage capacity which will reduce drought impacts, SAWS will also be able to produce 6,400 acre-feet of non-Edwards groundwater.

Trinity Aquifer – Oliver Ranch /BSR Water Supply. SAWS has entered into two water supply contract to produce groundwater from wells completed in the Trinity Aquifer, in Northern Bexar County. Delivery of this water began on February 25, 2002. Estimated project yield is approximately 5,000 acre-feet per year.

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 ("ALCOA"). 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 SAWS 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 94,500 acre-feet per year of water to San Antonio and the surrounding area. In May 2001, the partners executed a contract with the Guadalupe – Blanco River Authority (the "GBRA") for delivery of 70,000 acre-feet of surface 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, Texas. 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 significant public involvement process is underway regarding the water availability and engineering concepts for the project. This 94,500 acre-feet project is scheduled for delivery in 2011-2012.

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. SAWS has budgeted the following capital improvement projects during calendar year 2004:

- $12 million is budgeted for the wastewater treatment program to repair/replace/upgrade treatment facilities;
- $4 million is budgeted for the wastewater collection program to fix deteriorated components of the collection system;
- $31 million is budgeted to replace sewer and water mains;
- $27 million is budgeted for the governmental replacement and relocation program;
- $9 million is budgeted to construct new production facilities; and
- $94 million is budgeted for water supply development, water treatment, and water transmission projects for new sources of water.

SAWS anticipates the following capital improvement projects for the five fiscal years listed:

	Fiscal Year Ended December 31,					
	2004	2005	2006	2007	2008	Total
Heating and Cooling	$ 2,307,200	$ 0	$ 0	$ 0	$ 0	$ 2,307,200
Water Delivery	44,466,871	43,562,400	40,987,601	44,100,448	46,936,960	220,054,280
Wastewater	65,533,128	66,348,800	67,718,093	65,247,840	62,748,000	327,595,861
Water Supply	94,789,920	126,816,800	138,313,890	135,424,168	85,275,190	580,619,968
Total Annual Requirements	$ 207,097,119	$ 236,728,000	$ 247,019,584	$ 244,772,456	$ 194,960,150	$ 1,130,577,309

Source: SAWS.

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,				
	2004	2005	2006	2007	2008
Revenues	$ 14,924,016	$ 18,211,566	$ 27,387,302	$ 31,623,542	$ 35,641,799
Impact Fees	16,816,906	11,695,270	11,741,746	11,788,455	11,835,397
Debt Proceeds	175,356,197	206,821,164	207,890,535	201,360,459	147,482,954
Total	$ 207,097,119	$ 236,728,000	$ 247,019,583	$ 244,772,456	$ 194,960,150

Source: SAWS.

Recent Financial Transactions

SAWS is currently finalizing its financing plan for the 2004 Capital Improvement Plan. It is anticipated that SAWS will issue in 2004, $84,700,000 Revenue and Refunding Bonds for constructing additions to the System and to refund certain outstanding commercial paper notes; $37,700,000 in Junior Lien Revenue and Refunding Bonds with the Texas Water Development Board for construction additions to the System and to refund certain outstanding commercial paper notes; and $60,000,000 Subordinate Lien Revenue and Refunding Bonds issued in a variable rate mode to refund certain outstanding commercial paper notes.

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San Antonio Water System Summary of Pledged Revenues for Debt Coverage [1]

	Fiscal Year Ended December 31		12 Months Ended December 31,	7 Months Ended December 31,	Fiscal Year Ended May 31		
	2003	2002	2001	2001[2]	2001	2000	1999
Revenues							
Water System	$ 65,163,910	$ 58,873,352	$ 79,451,701	$ 52,803,937	$ 77,044,280	$ 82,485,798	$ 80,975,392
Water Supply	76,044,416	76,167,052	36,684,084	23,537,496	21,863,709	11,919,369	2,056,493
Wastewater System	87,683,794	89,312,338	87,438,542	51,541,185	91,175,034	96,194,858	92,775,036
Chilled Water and Steam System	12,193,646	10,871,599	12,899,862	6,822,031	9,800,573	5,127,414	4,234,203
Non Operating Revenues[3]	19,894,757	30,711,385	15,103,714	12,249,485	7,341,296	8,468,123	5,494,022
Adjustments for Pledged Revenues	(6,302,166)	(7,583,370)	(5,911,934)	(3,770,167)	(4,334,051)	(6,749,142)	(3,733,765)
Total Revenues	$ 254,678,356	$ 258,352,356	$ 225,665,969	$ 143,183,967	$ 202,890,841	$ 197,446,420	$ 181,801,381
Maintenance and Operating Expenses	$ 152,716,590	$ 138,212,615	$ 134,616,252	$ 78,448,318	$ 121,350,696	$ 115,016,340	$ 100,429,763
Net Revenue Available for Debt Service	$ 101,961,767	$ 120,139,741	$ 90,049,717	$ 64,735,649	$ 81,540,145	$ 82,430,080	$ 81,371,618
Maximum Annual Debt Service Requirements – Total Debt[4]	$ 76,075,114	$ 66,267,591	$ 65,767,934	N/A	$ 66,994,372	$ 62,099,234	$ 49,385,448
Maximum Annual Debt Service Requirements – Senior Lien Debt[4]	$ 61,511,375	$ 61,511,375	$ 55,236,354	N/A	$ 56,293,054	$ 53,566,454	$ 49,385,448
Debt Service for Period	N/A	N/A	N/A	$ 38,081,878	N/A	N/A	N/A
Coverage of Total Annual Debt Service Requirements	1.34 X	1.81 X	1.38 X	N/A	1.22 X	1.33 X	1.65 X
Coverage of Senior Lien Annual Debt Service Requirements	1.66 X	1.95 X	1.65 X	N/A	1.45 X	1.54 X	1.65 X

[1] Unaudited.

[2] On April 3, 2001, the SAWS Board approved the changing of the fiscal year 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.

[4] As of the end of the fiscal year shown, excludes TECP, see "City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004, Debt Information – Table 11 – Coverage and Fund Balances" for coverage ratio after issuance of the Bonds.

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").

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 America West, American, Atlantic Southeast, Comair, Continental, Continental Express, Delta, Midwest, 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 55 gates. It is estimated that current gate facilities are being used at 80% 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. During 2001, a process was initiated to develop a new Airport Master Plan for the Airport which was completed in 2002. The Master Plan provides 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 Texas Department of Transportation accepted the Master Plan in 2002 and has recommended $16.0 million in grant funding for capital improvements over the next ten to fifteen years.

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 require. 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 Federal Aviation Administration (the "FAA") for such authority and must meet certain requirements specified in the PFC Act and the implementing regulations issued by the FAA.

The FAA issued a Record of Decision on August 29, 2001 approving the City's initial PFC application. 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 projects and to "impose only" PFCs on six other projects. On July 24, 2003, the City received approval from the FAA on its second application for "impose and use" authority on two projects, which were previously "impose only."

The City began on November 21, 2001, collecting a $3.00 PFC (less the $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 and 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
Construct New Concourse B
Construct Concourse B Access 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 Aircraft Rescue and Firefighting Training Facility

Terminal Renovations. A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the San Antonio International Airport. The project, which cost approximately $28 million included a completely new appearance to the building interiors and provided state-of-art terminal amenities. Included in the terminal renovations was complete redevelopment of the concessions program that provided high-quality retail and food establishments offering a mix of regional and national brands at street prices. Concession space was 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 are now at airside locations. In total, 42 concession contracts were awarded. The new concessions program is also projected to increase revenues in the Airport from $3.2 million in fiscal year 2002 to $4.8 million in fiscal year 2004. On a per-boarding passenger basis, concession revenue is expected to go from $0.99 in fiscal year 2002 to $1.31 for fiscal year 2004. Following the

Airport's implementation of its new concessions program, it was recognized by the *Airport Revenue News'* 2004 "Best Concessions Poll." The Airport's concession program was voted for by a panel of judges in the Airport category with less than 4 million enplanements. San Antonio won two first place awards. The Airport was honored for having the Terminal with the "Most Unique Services" and the Best Overall Concessions Program. The publication noted the Airport's high-tech business services, such as high-speed fax and internet, wireless capabilities and conference rooms. The Best Overall Concessions Program award is given to airports with a convenient customer-friendly layout, good visibility, attractive storefronts, and interesting themes.

Parking Improvements. 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 2006. It is estimated that 2,400 additional parking spaces will be required to satisfy projected demand over the next ten years. The City is coordinating the facility plan for the new parking improvements with the additional terminal facilities. The design contract for the parking improvements is expected to be awarded in early 2004, while construction of the new parking facilities is anticipated to start by 2005. The associated costs are included in the CIP.

Cargo Improvements. 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 and expanded in 2003. The East Cargo Area is specifically 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 a processing facility in the year 2000 and UPS is in the process of expanding its facilities. Additional land has been allocated to accommodate future growth and an expansion of facilities are currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2003 totaled 128,367 tons.

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 a negative 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 were approximately $840,000 of which nearly $400,000 came from federal sources. The remaining $440,000 was funded through the Airport's Operating Fund. The portion of this expense for which the Airport is responsible is incorporated into airline rates and charges. Beginning in fiscal year 2004, operating costs will be reduced by approximately $300,000 by incorporating in-house certain security functions previously outsourced.

The Department has worked closely with the Transportation Security Administration (the "TSA") to forge a new higher level of security for the traveling public. Department staff and the airlines assisted the TSA in transitioning to fully federalized security checkpoints. The process began in September 2002 and was completed on December 31, 2002. Implementation of the new regulations included the installation of explosive detection baggage

screening equipment to meet the mandated 100% baggage screening process on December 31, 2002. The Airport's explosive detection screening equipment is currently located in the ticket lobby areas of the terminals. This was necessary in order to meet the required December 31, 2002 deadline. However, the Department is working with the TSA to relocate all baggage screening equipment behind the terminal in new baggage handling systems planned as part of the upcoming Terminal Expansion Project. TSA employs about 320 individuals at the International Airport to meet the new federal security requirements. The Aviation Department also utilizes three Explosive Detection Canine teams. The officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in baggage makeup areas, concourses, parking, cargo, and aircraft.

Recent Financings On March 20, 2003, the City issued the following two series of refunding bonds payable from its collection of gross revenues of the airport system: $8,175,000 "City of San Antonio, Texas Airport System Revenue Bonds, Series 2003-A" and $3,255,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-B." The proceeds from the respective issuances of such bonds were used to refund certain of the City's outstanding debt obligations payable from the collection of gross revenues of the airport system.

On April 8, 2003, the City delivered $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 $3,460,075. Such bonds were sold on April 19, 2001.

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				
	1999	2000	2001	2002	2003
Gross Revenues[1]	$ 38,128,184	$ 41,523,081	$ 42,928,794	$ 42,377,654	$ 43,879,875
Airline Rental Credit	3,510,267	6,175,754	5,209,037	4,468,199	2,612,609
Adjusted Gross Revenues	$ 41,638,451	$ 47,698,835	$ 48,137,831	$ 46,845,853	$ 46,492,484
Expenses	(21,449,007)	(21,585,826)	(23,612,635)	(22,296,698)	(25,363,607)
Net Income	$ 20,189,444	$ 26,113,009	$ 24,525,196	$ 24,549,155	$ 21,128,877

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

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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
1994	3,064,768	---	---
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)
2002	3,349,283	(95,592)	(2.77)
2003	3,250,741	(98,542)	(2.94)

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
1994	238,957	---	---
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)
2003	159,576	(41,698)	(20.72)

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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
1994	5,653,573	---	---
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	5,560,083	13,522	0.24
2003	5,390,981	(169,102)	(3.04)

Source: City of San Antonio, Department of Aviation.

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APPENDIX B
SELECTED PROVISIONS OF THE BOND ORDINANCE

The following constitutes a summary of certain selected provisions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

Section 1.01. Definitions. Unless otherwise expressly provided or unless the context otherwise requires, the terms defined in this Section for all purposes of this Ordinance except Article Three hereof, and any ordinance amendatory or supplemental hereto shall have the respective meanings specified:

Additional Bonds - the additional hotel occupancy tax revenue bonds permitted to be issued by the City pursuant to Section 5.01 of this Ordinance.

Bond Act - Chapter 1207, as amended, Texas Government Code, and Chapter 351, as amended, Texas Tax Code.

Bond Year - the period of time that commences on the day following the interest payment date on the Bonds Similarly Secured occurring on August of any year and ending on the interest payment date on the Bonds Similarly Secured occurring on August of the following year.

Bonds - the "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A", authorized by this Ordinance.

Bonds Similarly Secured- the Parity Bonds, the Bonds, and each series of Additional Bonds from time to time hereafter issued pursuant to Section 5.01 of this Ordinance.

City - the City of San Antonio, Texas, and, where appropriate, the City Council thereof, or any successor thereto.

Common Reserve Fund Bonds - the Prior Lien Bonds and the Bonds Similarly Secured.

Convention Center - the City's Henry B. Gonzalez convention center facility and related improvements as now existing, the Expansion Project, and any future expansions thereto and related facilities.

Debt Service Fund - the Fund so designated in Article Four of this Ordinance.

Debt Service Requirements - means as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on or other payments due under such obligation, assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest or other payment obligations calculated by assuming (1) that such non-fixed interest rate for every future 12-month period is equal to the rate of interest reported in the most recently

published edition of *The Bond Buyer* (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the most recently reported yield, as of the time of calculation, at which United States Treasury obligations of like maturity have been sold; provided, however, that such assumed interest rate shall not exceed 10% per annum, and (2) that, in the case of bonds not subject to fixed scheduled mandatory sinking fund redemptions, that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds, and in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity according to a fixed schedule, the principal amounts thereof will be redeemed prior to stated maturity in accordance with the mandatory redemption provisions applicable thereto (in each case notwithstanding any contingent obligation to redeem bonds more rapidly). For the term of any interest rate hedge agreement entered into in connection with any such obligations, Debt Service Requirements shall be computed by netting the amounts payable to the City under such hedge agreement from the amounts payable by the City under such hedge agreement and such obligations.

Debt Service Reserve Fund - the Fund so designated in Article Four of this Ordinance.

Debt Service Reserve Fund Surety Bond - any surety bond, insurance policy, letter of credit or other guaranty issued to the City for the benefit of the Holders of the Bonds Similarly Secured to satisfy any part of the Reserve Fund Requirement as provided in Section 4.06 of this Ordinance.

Eligible Central Municipality - a city as described in Section 351.001(8) of the HOT Act, which includes the City.

Expansion HOT - the HOT imposed by the City pursuant to Section 351.1065 of the HOT Act, consisting of 2% more than 7% of the cost of a room and which is currently pledged to payment of the Prior Lien Bonds pursuant to Section 351.1065(a)(2) of the HOT Act, less any discount for early payment and plus all penalties and interest on delinquent payments in amounts determined by the City Council.

Expansion HOT Fund - the Fund so designated in Article Four of this Ordinance.

Expansion Project - the expansion of the Convention Center financed with certain proceeds of the Parity Bonds all as contemplated by the Plan.

Facilities Fund - the Fund so designated in Article Four of this Ordinance.

Fiscal Year - the City's fiscal year as from time to time designated by the City, which is currently October 1 to September 30 of the following calendar year.

General Account - the Account of the HOT Fund so designated in Article Four of this Ordinance.

General HOT - the HOT imposed by the City pursuant to the HOT Act, not to exceed 7% of the price paid for a room in a hotel, or such additional amount permitted by applicable law,

less any discount for early payment and plus all penalties and interest on delinquent payments in amounts determined by the City Council, but in no event may the General HOT include the Expansion HOT.

General HOT Fund - the Fund so designated in Article Four of this Ordinance.

HOT - the municipal hotel occupancy tax permitted to be imposed by the City pursuant to the HOT Act and currently levied at 9%, effective January 1, 1994, by Ordinance Number 78834 adopted by the City Council on September 30, 1993.

HOT Act - Chapter 351, as amended, Texas Tax Code.

Insurance Policy - the municipal bond insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

Insurer - Ambac Assurance Corporation, a Wisconsin Stock Insurance Corporation, or any successor thereto or assignee thereof.

Legal Holiday - a day on which a Paying Agent/Registrar for the Bonds is authorized by law to close.

Ordinance - this ordinance and all amendments hereof and supplements hereto.

Outstanding - when used with reference to any Bonds Similarly Secured means, as of a particular date, all Bonds Similarly Secured, or both, theretofore and thereupon delivered except: (a) any such Bond Similarly Secured paid, discharged or canceled by or on behalf of the City at or before said date; (b) any such Bonds Similarly Secured defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such Bonds Similarly Secured in lieu of or in substitution for which another obligation shall have been delivered pursuant to the ordinances authorizing the issuance of such Bonds Similarly Secured.

Owner or Holder - when used with respect to any Bond shall mean the person or entity in whose name such Bond is registered in the Security Register. Any reference to a particular percentage or proportion of the owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Bonds then Outstanding under this Ordinance.

Parity Bonds - the "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B", dated as of June 1, 2004, issued concurrently with the Bonds.

Paying Agent/Registrar - with respect to the Bonds, The Bank of New York Trust Company, N.A., Jacksonville, Florida, and its successors in that capacity.

Plan - the capital improvement plan for the expansion of the Convention Center adopted by the City Council on September 30, 1993 by Ordinance Number 78834, as amended by the

City Council on September 4, 1997, as restated by the City Council on June 3, 2004 and as may be further amended or supplemented from time to time by the City Council.

Pledged 5.25% Account - the Account of the General HOT Fund so designated in Article Four of this Ordinance.

Pledged 5.25% HOT - that portion of the General HOT which may be allocated pursuant to Section 351.103(b) of the HOT Act for purposes described in Section 351.101(a)(1), of the HOT Act, and which may not exceed 75% of the General HOT (or 5.25%) and which may be pledged on a prior lien to the payment of the Prior Lien Bonds and on a subordinate lien basis to the payment of the Bonds Similarly Secured pursuant to Section 351.102 of the HOT Act.

Pledged Revenues - (i) a subordinate and inferior lien on the revenues from the Pledged 1.75% HOT, plus (ii) a subordinate and inferior lien on the revenues from the Pledged 5.25% HOT, plus (iii) a subordinate lien on the earnings of the investment of the Pledged 1.75% HOT Fund and the Pledged 5.25% HOT Fund, the Debt Service Fund, and the Debt Service Reserve Fund.

Pledged 1.75% Account - the Account of the General HOT Fund so designated in Article Four of this Ordinance.

Pledged 1.75% HOT - that portion of the General HOT which may be allocated pursuant to Section 351.103(b) of the HOT Act for purposes described in Section 351.101(a)(1), of the HOT Act, and which may not exceed 25% of the General HOT (or 1.75%) and which may be pledged as a first and prior lien for the payment of the Prior Lien Bonds and on a subordinate and inferior lien basis for the payment of the Bonds Similarly Secured pursuant to Section 351.102 of the HOT Act.

Prior Lien Bonds - the outstanding "City of San Antonio, Texas, Hotel Occupancy Tax Revenue Bonds, Series 1996", dated March 1, 1996, originally issued in the principal amount of $182,012,480.60 and any refunding bonds hereafter issued for savings that are payable from the Prior Lien Pledged Revenues.

Prior Lien Bonds Debt Service Fund - the fund so designated in Article Four of this Ordinance.

Prior Lien Bonds Ordinance - the ordinance authorizing the Prior Lien Bonds.

Prior Lien Pledged Revenues - (i) a prior lien on the revenues from the Expansion HOT, plus (ii) a prior lien on the revenues from the Pledged 1.75% HOT and from the Pledged 5.25% HOT, plus (iii) a prior lien on the earnings of the investment of the Expansion HOT Fund, the Prior Lien Bonds Debt Service Fund, and the Debt Service Reserve Fund.

Reimbursement Obligation - any obligation entered into by the City in connection with any Bonds Similarly Secured pursuant to which the City obligates itself to reimburse a bank, insurer, surety or other entity for amounts paid or advanced by such party pursuant to a letter of credit, line of credit, standby bond purchase agreement, credit facility, liquidity, facility, insurance policy, surety bond, interest rate swap agreement, or other similar credit agreement,

guaranty or liquidity agreement to secure any portion of principal of, interest on or purchase price of any Bonds Similarly Secured or reserves in connection therewith or otherwise relating to any Variable Rate Obligation. Reimbursement Obligations may be payable from and secured by a lien on Pledged Revenues which must be subordinate and inferior to the lien securing the Prior Lien Bonds but may be on a parity with, or subordinate to, the lien on Pledged Revenues securing the Bonds Similarly Secured.

Reserve Fund Requirement - means the amount required to be maintained in the Debt Service Reserve Fund. Such amount shall be recomputed upon the issuance of each series of Common Reserve Fund Bonds to be the lesser of (i) 10% of the original principal amount of the Common Reserve Fund Bonds or (ii) the maximum annual Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Common Reserve Fund Bonds then Outstanding, including any series of additional Common Reserve Fund Bonds then being issued or (iii) 125% of the average Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Common Reserve Fund Bonds then Outstanding, including any series of additional Common Reserve Fund Bonds then being issued. The Reserve Fund Requirement shall be recomputed upon the issuance of each series of Common Reserve Fund Bonds. Any Variable Rate Obligations shall be assumed to bear interest at a tax-exempt municipal bond index rate available at the time of determining the Reserve Fund Requirement that is selected by the City which is acceptable to the Insurer.

Security Register - the books of registration kept by the Paying Agent/Registrar in which are maintained the names and addresses of and the principal amounts registered to each Owner.

Subordinate Lien Obligations - each series of bonds, notes, or other obligations permitted to be issued by the City pursuant to Article Five of this Ordinance as Subordinate Lien Obligations secured in whole or in part by liens on the Pledged Revenues that are subordinate and inferior to the lien on Pledged Revenues securing payment of the Bonds Similarly Secured.

Transfer Date - each business day on or before February 14, May 14, August 14, and November 14, beginning May 14, 2004.

Transfer Period - the period of time beginning on any Transfer Date and ending on the day immediately preceding the next succeeding Transfer Date.

Variable Rate Obligations - any series of Bonds Similarly Secured, (i) the payment of principal of which is either (a) payable on demand by or at the option of the holder at a time sooner than a date on which such principal is scheduled for payment, or (b) scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced for a specified period or term through the issuance of additional Variable Rate Obligations pursuant to a commercial paper or other similar financing program and (ii) the purchase price, payment or refinancing of which is additionally secured by a letter of credit, line of credit, standby purchase agreement, bond insurance, surety bond or other credit or liquidity facility which does not impose a reimbursement obligation payable over a period shorter than three years.

Section 4.01. Pledge and Source of Payment. The Bonds shall constitute special obligations of the City and shall be payable from, and, together with the Parity Bonds, equally

and ratably secured by a lien on the Pledged Revenues. Such Pledged Revenues or other lawfully available funds of the City shall, in the manner herein provided, be set aside for and pledged to the payment of the Bonds Similarly Secured, and all expenses of providing for their full and timely payment in accordance with their terms, in the Debt Service Fund and the Debt Service Reserve Fund as hereinafter provided. The City hereby grants a lien on the Pledged Revenues and further grants a lien on the Debt Service Fund and the Debt Service Reserve Fund to secure the payment of principal of and redemption premium, if any, and interest on the Bonds Similarly Secured. All Bonds Similarly Secured shall be in all respects on a parity with and of equal dignity with one another. The owners of the Bonds Similarly Secured shall never have the right to demand payment of the principal of, interest on or any redemption premium from funds raised or to be raised by ad valorem taxation, other than the Pledged Revenues.

Chapter 1208.001, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Pledged Revenues granted by the City under this Section 4.01, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Bonds are Outstanding such that the pledge of the Pledged Revenues granted by the City under this Section 4.01 is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

Section 4.02. Levy of Hotel Occupancy Tax. The City has levied, and while any Bonds remain Outstanding the City hereby levies and covenants that it shall continue to levy, a HOT on the cost of occupancy of any sleeping room furnished by any hotel within the corporate limits of the City, in which the cost of occupancy is $2.00 or more a day, at a rate of at least 9% of the consideration paid by the occupant of the sleeping room to the hotel, all as authorized by the HOT Act. The City further covenants that it shall enforce the provisions of this Ordinance, or any other ordinance levying a HOT, concerning the collection, remittance and payment of the HOT.

Section 4.03. Special Funds. The following special funds and accounts created, established and to be maintained under the ordinances authorizing the issuance of the Prior Lien Bonds or the Parity Bonds, as appropriate, are hereby reaffirmed for the benefit of the Bonds while any of the Bonds remain Outstanding. Such funds and accounts may also include any additional accounts or subaccounts as may from time to time be designated by the City, including specifically rebate accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, provided such accounts or subaccounts are not inconsistent with this Ordinance:

(a) Hotel Motel Tax Expansion HOT Fund (the "Expansion HOT Fund");

(b) Convention Center Expansion Bonds Debt Service Fund (the "Prior Lien Bonds Debt Service Fund");

(c) Convention Center Expansion Bonds Debt Service Reserve Fund (the "Debt Service Reserve Fund");

(d) Convention Center Subordinate Lien Bonds Debt Service Fund (the "Debt Service Fund");

(e) Convention Center Facilities Fund (the "Facilities Fund");

(f) Hotel Motel Tax Fund (the "General HOT Fund") as described herein and therein the following accounts:

1. General Account of the General HOT Fund (the "General Account"); and

2. Pledged 1.75% Account of the General HOT Fund (the "Pledged 1.75% Account"); and

3. Pledged 5.25% Account of the General HOT Fund (the "Pledged 5.25% Account"); and

(g) Convention Center Construction Fund (the "Construction Fund").

The Expansion HOT Fund and the General HOT Fund shall be maintained as a separate fund or account on the books of the City. The Debt Service Fund, the Debt Service Reserve Fund, and the Facilities Fund shall be maintained at an official depository bank of the City, separate and apart from all other funds and accounts of the City. The Debt Service Fund and the Debt Service Reserve Fund shall constitute trust funds which shall be held in trust for the Owners of the Bonds and the proceeds of which (other than the interest income thereon, which may be transferred as herein provided) shall be pledged, as herein provided, to the payment of the Bonds.

Section 4.04. Flow of Funds. The City covenants and agrees that the Expansion HOT and all Pledged Revenues shall be deposited or transferred as provided in this Section:

(a) Expansion HOT. The City covenants and agrees that all revenues of the Expansion HOT shall be deposited as received in the Expansion HOT Fund and transferred on or before the last business day of each month to the following funds in the following order of priority:

(i) First, to the Prior Lien Bonds Debt Service Fund in the amounts and for the uses described in Section 3.05 of the Prior Lien Bonds Ordinance.

(ii) Second, to the Debt Service Reserve Fund in the amounts and for the uses described in the Prior Lien Bonds Ordinance.

(iii) Third, to the payment of the Bonds Similarly Secured and any Subordinate Lien Obligations (including Reimbursement Obligations incurred in connection therewith), and reserve funds related thereto, as may be required by any ordinance authorizing the issuance of such Bonds Similarly Secured and Subordinate Lien Obligations.

(iv) Fourth, to the Facilities Fund in the amounts and for the uses described in Section 3.08 of the Prior Lien Bonds Ordinance.

Notwithstanding the foregoing, as often as the City shall deem necessary, but at least once a month on or before the penultimate business day of each month, the City shall determine the amounts necessary from the Expansion HOT to satisfy the foregoing transfers, taking into consideration the money accumulated as of such date in the Debt Service Fund and the amount necessary to be transferred to the Debt Service Reserve Fund as required herein. After making the aforementioned determination, in the event the revenues from the Expansion HOT are not sufficient to satisfy the payment obligations set forth in clauses First through Third above, the City shall retain in the Expansion HOT Fund any amount necessary (after taking into consideration any lawfully available revenues that may be utilized by the City to pay the debt service requirements on the Subordinate Lien Obligations issued to finance the hotel for the Convention Center) for the timely payment of the debt service requirements on any Subordinate Lien Obligations issued to finance a hotel for the Convention Center, and, to the extent funds are available in the Expansion HOT Fund, shall first make transfers to the debt service fund and debt service reserve fund as required by the ordinance authorizing the Subordinate Lien Obligations issued to finance a hotel for the Convention Center. Any money remaining in the Expansion HOT Fund after such transfers and the retention for the payment of the Debt Service Requirements on the Prior Lien Bonds and Bonds Similarly Secured not issued for the hotel for the Convention Center may be transferred to the Facilities Fund to be used by the City for any lawful purpose. Any money retained in the Pledged 1.75% Account and the Pledged 5.25% Account for Debt Service Requirements on the Bonds Similarly Secured needed for such purpose on any Transfer Date shall be immediately transferred to the Debt Service Fund on such Transfer Date.

(b) General HOT. The City covenants and agrees all revenues from the General HOT shall be deposited as received to the General HOT Fund and immediately allocated as follows: 25% of the General HOT revenues to the Pledged 1.75% Account and 75% of the General HOT revenues to the Pledged 5.25% Account.

1. Money in the Pledged 1.75% Account must be used as follows:

First, to transfer any necessary amounts to the Prior Lien Bonds Debt Service Fund required by the Prior Lien Bonds Ordinance which is secured by a prior lien on and pledge of the Pledged 1.75% HOT;

Second, to transfer any necessary amounts to the Debt Service Reserve Fund required by the Prior Lien Bonds Ordinance which is secured by a prior lien on and pledge of the Pledged 1.75% HOT;

Third, to transfer any necessary amounts to the Debt Service Fund required by the ordinances authorizing the issuance of the Bonds Similarly Secured; and

Fourth, to transfer any necessary amounts to the Debt Service Reserve Fund required by the ordinances authorizing the issuance of the Bonds Similarly Secured.

Fifth, to transfer any necessary amounts to the Debt Service Fund and Debt Service Reserve Fund required by the ordinance authorizing the issuance of any Subordinate Lien Obligations.

2. Money in the Pledged 5.25% Account may be used as follows:

First, to transfer any necessary amounts to the Prior Lien Bonds Debt Service Fund required by the Prior Lien Bonds Ordinance;

Second, to transfer any necessary amounts to the Debt Service Reserve Fund required by the Prior Lien Bonds Ordinance;

Third, to transfer any necessary amounts to the Debt Service Fund required by the ordinances authorizing the issuance of the Bonds Similarly Secured; and

Fourth, to transfer any necessary amounts to the Debt Service Reserve Fund required by the ordinances authorizing the issuance of the Bonds Similarly Secured.

As often as the City shall deem necessary, but at least once a month on or before the penultimate business day of each month, the City shall determine the amounts necessary from the Pledged Revenues, if any, to pay the debt service requirements on the Prior Lien Bonds and the amounts necessary to pay the Bonds Similarly Secured, taking into consideration the money accumulated as of such date in the respective Debt Service Fund and the amount necessary to be transferred to the Debt Service Reserve Fund as required herein. After making the aforementioned determination, the City shall transfer the amounts so determined to be necessary to the Prior Lien Bonds Debt Service Fund and shall retain any amount necessary for the timely payment of the debt service requirements on the Prior Lien Bonds in the Pledged 1.75% Account and the Pledged 5.25% Account, and, to the extent funds are available, shall make transfers to the Debt Service Reserve Fund as required by the Prior Lien Bonds Ordinance. Any money remaining in the Pledged 1.75% Account and the Pledged 5.25% Account after such transfers and the retention for debt service requirements on the Prior Lien Bonds may be transferred to the Debt Service Fund and the Debt Service Reserve Fund for the Bonds Similarly Secured to be used pursuant to Sections 4.05 and 4.06 herein.

(c) Investment Proceeds. The City covenants and agrees that the earnings of the investment of the funds created or confirmed by this Ordinance shall be used as follows (to the extent not necessary for rebate purposes as described herein):

Debt Service Fund earnings shall be retained in the Debt Service Fund;

Debt Service Reserve Fund earnings shall be retained in the Debt Service Reserve Fund to the extent necessary to restore the Reserve Fund Requirement therein and thereafter transferred to the Debt Service Fund;

Facilities Fund earnings shall be retained in the Facilities Fund;

Earnings in the Pledged 1.75% Account and the Pledged 5.25% Account of the General HOT Fund shall be retained in each account;

Construction Fund earnings shall be retained in the Construction Fund until the Expansion Project is complete and thereafter any surplus in the Construction Fund shall be transferred to the Debt Service Fund.

Section 4.05. Debt Service Fund. In addition to the deposits to the Debt Service Fund for the payment of the Parity Bonds, the City covenants and agrees that prior to each interest payment date, stated maturity date and mandatory redemption date for the Bonds there shall be deposited into the Debt Service Fund an amount equal to one hundred percentum (100%) of the amount required to fully pay the amount then due and payable on the Bonds, and such deposits to pay the Bonds at maturity or redemption, as the case may be, and accrued interest thereon shall be made in substantially equal quarterly installments (based on the total annual Debt Service Requirements to be paid on the Bonds divided by the number of Transfer Dates to occur during the period covered by such calculation) on or before each Transfer Date, beginning on the first Transfer Date to occur after the delivery of the Bonds.

In addition, on each Transfer Date, the City covenants and agrees to cause to be deposited into the Debt Service Fund an amount calculated to pay all expenses of providing for the full and timely payment of the principal of, redemption premium, if any, and interest on the Bonds Similarly Secured in accordance with their terms, including without limitation, all fees charged or incurred by the Paying Agent/Registrar and for trustee services rendered in connection with the Bonds Similarly Secured.

Money credited to the Debt Service Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Bonds Similarly Secured issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Bonds Similarly Secured, plus all Paying Agent/Registrar charges and other costs and expenses relating to such payment, including those described above. On or before each principal and/or interest payment date on the Bonds Similarly Secured, the City shall transfer from the Debt Service Fund to the appropriate paying agent/registrar amounts equal to the principal, interest and redemption premiums payable on the Bonds Similarly Secured on such date.

Section 4.06. Debt Service Reserve Fund.

(a) The City shall establish and maintain as hereinafter provided a balance in the Debt Service Reserve Fund equal to the Reserve Fund Requirement for the Common Reserve Fund Bonds. The Reserve Fund Requirement for the Common Reserve Fund Bonds shall initially be $_____. The Reserve Fund Requirement shall initially be funded at the time of issuance and delivery of each series of Common Reserve Fund Bonds from proceeds of the such bonds. The City may, however, substitute a Debt Service Reserve Fund Surety Bond for cash in the Debt Service Reserve Fund upon written notice to the Insurer, if any.

(b) Each increase in the Reserve Fund Requirement resulting from the issuance of Common Reserve Fund Bonds shall be funded at the time of issuance and delivery of such series of Common Reserve Fund Bonds by either (i) depositing proceeds of such Common Reserve Fund Bonds or other lawfully available funds, including the Facilities Fund, in not less than an amount to fund the Reserve Fund Requirement upon the delivery of such Common Reserve Fund

Bonds, (ii) to the extent permitted by applicable law, providing a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Reserve Fund Requirement, or (iii) retaining revenues in the Debt Service Reserve Fund from the Pledged Revenues, or other lawfully available funds, in approximately equal monthly installments, over a period of time not to exceed 12 months from the date of delivery of such Common Reserve Fund Bonds to accumulate the Reserve Fund Requirement.

(c) If the Debt Service Reserve Fund contains less than the Reserve Fund Requirement for the Common Reserve Fund Bonds (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Common Reserve Fund Bonds as above provided) or in which the City is obligated to repay or reimburse any provider of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), then such amounts as shall be necessary to reestablish in the Debt Service Reserve Fund the Reserve Fund Requirement and satisfy any repayment obligations to the issuer of any Debt Service Reserve Fund Surety Bond shall be transferred from the Pledged Revenues, or any other lawfully available funds, in 12 equal monthly installments. After such amount has been accumulated in the Debt Service Reserve Fund, and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond provider and so long thereafter as the Debt Service Reserve Fund contains the Reserve Fund Requirement and all such repayment obligations have been satisfied, no further transfers shall be required to be made, and any earnings on Debt Service Reserve Fund shall be transferred to the Debt Service Fund. But if and whenever the balance in the Debt Service Reserve Fund is reduced below the Reserve Fund Requirement or any Debt Service Reserve Fund Surety Bond repayment obligations arise, transfers to the Debt Service Reserve Fund shall be resumed and continued in the manner provided above to restore the Reserve Fund Requirement and to pay such reimbursement obligations.

(d) The following requirements must be met in the event the City desires to satisfy the Reserve Fund Requirement by a deposit of a Debt Service Reserve Fund Surety Bond (other than a credit instrument issued by the Insurer) in lieu of cash:

(i) A Debt Service Reserve Fund Surety Bond in the form of a surety bond or insurance policy issued to the entity serving as Paying Agent/Registrar (the "Fiduciary"), as agent of the Bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the Common Reserve Fund Bonds (a "municipal bond insurer") may be deposited in the Debt Service Reserve Fund to meet the Reserve Fund Requirement if the claims paying ability of the issuer thereof shall be rated "AAA" by Moody's or "Aaa" by S&P.

(ii) A Debt Service Reserve Fund Surety Bond in the form of a surety bond or insurance policy issued to the Fiduciary, as agent of the Bondholders, by an entity other than a municipal bond insurer may be deposited in the Debt Service Reserve Fund to meet the Reserve Fund Requirement if the form and substance of such instrument and the issuer thereof shall be approved by the Insurer.

(iii) A Debt Service Reserve Fund Surety Bond in the form of an unconditional irrevocable letter of credit issued to the Fiduciary, as agent of the Bondholders, by a bank may be

deposited in the Debt Service Reserve Fund to meet the Reserve Fund Requirement if the issuer thereof is rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the Common Reserve Fund Bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the City and the Fiduciary, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.

If such notice indicates that the expiration date shall not be extended, the City shall deposit in the Debt Service Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Debt Service Reserve Fund together with any other qualifying credit instruments, to equal the Reserve Fund Requirement on all outstanding Common Reserve Fund Bonds, such deposit to be paid in equal installments on at least a semiannual basis over the remaining term of the letter of credit, unless the Debt Service Reserve Fund Surety Bond is replaced by a Debt Service Reserve Fund Surety Bond meeting the requirements in any of (i), (ii), or (iii) above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. This Ordinance, in turn, directs the Fiduciary to draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Debt Service Reserve Fund is fully funded in its required amount.

(iv) The use of any Debt Service Reserve Fund Surety Bond pursuant to this Section shall be subject to receipt of an opinion of counsel acceptable to the Insurer and in form and substance satisfactory to the Insurer as to the due authorization, execution, delivery, and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such Debt Service Reserve Fund Surety Bond is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Insurer. In addition, the use of a Debt Service Reserve Fund Surety Bond in the form of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to the Insurer and in form and substance satisfactory to the Insurer to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the issuer of the Common Reserve Fund Bonds (or any other account party under the letter of credit).

(v) The obligation to reimburse the issuer of a Debt Service Reserve Fund Surety Bond for any fees, expenses, claims, or draws upon a Debt Service Reserve Fund Surety Bond shall be subordinate to the payment of Debt Service Requirements on the Common Reserve Fund Bonds. The right of the issuer of a Debt Service Reserve Fund Surety Bond to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Debt Service Reserve Fund, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the Debt Service Reserve Fund. The Debt Service Reserve Fund Surety Bond shall provide for a revolving feature under which amount available thereunder will be reinstated to the extent of any

reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Debt Service Reserve Fund Surety Bond to reimbursement will be further subordinated to cash replenishment of the Debt Service Reserve Fund to an amount equal to the difference between the full original amount available under the Debt Service Reserve Fund Surety Bond and the amount then available for further draws or claims. If (A) the issuer of a Debt Service Reserve Fund Surety Bond becomes insolvent, or (B) the issuer of a Debt Service Reserve Fund Surety Bond defaults in its payment obligations thereunder, or (C) the claims-paying ability of the issuer of the insurance policy or surety bond constituting a Debt Service Reserve Fund Surety Bond falls below a S&P "AAA" or a Moody's "Aaa" or (D) the ratings of the issuer of the letter of credit constituting a Debt Service Reserve Fund Surety Bond falls below a S&P "AA", the obligation to reimburse the issuer of the Debt Service Reserve Fund Surety Bond shall be subordinate to the cash replenishment of the Debt Service Reserve Fund.

(vi) If (A) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated, or (B) the ratings of the claims paying ability of the issuer of the surety bond or insurance policy constituting a Debt Service Reserve Fund Surety Bond falls below a S&P "AAA" or a Moody's "Aaa", or (C) the rating of the issuer of the letter of credit constituting a Debt Service Reserve Fund Surety Bond falls below a S&P "AA", the City shall either (1) deposit into the Debt Service Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Debt Service Reserve Fund to equal the Reserve Fund Requirement on all outstanding Common Reserve Fund Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semiannually, or (2) replace such instrument with a surety bond, insurance policy, or letter of credit meeting the requirements in any of (i), (ii), or (iii) above within six months of such occurrence. In the event (A) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy constituting a Debt Service Reserve Fund Surety Bond falls below S&P "A" or (B) the rating of the issuer of the letter of credit constituting a Debt Service Reserve Fund Surety Bond falls below S&P "A" or (C) the issuer of the Debt Service Reserve Fund Surety Bond defaults in its payment obligations or (D) the issuer of the Debt Service Reserve Fund Surety Bond becomes insolvent, the City shall either (A) deposit into the Debt Service Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Debt Service Reserve Fund to equal to the Reserve Fund Requirement on all outstanding Common Reserve Fund Bonds, such amount to paid over the ensuing year in equal installments on at least a monthly basis or (B) replace such instrument with a surety bond, insurance policy, or letter of credit meeting the requirements in any of (i), (ii), or (iii) above within six months of such occurrence.

(vii) Where applicable, the amount available for draws or claims under the Debt Service Reserve Fund Surety Bond may be reduced by the amount of cash or permitted investments deposited in the Debt Service Reserve Fund pursuant to clause (C)(1) of the preceding subparagraph (vi).

(viii) If the City chooses the above described alternatives to a cash-funded Debt Service Reserve Fund, any amounts owed by the City to the issuer of such Debt Service Reserve Fund Surety Bond as a result of a draw thereon or a claim thereunder, as appropriate, shall be included in any calculation of Debt Service Requirements required to be made pursuant to the Ordinance for any purpose, e.g., Additional Bonds test.

(ix) The Fiduciary shall ascertain the necessity for a claim or draw upon the Debt Service Reserve Fund Surety Bond and provide notice to the issuer thereof in accordance with its terms not later than three days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Debt Service Reserve Fund Surety Bond) prior to each interest payment date.

(x) Cash on deposit in the Debt Service Reserve Fund shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Debt Service Reserve Fund Surety Bond. If and to the extent that more than one Debt Service Reserve Fund Surety Bond is deposited in the Debt Service Reserve Fund, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

(e) If as a result of valuation of investments, as described in Section 4.09, of the Debt Service Reserve Fund, the value of the Debt Service Reserve Fund does not equal the Reserve Fund Requirement, the City shall be required to replace such investments or transfer Pledged Revenues, or transfer from other lawfully available funds or money in the Pledged Account, to the Debt Service Reserve Fund, to bring the Debt Service Reserve Fund to the Reserve Fund Requirement over a 12-month period in equal monthly deposits.

(f) The Debt Service Reserve Fund shall be used to pay the principal of and interest on the Common Reserve Fund Bonds at any time when there is not sufficient money available in the Debt Service Fund for such purpose, and to make any payments required to satisfy repayment obligations to providers of Debt Service Reserve Fund Surety Bonds, and may be used to make the final payments for the retirement or defeasance of the Common Reserve Fund Bonds.

Section 4.07. Funds and Accounts for Subordinate Lien Obligations. On or before each Transfer Date, after making all required transfers to the Debt Service Fund and the Debt Service Reserve Fund, there shall be transferred into such funds and accounts as shall be established for such purpose pursuant to the ordinances authorizing the issuance of any Subordinate Lien Obligations, such amounts as shall be required pursuant to such ordinances to provide for the payment, or to provide reserves for the payment, of any principal of and interest and any premium on Subordinate Lien Obligations, including all costs of paying same and all costs incurred or to be incurred pursuant to any Reimbursement Obligations incurred in connection therewith.

Section 4.08. Construction Fund. From the proceeds of each series of Bonds Similarly Secured issued to provide for authorized projects there shall be deposited into a construction fund such amounts as shall be provided in the ordinance authorizing such series of Bonds Similarly Secured. Such amounts may be applied to pay costs of establishing, improving, enlarging, extending and repairing an authorized project, to reimburse advances made by the City for such costs, to pay costs of issuance of the Bonds Similarly Secured and to pay any other capital costs of authorized projects as provided in the ordinance authorizing such series of Additional Bonds. Any surplus amounts not required for the foregoing purposes shall, at the direction of the City, be transferred to the Debt Service Fund.

Section 4.09. Investment of Funds; Transfer of Investment Income. (a) Money in all funds required to be maintained by this Ordinance shall, at the option of the City, be invested in the manner provided by Texas law; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any fund will be available at the proper time or times. Money in such funds may be subjected to further investment restrictions imposed from time to time by ordinances authorizing the issuance of Prior Lien Bonds, Bonds Similarly Secured, and Subordinate Lien Obligations. All such investments shall be valued no less frequently than the last business day of the City's Fiscal Year at market value, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. For purposes of maximizing investment returns, money in such funds may be invested, together with money in other funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law, which shall not be deemed to be a loss of the segregation of such money or funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such funds are held by or on behalf of each such fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

(b) All interest and income derived from deposits and investments credited to any funds and accounts shall be transferred to the designated fund not less frequently than monthly, except as provided in (c) below; provided that at any time when the Debt Service Reserve Fund has on deposit an amount less than the Reserve Fund Requirement, all interest and income on from deposits and investments credited to such fund shall remain therein.

(c) Notwithstanding anything to the contrary contained herein, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be (i) transferred into any rebate account or subaccount and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in an order, resolution or ordinance to prevent interest on any Prior Lien Bonds, Bonds Similarly Secured, or Subordinate Lien Obligations from being includable within the gross income of the owners thereof for federal income tax purposes.

Section 4.10. Security for Uninvested Funds. While any Bonds Similarly Secured remain Outstanding, all uninvested money on deposit in, or credited to, the above described funds and accounts shall be secured by the pledge of security, as provided by Texas law.

Section 5.01. Additional Bonds. The City reserves the right to issue, for any lawful purpose, one or more installments of Additional Bonds payable from and, together with the Parity Bonds and the Bonds, equally and ratably secured by a subordinate and inferior lien on and pledge of the Pledged Revenues and certain special funds; provided, however, that no such Additional Bonds shall be issued unless:

(a) No Default; Fund Balances. The City's Director of Finance (or other officer of the City then having primary responsibility for the financial affairs of the City) shall certify that, upon the issuance of such Additional Bonds, (i) the City will not be in default under any term or

provision of any Bonds Similarly Secured then Outstanding or any ordinance pursuant to which any of such Bonds Similarly Secured were issued and (ii) the Debt Service Fund will have the required amounts on deposit therein and the Debt Service Reserve Fund will contain the applicable Reserve Fund Requirement or so much thereof as is required to be funded at such time.

(b) Coverage for Additional Bonds. The City's Director of Finance (or other officer of the City having primary responsibility for the financial affairs of the City) shall provide a certificate showing that, for the City's most recent complete Fiscal Year or for any consecutive 12-month period out of the most recent 18 months, the Pledged Revenues for the above period are equal to at least 150% of the maximum annual Debt Service Requirements on all Bonds Similarly Secured scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Bonds proposed to be issued. In making a determination of the Pledged Revenues, the City may take into consideration an increase in the portion of the HOT pledged and dedicated to the payment of Prior Lien Bonds and Bonds Similarly Secured that became effective during the period for which Pledged Revenues are determined and, for purposes of satisfying the above coverage tests, make a pro forma determination of the Pledged Revenues for the period of time covered by such certification based on such increased portion of the HOT pledged and dedicated to the payment of the Bonds Similarly Secured being in effect for the entire period covered by the certificate.

(c) Refunding Bonds. If Additional Bonds are issued for the purpose of refunding less than all Bonds Similarly Secured then Outstanding, the certifications described in (b) above shall not be required if the maximum annual and the average annual Debt Service Requirements for all Bonds Similarly Secured to be Outstanding in any Fiscal Year after the issuance of such Additional Bonds will not exceed the maximum annual and the average annual Debt Service Requirements for all Bonds Similarly Secured Outstanding in any Fiscal Year prior to the issuance of Additional Bonds with respect to the maximum annual Debt Service Requirements and in the prior Fiscal Year with respect to the average annual Debt Service Requirements.

(d) Bond Ordinance Requirements. Provision shall be made in the ordinances authorizing the issuance of the Additional Bonds for (i) additional payments into the Debt Service Fund sufficient to provide for increased Debt Service Requirements resulting from the issuance of the Additional Bonds including, in the event that interest on the Additional Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Debt Service Fund of amounts fully sufficient to pay interest on such Additional Bonds during the period specified in the ordinance, and (ii) satisfaction of the Reserve Fund Requirement by not later than the date required by this Ordinance or any other ordinance authorizing Additional Bonds.

Section 5.02. Subordinate Lien Obligations. The City reserves the right to issue or incur, for any lawful purpose, bonds, notes or other obligations secured in whole or in part by liens on the Pledged Revenues subordinate to the liens on Pledged Revenues securing payment of the Prior Lien Bonds and Bonds Similarly Secured.

Section 5.03. Reimbursement Obligation. The City may enter into a Reimbursement Obligation in connection with any Bonds Similarly Secured only if the aggregate principal

amount of the City's obligations under any such Reimbursement Obligation, as measured at the time that the City must make a payment thereunder, would satisfy the test for the issuance of Bonds Similarly Secured contained in Section 5.01 of this Ordinance as if such Reimbursement Obligation was being issued as a Bond Similarly Secured under this Ordinance.

Section 6.01. Punctual Payment of Bonds. The City covenants it will punctually pay or cause to be paid the interest and any redemption premium on and principal of all Bonds according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in this Ordinance and in any other ordinance authorizing the issuance of such Bonds.

Section 6.02. Pledge and Encumbrance of Revenues. The City covenants and represents that it has the lawful power to create a lien on and to pledge the Pledged Revenues to secure the payment of the Bonds and has lawfully exercised such power under the Constitution and laws of the State of Texas. The City further covenants and represents that, other than to the payment of the Prior Lien Bonds and Bonds Similarly Secured, the Pledged Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the City, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Bonds Similarly Secured.

Section 6.03. Bondholders Remedies. This Ordinance shall constitute a contract between the City and the Owners of the Bonds from time to time Outstanding and this Ordinance shall be and remain irrepealable until the Bonds and the interest and any premium thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the principal of or interest or any premium on any of the Bonds or a default in the performance of any duty or covenant provided by law or in this Ordinance, the Owner or Owners of any of the Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under this Ordinance, including the application of Pledged Revenues in the manner required in this Ordinance; provided, however, that the Owners of the Bonds shall never have the right to demand payment of the principal of, interest on or any redemption premium on the Bonds out of any funds raised or to be raised by taxation, other than the Pledged Revenues.

Section 6.04. Discharge by Deposit. The City may discharge its obligation to the Owners of any or all of the Bonds to pay principal, interest and redemption premium (if any) thereon by depositing with the Paying Agent/Registrar cash in an amount equal to the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption, or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of $100,000,000, pursuant to an escrow or trust agreement to which the Paying Agent/Registrar is a party, cash and/or Government Obligations (as defined below) in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or

redemption. Upon such deposit, such Bonds shall no longer be regarded to be Outstanding. In case any Bonds are to be redeemed on any date prior to their maturity, the City, shall give to the Paying Agent/Registrar irrevocable instructions to give notice of redemption of Bonds to be so redeemed in the manner required in the ordinance or ordinances authorizing such Bonds. For any Bonds not to be redeemed or paid in full within the next succeeding sixty (60) days from the date of deposit provided for in this Section 6.04, the City shall give the Paying Agent/Registrar in form satisfactory to it irrevocable instructions to mail, by United States mail, first class, postage prepaid, a notice to the Owner of each such Bond that the deposit required by this Section 6.04 has been made and that said Bonds are deemed paid in accordance with this Section and stating such maturity or redemption date upon which money are to be available for the payment of the principal amount and redemption premium if any on such Bonds plus interest thereon to the date of maturity or redemption. Any failure, error or delay in giving such notices shall not affect the defeasance of such Bonds.

The term "Government Obligations", as used herein, means (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem defeased Bonds that is made in conjunction with the payment arrangements specified above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the City expressly reserves the right to call the defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased Bonds immediately following the defeasance; (3) directs that notice of the reservation be included in any redemption notices that it authorizes; and (4) at the time of the redemption, satisfies the conditions of (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased Bonds.

Section 6.05. Legal Holidays. In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of any Bonds shall be a Legal Holiday, then payment of interest, redemption premium or principal need not be made on such date but may be made on the next succeeding day which is not a Legal Holiday with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment. In case any Transfer Date shall be a Legal Holiday, then the transfer otherwise required to be made on such date pursuant to Section 4.05 hereof shall be made on the next preceding date which is not a Legal Holiday.

Section 7.01. Paying Agent/Registrar Agreement. The form of Paying Agent/Registrar Agreement between the City and the Paying Agent/Registrar attached hereto as Exhibit A is hereby approved. The City Manager is hereby authorized and directed to execute and deliver said Agreement on behalf of the City, and the City Clerk is authorized to attest said Agreement and to affix the seal of the City thereto. The Paying Agent/Registrar, by undertaking the performance of the duties of the Paying Agent/Registrar hereunder and under said agreement, and in consideration of the payment of fees and/or deposits of money pursuant to this Ordinance and said agreement, accepts and agrees to abide by the terms of this Ordinance and said Agreement.

Section 7.02. Trust Funds. All money transferred by the City to the Paying Agent/Registrar under this Ordinance (except sums representing the Paying Agent/Registrar's fees) shall be held in trust for the benefit of the City, shall be the property of the City, and shall be disbursed in accordance with this Ordinance.

Section 7.03. Bonds Presented. Subject to the provisions of Section 7.04, all matured Bonds presented to the Paying Agent/Registrar for payment shall be paid without the necessity of further instructions from the City. Such Bonds shall be canceled as provided herein.

Section 7.04. Unclaimed Funds Held by the Paying Agent/Registrar. Funds held by the Paying Agent/Registrar which represent principal of and interest and any redemption premium on the Bonds remaining unclaimed by the owner after the expiration of three years from the date such funds have become due and payable shall be reported and disposed of by the Paying Agent/Registrar in accordance with the provisions of Texas law including, to the extent applicable, Title 6 of the Texas Property Code, as amended.

The Paying Agent/Registrar shall have no liability to the Owners of the Bonds by virtue of actions taken in compliance with this Section.

Section 7.05. Paying Agent/Registrar May Own Bonds. The Paying Agent/Registrar in its individual or any other capacity, may become the owner or pledgee of Bonds with the same rights it would have if it were not the Paying Agent/Registrar.

Section 7.06. Successor Paying Agent/Registrars. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are paid and discharged, and any successor Paying Agent/Registrar shall be a bank, trust company, financial institution, or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each Holder by United States mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Section 8.01. Alternation of Rights and Duties. The rights, duties, and obligations of the City and the Owners of the Bonds are subject in all respects to all applicable federal and state laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended.

Section 8.02. Amendment of Ordinance Without Consent. The City may, without the consent of or notice to any of the Owners of the Bonds, amend this Ordinance for any one or more of the following purposes:

(1) to cure any ambiguity, defect, omission or inconsistent provision in this Ordinance or in the Bonds; or to comply with any applicable provision of law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Bonds;

(2) to change the terms or provisions of this Ordinance to the extent necessary to prevent the interest on the Bonds from being includable within the gross income of the Owners thereof for federal income tax purposes;

(3) to grant to or confer upon the Owners of the Bonds any additional rights, remedies, powers, or authority that may lawfully be granted to or conferred upon the Owners of the Bonds;

(4) to add to the covenants and agreements of the City contained in this Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in this Ordinance;

(5) to amend any provisions hereof relating to the issuance of Bonds Similarly Secured, including Variable Rate Obligations, or the incurrence of and security for Reimbursement Obligations or the definition of Variable Rate Obligations provided such amendment does not cause any reduction in any rating assigned to the Bonds by any major municipal securities evaluation service then rating the Bonds; and

(6) to subject to the lien and pledge of this Ordinance additional Pledged Revenues, provided such amendment does not cause any reduction in any rating assigned to the Bonds by any major municipal securities evaluation service then rating the Bonds.

Section 8.03. Amendments of Ordinance Requiring Consent. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions of this Ordinance but, if such amendment is not of the character described in Section 8.02 hereof, only with the consent given in accordance with Section 8.04 hereof of the Owner or Owners of not less than 66-2/3% of the aggregate unpaid principal amount of the Bonds Similarly Secured then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing in this Section shall permit (1) an extension of the maturity of the principal of or interest on any Bond issued hereunder, or (2) a reduction in the principal amount of any Bond or the rate of interest on any Bond, or (3) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (4) a reduction in the aggregate principal amount of the Bonds required for consent to such amendment.

Section 8.04. Consent of Owners. Any consent required by Section 8.03 hereof by any Owner shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by such Owner or his duly authorized attorney. Proof of the execution of any such consent or of the writing appointing any such attorney and of the ownership of Bonds Similarly Secured, if made in the following manner, shall be sufficient for any of the purposes of this

Ordinance, and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

(1) the fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution; and

(2) the fact of the ownership by any person of any Bond Similarly Secured and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar, stating that at the date thereof such Bond Similarly Secured was registered in the name of such party in the Register.

In lieu of the foregoing the City may accept such other proofs of the foregoing as it shall deem appropriate.

Consents required pursuant to Section 8.03 shall be valid only if given following the mailing of notice by or on behalf of the City requesting such consent and setting forth the substance of the amendment of this Ordinance in respect of which such consent is sought and stating that copies thereof are available at the office of the City Clerk for inspection. Such notice shall be mailed by certified mail to each Owner of the Bonds Similarly Secured affected at the address shown on the Security Register.

Section 8.05. Revocation of Consent. Any consent by any Owner of a Bond Similarly Secured pursuant to the provisions of this Article shall be irrevocable for a period of six months from the date of mailing of the notice provided for in this Article, and shall be conclusive and binding upon all future Owners of the same Bond Similarly Secured and any Bond Similarly Secured delivered on transfer thereof or in exchange for or replacement thereof during such period. Such consent may be revoked at any time after six months from the date of the first mailing of such notice by the owner who gave such consent or by a successor in title, by filing notice thereof with the Paying Agent/Registrar, but such revocation shall not be effective if the Owners of a majority in aggregate principal amount of the Bonds Similarly Secured Outstanding as in this Ordinance defined have, prior to the attempted revocation, consented to and approved the amendment.

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APPENDIX C

Fulbright & Jaworski L.L.P.
300 Convent Street, Suite 2200
San Antonio, Texas 78205

Escamilla & Poneck, Inc.
711 Navarro, Suite 100
San Antonio, Texas 78205

FINAL

June 29, 2004

WE HAVE ACTED as Co-Bond Counsel in connection with the issuance by the City of San Antonio, Texas (the "City") of the "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A" (the "Bonds") in the aggregate principal amount of $10,390,000, dated June 1, 2004, solely to express legal opinions as to the validity and enforceability of the Bonds, the defeasance and discharge of the City's outstanding obligations being refunded by the Bonds, the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

THE BONDS are issuable in fully registered form only and in denominations of $5,000 or any integral multiple thereof within a maturity. The Bonds mature on August 15, 2029, unless optionally or mandatorily redeemed in accordance with applicable redemption provisions. Interest accrues on the Bonds from their date at the rates per annum stated in the ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance"), and such accrued interest is payable on February 15 and August 15 in each year, commencing August 15, 2004, to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (identified in the Ordinance).

IN RENDERING THE OPINIONS herein we have examined and rely upon original or certified copies of the proceedings had in connection with the issuance of the Bonds, including the Ordinance, an Escrow and Trust Agreement (the "Escrow Agreement") between the City and JPMorgan Chase Bank, Dallas, Texas (the "Escrow Agent"), a special report (the "Report") of Grant Thornton LLP, Certified Public Accountants (the "Accountants"), and an executed initial Bond; certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and to certain other facts within the knowledge and control of the City; and such other material and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding, and enforceable special obligations of the City, payable solely from and, together with the currently outstanding Parity Bonds, equally and ratably secured by a subordinate and inferior lien on and pledge of the Pledged Revenues (as defined in the Ordinance), in the manner and as provided in the Ordinance, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the City, except the Pledged Revenues. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by ad valorem taxation.

2. The Escrow Agreement has been duly authorized, executed, and delivered by the City and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded and to be discharged, paid, and retired with certain proceeds of the Bonds are regarded as being outstanding for purposes of the ordinance authorizing their issuance only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement , the ordinance authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Report of the Accountants with respect to the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals for federal income tax purposes. Interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust, or a financial asset securitization investment trust) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative

minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, "S" corporations with subchapter "C" earnings and profits, owners of interests in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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APPENDIX D

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.

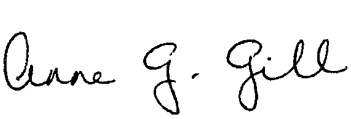
In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from 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.

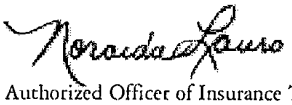
President



Secretary

Effective Date:

Authorized Representative



Authorized Officer of Insurance Trustee

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

SPECIMEN

Ambac

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

IMPORTANT NOTICE

To obtain information or make a complaint you may contact the Texas Department of Insurance to obtain information on companies, coverages, rights or complaints at:

1-800-252-3439

You may write the Texas Department of Insurance at:
P.O. Box 149104, Austin, Texas 78714-9104. FAX: (512) 475-1771

PREMIUM OR CLAIM DISPUTES

Should you have a dispute concerning your premium or about a claim you should contact Ambac Assurance Corporation first. If the dispute is not resolved, you may contact the Texas Department of Insurance

ATTACH THIS NOTICE TO YOUR POLICY: This notice is for information only and does not become part or condition of the attached document.

Form No.: 25-5080 (7/97)