OFFICIAL STATEMENT DATED MAY 5, 2005

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS:
Moody's: "Aaa"
S&P: "AAA"
Fitch: "AAA"
(See "RATINGS" herein)

In the opinion of Bond Counsel, McCall, Parkhurst & Horton L.L.P., assuming continuing compliance by the City of San Antonio, Texas after the date of issuance of the Bonds (defined below) with certain covenants in the Ordinances described herein and subject to the matters discussed herein under "TAX MATTERS," interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. HOWEVER, INTEREST ON THE BONDS WILL BE AN ITEM OF TAX PREFERENCE FOR PURPOSE OF DETERMINING THE ALTERNATIVE MINIMUM TAX IMPOSED ON INDIVIDUALS AND CORPORATIONS. FOR FURTHER INFORMATION, SEE "TAX MATTERS" HEREIN.

$38,085,000
CITY OF SAN ANTONIO, TEXAS
PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN AIRPORT SYSTEM REVENUE IMPROVEMENT BONDS, SERIES 2005
(Alternative Minimum Tax Bonds)

CITY OF SAN ANTONIO
AVIATION DEPARTMENT

Date: April 15, 2005 **Due: July 1, as shown herein**

The $38,085,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005" (the "Bonds") are being issued by the City of San Antonio, Texas (the "City") pursuant to the laws of the State of Texas, including Chapter 22, Texas Transportation Code, Chapters 1371 and 1503, Texas Government Code; and Section 103 of the City's Home Rule Charter (collectively, "Applicable Law"); a "Master Ordinance", dated as of March 7, 2002, establishing the Airport System's (defined herein) revenue bond financing program supported by Passenger Facility Charge (defined herein) revenues (the "Master PFC Ordinance"); a "Master Ordinance, dated as of April 19, 2001, establishing the Airport System's revenue bond financing program supported by Gross Revenues (the "Master GAR Ordinance") and a Second Supplement to the Master PFC Ordinance adopted by the City Council on May 5, 2005, which also serves as the Seventh Supplement to the Master GAR Ordinance (see "THE BONDS – Authority for Issuance" herein).

Interest on the Bonds will accrue from April 15, 2005, will be payable January 1 and July 1 of each year, commencing July 1, 2005, 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, New York, New York ("DTC"). 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, redemption premium (if any), and interest on the Bonds will be payable by JPMorgan Chase Bank, N.A., Dallas, Texas, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants (who will then remit such principal and interest to the Beneficial Owners (see "BOOK-ENTRY-ONLY SYSTEM" herein).

The Bonds are special obligations of the City payable from and equally and ratably secured by a first lien on and pledge of the revenues derived from the collection of the Passenger Facility Charge, with additional security provided by a first lien on and pledge of the Subordinate Net Revenues (defined herein). The Bonds are issued on a parity with certain outstanding revenue bonds payable from such sources. No mortgage of or lien on any of the physical properties forming a part of the Airport System, 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 the sources specified above. Neither the taxing power of the City, the State of Texas, any political subdivision thereof, nor any other funds of the City, are pledged to the payment of the Bonds.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Financial Security Assurance, Inc. (see "BOND INSURANCE" herein).

FSA

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS RELATING TO THE BONDS

The Bonds are offered for delivery, when, as and if issued and received by the Underwriters named below and subject to the approving opinion of the Attorney General of the State of Texas and the legal opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, as 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. It is expected that the Bonds will be available for delivery through the services of DTC on or about May 24, 2005.

SIEBERT BRANDFORD SHANK & CO., LLC **MORGAN STANLEY**
RBC Dain Rauscher **Southwest Securities, Inc.**

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

$38,085,000
City of San Antonio, Texas
Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005
(Alternative Minimum Tax Bonds)

$26,325,000 Serial Bonds

Maturity (July 1)	Principal Amount	Interest Rate	Initial Reoffering Yield[1]	CUSIP Number[2]
2006	$ 825,000	4.000%	3.070%	796242KK0
2007	855,000	4.000	3.200	796242KL8
2008	890,000	4.000	3.320	796242KM6
2009	925,000	3.375	3.440	796242KN4
2010	955,000	4.000	3.560	796242KP9
2011	1,000,000	5.250	3.700	796242KQ7
2012	1,045,000	5.250	3.840	796242KR5
2013	1,100,000	5.250	3.970	796242KS3
2014	1,160,000	5.250	4.070	796242KT1
2015	1,220,000	5.250	4.170	796242KU8
2016	1,285,000	5.250	4.250	796242KV6
2017	1,350,000	5.250	4.310	796242KW4
2018	1,425,000	5.250	4.350	796242KX2
2019	1,500,000	5.250	4.390	796242KY0
2020	1,575,000	5.250	4.430	796242KZ7
2021	1,660,000	5.250	4.460	796242LA1
2022	1,745,000	5.250	4.490	796242LB9
2023	1,840,000	5.250	4.520	796242LC7
2024	1,935,000	5.250	4.540	796242LD5
2025	2,035,000	5.250	4.560	796242LE3

$11,760,000 Term Bonds

$11,760,000 4.625% Term Bonds Due July 1, 2030. Priced to Yield 4.800%. CUSIP No. 796242LK9[2]

Optional Redemption

The Bonds maturing on or after July 1, 2016 may be redeemed, in whole or in part, in principal amounts of $5,000 or any integral amount thereof on July 1, 2015 or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption.

Mandatory Redemption

The Bonds maturing on July 1, 2030 are subject to mandatory sinking fund redemption (see "THE BONDS – Redemption Provisions").

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(1) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriters. Initial Reoffering Yield represents the yield on the initial offering of the Bonds to the public, which yield may be changed for subsequent purchasers.

(2) 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.

CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL:

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

[1] Not eligible to run for re-election based on the City's term limit policy.

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Years In Current Position
J. Rolando Bono[1]	Interim City Manager	27 Years, 5 Months	6 Months
Melissa Byrne Vossmer	Assistant City Manager	6 Years, 10 Months	6 Years, 10 Months
Christopher J. Brady	Assistant City Manager	8 Years, 8 Months	5 Years, 2 Months
Jelynne L. Burley	Assistant City Manager	21 Years	2 Years, 9 Months
Frances A. Gonzalez	Assistant City Manager	20 Years, 6 Months	1 Year, 5 Months
Roland Lozano	Assistant to the City Manager	24 Years, 8 Months	4 Years
Erik J. Walsh	Assistant to the City Manager	10 Years, 10 Months	4 Years
Martha Sepeda[2]	Acting City Attorney	2 years	Appointed April 7, 2005
Leticia M. Vacek	City Clerk	9 Months	9 Months
Thomas G. Wendorf	Director of Public Works	6 Years	4 Years, 3 Months
Milo Nitschke	Director of Finance	10 Years, 6 Months	3 Years, 6 Months
Peter Zanoni	Director of Management and Budget	8 Years	6 Months

[1] On September 10, 2004, City Council accepted the resignation of the City Manager, Terry M. Brechtel, effective October 1, 2004. J. Rolando Bono was appointed to serve as Interim City Manager under Ordinance No. 99821; his terms and conditions of employment were adopted and approved under Ordinance 99850. Mr. Bono will continue to serve as Interim City Manager until such time as the City Council appoints a City Manager. The City Council has hired a professional firm to assist in a nationwide search for a new City Manager.

[2] Andrew Martin, the City Attorney, submitted his intent to resign to the Interim City Manager. Mr. Martin will serve as the City's General Counsel. The City Council appointed Martha Sepeda, the First Assistant City Attorney, as the Acting City Attorney.

CONSULTANTS AND ADVISORS:

Bond Counsel	McCall, Parkhurst & Horton L.L.P., San Antonio, Texas
Co-Certified Public Accountants	KPMG Peat Marwick 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
Airport Consultant	Unison-Maximus, Inc., Chicago, Illinois

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.

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.

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OFFICIAL STATEMENT
Relating to the

$38,085,000
CITY OF SAN ANTONIO, TEXAS
PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN AIRPORT SYSTEM REVENUE IMPROVEMENT BONDS, SERIES 2005
(Alternative Minimum Tax Bonds)

INTRODUCTION

This Official Statement of the City of San Antonio, Texas (the "City") provides certain information in connection with the sale of the $38,085,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005" (the "Bonds"). This Official Statement describes the Bonds, the Ordinance (defined herein), and certain other information about the City and its Airport System (defined herein). All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each respective document. Capitalized terms used herein without definition are defined in "APPENDIX B – Glossary of Defined Terms". Copies of transaction documents may be obtained in their entirety 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, 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 will be filed with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

The Bonds will be issued on a parity with the "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002," currently outstanding in the aggregate principal amount of $35,995,000 (the "Outstanding Bonds"). Both the Bonds and the Outstanding Bonds are payable from and secured by a first lien on and pledge of the "PFC Revenues" (defined herein), with additional security provided by a first lien on and pledge of the "Subordinate Net Revenues"; however, as further described herein, "Subordinate Net Revenues" represents the amount of "Net Revenues" that remain after payment of debt service on $182,415,000 in Outstanding Parity GAR Obligations, as well as on any "Additional Parity GAR Obligations" that may be issued from time to time (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Security"). The City has reserved the right to issue additional obligations payable from the PFC Revenues on a parity with or subordinate to the Bonds and the Outstanding Bonds in any amount permitted by the Ordinance. In addition, under the terms of the Ordinance and the GAR Ordinance (defined herein), the City may, from time to time, issue (a) debt obligations secured by a lien on and pledge of the Subordinate Net Revenues on a parity with or subordinate to the lien thereon providing further security for the Bonds and the Outstanding Bonds and (b) Special Facilities Debt (defined herein) for the purpose of providing Special Facilities (defined herein), which debt is separately secured by a pledge of certain rentals derived from the leasing of such Special Facilities.

As of April 1, 2005, the only Special Facilities Debt obligations outstanding were the "City of San Antonio, Texas Special Facilities Airport Revenue Bonds, Series 1995 (The Cessna Aircraft Company Project)" in the principal amount of $4,200,000. Currently, the Outstanding Bonds represent the only debt obligations secured by a pledge of and lien on both the PFC Revenues and the Subordinate Net Revenues. The Bonds will represent the second issuance of such type of debt. **This Official Statement describes the Bonds only.**

PLAN OF FINANCING

The City is issuing the Bonds for the purposes of (i) acquiring and constructing certain improvements to the San Antonio International Airport (defined herein) qualifying for, and that have been approved by the Secretary of the United States Department of Transportation as, "eligible airport-related projects" under 49 U.S.C. § 40117, including construction projects identified in the CIP (defined herein) and the Feasibility Report (defined herein) as Concourse B, Terminal Elevated Roadway, Central Plant Upgrade, Apron Replacement, and New Utilities, (ii) funding capitalized interest and a debt service reserve fund, and (iii) paying costs of issuing the Bonds. The aforementioned improvements represent the further implementation of a portion of the CIP. The CIP addresses both terminal and airfield improvement needs. The CIP includes the removal of the International Airport's existing Terminal 2, parts of which are over 50 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement of two runways (along with supporting taxiways and aircraft apron). The preliminary cost estimates for CIP-related improvements for years 2005 through 2009 (including terminal-related improvements, parking, roadway improvements, and airfield improvements) total approximately $340.6 million (see "THE AIRPORT SYSTEM – Capital Improvement Plan").

The FAA has approved funding for a portion of the planned projects specified in the CIP through revenues generated from a $3.00 "passenger facility charge" per paying and qualifying passenger enplaned at the International Airport (less an $0.11 air carrier collection charge) (the "Passenger Facility Charge", and the revenues resultant therefrom, the "PFC Revenues"). In addition to payment of debt service on the Bonds, the City intends to use a portion of the PFC Revenues to pay for capital improvements on a current basis and to support other debt obligations for eligible projects. The City also anticipates submitting an application to the FAA in the Spring of 2006 for Letter of Intent ("LOI") grant funds to pay for a portion of the CIP that are eligible under the FAA's Airport Improvement Grant Program ("AIP").

Collection authority for the Passenger Facility Charge became effective on August 29, 2001. Absent application for and receipt of an extension, said collection authority is expected to expire upon the City's aggregate collection of $167.1 million in PFC Revenues, as specified by the FAA in its authorization allowing the City to collect the PFC. Total collections of PFC Revenues are expected to reach this level on or about April 1, 2016 (see "RISK FACTORS – Passenger Facility Charges").

(Remainder of page is intentionally left blank)

DEBT SERVICE REQUIREMENTS

The following schedule reflects the total principal and interest requirements on both the Bonds and the Outstanding Bonds:

Fiscal Year	Existing Debt Service	The Bonds Principal	The Bonds Interest	The Bonds Total Debt Service	Total Combined Debt Service
2005	$ 1,789,162.50	$ -0-	$ 393,628.54	$ 393,628.54	$ 2,182,791.04
2006	2,734,525.00	825,000	1,864,556.26	2,689,556.26	5,424,081.26
2007	2,739,325.00	855,000	1,831,556.26	2,686.556.26	5,425,881.26
2008	2,737,525.00	890,000	1,797,356.26	2,687,356.26	5,424,881.26
2009	2,738,131.26	925,000	1,761,756.26	2,686,756.26	5,424,887.52
2010	2,739,600.00	955,000	1,730,537.50	2,685,537.50	5,425,137.50
2011	2,747,400.00	1,000,000	1,692,337.50	2,692,337.50	5,439,737.50
2012	2,746,625.00	1,045,000	1,639,837.50	2,684,837.50	5,431,462.50
2013	2,747550.00	1,100,000	1,584,975.00	2,684,975.00	5,432,525.00
2014	2,746,825.00	1,160,000	1,527,225.00	2,687,225.00	5,434,050.00
2015	2,752,075.00	1,220,000	1,466,325.00	2,686,325.00	5,438,400.00
2016	2,757,725.00	1,285,000	1,402,275.00	2,687,275.00	5,445,000.00
2017	2,758,487.50	1,350,000	1,334,812.50	2,684,812.50	5,443,300.00
2018	2,759,362.50	1,425,000	1,263,937.50	2,688,937.50	5,448,300.00
2019	2,765,062.50	1,500,000	1,189,125.00	2,689,125.00	5,454,187.50
2020	2,768,712.50	1,575,000	1,110,375.00	2,685,375.00	5,454,087.50
2021	2,772,375.00	1,660,000	1,027,687.50	2,687,687.50	5,460,062.50
2022	2,770,787.50	1,745,000	940,537.50	2,685,537.50	5,456,325.00
2023	2,778,950.00	1,840,000	848,925.00	2,688,925.00	5,467,875.00
2024	2,786,075.00	1,935,000	752,325.00	2,687,325.00	5,473,400.00
2025	2,781,900.00	2,035,000	650,737.50	2,685,737.50	5,467,637.50
2026	2,791,687.50	2,145,000	543,900.00	2,688,900.00	5,480,587.50
2027	2,794,387.50	2,245,000	444,693.76	2,689,693.76	5,484,081.26
2028		2,345,000	340,862.50	2,685,862.50	2,685,862.50
2029		2,455,000	232,406.26	2,687,406.26	2,687,406.26
2030		2,570,000	118,862.50	2,688,862.50	2,688,862.50
Totals	$62,504,256.26	$38,085,000.00	$29,491,553.60	$67,576,553.60	$130,080,809.86

THE BONDS

General Description

The Bonds will be dated April 15, 2005 and will bear interest from such date at the rates set forth on the inside cover page hereof (payable on January 1 and July 1 of each year, commencing July 1, 2005, until stated maturities or prior redemption). The principal of, redemption premium, if any, and interest on the Bonds are payable in the manner described herein under "THE BONDS – Book-Entry-Only System."

In the event the Book-Entry-Only System (described below) is discontinued, the interest on the Bonds will be payable to the registered owners thereof, as shown in the security register maintained by the Paying Agent/Registrar on a Record Date (defined herein) by check, mailed first-class postage prepaid, to the address of such persons specified in such register (or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owners of the Bonds). 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 by the Holder or Holders of such Bonds at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of, redemption premium, if any, 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.

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	$ 38,085,000.00
Plus Net Original Issue Premium	1,303,077.45
Total Sources of Funds	$ 39,388,077.45
Uses of Funds	
Construction Fund	$ 38,440,000.00
Underwriters' Discount	233,416.95
Bond Insurance	418,974.63
Debt Service Reserve Fund Surety Policy	67,125.00
Costs of Issuance and Closing Contingency	228,560.87
Total Uses of Funds	$ 39,388,077.45

Authority for Issuance

The Bonds will be issued under the provisions of applicable laws, including Chapter 22, Texas Transportation Code; Chapters 1371 and 1503, Texas Government Code; Section 103 of the City's Home Rule Charter; a "Master Ordinance" dated as of March 7, 2002, establishing the Airport System's revenue bond financing program supported by PFC Revenues (the "Master PFC Ordinance"); a "Master Ordinance" dated as of April 19, 2001, establishing the Airport System's revenue bond financing program supported by Gross Revenues (the "Master GAR Ordinance"); and a Second Supplement to the Master PFC Ordinance adopted by the City Council on May 5, 2005, which also serves as the Seventh Supplement to the Master GAR Ordinance (the "Second PFC Supplement", and collectively with the Master PFC Ordinance, the "Ordinance"); Excerpts from such ordinances are attached hereto as Appendix C and Appendix D, respectively.

Redemption Provisions

Mandatory Redemption. The Bonds maturing in 2030 are subject to mandatory redemption in part by lot pursuant to the terms of the Ordinance, on July 1 of the following years and amounts, at a price equal to the principal amount and unpaid interest to the date of redemption, without premium:

Year	Amount
2026	$2,145,000
2027	2,245,000
2028	2,345,000
2029	2,455,000
2030 (Final Maturity)	2,570,000

Optional Redemption. The Bonds are subject to optional redemption at the time and price shown on the inside cover page of this Official Statement.

If the City exercises its option to redeem Bonds prior to scheduled maturity, it will determine the maturity or maturities and the principal amount of the Bonds within each maturity to be so redeemed. If less than all of the Bonds within a stated maturity are to be redeemed, the particular Bonds to be redeemed will be selected at random and by lot by the Paying Agent/Registrar.

Notice of Redemption. At least 30 days prior to the date fixed for any redemption of any Bonds or portions thereof prior to stated maturity, the City must cause written notice of such redemption to be sent by U.S. mail, first-class postage prepaid, to the registered owner of each Bond or a portion thereof to be redeemed at its address as it appeared on the Paying Agent/Registrar's security register on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision must be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Bonds or portions thereof which are to be so redeemed thereby automatically will be treated as redeemed prior to their scheduled maturities, and they will not bear interest after the date fixed for redemption, and they will not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

Denominations. Bonds of a denomination larger than $5,000 may be redeemed in part ($5,000 or any integral multiple thereof). Any Bonds to be partially redeemed may be surrendered in exchange for one or more new Bonds in authorized denominations of the same stated maturity, series, and interest rate for the unredeemed portion of the principal.

Redemption Through The Depository Trust Company. The Paying Agent/Registrar and the City, so long as the Book-Entry-Only System of DTC is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinances or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any Direct Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinances and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption (see "THE BONDS – Book-Entry-Only System" herein).

Additional Debt Obligations

Additional Parity PFC Obligations. The City may issue Additional Parity PFC Obligations on a parity with all then-Outstanding Parity PFC Obligations (including the Bonds) in accordance with the provisions and upon satisfaction of the following: (i) certification by the Designated Financial Officer and the Aviation Director that upon issuance of such Parity PFC Obligations, the City will not be in default under the Master PFC Ordinance, any Parity PFC Obligations then outstanding, or any supplement pursuant to which such Parity PFC Obligations were issued; (ii) certification by the Designated Financial Officer that, upon issuance of such Parity PFC Obligations, the PFC Bond Fund will have the required amounts on deposit therein and that the PFC Bond Reserve Fund will contain the PFC Required Reserve Amount (or so much thereof as is required to be funded at such time); and (iii) (a) an Airport Consultant provides a written report setting forth projections indicating that the estimated PFC Revenues for each of three consecutive Fiscal Years (beginning as specified in the Master PFC Ordinance) are equal to at least 1.25 times the Annual Debt Service Requirements on all Parity PFC Obligations scheduled to occur during each such respective Fiscal Year after taking into consideration the Additional Annual Debt Service Requirement for the Additional Parity PFC Obligations then being issued, or (b) certification by the Designated Financial Officer that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the PFC Revenues were equal to at least 1.25 times of the maximum Annual Debt Service Requirements on all Parity PFC Obligations scheduled to occur in the then-current or any future Fiscal Year after taking into consideration the Parity PFC Obligations proposed to be issued.

Additional Debt Secured by Subordinate Net Revenues. The City may not issue debt obligations secured in whole or in part by a superior lien on and pledge of Subordinate Net Revenues to that granted by the Ordinance and the GAR Ordinance to provide additional security for the Bonds (or that may be granted in the future on a parity basis in connection with the issuance of any Additional Parity PFC Bonds or other indebtedness of the City). The City has

reserved the right to secure Additional Parity PFC Obligations issued pursuant to the Master PFC Ordinance and any supplement thereto with a parity lien on and pledge of Subordinate Net Revenues upon satisfaction of the following conditions (which conditions are in addition to the satisfaction of the conditions set forth in the Master PFC Ordinance): (i) certification by the Designated Financial Officer and the Aviation Director that, upon issuing such Additional Parity PFC Obligations, the City will not be in default under any term or provision of the Master GAR Ordinance or any supplement thereto; (ii) certification by the Designated Financial Officer that, upon the issuance of such Additional Parity PFC Obligations, the Bond Fund will have the required amounts on deposit therein and that the Bond Reserve Fund will contain the Required Reserve Amount or so much thereof as is required to be funded at such time; and (iii) certification by the Designated Financial Officer that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Subordinate Net Revenues were equal to at least 1.10 times the maximum Annual Debt Service Requirements on all indebtedness of the City which is secured in whole or in part with a parity lien on and pledge of the Subordinate Net Revenues, and which is scheduled to occur in the then current or any future Fiscal Year after taking into consideration the Additional Parity PFC Obligations proposed to be issued.

The City has further reserved the right to issue debt or other obligations secured in whole or in part with a lien on and pledge of Subordinate Net Revenues which is junior and subordinate to the lien on the Subordinate Net Revenues which has been granted to secure the Bonds and the Outstanding Bonds without the necessity of complying with any historical or projected revenue requirements unless otherwise required by the ordinance or ordinances which authorize the issuance of such debt or other obligations.

Subordinated Obligations Payable from PFC Revenues. While any Parity PFC Obligations are outstanding and unpaid, the City cannot additionally encumber the PFC Revenues in any manner, except as permitted in the Ordinance in connection with the issuance of Additional Parity PFC Obligations, unless said encumbrance is made junior and subordinate in all respect to the liens, pledges, covenants, and agreements of the Master PFC Ordinance and any supplement thereto authorizing the issuance of the Parity PFC Obligations; however, the City has specifically retained the right to issue obligations secured by a lien on the PFC Revenues which is subordinated to the lien thereon securing the Parity PFC Obligations, which includes Subordinated PFC Debt.

Paying Agent/Registrar

The initial Paying Agent/Registrar is JPMorgan Chase Bank, N.A., Dallas, Texas. 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 U.S. mail, first-class, postage prepaid.

Record Date for Interest Payment

The record date for determining the person to whom semiannual interest is payable on any Interest Payment Date is the 15th 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 U.S. 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 U.S. 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 "THE BONDS – 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).

Mutilated, Destroyed, Lost, or Stolen Bonds

The City has agreed to replace damaged, mutilated, destroyed, lost, or stolen Bonds upon surrender of the damaged or mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

Limitation on Transfer

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Bonds (i) 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 and (ii) with respect to the Bonds selected for redemption in whole or in part, within 45 days of the date fixed for redemption; provided, however, this limitation is not applicable to the transfer or exchange of the unredeemed balance of the Bonds called for redemption in part.

Defaults and Remedies

If the City defaults in the payment of the principal of, redemption premium, if any, 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 state 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, redemption premium, if any, or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. 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, premium, if any, 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 Ordinances do 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 Ordinances, or upon any other condition. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinances and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Defeasance

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payments, and when arrangements have been made by the City to pay all necessary and proper fees, compensation, and expenses of the paying agent for the Bonds. Upon such deposit as described above, such Bonds will no longer be regarded as outstanding or unpaid.

The City may exercise any option to redeem Bonds defeased to maturity if (1) in the defeasance proceedings, the City expressly reserves the right to call such Bonds for redemption, (2) the City gives notice of the reservation of such right to the owner of defeased Bonds immediately upon such defeasance, and (3) the City directs that notice of such reservation be included in all redemption notices.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, redemption premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), 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 (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominees (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) 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 security 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 Bonds Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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 Security ("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 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 shall 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 such 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend 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 Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend 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 Agent, 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

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

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood 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 Ordinances will be given only to DTC.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Security

The Bonds, as well as the Outstanding Bonds and any Additional Parity PFC Obligations are secured by and payable from the following sources: (i) an irrevocable first lien on and pledge of the PFC Revenues, and (ii) a first lien on and pledge of the Subordinate Net Revenues. **Note that notwithstanding the fact that the Bonds are additionally secured by a first lien on and pledge of the Subordinate Net Revenues, such revenues represent the remaining Gross Revenues AFTER payment of Operation and Maintenance Expenses and principal of, redemption premium (if any), and interest on Outstanding Parity GAR Obligations (currently outstanding in the aggregate principal amount of $182,415,000).**

THE BONDS ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM A FIRST AND PRIOR LIEN ON AND PLEDGE OF THE PFC REVENUES, AS WELL AS AN ADDITIONAL LIEN ON AND PLEDGE OF THE SUBORDINATE NET 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. NO MORTGAGE OR LIEN HAS BEEN CREATED ON THE PHYSICAL PROPERTIES OF THE AIRPORT SYSTEM TO SECURE PAYMENT OF THE BONDS.

The payment of the principal of and interest on the Bonds is expected to be guaranteed pursuant to a municipal bond insurance policy (see "BOND INSURANCE" herein).

Perfection of Security Interest

Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the pledge of PFC Revenues and Subordinate Net 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 PFC Revenues and Subordinate Net Revenues are to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City has agreed to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Covenants Relating to Outstanding PFC Obligations

Budget Covenant. The City has covenanted in the Master PFC Ordinance to prepare an Annual Budget for the Airport System prior to the beginning of each Fiscal Year. The City has also covenanted and agreed with all holders of the Parity PFC Obligations that each Annual Budget will be prepared in a manner which will indicate that the reasonably expected receipt of PFC Revenues during each Fiscal Year (together with any funds reasonably expected to be on deposit during such Fiscal Year in the PFC Revenue Fund or the PFC Capital Improvement Fund from prior Fiscal Years and available for purposes of acquiring and constructing PFC Eligible Airport-Related Projects), after payment of all costs to acquire and construct PFC Eligible Airport-Related Projects with PFC Revenues during such Fiscal Year, will provide an amount equal to 1.25 times the Annual Debt Service Requirements during such Fiscal Year on all then- outstanding Parity PFC Obligations.

Covenant to Maintain Subordinate Net Revenue Coverage. In the event any Parity PFC Obligations additionally secured by a lien on and pledge of Subordinate Net Revenues remain Outstanding and the City is no longer

permitted by law to levy and collect a Passenger Facility Charge in an amount sufficient to provide revenues to satisfy the aforementioned budget covenant, the City has further covenanted that it will at all times, fix, maintain, enforce, charge, and collect rates, fees, charges, and amounts for the use, occupancy, services, facilities, and operation of the Airport System that will produce in each Fiscal Year Subordinate Net Revenues in an amount at least equal to 1.10 times the Annual Debt Service Requirements during each Fiscal Year on all then-outstanding Parity PFC Obligations.

Funds Created Under the Ordinance

***The Master PFC Ordinance*.** Under the Master PFC Ordinance, the City has established the following funds into which PFC Revenues will be deposited:

i. the PFC Revenue Fund;

ii. the PFC Bond Fund;

iii. the PFC Bond Reserve Fund; and

iv. the PFC Capital Improvement Fund.

In addition, the City is authorized under the Master PFC Ordinance to create an interest and sinking fund for payment of principal of, redemption premium (if any), interest on, and debt service reserve requirements relating to any Subordinated PFC Debt (the "Subordinated PFC Debt Fund"), in the event such subordinate debt is issued pursuant to the provisions of a supplement to the Master PFC Ordinance.

The Second PFC Supplement. Under the Second PFC Supplement, the City has established the following funds into which Bond proceeds will be deposited:

i. the PFC Construction Fund; and

ii. the PFC Rebate Fund.

The PFC Revenue Fund

All PFC Revenues are credited as received from day to day to the credit of the PFC Revenue Fund. PFC Revenues held in the PFC Revenue Fund are deposited, on or before the 25th day of each month, to the credit of the other funds and accounts described in the Master PFC Ordinance in the manner, amounts, and order of priority hereinafter described.

FIRST, to the PFC Bond Fund, in approximately equal monthly installments, the amount necessary, together with any other funds on deposit therein and available for such purpose, to pay scheduled interest on and/or principal of outstanding Parity PFC Obligations required to be redeemed on the next applicable interest payment date;

SECOND, if the combined balance of the cash, investments, and/or amount available for draw under a Credit Facility held therein equals less than the PFC Reserve Fund Requirement (hereinafter defined), to the PFC Bond Reserve Fund an amount equal to 1/60th of the PFC Reserve Fund Requirement until such time as the balance of the PFC Reserve Fund equals the PFC Reserve Fund Requirement;

THIRD, to the Subordinated PFC Debt Fund, if any, in approximately equal monthly installments, the amount necessary, together with any other funds on deposit therein and available for such purpose, to pay scheduled interest on and/or principal of outstanding Subordinated PFC Debt, if any, or such other amounts required to effect the planned early redemption of outstanding Subordinated PFC Debt on the next Interest Payment Date; and

FOURTH, to the PFC Capital Improvement Fund, all amounts remaining in the PFC Revenue Fund.

The PFC Bond Fund

The PFC Bond Fund will be used solely to pay the principal of, redemption premium (if any), and interest on, as well as any other payments incurred in connection with, Parity PFC Obligations, as the principal of the same matures and such interest and other payments come due. Money is credited to the PFC Bond Fund (i) immediately after the sale and delivery of any series of Parity PFC Obligations, in the amount of any accrued interest on such Parity PFC Obligations, and (ii) in the manner specified above under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The PFC Revenue Fund."

The PFC Bond Reserve Fund

The PFC Bond Reserve Fund is established for the purpose of paying principal of or interest on all Parity PFC Obligations at any time when amounts available in the PFC Bond Fund are insufficient for such purpose, and may also be used to finally retire the last debt service requirements on the Parity PFC Obligations.

The PFC Bond Reserve Fund is required to contain an amount of money and investments equal in market value to the Average Annual Debt Service Requirements on all Parity PFC Obligations (the "PFC Reserve Fund Requirement"). Under the provisions of the PFC Ordinance, the City may, at its option and at any time, fund all or any portion of the PFC Reserve Fund Requirement by purchasing a Credit Facility that will provide available funds, together with other cash or investments credited to the PFC Bond Reserve Fund (if any), in an amount at least equal to the PFC Reserve Fund Requirement.

Upon issuance and delivery of the Bonds, the PFC Reserve Fund Requirement will equal $5,181,929. The amount of cash and investments on deposit in the PFC Bond Reserve Fund is equal to $2,758,626.90 (as of October 1, 2004). With respect to the Bonds, the average annual principal and interest requirements on such Bonds is equal to $2,685,000. In order to comply with the requirements of the Master PFC Ordinance (see Section 8(a) of the Second Supplement as shown in Appendix C hereto), on the date of the issuance of the Bonds the City will purchase a Reserve Fund Credit Facility from the Insurer (as hereinafter defined) having a maximum amount to be drawn thereon equal to $2,685,000 (the "Series 2005 Reserve Fund Credit Facility"). The Series 2005 Reserve Fund Credit Facility will be credited to the PFC Bond Reserve Fund upon the issuance of the Bonds. Although the Bonds and the outstanding Parity PFC Obligations are on a parity with each other, the terms of the Series 2005 Reserve Fund Credit Facility provide that it is only available to be drawn upon to pay debt service on the Bonds, and not other outstanding Parity PFC Obligations, in the event funds on deposit in the PFC Bond Fund are insufficient to pay such debt service on all Parity PFC Obligations; consequently, if necessary to pay debt service on the Parity PFC Obligations, the Series 2005 Reserve Fund Credit Facility will be used to pay debt service on the Bonds, and the cash on deposit in the PFC Bond Reserve Fund will be used to pay debt service on the other then-outstanding Parity PFC Obligations.

The PFC Capital Improvement Fund

Subject to satisfying the requirements of the Ordinance, the City will transfer the balance remaining in the PFC Revenue Fund at the end of each month and to the credit of the PFC Capital Improvement Fund. The PFC Capital Improvement Fund will be used for the purposes and in the order of priority hereinafter described: FIRST, for the payment of principal of, interest on, and debt service reserve requirements relating to any Parity PFC Obligations to the extent funds on deposit in the PFC Bond Fund and the PFC Bond Reserve Fund, respectively, are insufficient to make such payments; SECOND, for the payment of principal of, interest on, and debt reserve requirements on Subordinated PFC Debt (if any) to the extent funds on deposit in the Subordinated PFC Debt Fund and any related debt service reserve fund, respectively, are insufficient to make such payments; THIRD, for the purpose of paying the costs of PFC Eligible Airport-Related Projects; and FOURTH, for any other purpose permitted by applicable state and federal law related to the Airport System.

The PFC Construction Fund

Proceeds from the sale of the Bonds remaining after payment of costs of issuing the Bonds, accrued interest, capitalized interest, and PFC Bond Reserve Fund deposits, will be deposited to the credit of the PFC Construction Fund for use by the City for payment of all lawful costs associated with the construction, improvement, renovation,

enlargement, and equipping of the Projects, all as provided in the Ordinance. Upon payment of all such costs, any money remaining on deposit in the PFC Construction Fund will be transferred first to the PFC Rebate Fund to the extent the City is liable to pay rebate amounts to the United States pursuant to the terms of Section 148 of the Code, with all remaining amounts transferred to the PFC Bond Fund. In addition, if the Bonds are optionally or mandatorily redeemed prior to maturity in whole in accordance with their terms, any amount remaining in the PFC Construction Fund will be transferred to the PFC Rebate Fund to the extent the amount therein is less than the rebate amount the City is liable to pay the United States as of the date of such redemption pursuant to the terms of Section 148 of the Code.

The PFC Rebate Fund

The PFC Rebate Fund is for the sole benefit of the United States and is not subject to the lien created by the Ordinance or to the claim of any other Person, including the Bondholders. Amounts deposited to the PFC Rebate Fund, together with any investment earnings thereon will be held in trust and applied solely as provided in section 148 of the Code, if necessary.

Funds Created Under the Master GAR Ordinance

Additional security for the Bonds is provided by a pledge of and first lien on the Subordinate Net Revenues, which are derived from the operation of the Airport System. Under the Master GAR Ordinance, the City has established the following funds into which Gross Revenues will be deposited:

i. the Revenue Fund, and within the Revenue Fund, the Operation and Maintenance Account;

ii. the Bond Fund;

iii. the Bond Reserve Fund; and

iv. the Capital Improvement Fund.

In addition, in the event the City must use Subordinate Net Revenues to pay all or any portion of any debt service payment on the Bonds or the Outstanding Bonds, the City has covenanted in the Seventh Supplement to the Master GAR Ordinance to establish the Subordinated Debt Fund in the manner contemplated and required under the Master GAR Ordinance. **The Subordinated Debt Fund represents the only fund or account created under the GAR Ordinance available for payment of amounts due and owing in relation to the Bonds.**

The Revenue Fund

All Gross Revenues are credited as received from day to day to the credit of the Revenue Fund. Gross Revenues held in the Revenue Fund are deposited, on or before the 25th day of each month, to the credit of the other funds and accounts described in the GAR Ordinance in the manner, amounts, and order of priority hereinafter described.

FIRST, to the Bond Fund, in approximately equal monthly installments, the amount necessary, together with any other funds on deposit therein and available for such purpose, to pay scheduled interest on and/or principal of outstanding Parity GAR Obligations, or required to be redeemed on the next applicable interest payment date;

SECOND, if the combined balance of the cash, investments, and/or amount available for draw under a Credit Facility held therein equals less than the Reserve Fund Requirement (hereinafter defined), to the Bond Reserve Fund an amount equal to 1/60th of the Reserve Fund Requirement until such time as the balance of the Reserve Fund equals the Reserve Fund Requirement; and

THIRD, to the Operations and Maintenance Account of the Revenue Fund all amounts remaining in the Revenue Fund.

The Bond Fund

The Bond Fund will be used solely to pay the principal of, redemption premium (if any), and interest on, as well as any other payments (other than Operation and Maintenance Expenses) incurred in connection with, Parity GAR Obligations, as the principal of the same matures and such interest and other payments come due. Money is credited to the Bond Fund (i) immediately after the sale and delivery of any series of Parity GAR Obligations, in the amount of any accrued interest on such Parity GAR Obligations, and (ii) in the manner specified above under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Revenue Fund".

The Bond Reserve Fund

The Bond Reserve Fund was established for the purpose of paying principal of or interest on all Parity GAR Obligations at any time when amounts available in the Bond Fund are insufficient for such purpose, and may also be used to finally retire the last debt service requirements on the Parity GAR Obligations.

The Bond Reserve Fund is required to contain an amount of money and investments equal in market value to the Average Annual Debt Service Requirements on all Parity GAR Obligations (the "Reserve Fund Requirement"). Under the provisions of the GAR Ordinance, the City may, at its option and at any time, fund all or any portion of the Reserve Fund Requirement by purchasing a Credit Facility that will provide available funds, together with other cash or investments credited to the Bond Reserve Fund (if any), in an amount at least equal to the Reserve Fund Requirement. As of October 1, 2004, the Reserve Fund Requirement equaled $11,344,787.00, and it is currently funded with cash, cash equivalents, investments, and a Credit Facility totaling, in the aggregate, $13,694,787.00.

The Operations and Maintenance Account of the Revenue Fund

All amounts on deposit in the Operation and Maintenance Account are to be applied in the following manner, times, and order of priority:

FIRST, to the payment of all Operation and Maintenance Expenses,

SECOND, to the Subordinated Debt Fund (at the times and in the amounts required by any supplement to the Master GAR Ordinance authorizing such Subordinated Debt) to provide for the payment of principal of, redemption premium (if any), and interest on, as well as other payments (excluding any Operation and Maintenance Expenses but including payments to a related debt service reserve fund) incurred in connection with, any Subordinated Debt, including the Bonds and the Outstanding Bonds; and

THIRD, at the end of each Fiscal Year, all remaining amounts to the Capital Improvement Fund.

Notwithstanding the descriptions above, the Master GAR Ordinance provides that no deposit may ever be made to the credit of the Capital Improvement Fund if such deposit would reduce the amount on hand in the Operation and Maintenance Account to less than the budgeted or estimated Operation and Maintenance Expenses for the ensuing three calendar months.

The Subordinated Debt Fund

For the sole purpose of paying the principal of, redemption premium (if any), and interest on, as well as other payments (excluding any Operation and Maintenance Expenses but including payments to a related debt service reserve fund) incurred in connection with Subordinated Debt (including the Bonds and the Outstanding Bonds), the City has covenanted in the Fourth and Seventh Supplements to the Master GAR Ordinance to create the Subordinated Debt Fund, if necessary.

The Capital Improvement Fund

The Capital Improvement Fund will be used in the manner, for the purposes, and in the priority of claims as specified below:

FIRST, for the payment of principal of, interest on, and reserve requirements relating to any Parity GAR Obligations if funds on deposit in the Bond Fund and the Bond Reserve Fund are insufficient to make such payments;

SECOND, for the payment of principal of, interest on, and reserve requirements relating to Subordinated Debt (including the Bonds and the Outstanding Bonds) if funds on deposit in the Subordinated Debt Fund and any related debt service reserve fund (including the PFC Bond Fund and the PFC Bond Reserve Fund) are insufficient to make such payments;

THIRD, for the purpose of paying the costs of improvements, enlargements, extensions, additions, replacements, repairs, or other capital expenditures related to the Airport System; and

FOURTH, for any other lawful purpose related to the Airport System.

Payment Record

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

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, the following domestic air carriers provide service to San Antonio: American, American Connection/Chautauqua, America West, America West/Mesa, Continental, Continental Express, Delta, Delta Connection/ASA, Delta Connection/Comair, Midwest, Northwest, Northwest Airlink, Southwest, United, and United Express/Skywest. Mexicana, Aeromar and Aerolitoral are Mexican airlines that provide passenger service to Mexico. Frontier Airlines has announced plans to operate at the Airport, with daily non-stop service between San Antonio and Denver beginning on June 26, 2005.

An Airport Master Plan for the International Airport was completed in 1998 for the purpose of facilitating Airport expansion in anticipation of meeting projected demand. The Airport Master Plan design allows for an increase from 24 to 55 gates. It is estimated that current gate facilities are being used at 82% of capacity (see "THE AIRPORT SYSTEM – Capital Improvement Plan" below).

The International Airport is considered a medium hub facility by the FAA. For the calendar year ended December 31, 2004, the International Airport enplaned approximately 3,498,189 passengers. Airport management has determined that of the Airport's passenger traffic, approximately 88% is origination and destination in nature (which is important because it demonstrates strong travel to and from the City independent from any one airline's hubbing strategies). 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 Municipal Airport (as described in more detail below).

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. It is today, the second oldest continuously operating airport in the U.S. and is the FAA's designated general aviation reliever airport to International Airport. An Airport Master Plan for Stinson was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the International Airport. 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. The expansion of Stinson's facilities is also needed to take advantage of new,

complementary business opportunities evolving with the synergy between Brooks City Base, KellyUSA, and the Stinson Airport. A Targeted Industries Study was completed in 2003 as part of the master planning process. The study will help facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at the Stinson Municipal Airport.

Capital Improvement Plan

General. In order to plan for the meeting of future airport capacity requirements, the Airport Master Plan for the International Airport was completed in 1998. This plan made recommendations to expand terminal and airfield capacity in an orderly manner to coincide with projected growth in passengers and aircraft operations. In fiscal year 2001-02, the City commenced implementation of a ten-year "Capital Improvement Plan" (the "CIP"). The CIP is scheduled to conclude in fiscal year 2011; however, due to the terrorist attacks of September 11, 2001, the timing of some projects has been adjusted, and the ultimate completion of the CIP is expected to extend beyond that date. The CIP addresses both terminal and airfield improvements, including the removal of the existing Terminal 2, parts of which are over 50 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 CIP over the next five years addresses primarily terminal-related improvements, parking, roadway improvements, and airfield improvements. The anticipated sources of funding for the Airport's CIP for the next five years are as follows:

Funding Sources	**Anticipated Funding**
Federal Grants	
Entitlements	$ 27,054000
General Discretionary	45,105,000
Noise Discretionary	20,867,000
Passenger Facility Charges	
Pay-As-You-Go	23,301,000
PFC Secured Bonds	103,156,000
Other Funding	
Airport Funds	29,596,000
Airport Revenue Bonds	91,526,000
Total – All Sources	$340,605,000

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

Improvement	**Amount**
International Airport	
Terminal/Gate Expansion	$121,389,000
Airfield Improvements	86,695,000
Cargo Facilities	11,368,000
Roadway Improvements	21,855,000
Parking Improvements	46,865,000
Aircraft Apron	22,504,000
Other (Building Imp., Drainage, etc.)	20,818,000
Stinson Airport	9,111,000
Total	$340,605,000

Proposed PFC Projects. Public agencies wishing to impose Passenger Facility Charges 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, received authority to "impose" a $3.00 PFC and to collect, in the aggregate, approximately $102,500,000 in PFC Revenues. On February 15, 2005, the FAA approved an application

amendment increasing the PFC funding by a net amount of $13,893,537. In addition, on February 22, 2005, the FAA approved the City's application for an additional $50,682,244 in PFC collections to be used for 11 new projects.

On November 21, 2001, the City began collecting a $3.00 PFC (less an $0.08 air carrier collection charge, which collection charge has since been raised to $0.11) per paying passenger enplaned. A total of approximately $167.1 million in PFC Revenues will be required to provide funding for the projects included in the Airport CIP. The City has received PFC "impose and use" authority, meaning that it may impose the PFC and use the resultant PFC Revenues for all projects, contemplated to be completed using Bond proceeds. The estimated PFC expiration date April 1, 2016.

To date, the following projects have been approved as "impose and use" projects:

Replace Remain Overnight ("RON") Apron
Implement Terminal Modifications
Reconstruct Perimeter Road
Construct New Concourse B
Implement Acoustical Treatment Program
Construct Elevated Terminal Roadway
Upgrade Central Utility Plant
Construct Apron
Install Utilities – Terminal Expansion
Replace Two ARFF Vehicles
Conduct Environmental Impact Statement
Reconstruct Terminal Area Roadway
Install Noise Monitoring Equipment
Terminal and Airfield Security
Install Airfield Electronic Improvements
PFC Development and Administration Costs

Terminal Renovations. A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the International Airport. The project, which cost approximately $29 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 area 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 retail, food and passenger service contracts were awarded. The new concessions program increased revenues to the Airport from $3.1 million in fiscal year 2002 to $4.3 million in fiscal year 2004. This represented a 39% gain in two years. On a per-boarding passenger basis, concession revenue went from $0.86 in fiscal year 2002 to $1.26 for the 2004 Fiscal Year. Following the Airport's implementation of its new concessions program, it was recognized by the *Airport Revenue News'* "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 three first place awards over the last two years. The Airport was honored for having the Terminal with the "Most Unique Services" and the Best Overall Concessions Program in 2004 and Best Overall Concessions Program for 2005. 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. Also in 2004, *J. D. Power and Associates* announced through its Global Airport Satisfaction Index Study that the International Airport tied for the highest ranking in customer satisfaction among airports with less than 10 million passengers per year.

Terminal Improvements. The terminal expansion project will include a seven-gate Terminal B and a five-gate Terminal C (expandable up to eleven gates). Terminal B will replace Terminal 2, which is obsolete and will be demolished to make way for Terminal C, as well as further terminal development. Terminal C will be constructed in phases, as passenger growth and demand for gate facilities occur. Ground breaking for Terminal B is expected to take place in the summer of 2005. The present Terminal 1 will become Terminal A.

Airfield Improvements. To implement the Airport Master Plan's airfield recommendations for capacity enhancements, a required Environmental Impact Statement ("EIS") is underway. The EIS process was started by the FAA in 2003, with a record of decision expected in 2006. The EIS will assess the environmental impacts associated with the capacity-enhancing runway/taxiway projects. Public involvement is ongoing throughout the EIS process and is considered essential to the successful completion of these projects. Airport Master Plan projects to be studied as part of the EIS include extension of Runway 3/21 and Taxiways N and O; reconstruction and upgrade of Runway 12L/30R and associated taxiways from general aviation to air carrier dimensions (of approximately 8,500 feet by 150 feet), as well as the installation of an instrument landing system.

In order to improve the International Airport's compatibility with its neighbors, two projects have been initiated. In October 2003, work on the installation of a Noise and Operations Monitoring System ("NOMS") began. Federal Airport Improvement Program ("AIP") grant funds will pay for 80% of the NOMS project, with the balance being provided by Airport System self-generated monies. The NOMS is composed of two main systems. These include noise monitoring and flight operations monitoring. The NOMS will closely track aircraft noise exposure in and around particular Airport area neighborhoods or homes and allow the Aviation Department to monitor and implement current and future noise abatement measures. Installation of the NOMS was completed in 2004. The second compatibility project is a Land Use Study which was initiated to assist the City in planning and zoning for future development. Funded in part (80%) by a federal AIP grant, this study will establish guidelines for managing compatible land uses in areas surrounding the International Airport and Stinson. This Study, which is to be based on existing airport/airfield configurations, includes a public involvement process (which began in the first quarter of 2004).

Parking Improvements. The International Airport operates and maintains approximately 5,810 parking spaces and 1,230 employee parking spaces for a total of 7,040 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. Future requirements for vehicle parking are currently being addressed with the design of a new long-term/short term garage. The design work is underway with ground breaking for a new five-story garage, with approximately 2,260 long-term spaces and 660 short-term spaces, planned for the summer of 2005. The associated costs are included in the CIP.

Cargo Improvements. The 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. UPS is in the process of expanding its facilities by reloading from the West Cargo area to the East Cargo Area. A new belly freight facility is currently under design. 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 2004 totaled 133,383 tons.

The Feasibility Report

General. The City has retained Unison Maximus, Chicago, Illinois ("Unison"), as an independent consultant to the Airport System. In such capacity, Unison delivered on April 26, 2005, its "SAN ANTONIO DEPARTMENT OF AVIATION – Financial Feasibility Report" (the "Feasibility Report") detailing the Airport System's past, and forecasting its future, financial performance. The Feasibility Report includes descriptions of the CIP, the Airport's service area, and economic base; summaries of the historical aviation activity at the Airport; and analyses of factors impacting such statistics. The Feasibility Report also provides projections of future revenues and expenses, aviation activity at the Airport, debt service requirements, and debt service coverage rates. The Feasibility Report is attached hereto as Appendix F and made a part hereof.

The Feasibility Report was prepared in conjunction with the delivery of the Bonds to demonstrate the sufficiency of the Airport System's revenues in meeting the debt service requirements of its outstanding and contemplated debt obligations. Accordingly, its findings specifically address the Bonds; however, the Feasibility Report also contains general information relating to the operation of the Airport System and all debt obligations, existing or proposed, supported by the revenues therefrom.

The City is under no obligation to update the Feasibility Report, nor is it required at any time in the future to obtain another such report relating to the Airport System and its outstanding or proposed debt. In addition, the contents of the Feasibility Report are not subject to the City's continuing disclosure requirements (such requirements detailed herein under "CONTINUING DISCLOSURE OF INFORMATION").

Financial Analysis. The Feasibility Report includes a comprehensive financial analysis projecting debt service coverage ratios for the City's outstanding revenue bonds payable from its various revenue sources derived from the Airport System pledged for such purpose. With respect to the Bonds and Outstanding Parity PFC Obligations, the Feasibility Report projects that PFC Revenues will yield debt service coverage ratios ranging from 7.91 times debt service requirements for all Outstanding Parity PFC Obligations in fiscal year 2005 to 2.32 in fiscal year 2009, a projection which satisfies the 1.25 Budget Covenant found in the Master PFC Ordinance. The total pledged revenues available for debt service coverage on the Bonds and all Outstanding Parity PFC Obligations (PFC Revenues and Subordinate Net Revenues) is projected to range between 4.78 times debt service requirements in fiscal year 2005 and 2.48 in fiscal year 2009.

See "APPENDIX F – FEASIBILITY STUDY" for complete description of coverage projections.

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.

The passage of the Aviation and Transportation Security Act ("ATSA") in November of 2001, created the Transportation Security Administration ("TSA"). The City's Aviation Department has worked closely with the TSA to forge a new higher level of security for the traveling public. TSA employs about 300 individuals at the International Airport to meet the new federal security requirements.

The International Airport's explosive detection screening equipment is currently located in the ticket lobby areas of the two terminals; however, the Aviation Department is working with the TSA to relocate all baggage screening equipment behind the terminals in new baggage handling systems planned as part of the upcoming Terminal Expansion Project. The City entered into an agreement with the TSA for reimbursements up to $425,800 for the costs associated with the use of Airport Police Officers at the Airport security screening checkpoints in each terminal. The Aviation Department also utilizes four Explosive Detection Canine teams. The Police Officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in the baggage pickup areas, concourses, parking, cargo and aircraft. This program is supported by the TSA with reimbursement to the Airport System at $160,500. The International Airport's coverage is provided in addition to canine support received from San Antonio Police Department and Bexar County Sheriff's Office.

The Aviation Department has continued to work to improve its security measures. The FAA approved a grant application (80% AIP funding) in 2004 to conduct a security assessment of the International Airport's security program. This project includes an inventory of the existing security measures and an evaluation based on current and anticipated provisions of the ATSA. Recommendations for security enhancements and upgrades could include items such as perimeter fencing, air operations area access points, cargo/belly freight facilities, terminals, fueling areas, concession deliveries and air traffic control tower.

Stinson continues to experience strong growth in the number of based aircraft and volume of aircraft operations at the airport. Because of its growth, the TxDOT Aviation Division has approved grant funds for various projects at Stinson. With Airport System funds, the construction of a new facility is planned, which will give the Airport additional administrative offices, classrooms, retail space and conference rooms to accommodate and attract new business. Stinson is currently conducting an Environmental Assessment for the extension of Runway 9-27. The proposed project would provide a usable runway length of at least 5,000 feet. The additional runway length will allow Stinson to serve additional corporate aircraft under all conditions.

As of January 20, 2005, the Airport System employed approximately 425 employees as follows:

Administration	56	Parking Facilities	44
Airport Police	73	Airport Operations	41
Fire Rescue	29	Stinson Airport	7
Maintenance	175		

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

Senior Management. The chief executive officer of the Department is Kevin C. Dolliole, Aviation Director, who has overall responsibility for the management, administration, and planning of the Airport System. Mr. Dolliole has been with the Department since October 1999. Before moving to San Antonio, Mr. Dolliole was Acting Aviation Director at New Orleans International Airport. He also served in several other executive positions at New Orleans, including Deputy Director for Operations and Maintenance as well as Deputy Director of Finance and Administration. Mr. Dolliole served 13 years with Eastern Airlines before his ten-year tenure with New Orleans. He has a Bachelor of Science degree in Business Administration from Xavier University and a Master of Business Administration from the University of New Orleans.

Mr. Dolliole recently submitted his resignation to the City to accept the position of Airport Director of St. Louis' airport, Lambert Field. Mr. Dolliole will continue to serve as the Airport's Aviation Director through the end of April 2005. The City will conduct a national search for qualified candidates to replace Mr. Dolliole. In the interim, the City has named Mr. Roland Lozano, Assistant City Manager, to serve as Acting Aviation Director until a permanent replacement is hired.

Dom Smith is the Assistant Director of Aviation for Operations and Maintenance. He joined the Department in 1984. He was named Assistant Director in 1999. Mr. Smith is a graduate of Texas A&M University with a degree in Agronomy. His responsibilities include airport operations, police, fire rescue coordination, parking facilities, ground transportation, noise abatement, and airport maintenance.

Ryan Martinez is the Assistant Director of Aviation for Finance and Administration. He joined the Aviation Department in September 2001. Previously, Mr. Martinez served as the Assistant Director of Finance and Accounting for four years at the Kansas City International Airport. His responsibilities include financial management, property management, as well as economic development and marketing for the Aviation Department. Mr. Martinez holds a Bachelor of Arts degree from Northwest Missouri State University.

Rick Naylor, A.A.E., is the Airport Finance Manager. He has been with the City of San Antonio since 1972 and with the Department since 1982. Mr. Naylor is a graduate of St. Mary's University with a Bachelor's degree in Business Administration and a Master's degree in economics. His responsibilities include airport finances, budget and personnel, accounting and data processing.

Air Transportation Advisory Commission. The City Council appoints a 14-member Air Transportation Advisory Commission (the "Advisory Commission"). The Advisory Commission is composed of stakeholders from the aviation industry (three representatives), the travel and tourism industry (two representatives), the community (five representatives), local businesses (two representatives), Business Airport Lease (one representative) and the military (one non-voting representative). In accordance with Section 49 of the City Charter, the Advisory Commission assists the Department in an advisory capacity regarding policy affecting the City's airports and air transportation initiatives.

Budgeting. All departments of the City, including the Airport System, follow the same process for the development of annual budgets.

Each year the City's budgetary process begins with the preparation of its "Five Year Financial Forecast." The forecast is a financial and budgetary planning tool that identifies emerging issues to be encountered in the next five years that will have a fiscal impact upon the City's program of services. The forecast provides information that is utilized in the budget process by projecting revenues and anticipated expenditures under a defined set of assumptions. An important component of the forecast each year is the identification of the issues which will have a direct and indirect impact on the City as a unit of local government and as a provider of services to the community.

Following the presentation of the Five Year Financial Forecast, the City Council holds a "Goals and Objectives Work Session" at which the City Council determines its priorities for the coming budget deliberations. The budget is developed within the context of revised projected funds available and City Council priorities utilizing a target budget approach. Departments are given target budgets based on current service requirements and allowed to submit expenditure proposals within the target amount. The FY 2005 budget process was improved in many ways including providing the Mayor and City Council with eight pre-proposed budget development goal setting work sessions, scheduling an additional week for Mayor and City Council to consider the proposed budget, and restructuring the organizational analysis and city service delivery reviews with all city departments and offices.

After presentation of the City Manager's proposed budget, the City Council holds a series of work sessions to review the proposed service program details. The work sessions include a review of revenues and presentations by each department, which include a description of the significant policy issues. After considering all the recommendations and receiving input from citizens at public hearings, the City Council adopts a balanced budget.

Throughout each fiscal year, the City's staff closely monitors departmental budgets and reports to the City Council on the status of funds. Budgetary compliance is a significant tool for managing and controlling governmental activities. Therefore, conformance with budgetary limits and specifications maintained by the City is critical. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund, Enterprise Funds (such as the Airport Fund), and the Special Revenue Funds, excluding the categorical Grants-in-Aid and Community Development Block Grant Program Funds, are included in the annual appropriated budget. October 2005 marked the beginning of the City's use of SAP, an enterprise resource management system, for the recording/reporting of all financial information.

Levels of budgetary control, that is, the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism for accomplishing effective budgetary control. Encumbered amounts lapse at year-end; however, encumbrances generally are appropriated as part of the following year's budget.

Airport Activity

The following Tables 1 through 6, all of which have been prepared by the City's Aviation Department, present historical operating performance of the Airport System.

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The total domestic and international enplaned passengers at the International Airport on a monthly basis, along with year to year percentage changes are shown as follows:

Total Domestic and International Enplaned Passengers **Table 1**

	2000	2001	2002	2003	2004
January	263,067	260,227	245,053	239,719	238,109
February	277,836	259,521	238,440	231,491	253,427
March	324,685	327,425	300,014	287,214	306,140
April	305,533	307,322	291,312	265,465	305,220
May	324,395	316,266	290,594	282,716	300,127
June	334,971	344,934	315,169	306,945	318,834
July	332,611	334,895	304,967	303,624	326,894
August	301,193	317,568	291,066	274,317	289,284
September	272,823	177,863	240,276	240,362	265,778
October	311,970	268,310	280,821	275,050	306,181
November	305,749	264,011	260,983	266,993	294,317
December	292,261	266,533	290,588	277,015	293,878
Total	3,647,094	3,444,875	3,349,283	3,250,911	3,498,189
Increase (Decrease) over Prior 12-Month Period	_ _	(202,219)	(95,592)	(98,372)	247,278
% Increase (Decrease) over Prior 12-Month Period	_ _	(5.54%)	(2.78%)	(2.94%)	7.61%

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The total enplanements at the International Airport by airline for each of the last five calendar years are shown below:

Total Domestic and International Enplaned Passengers by Airline **Table 2**

	2000		2001		2002		2003		2004	
Airlines	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
American	586,879	16.09%	519,526	15.08%	640,345	19.12%	613,909	18.88%	616,664	17.63%
America West	89,309	2.45	97,496	2.83	103,268	3.08	100,043	3.08	100,491	2.87
Atlantic Southeast	8,721	0.24	22,204	0.64	67,356	2.01	87,325	2.69	137,029	3.92
Comair[1]	-0-	0.00	-0-	0.00	18,445	0.55	15,012	0.46	12,559	0.36
Continental	451,472	12.38	428,752	12.45	382,170	11.41	392,193	12.06	424,173	12.13
Delta	575,371	15.78	523,606	15.20	465,539	13.90	346,026	10.64	287,815	8.23
Mexicana	66,165	1.81	63,803	1.85	61,161	1.83	58,734	1.81	63,455	1.81
Midwest	29,791	0.82	32,221	0.94	25,359	0.76	31,557	0.97	59,998	1.72
Northwest	122,712	3.36	130,064	3.78	128,592	3.84	166,843	5.13	214,801	6.14
Southwest	1,272,039	34.88	1,237,899	35.93	1,183,307	35.33	1,144,577	35.21	1,254,692	35.87
TWA[2]	183,213	5.02	146,588	4.26	-0-	0.00	-0-	0.00	-0-	0.00
United[3]	157,554	4.32	157,109	4.56	178,999	5.34	202,498	6.23	215,079	6.15
Other Carriers	103,868	2.85	85,607	2.49	94,742	2.83	92,194	2.84	111,433	3.19
Total	3,647,094	100%	3,444,875	100%	3,349,283	100%	3,250,911	100%	3,498,189	100%

(1) Comair Airlines commenced service to the Airport in March 2002.

(2) Prior to December 2001, enplanements by TWA were reported separately from American's enplanements at the Airport. TWA was rebranded as "American Airlines," however, and its enplanements have been reported with American's since December 2001.

(3) Effective December 9, 2002, UAL Corporation filed for bankruptcy protection. (See "RISK FACTORS – General Factors Affecting the Airline Industry" herein.)

The total enplaned and deplaned international passengers at the International Airport are shown below:

Total Enplaned and Deplaned International Passengers **Table 3**

Months	2000	2001	2002	2003	2004
January	15,420	16,675	11,629	11,595	9,520
February	14,653	13,638	9,427	8,319	9,562
March	18,345	17,985	14,254	12,551	12,823
April	17,658	17,549	12,975	11,165	10,620
May	18,250	17,679	16,661	13,702	13,521
June	26,462	27,755	23,691	19,266	26,469
July	34,862	32,674	31,299	24,907	30,234
August	28,218	26,257	26,359	18,062	20,158
September	12,966	9,819	11,886	7,895	11,120
October	16,287	10,204	12,668	8,104	13,254
November	19,217	13,948	14,479	10,292	15,721
December	21,187	15,169	15,946	13,718	18,252
Total	243,525	219,352	201,274	159,576	191,254
Increase (Decrease) over Prior 12-Month Period	_ _	(24,173)	(18,078)	(41,698)	31,678
% Increase (Decrease) over Prior 12-Month Period	_ _	(9.93%)	(8.24%)	(20.72%)	(19.85%)

The historical aircraft landed weight at the International Airport, in 1,000 pound units, by air carrier, in the designated calendar year is shown below. Landed weight is utilized in the computation of the Airport's landing fee.

Air Carrier Landed Weight (1,000 lbs.) **Table 4**

Carrier	Calendar Year 2000		2001		2002		2003		2004	
	Weight	% of Total	Weight	% of Total	Weight	% of Total	Weight	% of Total	Weight	% of Total
Aerolitoral	21,776.5	0.37%	27,611.0	0.50%	22,191.5	0.40%	14,140.1	0.26%	18,012.0	0.33%
Aeromar	2,214.1	0.04	2,052.9	0.04	2,053.0	0.04	923.4	0.02	6,707.7	0.12
Airborne	63,876.1	1.09	61,782.0	1.11	64,935.0	1.17	80,811.0	1.50	86,354.1	1.59
Airtrain (Postal)	144,882.0	2.48	70,146.0	1.26	-0-	0.00	-0-	0.00	-0-	0.00
America West	114,560.4	1.96	118,004.1	2.13	118,245.5	2.13	100,240.1	1.86	33,436.8	0.62
American	738,546.5	12.65	701,031.8	12.64	888,804.2	15.99	815,759.0	15.13	731,192.0	13.50
American Intl.	-0-	0.00	-0-	0.00	-0-	0.00	-0-	0.00	-0-	0.00
Atlantic Southwest	16,615.8	0.28	31,396.0	0.57	81,498.0	1.47	114,037.4	2.12	170,964.0	3.16
Continental	612,198.0	10.49	586,343.5	10.57	517,604.5	9.31	516,932.8	9.59	575,225.6	10.62
Delta	881,200.0	15.09	781,215.1	14.08	660,873.0	11.89	481,513.0	8.93	368,215.0	6.80
DHL Airways	-0-	0.00	-0-	0.00	-0-	0.00	-0-	0.00	-0-	0.00
Emery Worldwide	4,590.0	0.08	9,085.0	0.16	158.0	0.00	-0-	0.00	-0-	0.00
Federal Express	162,273.7	2.78	197,643.2	3.56	341,189.9	6.14	384,251.4	7.13	-0-	0.00
Kitty Hawk	24,873.4	0.43	16,974.5	0.31	-0-	0.00	-0-	0.00	-0-	0.00
Mexicana	89,165.5	1.53	92,118.7	1.66	100,617.0	1.81	101,682.2	1.89	92,247.4	1.70
Midwest Express	56,035.2	0.96	61,599.3	1.11	54,753.7	0.98	67,588.3	1.25	91,748.7	1.69
Northwest	167,861.4	2.88	210,296.7	3.79	216,309.5	3.89	285,871.4	5.30	326,504.5	6.03
Southwest	1,775,430.0	30.41	1,750,858.0	31.57	1,810,797.0	32.57	1,739,146.0	32.26	1,758,545.0	32.46
Sun Country	78,238.0	1.34	38,827.0	0.70	1,898.0	0.03	1,802.0	0.03	1,460.0	0.03
TWA	253,471.4	4.34	208,164.3	3.75	-0-	0.00	-0-	0.00	-0-	0.00
United	212,137.7	3.63	204,200.6	3.68	228,106.2	4.10	255,266.1	4.74	255,080.5	4.71
United Parcel	315,048.5	5.40	317,323.0	5.72	304,049.5	5.47	269,410.0	5.00	259,094.5	4.78
Other Carriers	103,191.0	1.77	59,888.4	1.08	144,934.4	2.61	161,607.1	3.00	642,976.1	11.87
	5,838,185.2	100%	5,546,561.1	100%	5,559,017.9	100%	5,390,981.3	100%	5,417,763.9	100%

The following represents a summary of cargo activities at the International Airport for each of the past five years:

Enplaned Air Cargo Weights (U.S. Tons) **Table 5**

Calendar Year	Mail	Freight	Total Cargo	% Change
2000	19,346.90	45,752.70	65,099.60	--%
2001	13,054.10	34,868.60	47,922.72	(26.39%)
2002	15,904.30	41,223.60	57,127.90	19.21%
2003	18,008.50	39,678.52	57,687.02	0.98%
2004	16,251.42	41,213.96	57,465.38	(0.38%)

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Tables 6 and 7 reflect the historical performance of parking operations at the International Airport. The current parking rates at the International Airport are shown below.

Current Parking Rates **Table 6**

Hourly Parking Rate		Daily Maximum			
Time Utilized	Amount	# Days	Shuttle	Long Term	Short Term
0-½ hour or fraction thereof	$0.00	1	$ 5.00	$ 9.00	$ 18.00
½ -1 hour or fraction thereof	1.00	2	10.00	18.00	36.00
1-1 ½ hour or fraction thereof	2.00	3	15.00	27.00	54.00
Each additional hour or fraction thereof	1.00	4	20.00	36.00	72.00
		5	25.00	45.00	90.00
		6	30.00	54.00	108.00
		7	35.00	63.00	126.00

The historical revenues and expenses of the parking system at the Airport and parking revenues as a percentage of Gross and Net Revenues of the Airport System are shown below.

Airport Parking System Revenues **Table 7**

	Fiscal Years Ended September 30				
	2000	2001	2002	2003	2004
Parking Revenues	$10,918,771	$10,955,229	$10,400,762	$10,692,453	$11,415,942
Parking Expenses	(2,281,612)	(1,987,083)	(2,114,736)	(2,252,436)	(2,287,311)
Net Parking Revenues	$ 8,637,159	$ 8,968,146	$ 8,286,026	$ 8,440,017	$ 9,128,631
Gross Parking Revenues As a % of Airport System Gross Revenues	26.30%	25.52%	24.54%	24.34%	25.52%
Net Parking Revenues As a % of Airport System Net Revenues	43.32%	46.43%	41.26%	45.46%	46.57%
Airport System Gross Revenues	$41,523,081	$42,928,794	$42,377,654	$43,930,687	$44,729,251
Airport System Net Revenues	$19,937,255	$19,316,159	$20,080,956	$18,567,080	$19,601,718

Source: City of San Antonio, Finance Department

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The historical financial performance of the Airport System is shown in Tables 8 and 9 and has been provided by the City's Finance Department.

A comparison of the major categories comprising Gross Revenues and Operation and Maintenance Expenses for the past five fiscal years is shown below.

Comparative Statement of Gross Revenues and Expenses **Table 8**

	Fiscal Year ended September 30				
	2000	2001	2002	2003	2004
Gross Revenues					
Airline Revenues					
Scheduled Carrier Landing Fees	$ 4,578,600	$ 4,616,794	$ 4,581,380	$ 4,389,814	$ 4,669,871
Non-Scheduled Carrier Landing Fees	855,187	772,468	793,811	800,440	878,044
Terminal Building Rentals [(1)]	4,708,351	5,979,199	7,356,692	9,465,739	8,266,382
FIS Space Fees	746,321	759,139	629,994	546,374	543,778
Ramp Fees	373,148	376,250	366,875	377,813	382,500
Subtotal Airlines Revenues	$ 11,261,607	$ 12,503,850	$ 13,728,752	$ 15,580,180	$ 14,740,585
Non-Airline Revenues					
Concession Contracts	$10,634,466	$ 10,398,409	$ 10,002,454	$ 10,512,091	$ 11,387,589
Parking Fees	10,918,771	10,955,229	10,400,762	10,692,453	11,415,942
Property Leases	5,570,323	5,720,005	5,746,096	5,969,218	6,039,652
Stinson Airport	161,600	163,270	170,611	218,102	123,227
Interest Income	2,755,869	2,984,062	1,188,675	697,233	561,483
Misc. Revenues	220,445	203,969	1,140,304	261,410	460,773
Subtotal Non-Airline Revenues	$ 30,261,474	$ 30,424,944	$ 28,648,902	$ 28,350,507	$ 29,988,666
Total Gross Revenues	$ 41,523,081	$ 42,928,794	$ 42,377,654	$ 43,930,687	$ 44,729,251
Operating & Maintenance Expense					
Airfield Area	$ 1,255,749	$ 1,357,513	$ 1,384,797	$ 1,462,907	$ 1,403,683
Service Area	248,543	249,680	276,994	390,988	385,536
Terminal 2	1,767,493	1,626,325	1,896,570	2,246,782	2,074,706
Terminal 1	2,443,963	2,499,298	2,477,144	3,083,014	3,151,196
Fire & Rescue	2,601,357	2,620,549	2,279,735	2,916,359	3,097,194
Access	510,102	529,288	515,225	506,465	488,522
Central Plant	549,340	439,942	479,854	552,896	475,528
Commercial & Industrial	78,840	71,050	66,113	88,479	88,128
Other Buildings & Area	84,021	75,080	66,187	89,189	88,689
Parking	2,281,612	1,987,083	2,114,736	2,252,436	2,287,311
Stinson Airport	347,539	387,165	395,895	457,247	463,573
Administration	4,634,521	6,811,715	4,979,950	5,432,602	5,657,277
Main. Dir. & Control	921,533	972,242	1,021,655	1,046,729	1,053,812
Security	2,176,045	2,319,521	2,648,694	3,093,846	2,582,517
Operations	1,344,320	1,666,184	1,676,215	1,743,179	1,829,861
Ground Transportation	340,848	-0-	16,934	489	-0-
Total Operating & Maintenance Expenses	$ 21,585,826	$ 23,612,635	$ 22,296,698	$ 25,363,607	$ 25,127,533
Net Revenues	$ 19,937,255	$ 19,316,159	$ 20,080,956	$ 18,567,080	$ 19,601,718

(1) Each year, the Signatory Airlines are eligible to receive a credit against their terminal rents, in an amount equal to 50% of funds available in excess of the 25% debt service coverage requirement after the payment of all Operation and Maintenance Expenses, debt service requirements, and deposits to the bond funds. Terminal building rentals are shown net of credit.

The ratios of Gross Revenues and Net Revenues to the debt service requirements of the outstanding Parity Obligations for the past five fiscal years are shown below:

Historical Debt Service Coverage **Table 9**

	Fiscal Years Ended September 30				
	2000	2001	2002	2003	2004
Gross Revenues[1]	$41,523,081	$ 42,928,794	$42,377,654	$43,930,687	$44,729,251
Airline Rental Credit	6,175,754	5,209,037	4,468,199	2,612,609	3,486,271
Adjusted Gross Revenues	47,698,835	48,137,831	46,845,853	46,543,296	48,215,522
Operating Expenses	(21,585,826)	(23,612,635)	(22,296,698)	(25,363,607)	(25,127,533)
Net Revenue	$26,113,009	$24,525,196	$24,549,155	$21,179,689	$23,087,989
Annual Debt Service Requirements	$11,965,869	$11,960,544	$13,441,791	$15,659,812	$16,341,609
Gross Revenue Debt Service Coverage[2]	3.99x	4.02x	3.49x	2.97x	2.95x
Net Revenue Debt Service Coverage	2.18x	2.05x	1.83x	1.35x	1.41x

[1] As reported in the City of San Antonio's audited financial statements.
[2] Calculated using Adjusted Gross Revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Statistics

Operating activity pertaining to domestic and international enplaned passengers, total enplaned passengers, and total enplaned and deplaned international passengers were up for the calendar year ending December 31, 2004, as compared to the same period ending December 31, 2003. Total domestic and international enplaned passengers increased by 7.6%, while total enplaned and deplaned international passengers increased by 19.9%. Air carrier landed weight; however, increased only slightly by 0.5%. In recent years some air carriers have substituted main line aircraft for regional jets and have utilized commuter operators. This change has limited the growth in landed weight.

Airport Revenues

Revenues from fiscal year 2000 through 2004 increased by 7.7%. Over this period little growth occurred in non-airline revenues due to the effect of reduced passengers. This situation contributed to an increase in airline revenues of 30.9%. Although airline revenues are developed on a compensatory basis, a portion of surplus revenues are refunded to the airlines through a rental credit. Since non-airline revenues were not sufficient to off-set the increase in airport operating cost over the period, the rental credit to the airlines was reduced. Another factor affecting non-airline revenues was interest income. It fell from $2,755,869 in 2000 to $561,483 in 2004 due to market-driven decreases in interest rates.

As passenger traffic rebounded in 2004, however, non-airline revenues increased significantly. Some of the larger increases from 2003 to 2004 were experienced in parking (6.8%) and concession contracts (8.3)%. At the same time, airline revenues decreased by 5.4%. Even though the cost to the airlines increased over the period, it still remained fairly low on a per enplaned passenger basis. The highest point was $4.77 in 2003, and it decreased to $4.31 in 2004.

Airport Expenditures

Operation and Maintenance Expenses are maintained by cost centers. Operation and Maintenance Expenses increased at an average annual rate of 4.2% from fiscal year 2000 through fiscal year 2004. A significant portion of this increase has been in maintenance-related functions. This was particularly true with Terminal 2, which is the older of the two terminal buildings. Other factors which contributed to an increase in cost include added security measures, utilities, insurance, wage adjustments and IT system support. Future Operation and Maintenance Expenses are expected to increase at approximately the rate of inflation with some adjustment for passenger growth.

Increased Security Measures' Financial Impact on the Airport

Beginning in fiscal year 2004, changes to the operating budget were implemented to address the long-term effect of the additional security requirements. Annual operating expenditures are expected to total about $971,000 for the added security measures, while an estimated $586,000 of this total is anticipated to come from federal sources. The remaining $385,000 is funded through the Airport's Operating Fund. Future annual operating expenditures are expected to remain at approximately this level. The portion of this expense for which the Airport is responsible is incorporated into airline rates and charges.

AIRLINES' RATES AND CHARGES

The City maintains lease agreements (each a "Signatory Agreement") with airlines operating from the International Airport. The last Signatory Agreements went into effect October 1, 2001. The Signatory Agreements expire on the earlier to occur of the date of beneficial occupancy of the new Concourse B or September 30, 2006 and retain the same basic lease provisions as those previously used. The airlines that operate under a Signatory Agreement (the "Signatory Airlines") include Aerolitoral, American, Continental, Delta, Mexicana, Midwest, Northwest, Southwest, and United.

The Signatory Agreement provides that each Signatory Airline agrees to pay rentals, fees, and charges for its use, operation (or right to operate), and occupancy of the Airport premises and facilities, and the services appertaining thereto, in an amount which, together with rentals, fees, and charges paid by other airlines and other entities using the Airport premises and facilities, will be sufficient to produce total Gross Revenues in each fiscal year as required to satisfy the City's obligations under the rate covenant contained in the Ordinance. The Signatory Agreements establish cost centers and contain formulas and methodologies to develop rates and charges for various services as well as assuring that the rate covenant is met. Each Signatory Airline has the right to use the Airport for any lawful reasonable and appropriate activity in connection with such Signatory Airline's business of transportation by aircraft. Such use includes, among other things, terminal structures, aircraft parking ramps, runways, and taxiways. The Signatory Agreements establish procedures regarding new projects at the Airport initiated by the City and the Signatory Airlines and contain notice and consultation requirements. A Signatory Airline may not make an assignment of or sublet its rights under its Signatory Agreement without the written consent of the City, which consent may not be unreasonably withheld; provided, however, that so long as the Signatory Airline's obligations under its Signatory Agreement are assumed by the assignee, such agreement may be assigned without such consent (with prior notice being given to the Director of Aviation) to any successor in interest of the Signatory Airline with or into which the Signatory Airline may merge or consolidate, or which may succeed to the assets of the Signatory Airline or a major portion of its assets related to its air transport system. The Signatory Agreements set forth certain occurrences or events which constitute events of default thereunder and remedies on default.

Airlines that have not signed, and will not sign, the Signatory Agreement (the "Non-Signatory Airlines"), which include Aeromar, American Connection/Chautauqua, America West, America West Express/Mesa and United Express/Skywest operate under a monthly permit. The terms and conditions of the permits are very similar to the Signatory Agreements with the exception of the shorter expiration date and no benefit of a rental credit. Other carriers providing scheduled service operate as affiliates of Signatory Airlines which include Delta Connection/ASA, Delta Connection/Comair, Continental Express, and Northwest Airlink.

Airline rates and charges at the Airport are developed on a compensatory basis; however, a terminal rental credit is provided to the Signatory Airlines through the sharing of a portion of surplus revenues. For fiscal year 2004, the landing fee was $1.04 for both Signatory Airlines and Non-Signatory Airlines and the average terminal rental rate was $39.77 for the Signatory Airlines and $53.69 for Non-Signatory Airlines. The aggregate fiscal year 2004 cost per enplaned passenger for all airlines was $4.31.

The City is not aware of any dispute involving the Airport over any existing or proposed rates and charges or use of Airport revenues. The City believes that the rates and charges methodology utilized by the Airport under its Signatory Agreements and the rates and charges imposed by it upon air carriers and other aeronautical users are reasonable and consistent with applicable law. Furthermore, the City believes that the Airport's use of such revenues is consistent with the DOT and FAA proposed Revenue Retention Policy. There can be no assurance, however, that a complaint will not be brought against the City in the future challenging such methodology and the rates and charges

established by the Airport and, if a judgment is rendered against the City, that rates and charges paid by aeronautical users of the Airport will not be reduced.

Certain of the Signatory Airlines (or their respective parent corporations) are subject to the information requirements of the Securities Exchange Act of 1934 and in accordance therewith file reports and other information with the Securities and Exchange Commission (the "SEC"). Only companies with securities listed on a national securities exchange, with securities traded over the counter which are registered under the Exchange Act, or which are required to file with the SEC pursuant to the information-reporting requirements will have information on file. Certain information, including financial information, as of particular dates, concerning each such Signatory Airline (or their respective parent corporations) is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected in the public reference facilities of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C., 20549, and at the SEC's regional offices at 230 South Dearborn Street, Chicago, IL, 60604, and 75 Park Place, New York, NY, 10007, and copies of such reports and statements can be obtained from the Public Reference Section of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C., 20549 at prescribed rates. In addition, each domestic airline is required to file periodic reports of financial and operating statistics with the United States Department of Transportation ("DOT"). Such reports can be inspected at the following location: Offices of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs, Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C., 20590, and copies of such reports can be obtained from DOT at prescribed rates. Foreign flag airlines also provide certain information concerning their operations and financial affairs, which may be obtained from the respective airline.

FEDERAL LAW AFFECTING AIRPORT RATES AND CHARGES

General

Federal aviation law requires, in general, that airport fees be reasonable and that in order to receive federal grant funding, all airport generated revenues must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner that are directly and substantially related to air transportation of passengers or property (see "FEDERAL LAW AFFECTING AIRPORT RATES AND CHARGES – Federal Grants-in-Aid"). Pursuant to the requirements of the Federal Aviation Administration Authorization Act of 1994 (the "1994 Aviation Act"), the DOT and the FAA have promulgated regulations setting forth an expedited hearing process to be followed in determining the reasonableness of airport rates and charges (the "Procedural Regulations"), and have also promulgated two policy statements, the first regarding airport rates and charges, effective June 21, 1996 (the "Rates and Charges Policy"), and the second, a proposed policy regarding the revenue retention requirement set forth at 49 U.S.C. § 47107(b), dated February 10, 1996, and supplemented on December 11, 1996 (the "Revenue Retention Policy"). On August 1, 1997, the United States Court of Appeal for the District of Columbia Circuit (the "U.S. Court of Appeals") vacated the Rates and Charges Policy in part and remanded it to the DOT. The Revenue Retention Policy, while not final, reflects the FAA's position concerning the legally permissible uses of airport revenue.

The U.S. Court of Appeals determined that a portion of the Rates and Charges Policy was arbitrary and capricious, and therefore vacated the policy and remanded it to the DOT. The Rates and Charges Policy had provided that unless aeronautical users agreed otherwise, revenues from fees imposed for use of the airfield and public use roadways may not exceed the costs of providing such public use roadways and airfield services and airfield assets currently in use, valued at their historical cost. The policy further provided, however, that any reasonable methodology could be used to determine fees for facilities and land not associated with the airfield. Until DOT promulgates a new policy regarding rates and charges, the guiding principle for determining whether rates and charges established for use of airport assets is the requirement of federal law that such charges be "reasonable." Both the airline and airport industries have filed petitions with DOT proposing replacements for the provisions of the Rates and Charges Policy that were vacated by the U.S. Court of Appeals. On August 12, 1998, the DOT published an Advanced Notice of Proposed Rulemaking, soliciting suggestions from the public about how it should replace the vacated provisions of the Rates and Charges Policy.

Federal Grants-in-Aid

The Airport and Airway Improvement Act of 1982, 49 U.S.C. § 47101 created the AIP, which is administered by the FAA and funded by the Federal Airport and Airway Trust Fund. This fund is financed by federal aviation user taxes. Grants are available to airport operators in the form of "entitlement" funds and "discretionary" funds. Entitlement funds are apportioned annually based upon enplaned passengers, and discretionary funds are available at the discretion of the FAA based upon a national priority system.

Annual entitlement funds will vary with the actual number of passenger enplanements at the Airport, with total appropriations for the AIP and with any revision of the existing statutory formula for calculating such funds. In addition, pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (the "PFC Act") and the Aviation Investment and Reform Act for the 21st Century ("AIR-21"), an airport's annual federal entitlement grants are reduced by 50% when a $3.00 PFC is imposed and reduced up to 75% when a $4.50 PFC is imposed. For federal fiscal years 2001 through 2005, the total amount appropriated for all airports was $3.2 billion, $3.3 billion, $3.4 billion, $3.4 billion, and $3.471 billion, respectively.

Before federal approval of any AIP grant applications can be given, eligible airports must provide written assurances that they will comply with a variety of statutorily specified conditions. One such assurance that has been the subject of some scrutiny nationally in recent years is the so-called "airport generated revenues" assurance. This assurance provides that all airport generated revenues will be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the applicant that are directly and substantially related to air transportation of passengers or property. The City falls within the group of airports for which the "airport generated revenues" assurance applies.

No assurance can be given that federal grants-in-aid will actually be received in the amount or at the time contemplated by the City, or that the Airport will collect such federal grants-in-aid in amounts or at times sufficient to pay debt service on the Bonds.

Passenger Facility Charges

Under the PFC Act, as modified by AIR-21, the FAA may authorize a public agency to impose a PFC of $1.00, $2.00, $3.00, $4.00, or $4.50 on each passenger enplaned at any commercial service airport (those with regularly scheduled service and enplaning 2,500 or more passengers annually) controlled by said public agency, subject to certain limitations. Public agencies wishing to impose these PFCs must apply to the FAA for such authority and meet certain requirements identified in the legislation and implementing regulation, 14 CFR Part 158, issued by the FAA.

PFCs are available to airports to finance certain projects that (i) preserve or enhance capacity, safety or security of the national air transportation system, (ii) reduce noise resulting from an airport, or (iii) furnish opportunities for enhanced competition among air carriers. Under certain circumstances, the FAA grants approval to commence collection of PFCs ("impose only" approval) before approval to spend the PFCs on approved projects ("use" approval) is granted. Approval to both collect and spend PFCs is referred to as an "impose and use" approval.

See "RISK FACTORS – Passenger Facility Charges" for a description of certain risks associated with the Airport's continuing ability to impose, use, and collect PFCs.

Airport Security

As a result of the September 11, 2001 terrorist attacks (the "Terrorist Attacks"), the Federal Aviation and Transportation Security Act ("ATSA") became law on November 19, 2001. The ATSA, among other things, provided for the federalization of airport security within one year in response to the Terrorist Attacks (with an "opt-out" provision that permits the use of non-federal security screeners after three years) and created the Transportation Security Administration ("TSA"), which is now responsible for airport security. The ATSA mandates certain individual, cargo, and baggage screening requirements, security awareness programs for airport personnel, and deployment of explosive detection devices. The act also permits the deployment of air marshals on all flights and requires air marshals on all "high-risk" flights. To finance these federal security services, the ATSA required payment by the airlines of

approximately $700 million, estimated to be the cost of providing such services prior to September 11, 2001, and also imposes a passenger fee of $2.50 for each flight segment, not to exceed $5.00 per one-way trip.

OTHER FACTORS AFFECTING AVIATION DEMAND

Global Events

The dynamics in the airline industry have a marked influence on Airport activity. The past three years have been particularly difficult for the airline industry due to the convergence of certain world events such as the U.S. economic recession of March 2001 to November 2001 and its lingering effects, the Terrorist Attacks, the ongoing wars in Afghanistan and Iraq, cases of severe acute respiratory syndrome, and rising fuel prices. Prior to the Terrorist Attacks, the airline industry already was already facing weakened air travel demand as a result of the slowing economy, but that event fundamentally altered airline industry dynamics and passenger travel patterns. Immediately following the Terrorist Attacks, passenger traffic dropped precipitously, beyond normal market conditions, and business travel did not return to previous levels. The stringent security processing implemented at airports in response to the Terrorist Attacks posed a new deterrent to the traveling public. In response to weak demand, airlines reduced fares to stimulate demand, exacerbating the decrease in revenues. Airline revenues remain at lower than Terrorist Attack levels. Collectively U.S. airlines, as represented by the Airport Transport Association ("ATA") member carriers, lost $8.3 billion in 2001, $11.3 billion in 2002, and $3.6 billion in 2003. The airline industry has projected a full-year loss for 2004 in excess of $6 billion.

Faced with dampened air travel demand and an evolving business climate, airlines have accelerated the structural changes that have been underway prior to September 11, 2001. Growing competition from low-cost, low-fare carriers forced network carriers to implement route rationalization including route transfers to regional partners and the reduction, or elimination, of service to unprofitable markets. Airlines reduced schedules, simplified fleets, deferred new aircraft delivery, implemented pay cuts, and reduced workforces. In addition, network carriers have shown increasing flexibility in adjusting fares to match discount fares offered by low-cost carriers. Airlines have also introduced innovations in passenger service and convenience – notably the expanded use of the internet and self-service kiosks, which have greatly reduced waiting lines for boarding passes.

Some of these measures, in conjunction with $18 billion in federal emergency economic assistance packages made available to the aviation industry pursuant to separate federal legislation passed in 2001 and 2003, respectively, appear to be producing the desired outcomes. Nationwide passenger traffic trends indicate a sustained recovery in air travel demand through 2004. For example, system-wide revenue passenger data reported by ATA member carriers show a 5.7% increase between 2003 and 2004. Revenue aircraft departures reported by the ATA carriers were up 1.8% between 2003 and 2004. In addition, several of the major carriers, including some of those that operate at the Airport, reported positive and/or improved earnings positions between 2003 and 2004. For example, Southwest Airlines, the air carrier with the largest market share at the Airport, reported operating income of $554 million in 2004, which represented a 14.7% increase over 2003 operating income of $483 million. The AMR Corporation, American Airlines parent company (the air carrier with the second largest market share at the Airport), reported a 2004 operating loss of $421 million, which was an improvement over its 2003 operating loss of $1.129 billion. United Airlines reported a 2004 operating loss of $1.166 billion, compared to a 2003 operating loss of $1.612 billion. Continental Airlines, Delta Airlines, and Northwest Airlines (the other air carriers with individual market shares at over 6% at the Airport), however, each reported 2004 operating results that were worse than their 2003 operating results.

The airline industry's overall financial performance in 2004 offers some basis for optimism regarding the return to healthier financial positions and possibly industry-wide profitability. Of particular note for the San Antonio market, Southwest Airlines (with a 2004 market share of 35.9% at the Airport) is one of the few U.S. airlines that reported an operating profit in 2004. The U.S. airline industry is, however, still struggling financially, and is facing many challenges. Two of the 10 leading U.S. airlines, United and US Airways, are currently operating under Chapter 11 bankruptcy protection. While the airlines have made progress in controlling some of their operating costs, they have recently been facing significant increases in fuel costs, which represent the second largest component of airline operations (labor is the largest). The costs of fuel increased to almost $58 a barrel on April 1, 2005. Recently some U.S. airlines have attempted to recover a portion of the fuel cost increases through air fare increases, but it is uncertain whether such fare increases will remain in place. The ability of the airlines to sustain financial improvements over a reasonably long duration is critical to future growth in industry capacity.

The City cannot predict the continued long term effects of these and future events on the demand for air travel or the level of impact on PFC Revenues, Subordinate Net Revenues, and the overall financial condition of the Airport.

National Economic Conditions

As with most consumer goods, air travel demand is affected by prevailing economic conditions. Periods of economic expansion boost consumer confidence and the demand for most consumer goods and services. By contrast, economic downturns create uncertainties and dampen business and consumer demand. Prior to the Terrorist Attacks, there were indications that the U.S. economy was slowing down following a nine-year period of steady expansion – the second longest period of economic prosperity of the post-World War II era. Officially declared an economic recession in November 2001, the downturn was relatively mild in impact and duration. According to Global Insight (formerly DRI-WEFA) economists, two factors combined to minimize a broader downturn in the U.S., namely the growth in consumer spending and the resilience of the Service sector. The rebound in economic growth through most of 2003 was dubbed "jobless recovery," which was fueled primarily by productivity increases, and little or no net job growth; however, the strong performance of the economy in third quarter 2003 and in subsequent months has generated measurable job growth, which provides some basis to expect strong growth in consumer discretionary spending to continue. According to U.S. Bureau of Economic Analysis ("BEA"), U.S. real GDP increased at an annualized rate of 4% in third quarter 2004 and by 3.2% in fourth quarter 2004. According to the BEA, the major contributors to the growth in real GDP in the fourth quarter were personal consumption expenditures, business expenses on equipment and software, private inventory investment, and government spending. Business cycles are inevitable; however, continued growth in the critical components of consumer and business expenditures will ensure the desired growth trend in overall economic activity, which will in turn support increased travel demand.

National Security and Threat of Terrorism

The new reality in the post-September 11, 2001 environment is the potential for terrorists to severely disrupt economic and social activities wherever they strike. The U.S. Department of Homeland Security periodically issues updates of their assessment of intelligence regarding potential threats against the U.S., including threats that may target the national airport system. U.S. involvement in Iraq and in international coalition efforts aimed at dismantling terror networks worldwide will continue to have implications for domestic security. Travel restrictions imposed pursuant to increased airport security may have a dampening effect on travel demand. In addition, periodic diversion of international flights due to security concerns may translate into reduction in service from the U.S. to affected destinations. Overall, it is reasonable to expect that national security concerns and perceived terrorist threats will continue to have adverse impact on air travel demand in the foreseeable period (see "RISK FACTORS – International Conflict and Threat of Terrorism").

RISK FACTORS

The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various risks. Potential purchasers of the Bonds are advised to consider the following factors, among others, and to review the other information in this Official Statement in evaluating the Bonds. Any one or more of the risks discussed, and others, could lead to a decrease in the market value and/or in the liquidity of the Bonds. There can be no assurance that other risk factors will not become material in the future.

General Factors Affecting the Airline Industry

The airline industry is significantly affected by a number of key factors arising from national and international conditions and events. Such factors include economic conditions resulting from the level of national and international economic growth, international trade, and currency values; national and international acts of war and terrorism causing the general public to question the safety of air travel; the nature of domestic airline service and the effect of deregulation on competition; the extent to which airline service is impacted by the demand generated by specific airport markets and, in certain instances, the level of connecting passenger activity (hubbing); the level of airline fares, which has a significant impact on passenger traffic and which is subject to numerous factors including labor and aviation fuel costs, competition, and seasonal fluctuations in traffic; and airport capacity, which has been affected by significant growth in certain air passenger markets and the continued development by airlines of major connecting passenger hubs. Many

airlines, as a result of these and other factors, have operated at a loss in the past and several have filed for bankruptcy, ceased operations, and/or have merged with other airlines, resulting in congestion and delay in a number of the nation's larger metropolitan air passenger markets. No assurance can be given as to the financial stability or profitability of the airline industry or of any airline in particular.

Passenger Facility Charges

Termination of PFCs. The City's authority to impose and use PFCs is subject to certain terms and conditions provided in the PFC Act and regulations, and the FAA's authorization of the City's imposition of PFCs. The City is in compliance with all such terms and conditions; however, if the City should in the future fail to comply with these requirements, the FAA may take action to terminate or to reduce the City's authority to impose or to use PFCs. In addition, the City's failure to comply with the provisions of the *Airport Noise and Capacity Act of 1990* could lead to the termination of its authority to **impose** PFCs (there is no option of reduction rather than elimination of the right to collect PFCs in response to unremedied noise abatement violations). The City is in compliance with the Airport Noise and Capacity Act.

Amendments to PFC Act or PFC Regulations. There is no assurance that the PFC Act will not be repealed or amended or that the PFC regulations or any FAA authorization to impose PFCs will not be amended in a manner that would adversely affect the City's ability to collect and use PFC Revenues.

Collection of the PFCs. The ability of the City to collect sufficient PFC Revenues depends upon a number of factors, including (but not limited to) the operation of the International Airport by the City, the use of the International Airport by collecting air carriers, the efficiency and ability of the air carriers to collect and remit PFCs to the International Airport, and the number of enplanements at the International Airport. The City relies upon the airline's collection and remittance of PFCs, and both the City and the FAA rely upon the airlines' reports of enplanements and collection statistics.

Bankruptcy. The PFC Act was recently amended to provide that PFCs that are held by an airline constitute a trust fund that is held for the beneficial interest of the eligible agency imposing the PFCs and that the collecting airline holds neither legal nor equitable interest in the PFC revenues, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose in their financial statements the existence and amount of funds regarded as trust funds. The airlines are permitted, however, to commingle PFC collections with their other sources of revenue and are also entitled to retain interest earned on PFC collections until such PFC collections must be remitted. If an air carrier is in liquidation or bankruptcy proceedings, however, it is prohibited from commingling PFC collections with other revenue and from granting a security interest in PFC collections to a third party.

Prior to the aforementioned amendment to the PFC Act, a bankruptcy court indicated that PFC revenues in possession of an airline in bankruptcy would not be treated as a trust fund and would instead be subject to the general claims of the unsecured creditors of such airline. While the PFC Act, as amended, should provide some protection for airports in connection with PFC revenues collected by an airline in bankruptcy, no assurances can be given as to the approach bankruptcy courts will follow when and if presented with this issue, again.

International Conflict and Threat of Terrorism

The increased threat of terrorism has had, and may continue to have, a negative impact on air travel. In December 2003, the federal government raised the terror alert to the second-highest level due to increased security concerns, and asked foreign airlines to put armed marshals on certain flights deemed to be subject to heightened risk. In February 2004, then Department of Homeland Security Secretary Tom Ridge stated that the U.S. government consistently receives intelligence that terrorists remain interested in using aircraft for future terrorist attacks.

As described in greater detail above in "OTHER FACTORS AFFECTING AVIATION DEMAND", the conflicts in Iraq and Afghanistan have had a negative effect on air travel domestically and internationally, as evidenced by airlines' significant reduction the number of transatlantic flights and reduced airline revenues and cash flow. Uncertainty associated with war and the increased threats of future terrorist attacks are likely to continue to have an

adverse impact on air travel in the foreseeable future. Congress has attempted to mitigate the effects of events, passing legislation in both 2001 and 2003 to provide airlines and airports with financial assistance to help offset some of the adverse economic effects of the Terrorist Attacks, the ongoing conflicts in Iraq and Afghanistan, the increased threat of terrorism on air travel; however, there is no assurance that similar legislation will be passed in the future in the event the need again rises.

Cost of Aviation Fuel

According to the ATA, fuel is the second largest cost component of airline operations after labor and continues to be an important and uncertain determinate of an air carrier's operating economics. There has been no shortage of aviation fuel since the "fuel crisis" of 1974, but any increase in fuel prices causes an increase in airline operating costs. The average price of oil in 2003 of $31 per barrel was more than 50% higher than the 10-year median price of oil. On April 1, 2005, the price of oil eclipsed $58 per barrel, reaching a record high. According to the ATA, a one-dollar increase in the price of oil per barrel equates to approximately $425 million in annual additional expense for U.S. airlines. Some U.S. airlines have attempted in recent months to pass the higher fuel costs to consumers by increasing the fuel surcharge or increasing the price of airfares. Significant and prolonged increases in the cost of aviation fuel are likely to have an adverse impact on air transportation industry profitability and hamper the recovery plans and cost-cutting efforts of certain airlines.

Capacity of National Air Traffic Control and Airport Systems

Demands on the national air traffic control system continue to cause aircraft delays and restrictions, both on the number of aircraft movements in certain air traffic routes and on the number of landings and takeoffs at certain airports. These restrictions affect airline schedules and passenger traffic nationwide. The FAA is gradually automating and enhancing the computer, radar, and communications equipment of the air traffic control system and assisting in the development of additional airfield capacity through the construction of new runways and the more effective use of existing runways. Increasing demands on the national air traffic control and airport systems, however, could cause increased delays and restrictions in the future.

Regulatory Environment

The FAA has jurisdiction over flying operations generally, including personnel, aircraft, ground facilities and other technical matters, as well as certain environmental matters. Under the FAA's noise reduction regulations, the air transportation industry was required to modify substantial numbers of its existing aircraft. Airport noise remains a significant federal and local issue at certain airports, which may require substantial capital investments by the industry and/or airport operators, including the International Airport, from time to time to meet applicable standards.

Construction and Completion Risk

Completion of the projects to be financed from the proceeds of the Bonds (collectively, the "Project") may be delayed by factors such as litigation, the need to obtain approvals and permits, and errors or delays by one or more of the contractors. As with any construction project, the completion of the Project involves many risks, including shortages of qualified contractors and subcontractors, shortages of labor and materials, work stoppages, labor disputes, bad weather, unforeseen engineering, environmental or geological problems and unanticipated cost overruns or other events, which could increase the cost and delay the construction or completion of the Project. A significant delay in the completion of the Project could, among other things, delay the City's anticipated increase in terminal rentals and/or parking receipts which are scheduled to commence upon completion of the Project. In addition, to the extent the City intends to issue debt for completion of a portion of the Project, the City incurs the risk of delay due to market conditions.

A portion of the Project will be funded with PFC Revenues for which the City has yet to receive FAA approval to spend. Although the City expects to receive this approval, if for any reason it does not, Additional Parity GAR Obligations will be issued to complete said portion of the Project (see "RISK FACTORS – PFC "Use" Approval Risk" herein).

Bankruptcy Risks

The City. The City may be able to file for bankruptcy under Chapter 9 of the Bankruptcy Code. Should the City become the debtor in a bankruptcy case, the Bondholders may not have a lien on Gross Revenues, Subordinate Net Revenues, and PFC Revenues received by the City after the commencement of the bankruptcy case unless either (a) the pledge of such revenues by the City constitutes a "statutory lien" within the meaning of the Bankruptcy Code or (b) such revenues constitute "special revenues" within the meaning of the Bankruptcy Code. If Gross Revenues, Subordinate Net Revenues, and PFC Revenues are not special revenues or if the Bondholders do not have a statutory lien on post-bankruptcy Gross Revenues, Subordinate Net Revenues, and PFC Revenues, delays or reductions in payments to the Bondholders may result. There may also be delays in payments to the Bondholders while a court considers these issues. Even if a court determines that Gross Revenues, Subordinate Net Revenues, and PFC Revenues are special revenues or that the Bondholders do have a lien on post-bankruptcy revenues, the court may permit the City to spend such revenues to pay Operation and Maintenance Expenses, notwithstanding any provision of the Order to the contrary.

Airline Bankruptcy. In the event of bankruptcy proceedings involving one or more of the airlines operating at the Airport, the debtor or its bankruptcy trustee must determine within a time period determined by the court whether to assume or reject the applicable Signatory Agreement or other lease agreements or operating agreements. In the event of assumption, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performances under the relevant agreements. Rejection of a lease or an executory contract by any of such airlines would give rise to an unsecured claim of the City for damages, the amount of which in the case of a lease is limited by the federal Bankruptcy Code. Additional risks arise when PFC Revenues are held by airlines in bankruptcy (see "RISK FACTORS – Passenger Facility Charges" above).

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) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for City deposits; (7) certificates of deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (5) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) bankers' acceptances with the remaining term of 270 days or, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. bank or state; (11) no-load money

market mutual funds regulated by the Securities and Exchange Commission (the "SEC") that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and (12) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

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

Investment Policies

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; 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 shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

Additional Provisions

Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15% 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

As of September 30, 2004, investable City funds were 72.88% invested in obligations of the United States, or its agencies and instrumentalities, and 24.11% invested in a money market fund, with the weighted average maturity of the portfolio being less than one year. The remaining 3.01% 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 100.09% of their book value. No funds of the City are invested in derivative securities; *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

GENERAL LITIGATION AND CLAIMS

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; 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 and is included in the reserve for claims liability held 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 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 Airport System.

Information regarding various lawsuits against the City included in the City's Comprehensive Annual Financial Report ("CAFR") at Footnote 11, entitled "Commitments and Contingencies", is attached hereto, and incorporated herein by reference, as Appendix E, entitled "Selected Portions of the City's Comprehensive Financial Report for the Year Ended September 30, 2004." In addition, the City provides the following updated information on the cases contained in Appendix E, and also provides information on a case not contained in such Appendix:

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 City's 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 jury at trial entered a judgment of more than $23 million against the City, the trial court immediately reduced this by $6 million. On appeal, the Fourth Court of Appeals subsequently agreed with the City and reduced the judgment further by eliminating $10 million in exemplary damages. The remaining issue is whether personal injuries are recoverable under the Plaintiff's theory of nuisance. The City believes they are not and that even if they are recoverable, damages are capped at $250,000 under the Texas Tort Claims Act. The City has appealed the matter to the Texas Supreme Court.

Matthew Jackson et al. v. City of San Antonio. This is a Fair Labors Standards Act ("FLSA") lawsuit. It was brought as an opt-in class action, and 335 plaintiffs have opted in to the litigation. In general, plaintiffs claim they were required to report for duty 15 minutes prior to their shift, that they had to work beyond the end of their shifts, and that they were not compensated for the time at the overtime rate, in violation of the FLSA. Plaintiffs claim that they were (and are) entitled to be paid at 1.5 times their regular hourly rate for off-duty assignments on City property, and they make several lesser allegations based on the FLSA as well. Plaintiffs made, and the City rejected, a settlement demand in excess of $15 million. 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.

Brooks Hardee, et al v. City of San Antonio; Brooks Hardee et al v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio. These 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. The same Plaintiff/developer has multiple pending lawsuits against the City of San Antonio and the San Antonio Water System ("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.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings, and court decisions existing on the date thereof ("Existing Law"), interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, except for any holder who is treated pursuant to section 147(a) of the Code as a "substantial user" of the facilities financed with proceeds of the Bonds or, a "related person" to such user. Except as stated above, Bond Counsel will express no opinion as to any other federal, state, or local tax consequences of the purchase, ownership or disposition of the Bonds (see "Appendix G – Form of Opinion of Bond Counsel" herein).

In rendering its opinion, Bond Counsel will rely on (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate and (b) covenants of the City contained in the Ordinances relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the City to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents their legal judgment based upon their review of Existing Law and the reliance on the aforementioned information, representations, and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership, or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service (the "IRS") by the City with respect to the Bonds or the projects to be financed with proceeds of the Bonds. No assurances can be given as to whether or not the IRS will commence an audit of the Bonds, or as to whether the IRS would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the IRS is likely to treat the City as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds (the "Original Issue Discount Bonds") may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year. In such event, the difference between (i)

the "stated redemption price at maturity" of each Original Issue Discount Bond and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale, or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale, or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of the treatment of interest accrued upon redemption, sale, or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, redemption, sale, or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting form the purchase, ownership, or disposition of the Bonds. This discussion is based on Existing Law, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds is an item of tax preference, as defined in section 57(a)(5) of the Code, for purposes of determining the alternative minimum tax imposed on individuals and corporations by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local, and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership, or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

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

General

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 obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel to the effect that the Bonds are valid and legally binding 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 its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P., has reviewed the information appearing in this Official Statement under the captions "PLAN OF FINANCING," "THE BONDS" (other than under the subscription "Book-Entry-Only System" as to which no view will be expressed), "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "LEGAL MATTERS" to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. 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 Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on issuance and delivery of the Bonds. The legal opinion of Bond Counsel will be printed on the definitive Bonds, if any, and the form of such opinion is attached hereto as Appendix G. 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, 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.

City Relationships

McCall, Parkhurst & Horton L.L.P. is acting as Bond Counsel in connection with the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. has acted as underwriters' counsel in issuances of other obligations by the City. Winstead Sechrest & Minick, P.C. is acting as underwriters' counsel in connection with the issuance of the Bonds. Winstead Sechrest & Minick, P.C. represents the City from time to time as bond counsel in connection with specific matters.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2004, Financial Security's total policyholders' surplus and contingency reserves were approximately $2,280,883,000 and its total unearned premium reserve was approximately $1,649,230,000 in accordance with statutory accounting principles. At December 31, 2004, Financial Security's total shareholder's equity was approximately $2,699,786,000 and its total net unearned premium reserve was approximately $1,342,057,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's, a Division of The McGraw-Hill Corporation ("S&P"), and Fitch Ratings ("Fitch") have conditionally rated the Bonds "Aaa", "AAA", and "AAA", respectively, based on final delivery of the Policy on the Closing Date. An explanation of the significance of such ratings may be obtained from Moody's, S&P, or Fitch. 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 1-9 and in Appendix E. The City will update and provide this information within six months after the end of each fiscal year. 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 SEC Rule 15c2-12 (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 Appendix E or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's fiscal year ends September 30th. Accordingly, it must provide updated information by March 31st 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. 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.

The Municipal Advisory Council of Texas has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information relating to the Bonds.

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 Ordinances 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.

Note that the City has, in this Official Statement under the headings "AIRLINES' RATES AND CHARGES", "FEDERAL LAW AFFECTING AIRPORT RATES AND CHARGES," "OTHER FACTORS AFFECTING AVIATION DEMAND," and "RISK FACTORS," provided investors with information describing circumstances surrounding the airline industry and how such circumstances could potentially affect the Airport's financial performance. This information is provided, and is accurate, only at this time. The City has undertaken no obligation to update this information as circumstances may warrant and will not include any reference to such material in its required deliveries made pursuant to its continuing disclosure obligations described above.

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.

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 "RISK FACTORS," 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

Siebert Brandford Shank & Co., LLC, Morgan Stanley & Co., Incorporated, RBC Dain Rauscher, and Southwest Securities, Inc. (collectively, the "Underwriters"), for which Siebert Brandford Shank & Co., LLC is serving as representative, have agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price of $39,154,660.50 (which represents the par amount of the Bonds plus net original issue premium of $1,303,077.45 and less an Underwriters' discount of $233,416.95) 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/ Leticia M. Vacek
City Clerk, City of San Antonio, Texas

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 1,282,800 for the calendar year ending December 31, 2004. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the eighth 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 1,560,500 for the calendar year ending December 31, 2004. 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 511.78 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

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 448.41 square miles (full purpose annexations only) or 511.78 square miles (both full purpose and limited purpose annexations), and having a fiscal year 2005 total market valuation of $51.741 billion[1]. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as well as an opportunity to enhance the City's fiscal position. Planned annexations by the City are currently under consideration.

[1] Based on Tax Year 2004 Actual Market Value of Taxable Property certified by Bexar Appraisal District as of July 25, 2004.

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 18.70 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 limited purposes. Effective August 1, 2004, City Council annexed an additional area for limited purposes south of the Medina River. The areas annexed for limited purposes account for a total of 63.37 square miles of land within the City's corporate limits. Limited purpose annexation areas, although included in the total calculation of the City corporate limits, are excluded in the calculation of property values. (See "Limited Purpose Annexation" below).

Limited Purpose Annexation

The City annexed for limited purposes, effective January 5, 2003, six areas south of San Antonio and an additional area south of the Medina River, effective August 1, 2004. 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 published 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 Plan

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. At its December 12, 2002 meeting, City Council amended the plan identifying 13 areas for full purpose annexation, as required by Section 43.052 of the Texas Local Government Code, seven of these areas are scheduled to be annexed effective December 31, 2005, and the six south side limited purpose annexation areas are scheduled to be annexed for full purposes on January 5, 2006. City Council approved an additional amendment to its annexation plan on July 22, 2004, to include the limited purpose annexation south of the Medina River, which is scheduled for full purpose annexation on July 31, 2007.

Form of Government and Administration

The City is a Home Rule Municipality that operates pursuant to the City of San Antonio City Charter (the "City Charter"), which was adopted in 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government, whereby subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets, and determines policies. The City Council is comprised of eleven (11) members, with ten members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two (2) year terms, and each member is limited to a maximum of two (2) full terms. The office of the Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2005.

The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

Since its adoption, the City Charter has been amended on five separate occasions, November 1974, January 1977, May 1991, May 1997, and November 2001. Significant amendments to the City Charter include the

amendment passed in May 1991, which limited the service by the Mayor and members of the City Council members 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 in May 1997. 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.

City Manager Selection

On September 10, 2004, through Ordinance No. 99703, City Council accepted the resignation of the City Manager, Terry M. Brechtel. Ms. Brechtel's resignation was effective October 1, 2004. J. Rolando Bono was appointed to serve as Interim City Manager through Ordinance No. 99821; and his terms and conditions of employment were adopted and approved by Ordinance No. 99850. Mr. Bono will continue to serve as Interim City Manager until such time as the City Council appoints a City Manager. The City Council has hired a professional firm to assist in a nationwide search for a new City Manager.

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 environmental services.

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, 2004 were $191,353,560.

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, 2004 were $6,900,308.

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 November 2004 was 738,600, which is 11,200 or 1.54% more jobs than the November 2003 total of 727,400. 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 2005, 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 Six Flags Fiesta Texas; 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 Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the total economic impact from this industry sector totaled approximately $12.9 billion in 2003. The industry provided 103,156 jobs, or approximately 14% of the City's total employment. The healthcare and bioscience industry's annual payroll in 2003 approached $3.9 billion. The 2003 average annual wage of San Antonio workers was $32,564, compared to $37,747 for healthcare and bioscience employees. These 2003 economic impact figures represent growth of 8% over the previous year, or approximately $1 billion. In addition, employment in the industry grew by 34% from 1993 through 2003.

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 $1.005 billion 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 72 doctoral level employees, a technical staff of 115, and an administrative and supporting staff of 201 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 Foundation is also home to one of the few BSL-4 labs in the country, and its Genomics Computing is the world's largest computer cluster devoted to statistical genetic analysis.

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.

HOSPITALITY INDUSTRY

The City's diversified economy includes a significant sector relating to the hospitality industry, which ranks second in its local economic impact. A recent study by the Greater San Antonio Chamber of Commerce found that in 2002 the hospitality industry had an economic impact of nearly $7.2 billion. The estimated annual payroll for

the industry in 2002 was $1.2 billion, and the industry employed over 80,000. In 2003, the City's overall performance for hotel occupancy increased by 0.3% and total room nights sold in the destination increased by 2.8%.

Tourism. During 2002, San Antonio attracted nearly 20 million visitors with direct spending across all industries in the City of $4.8 billion. The list of attractions in the San Antonio area includes, among many others, the Alamo, and other sites of historic significance, the River Walk, two major theme parks (SeaWorld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs. In 2002, San Antonio ranked ninth among U.S. destinations for overnight leisure travel, according to research commissioned by the San Antonio Convention and Visitors Bureau. Visitor information is updated on a biennial basis with the next release scheduled for June 2005.

Conventions. 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 area to compete for more and bigger conventions. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows both overall city performance as well as convention activity booked by the San Antonio Convention & Visitors Bureau for the years indicated:

Calendar Year	Hotel Occupancy (%)[1]	Room Nights Sold[1]	Convention Attendance[2]	Convention Room Nights [2]	Convention Delegate Expenditures ($ Millions) [2,3]
1995	68.2	5,255,310	400,751	744,954	328.1
1996	66.3	5,569,917	486,383	725,395	398.3
1997	64.5	5,747,771	417,492	670,039	341.9
1998	66.1	6,093,945	445,151	724,882	401.0
1999	65.2	6,219,742	406,539	678,014	366.2
2000	65.5	6,495,654	389,448	696,215	350.8
2001	63.1	6,361,879	419,970	712,189	378.3
2002	64.1	6,581,841	521,278	826,566	469.6
2003	64.7	6,871,139	424,951	709,081	382.8
2004	65.6	7,034,431	504,704	711,568	524.5

1 Source: Smith Travel Research, based on hotels in San Antonio.

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

3 For the years of 1995 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. Calendar year 2004 is based on an average expenditure of $1,030.20 per convention and trade show delegate, according to a Veris Consulting, LLC study for the IACVB.

MILITARY INSTALLATIONS

The military represents a principal component of the City's economy providing an impact of over $5 billion annually. 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 Department of Defense military employment associated with the three active military installations and Brooks City-Base approximates 80,500 military, civilian, and guard/reserve personnel with an annual aggregate payroll of over $3 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 has facility assets of approximately $1 billion and includes 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 $105 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. As of September 2004, redevelopment efforts have resulted in the retention of 7,221 military jobs and the creation of about 5,140 new commercial jobs. GKDA has also executed leases totaling approximately 8.2 million square feet of the space with 63 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 began "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 (the "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. As of December 2004, the BDA is saving the Air Force over $5 million a year in support costs while the Air Force is occupying 95 percent of available space at Brooks City-Base. The BDA has also leased out another 82,000 square feet to commercial tenants. Development projects underway or planned at Brooks City-Base include a $24.5 million City/County Emergency Operations Center, $10 million in storm drainage improvements, the construction of two new facilities for lease to a local pharmaceutical manufacturer, and the potential construction of facilities for a School of Pharmacy. In addition, in November 2004, the BDA completed the sale of 62 acres at the northeast corner of the Park to a local developer and Wal-Mart for the construction of a 570,000 square foot commercial retail development. This sale resulted in net revenue to the BDA of about $10 million for reinvestment in the Park and will create approximately 500 new jobs in South San Antonio.

Fort Sam Houston 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, had been vacant for some time and were 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 Army relocated 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, for renovation on these historic facilities which was completed 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.

The City, in partnership with the Greater San Antonio Chamber of Commerce, community volunteers, Bexar County, and community stakeholders, has also 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 above. The Task Force will continue to facilitate the success of these projects and to develop new partnership initiatives with the San Antonio military bases.

Other Major Industries

Aerospace Industry. The aerospace industry's annual economic impact to the City is about $2.9 billion. This industry provides some 8,283 jobs, with employees earning total annual wages totaling over $320 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, MRO, and general aviation.

San Antonio International Airport ("SAT") 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 during the spring and summer. SAT is currently developing constructions plans for a new Terminal B and Parking Garage, with groundbreaking expected respectively in the spring and summer 2005. SAT is also in the process of an Environmental Impact Statement for implementation of proposed airfield capacity enhancement projects recommended in the Airport Master Plan. 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, implementation of the Master Plan recommendations is currently in process pending the successful completion of an Environmental Assessment for certain airfield improvements.

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 SAT with an Air Cargo Strategic Plan that includes recommendations on expanding the existing integrator service primarily provided by UPS, FedEx, and Airborne Express. In fall 2001, the community established the innovative Alamo Area Aerospace Academy ("AAAA"), a two-year training and internship program for high school juniors and seniors to prepare these students for a career in the aerospace industry and to help fill a critical workforce requirement. After three years, AAAA has graduated 117 seniors from the program with 87 finding jobs with a local aerospace company.

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. Due to the presence of many industry-leading

information security companies and organizations, San Antonio is especially strong in this segment of the IT industry. 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 and increasing to 104 juniors and seniors in the 2003/2004 class. 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 over $500 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%. In addition, on December 16, 2004, Toyota announced the creation of a Supplier Park at the Toyota manufacturing site. This Supplier Park will attract 18 supplier companies and create 1,500 manufacturing and assembly jobs with a capital investment of about $150 million.

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
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
2004	617,261	308,681

Source: CPS.

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San Antonio Water System Average Customers per Fiscal Year

Fiscal Year Ended May 31 [1, 2]	Water Customers [3]
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
2004	311,554

[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] Beginning in year 2001, for the 12 months ending December 31.
[3] Excluding SAWS irrigation customers.
Source: SAWS.

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	Residential Single Family		Residential Multi-Family[1]		Other[2]	
Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
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
2004	7,434	825,787,434	206	7,044,283	14,695	1,389,950,935

[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.

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Total Municipal Sales Tax Collections – Ten Largest Texas Cities

	Calendar Year					
	2004	2003	2002	2001	2000	1999
Amarillo	$ 48,155,445	$ 44,581,868	$ 44,201,183	$ 43,357,043	$ 42,474,995	$ 40,781,524
Arlington	49,344,578	46,483,314	42,493,256	65,948,096	65,264,427	60,092,585
Austin	112,515,478	105,044,871	110,208,923	117,393,240	117,818,293	104,915,700
Dallas	192,972,586	184,263,151	192,542,321	210,130,838	215,412,071	198,740,061
El Paso	51,461,838	48,949,656	47,465,776	46,876,210	45,970,014	43,603,400
Fort Worth	76,202,528	72,772,964	72,632,487	72,975,421	71,543,992	68,142,426
Houston	355,616,488	325,284,697	334,122,179	337,540,694	321,095,967	308,508,700
Irving	37,719,779	36,584,559	38,810,594	43,188,105	44,773,277	42,773,277
Plano	49,453,998	46,876,867	45,309,249	47,327,003	47,325,948	40,483,049
SAN ANTONIO	157,284,972	152,360,840	153,207,656	151,422,401	133,360,785	126,060,252

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 269,304 for the fall 2004, encompassing in the aggregate 41 high schools, 72 middle/junior high schools, and 247 elementary schools; and there are an additional 24 open enrollment charter school districts with a total of 48 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 93 accredited private and parochial schools at all education levels.

In San Antonio, the six largest universities, which include a medical school, a dental school, and a law school, and four public community colleges, had a combined enrollment of 93,721 for the fall 2004.

Source: Texas Education Agency.

Employment Statistics

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

Employment by Industry

San Antonio MSA[1]	November 2004	October 2004	November 2003
Natural Resources and Mining	2,300	2,300	2,200
Construction	41,400	41,600	39,600
Manufacturing	44,100	43,900	44,600
Trade, Transportation, and Utilities	133,400	131,000	132,600
Information	23,800	23,600	23,800
Financial Activities	60,800	60,700	59,500
Professional and Business Services	89,200	89,400	86,300
Educational and Health Services	100,000	100,000	97,600
Leisure and Hospitality	78,100	79,400	77,400
Other Services	27,900	27,500	26,900
Government	137,600	137,000	136,900
Total Nonagricultural	738,600	736,400	727,400

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 November 2004, as compared to the prior periods of October 2004 and November 2003.

Unemployment Information (all estimates are in thousands)

San Antonio MSA [1]	November 2004	October 2004	November 2003
Civilian Labor Force	843.6	847.5	831.5
Number of Employed	804.5	809.2	787.0
Number of Unemployed	39.1	38.3	44.5
Unemployment Rate %	4.6	4.5	5.4

Texas (Actual) [1]	November 2004	October 2004	November 2003
Civilian Labor Force	11,037.1	11,020.5	10,970.8
Number of Employed	10,438.8	10,438.7	10,272.1
Number of Unemployed	598.3	581.8	698.7
Unemployment Rate %	5.4	5.3	6.4

United States (Actual) [2]	November 2004	October 2004	November 2003
Civilian Labor Force	148,246.0	147,978.0	146,969.0
Number of Employed	140,581.0	140,447.0	138,700.0
Number of Unemployed	7,665.0	7,531.0	8,269.0
Unemployment Rate %	5.2	5.1	5.6

[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 Mfg. & 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 Prod.
Medical:			
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	Hospital & Health Care
Allied Home Health Nursing Svcs.	Home Health Care	Methodist Specialty &Transplant Hosp.	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/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 Sys.	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	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 Ctr.
Eckerd's Drugs of Texas, Inc.	Drug Stores	R& L Foods, Inc.	Taco Bell, Pizza Hut, & KFC
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 Org.	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 S.D.	Public School District
Boeing Aerospace Support Center	Aircraft Maint. & Modification	Sears Teleservice Center	Customer Service Consultants
Cadbeck Staffing	Professional Employer Org.	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		

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

San Antonio Electric and Gas Systems

History and Management

The City acquired its electric and gas utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Holding Company Act of 1935. The bond ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, Junior Lien Obligations and Commercial Paper Notes establish management requirements and provide that the complete management and control of the City's electric and gas systems (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 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, condemnation proceedings, 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 ("CAC") to enhance its relationship with the community and to address the City Council's goals regarding broader community involvement. The CAC meets monthly and 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 the CPS service area, the CAC encompasses a broad range of customer groups in order to identify their concerns and articulate their issues.

Service Area

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this 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 located within the service area that own their own distribution facilities. 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 rates, CPS sells electricity at wholesale prices to the Floresville Electric Light & Power System, the City of Hondo, the City of Castroville, and the City of Brady. Renewal contracts have been entered into with the first three long-term wholesale customers in recent years. CPS became the wholesale electric provider of the City of Brady under a three-year contract commencing December 2002. CPS believes that it will have additional opportunities to enter into long-term wholesale electric power agreements. The requirements under the existing and any new wholesale agreements would be firm energy obligations of CPS.

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

Retail Service Rates

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of electric "public utilities" is vested in the PUCT. Since the deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over the investor-owned utility companies primarily encompasses only the transmission and distribution function. PURA generally excludes from its coverage municipally-owned utilities ("Municipal Utilities"), such as CPS, but the PUCT has jurisdiction over electric wholesale transmission rates. 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 electric 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.

The City has covenanted and is obligated under the bond ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all Maintenance and Operating Expenses of the EG Systems and to pay the debt service requirements on all revenue debt of the EG Systems. Rate changes over the past 14 years have consisted of a 4.0% combined electric and gas base rate increase effective January 31, 1991; a new Large Volume Gas rate effective July 31, 1992, which was offered to Large Gas Customers whose monthly gas usage exceeded 550 MCF per month and enabled them to reduce bills by approximately 8.8%; a Super Large Power ("SLP") electric rate effective January 4, 1994, which reduced the cost of electricity to customers having loads greater than 5,000 KW per month and annual load factors greater than 41% by approximately $0.0049 per kWh, a 10.2% reduction on the basic rate; and a 3.5% electric base rate adjustment approved by City Council on September 30, 2004, and made effective on the first day of the billing period in which the closing for CPS' purchase of an additional interest in the South Texas Project nuclear power plant occurs. The latter rate adjustment is intended to offset the additional costs associated with the purchase, which is expected to be completed during the first half of 2005. CPS projects that the net effect of the rate adjustment and fuel savings from

additional nuclear-fueled generation will be lower bills for CPS electric customers (See "Electric System – Generating System" herein). CPS also offers a monthly contract for renewable energy service (currently this is wind generated electricity) under Rider E15, which became effective September 30, 2002. A rider to the SLP rate, the Economic Incentive Rider E16, became effective March 10, 2003, and offers discounts off the SLP demand charge for a period up to four years for new or added load of at least 10 MW. Under certain conditions, the discount may be extended up to an additional three years. Customers must also meet City employment targets and targets for purchases of goods or services from local businesses in order to qualify for the Economic Incentive Rider.

Each of CPS' retail and wholesale rates contains a fuel adjustment clause, which provides for current recovery of fuel costs. The adjustment is set at the beginning of each month.

Transmission Access and Rate Regulation

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

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method. In general, the postage stamp method results in transmission payments to other transmission owners by a compact urban utility like CPS that 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 to choose their electric energy supplier, as well as the retail customers of those Municipal Utilities and Electric Co-ops that elect, on or after that date, to participate in retail electric competition. Provisions of SB 7 that apply to the CPS electric system, as well as provisions that apply only to IOUs and Electric Co-ops are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which the electric system could choose to directly participate in the future.

SB 7 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.

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 "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 contains specified emissions reduction requirements for certain older electric generating units which would otherwise be exempt from the Texas Commission on Environmental Quality ("TCEQ", formerly the Texas Natural Resource Conservation Commission) permitting program by virtue of "grandfathered" status. Under SB 7, 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 been met for the first compliance year and NO_x emissions have been reduced by over 50% 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 called Chapter 117 regulations is directed at all units, including CPS' coal plants. These regulations require a 50% reduction in NO_x emissions beginning May 1, 2005, and annual reporting. In addition, as a result of JK Spruce Plant Unit 2 ("JKS 2") air permitting process, CPS has committed to tighter NO_x emission limitations than what is required under Chapter 117 at the Calaveras Lake Site once the JKS 2 unit comes on line. It is possible that over the upcoming years the EPA, the State of Texas, and local air quality districts may issue even more stringent regulations governing emissions from many types of power plants. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission limits have been proposed by EPA which may require new controls at the coal plants in the near future. In addition, new rules were published by EPA affecting CPS' newer simple cycle combustion turbines, with regard to formaldehyde, and those turbines were tested for that pollutant as part of the compliance testing. 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 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") for the purposes of lowering the debt component of energy costs, maximizing the

effective use of cash and cash equivalent assets, and enhancing financial flexibility in the present and 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 approximately 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.

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

On July 22, 2002, the Brooks City Base Property was conveyed to the City. On October 1, 2002, CPS took ownership of the electric and gas infrastructures. Installation of all electric and gas metering was completed as of November 15, 2002. CPS is working on addressing all health and safety code issues, and this process is approximately 99% completed. CPS is the full service provider for both the electric and gas systems.

On September 30, 2003, CPS acquired the electric utility system at the Camp Bullis ("CB") security training force installation. The CB electric system is primarily an overhead system, which consists of approximately 10 miles of three-phase equivalent distribution lines with a mixture of wood and concrete poles. CPS crews have completed the new electric meter installation and have begun 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, CB 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, a U.S. Army base ("FSH") and became owner for the electric system at this installation. The FSH electric distribution system is primarily an overhead system and 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 have completed 99% of the installation of new electric meters and have begun the process of evaluating the overhead distribution to establish a long-term plan to bring the system to CPS' standards. As part of the transfer, FSH 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 FSH.

CPS provides a variety of electric and gas services for Lackland under a General Services Administration contract. In June 2003, Lackland personnel met with CPS for a preliminary discussion regarding a sole source acquisition for gas and electric utility systems. The Air Force ("AF") and CPS had several more privatization discussion meetings between July and December 2003. In January 2005, CPS submitted an unsolicited proposal for the electric utility infrastructure at the Lackland Annex at Camp Bullis. The proposal is currently under review by AF personnel. The AF has a target date of September 30, 2005 to review the feasibility of privatizing the utilities.

After CPS received unsuccessful bidder notification on February 24, 2003, from the Defense Energy Support Center regarding the Texas Regional Demonstration Project ("TRD"), Randolph Air Force Base ("Randolph") has not contacted CPS regarding any privatization efforts. CPS remains open to any future requests by Randolph to privatize their utility systems.

Electric System

Generating System. CPS operates 19 electric generating units, three of which are coal-fired and 16 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 28.0% interest in the two-unit nuclear power plant called the South Texas Project (the "STP"). When both units of STP operate as planned, they supply approximately one-third of CPS' annual electric load. The nuclear units supplied 24.7% of the electric system load during fiscal year 2003-2004 and 28.6% of the load for the twelve months ended October 31, 2004. The purchase by CPS of an additional 12% interest in STP is pending.

STP is located on a 12,220-acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles from San Antonio. AEP Texas Central Company ("AEP") has sold its generation facilities in ERCOT, including its interest in STP. CPS and Texas Genco, L.P. ("Texas Genco") exercised rights of first refusal and have committed to purchase AEP's interest. Texas Genco will purchase an additional 13.2% interest in STP from AEP, bringing its ownership to 44%. CPS will use proceeds from its $160 million bond issue that closed on November 18, 2004 (the "Bonds") to purchase an additional 12% from AEP, bringing its ownership to 40%. (See "Recent Financial Transactions"). If either the Texas Genco or CPS purchase fails to close, the other has agreed to purchase the remaining AEP share of STP. Close of the purchase of CPS' portion of AEP's interest in STP is contingent upon receipt of two additional regulatory approvals, one from the U.S. Nuclear Regulatory Commission ("NRC"), for transfer of AEP's NRC licenses for STP, and another from the U.S. Internal Revenue Service ("IRS"), for an IRS Private Letter Ruling that the transfer of AEP's Decommissioning Funds is permitted without conditions or limitations thereon that are not reasonably acceptable to CPS. At this time, there appear to be no impediments in obtaining these regulatory approvals and CPS expects receipt of both of these regulatory approvals approximately four to six months following submittal of the respective applications to the NRC and IRS. Closing of the sale transactions is expected in the first half of 2005.

On September 30, 2004, CPS received approval for a change in the amount it charges for retail and certain wholesale rates. This $41 million base rate adjustment was designed to support the issuance of the Bonds and the increase in CPS' share of operation and maintenance expenses at STP. (See "Retail Service Rates").

STP Participant Ownership - Participants in the STP and their shares therein are as follows (MW capacity are approximations):

			Following Proposed	
	Current Ownership		Sale of AEP's Ownership	
Participants	%	MW	%	MW
Texas Genco, L.P.	30.8	770	44.0	1,100
City Public Service	28.0	700	40.0	1,000
AEP Texas Central Company	25.2	630	0.0	0
City of Austin - Austin Energy	16.0	400	16.0	400
	100.0	2,500	100.0	2,500

STP is 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. Currently, a five-member board of directors governs the STP Nuclear Operating Company, with each owner appointing one member to serve with the STP Nuclear Operating Company's chief executive officer. All costs and output continue to be shared in proportion to ownership interests.

Joint Operating Agreement. CPS and Texas Genco entered into the Joint Operating Agreement ("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 arrangement 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 7,426 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 304 miles of three-phase distribution lines, 82 miles of three-phase Downtown Network distribution lines, and 2,685 miles of single-phase

underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground distribution systems. Presently, 70,697 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 267 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. A 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 4,372 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

In both June and August of 2004, CPS restructured it New Series 2003A Bond Escrow to take advantage of favorable interest rates. CPS saved a combined $1.1 million in debt service costs.

On November 18, 2004, CPS issued the Bonds with approval from the CPS Board and City Council. These Bonds are variable rate demand obligations. CPS will use the proceeds to partially fund the purchase from AEP of an additional 300 megawatts of STP nuclear power generation and for other EG Systems improvements.

In March 2005, CPS intends to issue approximately $241 million in new money revenue bonds. CPS will use the funds to reimburse itself for $8.3 million in cash previously spent for Electric Transmission construction costs, to fund future Electric Transmission construction projects, and to fund projects related to Electric Distribution, Information, Technology & Communications and General Property. CPS will also be issuing approximately $295 million in advance refunding revenue bonds. The advance refunding will refund select New Series 1997 bonds and New Series 2002 bonds. The net present value saving in debt service from the refunding is approximately $19.5 million.

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City Public Service Historical Net Revenues and Coverage[1]

(Dollars in Thousands)	Fiscal Years Ended January 31,					
	2000	2001	2002	2003	2004	2004[2]
Gross Revenues[3]	$ 1,079,969	$ 1,389,239	$ 1,249,869	$ 1,271,656	$1,526,904	$1,438,746
Maintenance & Operating Expenses[4]	520,915	754,145	688,876	740,161	942,471	869,863
Available For Debt Service	$ 559,054	$ 635,094	$ 560,993	$ 531,495	$ 584,433	$ 568,883
Actual Principal and Interest Requirements:						
Senior Lien Obligations[5]	$ 208,925	$ 208,567	$ 212,274	$ 211,831	$ 230,250	$ 241,562
Junior Lien Obligations[6]	$ 0	$ 0	$ 0	$ 0	$ 2,111	$ 3,236
Actual Coverage-Senior Lien	2.68x	3.05x	2.64x	2.51x	2.54x	2.36x
Actual-Senior and Junior Lien	2.68x	3.05x	2.64x	2.51x	2.52x	2.32x

1 Unaudited
2 Twelve months ended October 31, 2004.
3 Calculated in accordance with the ordinances.
4 Includes nuclear decommissioning expense, excluding expense applicable to increased capacity. See "ELECTRIC SYSTEM – Generating System".
5 Net of accrued interest where applicable.
6 Junior Lien Obligations were issued May 15, 2003. Actual adjustable monthly interest payments.

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 stormwater system and any other water related system to the extent permitted by law. To date, the City's stormwater utility system has not been incorporated into SAWS.

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 on the City Council.

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, condemnation proceedings, and the issuance of debt, 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 such 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.

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 recycle of wastewater (the "recycle water system") (the waterworks system, the wastewater system, and the recycle water system, collectively, the "system"). The system does not include any "Special Projects," which are declared by the City, upon the recommendation of the SAWS 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 SAWS 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 SAWS 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 the system.

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 provided for new treatment facilities and an enlargement of the wastewater system. In 1970, the City became the Regional Agent of the Texas Commission on Environmental Quality ("TCEQ") (formerly known as the Texas Water Commission and the 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 recycle water system to form the System.

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 330,000 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 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. 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.

Recycling Water System. SAWS is permitted to sell Type I (higher quality) recycled water from its wastewater treatment plants, and has been doing so since 2000. The recycle system is comprised of two north/south transmission lines and an interconnecting line that is one-third complete. Current capacity is 35,000 acre-feet.

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. Numerous City of San Antonio facilities that include the Convention Center and Alamodome constitutes 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 $12,823,938 in revenues in fiscal year 2004.

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 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 1800s. Beginning in the 1980s 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. This agency, known as the Edwards Aquifer Authority ("EAA"), 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, and 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 Water Supply 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	0.1378

Source: SAWS, approved by City Council.

SAWS has determined that the City's water needs can be met through the implementation of an array of programs and projects, including a critical 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.

Short-Term Supply

Edwards Aquifer Acquisitions. The Edwards Aquifer will always be the cornerstone of San Antonio's water supply and SAWS has spent approximately $30.9 million to buy Edwards water since the inception of the Water Supply Fee in 2001. Under drought conditions, SAWS' pumping permit from the EAA is expected to provide approximately 135,000 acre-feet per year through 2007, and 120,000 acre-feet per year thereafter if further reductions are required. SAWS has also been proactive in acquiring permanent Edwards Aquifer water rights. To this date SAWS has purchased 38,000 acre-feet, under average conditions, (32,000 under drought conditions) of additional rights above the base permit amount and will continue to purchase available water rights.

Leases. SAWS will acquire approximately 50,000 acre-feet of additional Edwards Aquifer pumping rights (42,500 acre-feet under drought conditions) by purchase or lease of water rights from irrigators west of San Antonio and have spent about $6.2 million in leases since the inception of the Water Supply Fee in 2001. SAWS is committed pursuant to SAWS Board policy not to acquire so much water from this source that it would undermine the agricultural economy of the region.

Brush Management/Agriculture Conservation. SAWS is committed to the conservation of irrigation water within the region as well as all irrigation water that is associated with various SAWS water resource development projects. Edwards Aquifer water conserved by agriculture is mutually beneficial to all users. The Agricultural Conservation Program is categorized into three components: direct conservation, research & education, and regional partnership projects.

Direct Conservation. The most significant quantity of water to be conserved can be derived from improving the efficiency of agricultural irrigation systems.

Research and Education. SAWS, in partnership with regional interests, supports research and implementation of watershed activities (i.e., brush management) that increases watershed yield.

Regional Partnership Projects. Development of the Irrigation Technology Center ("ITC") is moving forward. The ITC will be a unique world-class facility with four primary missions: 1) Develop design and performance standards for agricultural and landscape irrigation systems; 2) Establish an equipment testing and certification program; 3) Provide training and educational services for irrigators, agency, and industry personnel; and 4) Develop new and improved irrigation technologies, methods, and management practices. This new facility is now planned to be located at or near the newly planned Texas A&M campus to be located in Bexar County. SAWS support of the facility and the research will provide a direct benefit to all irrigation water use, both agricultural and urban.

Edwards Aquifer Optimization. The Aquifer Optimization Program conducts sound scientific research to evaluate whether the pumping limits defined in Senate Bill 1477 can be increased without compromising the management goals of Senate Bill 1477. Key objectives include maintaining the endangered species and their habitats at Comal and San Marcos springs and providing flow from the springs for downstream users. Technical options must be identified and evaluated to increase available water in the Edwards Aquifer and to use the aquifer's storage capacity more efficiently. This program is primarily the responsibility of the EAA, however, SAWS

provides staff support to manage the Technical Advisory Group, as well as direct financial support. The Edwards Aquifer Optimization program consists of 14 long-range studies that are designed to increase our knowledge of how the aquifer works and determine the effects on ecosystems dependent on water from the Edwards Aquifer. SAWS is working with the EAA to study the feasibility of "Recharge and Recirculation".

Water Recycling 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 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. 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 administration building, well field pipeline and treatment plant facilities were completed and operational in mid-2004. The second phase of the project will be completed in 2005. Phase II builds the infrastructure necessary to double the storage capacity 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. SAWS introduced the first non-Edwards supply into its potable water system in February of 2002. This groundwater project is produced from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in Northern Bexar County. Sustainability studies show that approximately 5,000 acre-feet per year can be sustained from this source. SAWS will continue to monitor and develop a sustainable yield on this source of supply. Production of Trinity water from both the Oliver Ranch and BSR properties is fully operational.

Western Canyon Project (Canyon Reservoir). SAWS has contracted with the Guadalupe-Blanco River Authority ("GBRA") for 8,500 acre-feet of water from Canyon Lake to serve customers in the northern and northwestern portion of its service area. The annual volume from this project will decrease over time to a minimum annual supply of 3,900 acre-feet. This will be the first regional project to be delivered in the Comal, Kendall, and Northern Bexar County area. This project has endured numerous legal challenges in which GBRA has prevailed. The water treatment plant and intake structure construction contracts have been awarded. Final design of the raw water pipeline is approximately 90% complete and construction contracts have been awarded. The project is scheduled to be completed and ready for delivery in late 2005.

Regional Carrizo. The Carrizo-Wilcox is one of the state's major aquifers and an important groundwater resource in South Central Texas. SAWS completed an initial feasibility study on the Carrizo-Wilcox Aquifer, which is located between the Frio and San Marcos Rivers covering all or parts of Atascosa, Bexar, Frio, Gonzales, Guadalupe, Karnes, La Salle, Live Oak, McMullen, Medina, and Wilson Counties. The results of the study indicate that a potential groundwater supply project could be developed in Gonzales and Wilson Counties to provide the San Antonio region with approximately 55,000 acre-feet per year. The project will be developed in phases as approved by the SAWS Board. Western Gonzales County (approximately 22,000 af/yr) will be brought into San Antonio in approximately 2008. Phase II of the project (water from Wilson County) will provide approximately 11,000 af/yr in 2009. Phase III of the project is expected to bring in water (22,000 af/yr) from northeastern Gonzales County in approximately 2011.

Edwards Recharge Initiatives. SAWS, as well as the South Central Texas Regional Planning Group, have recently evaluated the most favorable structures for this region. The Nueces, San Antonio, and Guadalupe River Basins are favorable for development of recharge projects. Structures in the Nueces Basin are the most prolific in terms of recharge effectiveness. Once these structures are built, the sustained yield from this project will be over 13,000 acre-feet per year. SAWS is currently involved in two studies with the U.S. Army Corps of Engineers and other local sponsors. The studies involve the Cibolo Creek and the Nueces River watersheds, which include researching the feasibility of placing recharge structures within the watersheds. The studies are scheduled to be completed within five years. This project is programmed to come online in the 2013 timeframe.

Long-Term Supply

Simsboro Project. SAWS signed a contract with ALCOA for the purchase of water from their Rockdale property located in Lee and Milam Counties in December 1998. A second contract with CPS to purchase water rights from CPS-owned lands in Bastrop County was also approved at that time. Combined water production from these two properties is expected to provide 55,000 acre-feet of water per year from the Simsboro Aquifer for 80 years or more starting in 2015.

Lower Guadalupe Water Supply Project (LGWSP). SAWS, the San Antonio River Authority ("SARA"), and GBRA have entered into an agreement to divert presently under-utilized surface water rights and unappropriated streamflow from the Guadalupe River together with groundwater from the Gulf Coast aquifer. Approximately 94,500 (SAWS-85,050 and SARA-9,450) acre-feet/yr of water will be provided initially under this contract. Water will be diverted at a point below the confluence of the Guadalupe River and San Antonio River, located approximately 133 miles southeast of San Antonio. A companion agreement between SAWS and SARA divided the rights and responsibilities of the purchasers in the above-mentioned Water Supply and Delivery Agreement with GBRA. The SAWS/SARA agreement provides that all water users within SARA's district and other water providers within Bexar County will have an opportunity to participate at their cost in the water supply made available from the Lower Guadalupe Water Supply Project.

This project is scheduled to come online in the 2015 timeframe. The Concept Development Study was completed in October 2004 and work continues on the Groundwater Availability Report, environmental studies, and surface water permits.

LCRA-SAWS Water Project. The State's SB-1 regional planning groups have determined that additional water supplies are available in the Lower Colorado River Basin. Approximately 150,000 acre-feet may be available within the basin by the Lower Colorado River Authority. SAWS and LCRA signed the definitive agreement on February 27, 2002. The contract starts with a seven-year study period that began in 2002. Dollars will be programmed in the short term to fund the necessary studies. If the project is determined to be feasible, an implementation plan will be developed. If both the LCRA and SAWS Board approve the implementation plan, the contract will provide for an initial 50-year water supply transfer and a 30-year extension provision for the development and delivery of this supply. All six of the environmental/ groundwater/conservation feasibility studies were initiated in July 2004. This project is scheduled to come online within the 2035-2040 timeframe.

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 budgeted the following capital improvement projects during calendar year 2005:

- $36.8 million for the wastewater treatment program to repair, replace, upgrade, or expand treatment facilities;
- $5.1 million for the wastewater collection program to repair, replace, upgrade, or expand the collection system;
- $15.9 million to replace sewer and water mains;
- $33.6 million for the governmental replacement and relocation program;
- $10.4 million for the water distribution program to upgrade and expand the distribution system; and
- $12.8 million 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,					
	2005	2006	2007	2008	2009	Total
Heating and Cooling	$ 1,206,150	$ 436,839	$ 327,341	$ 1,667,414	$ 1,136,539	$ 4,774,283
Water Delivery	36,258,469	48,195,851	42,325,094	46,567,466	40,559,398	213,906,278
Wastewater	73,741,531	65,107,689	75,978,348	75,214,525	85,506,567	375,548,660
Water Supply	128,752,800	96,268,370	178,641,014	39,849,700	80,609,100	524,120,984
Total Annual Requirements	$ 239,958,950	$ 210,008,749	$ 297,271,797	$ 163,299,105	$ 207,811,604	$ 1,118,350,205

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,				
	2005	2006	2007	2008	2009
Revenues	$ 17,988,111	$ 26,988,100	$ 31,792,641	$ 40,799,573	$ 46,486,891
Impact Fees	25,609,331	9,753,471	9,899,773	10,048,270	10,198,994
Debt Proceeds	196,361,508	173,267,178	255,579,383	112,451,262	151,125,719
Total	$ 239,958,950	$ 210,008,749	$ 297,271,797	$ 163,299,105	$ 207,811,604

Source: SAWS.

RECENT FINANCIAL TRANSACTIONS

In June 2004, SAWS issued $84,700,000 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004 for construction of additions to the system and to refund certain outstanding commercial paper notes. SAWS also issued $10,635,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004, and $26,365,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004-A through the Texas Water Development Board in July 2004 for construction of additions to the system and to refund certain outstanding commercial paper notes.

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San Antonio Water System Summary of Pledged Revenues for Debt Coverage

	Fiscal Year Ended December 31			7 Month Period Ended December 31,	Fiscal Year Ended May 31,		
	2003	2002	2001	2001[1, 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]	6,992,664	7,547,353	-0-	12,249,485	7,341,296	8,468,123	5,494,022
Adjustments for Pledged Revenues	(5,591,341)	(6,985,130)	-0-	(3,770,167)	(4,334,051)	(6,749,142)	(3,733,765)
Total Revenues	$242,487,089	$235,786,564	$216,474,189	$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	$ 89,770,501	$ 97,573,949	$ 64,735,649	$ 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	N/A	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	N/A	N/A	$ 56,293,054	$ 53,566,454	$ 49,385,448
Debt Service for Period	N/A	N/A		$ 38,081,878	N/A	N/A	N/A
Coverage of Total Annual Debt Service Requirements	1.18 X	1.47 X	N/A	N/A	1.22 X	1.33 X	1.65 X
Coverage of Senior Lien Annual Debt Service Requirements	1.46 X	1.59 X	N/A	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. The non-operating revenues have been re-stated to remove the capital contributions to conform to the Ordinance.

[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.

The Airport System

The City's Airport System is described in detail in the body of this Official Statement.

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APPENDIX B

GLOSSARY OF DEFINED TERMS

"Additional Parity GAR Obligations" means the additional revenue obligations secured by a first lien on and pledge of the Gross Revenues on a parity with the Parity GAR Obligations which the City has retained the right to issue from time to time pursuant to the terms of the Master GAR Ordinance.

"Additional Parity PFC Obligations" means the additional parity revenue obligations secured in whole or in part with a lien on and pledge of PFC Revenues which the City reserves the right to issue in the future in the Master PFC Ordinance.

"Airport System" means and includes the City of San Antonio International Airport and Stinson Municipal Airport, as each now exists, and all land, buildings, structures, equipment, and facilities pertaining thereto, together with all future improvements, extensions, enlargements, and additions thereto, and replacements thereof, and all other airport facilities of the City acquired or constructed with funds from any source, including the issuance of Parity PFC Obligations; provided, however, for the purpose of providing further clarification, the term "Airport System" does not include Industrial Properties and Special Facilities Properties.

"Annual Budget" means the annual budget of the Airport System (which may be included in the City's general annual budget), as amended and supplemented, adopted, or in effect for a particular Fiscal Year.

"Annual Debt Service Requirements" means, for any Fiscal year, the principal of and interest on all Parity PFC Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration of other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, less and except any such principal or interest for the payment of which provision has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, notes or other obligations, from interest earned or to be earned thereon, from Airport System funds other than PFC Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated fund or account, the proceeds of which are required to be transferred as needed into the PFC Bond Fund or directly to the Paying Agent for such Parity PFC Obligation; and, as otherwise supplemented pursuant to the provisions of the Master PFC Ordinance.

"Average Annual Debt Service Requirements" means, as of the time of computation, the aggregate of the Annual Debt Service Requirement for each Fiscal Year that Parity PFC Obligations are outstanding from the date of such computation, divided by the number of Fiscal Years remaining to the final Stated Maturity of such Parity PFC Obligations.

"Aviation Director" means the director of the City's Department of Aviation, or the successor or person acting in such capacity.

"Bond Fund" means the "City of San Antonio Airport System Bond Fund" created under the Master GAR Ordinance.

"Bond Reserve Fund" means the "City of San Antonio Airport System Bond Reserve Fund" created under the Master GAR Ordinance.

"Capital Improvement Fund" means the "City of San Antonio Airport System Capital Improvement Fund" created under the Master GAR Ordinance.

"Credit Agreement" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity PFC Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other

contracts or agreements authorized, recognized and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of Parity PFC Obligations and on a parity therewith.

"Credit Facility" means (i) a policy of insurance or a surety bond, issued by a municipal bond insurer or an issuer of policies of insurance insuring the timely payment of debt service on governmental obligation, provided that a Credit Rating Agency having an outstanding rating on Parity PFC Obligations would rate the Parity PFC Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter of credit or line of credit issued by any financial institution, provided that a Credit Rating Agency having an outstanding rating on the Parity PFC Obligations would rate the Parity PFC Obligations in its two highest generic rating categories for such obligations if the letter of credit of line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity PFC Obligations and the interest thereon.

"Credit Rating Agency" means (a) Fitch, (b) Moody's, (c) Standard & Poor's, (d) any successor to any of the foregoing by merger, consolidation or otherwise, and (e) any other nationally recognized municipal securities rating service from whom the City seeks and obtains a rating on any issue or series of Parity PFC Obligations.

"Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) 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 are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

"Designated Financial Officer" means the City Manager, the Director of Finance, or such other financial or accounting official of the City so designated by the governing body of the City.

"GAR Debt" means debt of the City payable from Gross Revenues or Net Revenues, including:

1. indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the City issued or incurred for the Airport System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

2. all other indebtedness (other than indebtedness otherwise treated as GAR Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations at or for the Airport System that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (Including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the " GAR Debt" payable from Gross Revenues, excluded is any particular GAR Debt if, upon or prior to the Maturity thereof, there has been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such GAR Debt) for the payment, redemption, or satisfaction of such GAR Debt or (b) evidence of such GAR Debt deposited for cancellation; and thereafter it is not considered GAR Debt. Except as my be otherwise provided above, no item is considered GAR Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"GAR Ordinance" means, collectively, the Master GAR Ordinance and the "Seventh Supplement" thereto adopted by the City Council of the City on May 5, 2005.

"Gross Revenues" include all of the revenues and income of every nature and from whatever source derived by the City (but excluding grants and donations for capital purposes) from the operation and/or ownership of the Airport System, including the investment income from the investment or deposit of money in each Fund (except the Construction Fund) created by the Master GAR Ordinance; provided, however, that if the net rent (excluding ground rent) from any lease is pledged to the payment of principal, interest, reserve, or other requirements in connection with revenue bonds issued by the City to provide special facilities for the Airport System for the lessee (or in connection with bonds issued to refund said revenue bonds) the amount of such net rent so pledged and actually used to pay such requirements does not constitute and is not considered as Gross Revenues, but all ground rent, and any net rent in excess of the amounts so pledged and used, must be deposited in the Revenue Fund. Without limiting the generality of the foregoing, the term "Gross Revenues" includes all landing fees and charges, ground rentals, space rentals in buildings and all charges made to concessionaires, and all revenues of any nature derived from contracts or use agreements with airlines and other users of the Airport System and its facilities; provided, however, that the term Gross Revenues does not include any PFCs or any other similar charges that may be imposed pursuant to federal law.

"Interest Payment Date" means each January 1 and July 1, commencing July 1, 2005.

"Maturity" means, when used with respect to any GAR Debt or PFC Debt, the date on which the principal of such debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

"Net Revenues" is defined as Gross Revenues after deducting Operation and Maintenance Expenses.

"Operation and Maintenance Account" means such account of the Revenue Fund created under the Master GAR Ordinance.

"Operation and Maintenance Expenses" includes the reasonable and necessary current expenses of the City paid or accrued in administering, operating, maintaining, and repairing the Airport System. Without limiting the generality of the foregoing, the term "Operation and Maintenance Expenses" includes all costs directly related to the Airport System, that is, (1) collecting Gross Revenues and of making any refunds therefrom lawfully due others; (2) engineering, audit reports, legal, and other overhead expenses directly related to its administration, operation, maintenance, and repair; (3) salaries, wages, and other compensation of officers and employees, and payments to pension, retirement, health and hospitalization funds and other insurance including self-insurance for the foregoing (which will not exceed a level comparable to airports of a similar size and character); (4) costs of routine repairs, replacements, renewals, and alterations not constituting a capital improvement, occurring in the usual course of business; (5) utility services; (6) expenses of general administrative overhead of the City allocable to the Airport System; (7) equipment, materials and supplies used in the ordinary course of business not constituting a capital improvement, including ordinary and current rentals of equipment or other property; (8) fidelity bonds, or a properly allocable share of the premium of any blanket bond, pertaining to the Airport System or Gross Revenues or any other moneys held hereunder or required hereby to be held or deposited hereunder; and (9) costs of carrying out the provisions of the Master GAR Ordinance, including paying agent's fees and expenses; costs of insurance required hereby, or a properly allocable share of any premium of any blanket policy pertaining to the Airport System or Gross Revenues, and costs of recording, mailing, and publication. To provide further clarification, Operation and Maintenance Expenses does not include the following: (1) any allowances for depreciation; (2) costs of capital improvements; (3) reserves for major capital improvements, Airport System operations, maintenance or repair; (4) any allowances for redemption of, or payment of interest or premium on, Debt; (5) any liabilities incurred in acquiring or improving properties of the Airport; (6) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent that they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases; (7) liabilities based upon the City's negligence or other ground not based on contract; and (8) to the extent Federal Payments may not be included as Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

"Outstanding Parity GAR Obligations" means, as of the date of determination, all Parity GAR Obligations theretofore delivered under the Master GAR Ordinance and any supplement thereto, except:

1. Parity GAR Obligations theretofore cancelled and delivered to the City or delivered to the Paying Agent/Registrar for cancellation;

2. Parity GAR Obligations deemed paid pursuant to the defeasance provisions as set forth in any supplement to the Master GAR Ordinance;

3. Parity GAR Obligations upon transfer of or in exchange for and in lieu of which other Parity GAR Obligations have been authenticated and delivered pursuant to the Master GAR Ordinance and any supplement thereto; and

4. Parity GAR Obligations under which the obligations of the City have been released, discharged or extinguished in accordance with the terms thereof.

"Outstanding Parity PFC Obligations" means, as of the date of determination, all Parity PFC Obligations theretofore delivered under the Master PFC Ordinance and any supplement thereto, except:

1. Parity PFC Obligations theretofore cancelled and delivered to the City or delivered to the Paying Agent/Registrar for cancellation;

2. Parity PFC Obligations deemed paid pursuant to the defeasance provisions as set forth in any supplement to the Master PFC Ordinance;

3. Parity PFC Obligations upon transfer of or in exchange for and in lieu of which other Parity PFC Obligations have been authenticated and delivered pursuant to the Master PFC Ordinance and any supplement thereto; and

4. Parity PFC Obligations under which the obligations of the City have been released, discharged or extinguished in accordance with the terms thereof.

"Parity PFC Obligations" means any and all PFC Debt of the City that may be issued, incurred, or assumed in accordance with the terms of the Master PFC Ordinance and a supplement thereto and which is secured by a first lien on and pledge of the PFC Revenues, including the "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002" and any Additional Parity PFC Obligations issued pursuant to the Master PFC Ordinance and a supplement thereto.

"Parity GAR Obligations" means any all Outstanding Pre-2001 Parity GAR Obligations, the "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2002", the "City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003", the "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-A", "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-B", any Additional Parity GAR obligations issued pursuant to the Master GAR Ordinance and a supplement thereto, and all other GAR Debt of the City that may be issued, incurred, or assumed, in accordance with the terms of the Master GAR Ordinance and a supplement thereto and that is secured by a first lien on and pledge of the Gross Revenues.

"PFC Bond Fund" means the "City of San Antonio Airport System PFC Bond Fund" created under the Master PFC Ordinance.

"PFC Bond Reserve Fund" means the "City of San Antonio Airport System PFC Bond Reserve Fund" created under the Master PFC Ordinance.

"PFC Capital Improvement Fund" means the "City of San Antonio Airport System PFC Capital Improvement Fund" created under the Master PFC Ordinance.

"PFC Construction Fund" means such fund created under the Second PFC Supplement.

"PFC Debt" means:

1. all indebtedness, payable in whole or in part from PFC Revenues, incurred or assumed by the City of borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the City, payable in whole or in part from PFC Revenues, which is issued or incurred for the Airport System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

2. all other indebtedness (other than indebtedness otherwise treated as PFC Debt hereunder), payable in whole or in part from PFC Revenues, for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations at or for the Airport System that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (Including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the " PFC Debt" payable from the PFC Revenues, excluded is any particular PFC Debt if, upon or prior to the Maturity thereof, there has been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such PFC Debt) for the payment, redemption, or satisfaction of such PFC Debt or (b) evidence of such PFC Debt deposited for cancellation; and thereafter it is not considered PFC Debt. Except as my be otherwise provided above, no item is considered PFC Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"PFC Rebate Fund" means such fund created under the Second PFC Supplement.

"PFC Revenue Fund" means the "City of San Antonio Airport System PFC Revenue Fund" created under the Master PFC Ordinance.

"PFC Revenues" is defined as all revenues received by the City from the imposition of PFCs on each paying passenger of an air carrier or foreign air carrier boarding an aircraft at the Airport in accordance with the provisions of 49 U.S.C. § 40117, as may be amended from time to time, or other applicable federal law.

"Pre-2001 Parity GAR Obligations" means the "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 1996" secured by and payable from a first lien on and pledge of the Gross Revenues:.

"Revenue Fund" means the "City of San Antonio Airport System Revenue Fund" created under the Master GAR Ordinance.

"Stated Maturity" means, when used with respect to any GAR Debt or PFC Debt or any installment of interest thereon, any date specified in the instrument evidencing or authorizing such debt or such installment of interest as a fixed date on which the principal of such debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"Subordinate Net Revenues" means Net Revenues (as hereinafter defined) of the Airport System remaining after all amounts then required by the Master GAR Ordinance, and any Supplement related thereto, to be transferred to the Bond Fund and the Bond Reserve Fund established by the Master GAR Ordinance to secure Parity GAR Obligations have been made.

"Subordinated Debt" means any GAR Debt which expressly provides that all payments thereon are subordinated to the timely payment of all Outstanding Parity GAR Obligations and any Additional Parity GAR Obligations.

"Subordinated PFC Debt" means any PFC Debt which expressly provides that all payments thereon are subordinated to the timely payment of all Outstanding Parity PFC Obligations and any Additional Parity PFC Obligations.

* * *

APPENDIX C

EXCERPTS FROM THE MASTER PFC ORDINANCE AND SECOND SUPPLEMENT

THE FOLLOWING CAPITALIZED TERMS ARE DEFINED IN THE MASTER PFC ORDINANCE AND ARE APPLICABLE TO THE SECOND SUPPLEMENT:

"**Account**" means any account created, established and maintained under the terms of any Supplement.

"**Accountant**" means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

"**Additional Parity PFC Obligations**" shall mean the additional parity revenue obligations secured in whole or in part with a lien on and pledge of PFC Revenues which the City reserves the right to issue in the future as provided in Section 15 of the Master Ordinance.

"**Airport System**" means and includes the City of San Antonio International Airport and Stinson Municipal Airport, as each now exists, and all land, buildings, structures, equipment, and facilities pertaining thereto, together with all future improvements, extensions, enlargements, and additions thereto, and replacements thereof, and all other airport facilities of the City acquired or constructed with funds from any source, including the issuance of Parity PFC Obligations; provided, however, for the purpose of providing further clarification, the term "Airport System" does not include Industrial Properties and Special Facilities Properties.

"Airport Consultant" means an airport consultant or airport consultant firm or corporation selected by the City having a wide and favorable reputation for skill and experience with respect to the operation and maintenance of airports, in recommending rental and other charges for use of airport facilities and in projecting revenues to be derived from the operation of airports, and not a full time employee of the City.

"Annual Budget" means the annual budget of the Airport System (which may be included in the City's general annual budget), as amended and supplemented, adopted or in effect for a particular Fiscal Year.

"**Annual Debt Service Requirements**" means, for any Fiscal Year, the principal of and interest on all Parity PFC Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, less and except any such principal or interest for the payment of which provision has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, notes or other obligations, from interest earned or to be earned thereon, from Airport System funds other than PFC Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated Fund or Account, the proceeds of which are required to be transferred as needed into the PFC Bond Fund or directly to the Paying Agent for such Parity PFC Obligations; and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(1) Committed Take Out. If the City has entered into a Credit Agreement constituting a binding commitment within normal commercial practice, from any bank, savings and loan association, insurance company, or similar institution to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(2) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the City) in any Fiscal Year either is equal to at least 25% of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(3) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer shall deliver to the City a certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt according to a fixed schedule stated in such certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such Debt on or before the times required by such schedule; and provided further that this clause (3) shall not apply where the City has elected to apply the rule set forth in clause (2) above;

(4) Prepaid Debt. Principal of and interest on Parity PFC Obligations, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal or interest are payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Debt;

(5) Variable Rate.

(A) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the average for the then immediately preceding five years of the BMA Index, plus 20 basis points; provided, however, that (i) if, after the issuance of the Variable Rate Obligations then proposed to be issued, more than 20% of the aggregate of the Parity PFC Obligations Outstanding will bear interest at a variable rate and (ii) any Parity PFC Obligation is then insured by a Bond Insurer, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the greater of (x) the most recently announced 30-year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Master Ordinance was adopted, in The City of New York, New York, (y) the rate of interest then borne by any Variable Rate Obligations then Outstanding, and (z) 1.25 times the average variable rate borne by any Variable Rate Obligations then Outstanding during the then immediately preceding twelve-month period, or if no Variable Rate Obligations are then Outstanding, 1.25 times the average variable rate for similarly rated obligations with comparable maturities during the then immediately preceding twelve-month period, and

(B) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations outstanding at the time of such calculation shall be deemed to be the lesser of (i) the then current per annum rate of interest borne by such Variable Rate Obligations or (ii) the average per annum rate of interest borne by such Variable Rate Obligations during the then immediately preceding twelve-month period; provided, however, that for any period during which (a) more then 20% of the aggregate of the Parity PFC Obligations then Outstanding bear interest at a variable rate and (b) any Parity PFC Obligation is then insured by a Bond Insurer, the rate of interest on such Variable Rate Obligations shall be the greater of (x) the most recently announced 30 year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Master Ordinance was adopted, in The City of New York, New York, (y) the rate of interest then in effect with respect to such Variable Rate Obligations in accordance with their terms, and (z) 1.25 times the average variable rate borne by such Variable Rate Obligations during the then immediately preceding twelve-month period;

(6) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement (other than payments made by the City in connection with the termination or unwinding of a Credit Agreement), from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (1) through (5) above and any payments otherwise included above under (1) through (5) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. With respect to any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, with respect to prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

"Average Annual Debt Service Requirements" means, as of the time of computation, the aggregate of the Annual Debt Service Requirement for each Fiscal Year that Parity PFC Obligations are Outstanding from the date of such computation, divided by the number of Fiscal Years remaining to the final Stated Maturity of such Parity PFC Obligations.

"Aviation Director" means the director of the City's Department of Aviation, or the successor or person acting in such capacity.

"BMA Index" means the "high grade" seven-day index made available by The Bond Markets Association of New York, New York, or any successor thereto, based upon 30-day yield evaluation at par of bonds, the interest income on which is excludable from gross income of the recipients thereof for federal income tax purposes. In the event that neither The Bond Markets Association nor any successor thereto makes available an index conforming to the requirements of the preceding sentence, the term "BMA Index" shall mean an index determined by the City based upon the rate for bonds rated in the highest short-term rating category by Moody's and Standard & Poor's, the interest income on which is excludable from gross income of the recipients thereof for federal income tax purposes, in respect of issuers most closely resembling the "high grade" component issuers selected by "BMA Index".

"**Bond Counsel**" means an independent attorney or firm of attorneys selected by the City whose opinions respecting the legality or validity of securities issued by or on behalf of states or political subdivisions thereof are nationally recognized.

"Bond Insurer" means any insurance company insuring payment of municipal bonds and other similar obligations if such bond or obligations so insured by it are eligible for a rating by a Credit Rating Agency, at the time of the delivery of a Municipal Bond Insurance Policy, in one of its two highest rating categories.

"Business Day" means any day other than a Saturday, a Sunday or a day on which the City or the city in which the payment office of the Paying Agent is located is authorized by law to remain closed and is closed.

"**Chapter 1371**" means Chapter 1371, Texas Government Code.

"**Chapter 2256**" means Chapter 2256, Texas Government Code.

"**City**" or "**Issuer**" mean the City of San Antonio, Texas.

"**Code**" means the Internal Revenue Code of 1986, as amended, any successor federal income tax laws or any regulations promulgated or rulings published pursuant thereto.

"Completion Obligations" means any bonds, notes or other obligations issued or incurred by the City for the purpose of completing any PFC Eligible Airport-Related Project for which Parity PFC Obligations have previously been issued or incurred by the City, as described in Section 15(c) of the Master Ordinance.

"**Credit Agreement**" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity PFC Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of Parity PFC Obligations and on a parity therewith.

"**Credit Facility**" means (i) a policy of insurance or a surety bond, issued by a Bond Insurer or an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Credit Rating Agency having an outstanding rating on Parity PFC Obligations would rate the Parity PFC Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter of credit or line of credit issued by any financial institution, provided that a Credit Rating Agency having an outstanding rating on the Parity PFC Obligations would rate the Parity PFC Obligations in its two highest generic rating categories for such obligations if the letter of credit or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity PFC Obligations and the interest thereon.

"**Credit Provider**" means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement or Credit Facility.

"Credit Rating Agency" means (a) Fitch, (b) Moody's, (c) Standard & Poor's, (d) any successor to any of the foregoing by merger, consolidation or otherwise, and (e) any other nationally recognized municipal securities rating service from whom the City seeks and obtains a rating on any issue or series of Parity PFC Obligations.

"**Debt**" means:

(1) all indebtedness, payable in whole or in part from PFC Revenues, incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the City, payable in whole or in part from PFC Revenues, which is issued or incurred for the Airport System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(2) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder), payable in whole or in part from PFC Revenues, for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations at or for the Airport System that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an

agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the "Debt" payable from the PFC Revenues, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. Except as may be otherwise provided above, no item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"**Designated Financial Officer**" means the City Manager, the Director of Finance, or such other financial or accounting official of the City so designated by the governing body of the City.

"**Eligible Investments**" means (i) those investments in which the City is now or hereafter authorized by law, including, but not limited to, Chapter 2256, to purchase, sell and invest its funds and funds under its control and (ii) any other investments not specifically authorized by Chapter 2256 but which may be designated by the terms of a Supplement as Eligible Investments under authority granted by Chapter 1371.

"**FAA**" means the Federal Aviation Administration, or any appropriate federal agency succeeding, or performing the functions of, the Federal Aviation Administration.

"**Fiscal Year**" means the successive twelve-month period designated by the City as its fiscal year of the City, which currently ends on September 30 of each calendar year.

"**Fitch**" means Fitch Ratings, or any successor thereto.

"**Fund**" means any fund created, established and maintained under the terms of the Master Ordinance and any Supplement.

"**Funded Debt**" of the Airport System means all Parity PFC Obligations and Subordinated PFC Debt created or assumed by the City and payable from PFC Revenues that mature by their terms (in the absence of the exercise of any earlier right of demand), or that are renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"**Holder**" or "**Bondholder**" or "**owner**" means the registered owner of any Parity PFC Obligation registered as to ownership and the holder of any Parity PFC Obligation payable to bearer, or as otherwise provided for in a Supplement.

"Industrial Properties" means (a) the real and personal properties situated at and around the Airport System which are owned by the City and (i) leased to industrial or commercial tenants engaged in activities which are unrelated to the City's public airport operations, or (ii) held by the City for future industrial and commercial development, and (b) any other real or personal property now owned or hereafter acquired by the City which is unrelated to the City's public airport operations.

"**Master GARB Ordinance**" means Ordinance No. 93789 titled the *Master Ordinance Establishing the Airport System Revenue Bond Financing Program With Respect to the Issuance of Obligations by the City of San Antonio, Texas Secured by Gross Revenues of the Airport System*", adopted by the City on April 19, 2001.

"**Master Ordinance**" means Ordinance No. 95389 titled the *Master Ordinance Establishing the Airport System Revenue Bond Financing Program With Respect to the Issuance of Obligations by the City of San Antonio, Texas Payable in Whole or in Part From "Passenger Facility Charges"*, adopted on March 7, 2002, which established the PFC Revenue Bond Financing Program.

"**Maturity**" when used with respect to any Debt means the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

"Moody's" means Moody's Investors Service, Inc., or any successor thereto.

"**Outstanding**" when used with respect to Parity PFC Obligations means, as of the date of determination, all Parity PFC Obligations theretofore delivered under the Master Ordinance and any Supplement, except:

(1) Parity PFC Obligations theretofore cancelled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;

(2) Parity PFC Obligations deemed paid pursuant to the defeasance provisions as set forth in any Supplement;

(3) Parity PFC Obligations upon transfer of or in exchange for and in lieu of which other Parity PFC Obligations have been authenticated and delivered pursuant to the Master Ordinance and any Supplement; and

(4) Parity PFC Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless the same is acquired for purposes of cancellation, Parity PFC Obligations owned by the City shall be deemed to be Outstanding as though it was owned by any other owner.

"**Outstanding Principal Amount**" means, with respect to all Parity PFC Obligations or to a series of Parity PFC Obligations, the outstanding and unpaid principal amount of such Parity PFC Obligations paying interest on a current basis and the outstanding and unpaid principal and compounded interest on such Parity PFC Obligations paying accrued, accreted, or compounded interest only at maturity as of any "Record Date" established by a Registrar in a Supplement or in connection with a proposed amendment of the Master Ordinance. For purposes of this definition, payment obligations of the City under the terms of a Credit Agreement that is treated as a Parity PFC Obligation shall be treated as outstanding and unpaid principal.

"**Parity PFC Obligations**" means any and all Debt of the City which may be issued, incurred or assumed in accordance with the terms of the Master Ordinance and a Supplement which is secured by a first lien on and pledge of the PFC Revenues, including Additional Parity PFC Obligations issued pursuant to a Supplement and in accordance with Section 15 of the Master Ordinance,.

"**Paying Agent**" means each entity designated in a Supplement as the place of payment of a series or issue of Parity PFC Obligations.

"**Person**" means any natural person, firm, partnership, association, corporation, or public body.

"PFC Act" means 49 USC §40117, as may be amended from time to time (including all related federal regulations), or other applicable federal law which authorizes the City to impose and charge a passenger facility charge and collect PFC Revenues.

"**PFC Bond Fund**" means the "City of San Antonio Airport System Parity PFC Obligations Bond Fund", created and established pursuant to Section 5(b), and further described in Section 7, of the Master Ordinance.

"**PFC Bond Reserve Fund**" means the "City of San Antonio Airport System Parity PFC Obligations Reserve Fund", created and established pursuant to Section 5(c), and further described in Section 8, of the Master Ordinance.

"PFC Capital Improvement Fund" means the "City of San Antonio Airport System PFC Capital Improvement Fund", created and established pursuant to Section 5(d), and further described in Section 10, of the Master Ordinance.

"**PFC Eligible Airport-Related Project**" has the same meaning as set forth in the PFC Act, which as of the date of passage of the Master Ordinance is defined to mean a project:

(A) for airport development or airport planning under Subchapter I of Chapter 471 of Title 49 of the United States Code;

(B) for terminal development described in 49 USC §47110(d);

(C) for airport noise capability planning under 49 USC §47505;

(D) to carry out noise compatibility measures eligible for assistance under 49 USC §47504, whether or not a program for those measures has been approved under 49 USC §47504; and

(E) for constructing gates and related areas at which passengers board or exit aircraft.

"**PFC Revenue Fund**" means the "City of San Antonio Airport System PFC Revenue Fund", created and established pursuant Section 5(a), and further described in Section 6, of the Master Ordinance.

"**PFC Revenues**" means all revenues received by the City from the imposition of passenger facility fees or charges on each paying passenger of an air carrier or foreign air carrier boarding an aircraft at the San Antonio International Airport in accordance with the provisions of the PFC Act.

"**Registrar**" means each entity designated in a Supplement as the registrar of a series or issue of Parity PFC Obligations.

"**Required Reserve Amount**" means an amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity PFC Obligations at any time Outstanding.

"**Reserve Fund Obligations**" means cash, Eligible Investments, any Credit Facility, or any combination of the foregoing.

"Special Facilities" and **"Special Facilities Properties"** mean structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, inflight kitchens, training facilities and any and all other facilities and appurtenances being a part of or related to the Airport System the cost of the construction or other acquisitions of which is financed with the proceeds of Special Facilities Debt. Upon the retirement of Special Facilities Debt, the City may declare such facilities financed with such Special Facilities Debt to be within the meaning of "Airport System," as hereinabove defined.

"Special Facilities Debt" means those bonds, notes or other obligations from time to time hereafter issued or incurred by or on behalf of the City pursuant to Section 15(d) of the Master Ordinance.

"Special Facilities Lease" means any lease or agreement, howsoever denominated, pursuant to which a Special Facility is leased by or on behalf of the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Debt issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Debt) and (ii) the operation and maintenance expenses of the Special Facility.

"Standard & Poor's means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, or any successor thereto.

"**Stated Maturity**" means, when used with respect to any Debt or any installment of interest thereon, any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"**Subordinate Net Revenues**" means "Net Revenues" (as defined in the Master GARB Ordinance) of the Airport System which remain after all amounts then required by the Master GARB Ordinance and any Supplement related thereto to be transferred to the Bond Fund and the Bond Reserve Fund established by the Master GARB Ordinance to secure “Parity Obligations” (as defined in the Master GARB Ordinance) have been made.

"**Subordinated PFC Debt**" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity PFC Obligations then Outstanding or subsequently issued.

"**Subordinated PFC Debt Fund**" means the "City of San Antonio Airport System PFC Revenue Subordinated Debt Fund" established pursuant to Section 9 of the Master Ordinance.

"**Supplement**" or "**Supplemental Ordinance**" mean an ordinance supplemental to, and authorized and executed pursuant to the terms of, the Master Ordinance.

"Tax-Exempt Debt" means Debt interest on which is excludable from the gross income of the Holder for federal income tax purposes under section 103 of the Code.

"**Term of Issue**" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or (ii) twenty-five years.

"Variable Rate Obligations" means Parity PFC Obligations that bear interest at a rate per annum which is subject to adjustment so that the actual rate of interest is not ascertainable at the time such Parity PFC Obligations are issued; provided, however, that upon the conversion of the rate of interest on a Variable Rate Obligation to a fixed rate of interest (whether or not the interest rate thereon is subject to conversion back to a variable rate of interest), such Parity PFC Obligation shall not be treated as a "Variable Rate Obligation" for so long as such Parity PFC Obligation bears interest at a fixed rate.

THE FOLLOWING SECTIONS 2 THROUGH 18 APPEAR IN THE MASTER PFC ORDINANCE

SECTION 2. SECURITY AND PLEDGE. (a) ***First Lien on PFC Revenues***. The Parity PFC Obligations are and shall be secured by and payable from a first lien on and pledge of the PFC Revenues in accordance with the terms of this Master Ordinance and any Supplement; and the PFC Revenues are further pledged to the establishment and maintenance of the PFC Bond Fund, the PFC Bond Reserve Fund and the other Funds and Accounts (excluding any Rebate Fund) provided in accordance with the terms of this Master Ordinance and any Supplement. The Parity PFC Obligations are and will be secured by and payable from a first lien on PFC Revenues and, unless otherwise provided in a Supplement, are and will not be secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, constituting any portion of the Airport System. The owners of the Parity PFC Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Master Ordinance or any Supplement.

(b) ***Ability to Pledge Other Revenues***. In addition to securing all Parity PFC Obligations with a first lien on and pledge of the PFC Revenues, the City reserves the right to further secure the payment of any Parity PFC Obligations with a lien on and pledge of any other lawfully available revenues of the Airport System, including but not limited to Subordinate Net Revenues, all pursuant to the Supplement which authorizes the issuance of such Parity PFC Obligations.

SECTION 3. COVENANTS TO BUDGET DEBT SERVICE COVERAGE AND MAINTAIN SUBORDINATE NET REVENUE COVERAGE, AND ADDITIONAL COVENANTS RELATED TO PASSENGER FACILITY CHARGES. (a) ***Budget Covenant***. Section 4(k) of this Master Ordinance requires the City to prepare an Annual Budget for the Airport System prior to the beginning of each Fiscal Year. The City covenants and agrees with the holders of all Parity PFC Obligations that each Annual Budget will be prepared in a manner which will indicate that the reasonably expected receipt of PFC Revenues during such Fiscal Year (together with any funds reasonably expected to be on deposit during such Fiscal Year in the PFC Revenue Fund or the PFC Capital Improvement Fund from prior Fiscal Years and available for purposes of acquiring and constructing PFC Eligible Airport-Related Projects), after payment of all costs to acquire and construct PFC Eligible Airport-Related Projects with PFC Revenues during such Fiscal Year, will provide an amount equal to 1.25 times the Annual Debt Service Requirements during such Fiscal Year on all then Outstanding Parity PFC Obligations.

(b) ***Covenant to Maintain Subordinate Net Revenue Coverage***. In the event any Parity PFC Obligations which are also secured with a lien on and pledge of Subordinate Net Revenues remain Outstanding and the City is for any reason unable to collect, or does not actually collect, PFC Revenues in an amount sufficient to satisfy the budget covenant described in Section 3(a) above, the City covenants that it will at all times fix, maintain, enforce, charge, and collect rates, fees, charges, and amounts for the use, occupancy, services, facilities, and operation of the Airport System which will produce in each Fiscal Year Subordinate Net Revenues at least equal to 1.10 times the Annual Debt Service Requirements during each Fiscal Year on all then Outstanding Parity PFC Obligations.

(c) ***Additional Covenants Related to Passenger Facility Charges***. While any Parity PFC Obligation is Outstanding, the City further covenants and agrees that in accordance with and to the extent required or permitted by law:

(i) *Covenant to Comply with PFC Act*. The City will perform and comply with all requirements and provisions of the PFC Act applicable to the City.

(ii) *Covenant to Comply with Records of Decision*. The City will perform and comply with all requirements and provisions in each record of decision or other similar authorization it receives from the FAA which authorizes the City to impose, charge and collect a passenger facility charge at the rate and in the aggregate amounts specified therein.

(iii) *Covenant to Impose Passenger Facility Charges at Maximum Approved Amount*. The City will impose, charge and collect passenger facility charges to the fullest extent approved and authorized by each applicable record of decision or other similar authorization it has received from the FAA. Furthermore, the City will not unilaterally decrease the rate or aggregate amount of passenger facility charges it has been authorized by the FAA to impose, charge and collect from time to time.

(iv) *Covenant to Prevent Termination, Suspension or Reduction of Authority*. The City will not take any action which would cause the FAA to terminate, suspend or reduce any authorization previously granted to the City to impose, charge and collect a passenger facility charge at the rate or in the aggregate amount authorized from time to time. The City further covenants to take all actions reasonably necessary to contest any attempt made by the FAA to terminate, suspend or reduce the City's authority to impose, charge and collect passenger facility charges at the rate and in the aggregate amount previously authorized and to notify each Credit Rating Agency in writing of any such attempt.

(v) *Covenant to Construct PFC Eligible Airport-Related Projects*. The City will use PFC Revenues to finance the construction and acquisition of each PFC Eligible Airport-Related Project which has been approved by the FAA and will take all actions reasonably necessary to complete each such Project within the time period set forth in the appropriate record of decision or other similar authorization.

SECTION 4. GENERAL COVENANTS. While any Parity PFC Obligation is Outstanding, the City further covenants and agrees that in accordance with and to the extent required or permitted by law:

(a) ***Performance***. The City will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Master Ordinance and any Supplement; it will promptly pay or cause to be paid the principal amount of and interest on every Parity PFC Obligation, on the dates and in the places and manner prescribed in a Supplement and such Parity PFC Obligations; and it will, at the time and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Funds and Accounts as provided in accordance with this Master Ordinance and any Supplement.

(b) ***City's Legal Authority***. The City is a duly created and existing home rule municipality and is duly authorized under the laws of the State of Texas to issue and incur Parity PFC Obligations; that all action on its part to issue or incur Parity PFC Obligations shall have been duly and effectively taken, and that the Parity PFC Obligations in the hands of the owners thereof are and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) ***Title.*** It has or will obtain lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Airport System, including but not limited to PFC Eligible Airport-Related Projects, that it warrants that it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof, against the claims and demands of all Persons whomsoever, that it is lawfully qualified to pledge the PFC Revenues to the payment of the Parity PFC Obligations in the manner prescribed herein, and has lawfully exercised such rights.

(d) ***Liens.*** It will from time to time and before the same become delinquent pay and discharge all taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon it or the Airport System; it will pay all lawful claims for rents, royalties, labor, materials and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens granted in accordance with the terms of this Master Ordinance, so that the priority of the liens granted in accordance with the terms of this Master Ordinance shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens granted in accordance with the terms of this Master Ordinance, or do or suffer any matter or thing whereby the liens granted in accordance with the terms of this Master Ordinance might or could be impaired; provided, however, that no such tax, assessment or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the City.

(e) ***Operation of Airport System***. The City will continuously and efficiently operate the Airport System and shall maintain the Airport System in good condition, repair, and working order, all at reasonable cost. The City will not supply space, services, or privileges at the Airport System without making commensurate charges therefor, except to the extent actually required by law in connection with Federal and State authorities.

(f) ***Further Encumbrance***. The City will not additionally encumber the PFC Revenues in any manner, except as permitted in this Master Ordinance and any Supplement in connection with Parity PFC Obligations, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Master Ordinance and any Supplement; but the right of the City to issue or incur Subordinated PFC Debt payable in whole or in part from a subordinate lien on the PFC Revenues is specifically recognized and retained.

(g) ***Sale, Lease, or Encumbrance of Airport System***. Except for the use of the Airport System or services pertaining thereto in the normal course of business, neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Parity PFC Obligations have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, other than (i) in connection with the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities thereat, (ii) in connection with any pledges of and liens on revenues derived from the operation and use of the Airport System or any part thereof, or any Special Facilities pertaining thereto, for the payment of Parity PFC Obligations, Subordinated PFC Debt, Special Facilities Debt, and any other obligations pertaining to the Airport System (including obligations issued pursuant to the Master GARB Ordinance) and (iii) except as otherwise provided in the next three paragraphs.

(A) The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any

property so excluded) pursuant to this paragraph shall be used for the purposes described in the Master GARB Ordinance.

(B) The preceding provisions to the contrary notwithstanding, the City will not enter into any lease of, or sell or otherwise dispose of, any part of the Airport System or enter into a management or other similar operating agreement for the operation of any part of the Airport System if, as a result of such lease, sale or other disposition, the interest income on any of the Parity PFC Obligations that were originally issued as Tax-Exempt Debt would become includable in gross income of the recipients thereof for federal income tax purposes. Without limiting the generality of the foregoing, the City (i) will not take any action that would cause any part of the Airport System financed with the proceeds of Tax-Exempt Debt to cease to be "owned by" the City (as the term "owned by" is used in section 142(b)(1)(A) of the Code), (ii) will require, as a condition to the leasing of any part of the Airport System, or the entering into of any management or other similar operating agreement for the operation of any part of the Airport System, that the lessee or the other party to such management or other similar operating agreement, as the case may be, make an irrevocable election, in accordance with the provisions of section 142(b)(1)(B) of the Code and the regulations issued thereunder, not to claim depreciation or an investment credit with respect to the property leased to it by the City, or in the case of a management or other similar operating agreement, the property managed or operated by it, (iii) will not enter into any lease, management or other similar operating agreement with respect to any portion of the Airport System if such lease, management or other operating agreement has a term of eighty percent (80%) or more of the reasonably expected economic life of the property (as determined under section 147(b) of the Code) subject to such lease, management or other similar operating agreement within the meaning of section 142(b)(1)(B) of the Code, and (iv) will not enter into any lease, management or other similar operating agreement if the lessee or other party to a management or other similar operating agreement has an option to purchase any portion of the Airport System for a price other than the fair market value of such property at the time such option is exercised. The foregoing notwithstanding, the City shall not be obliged to comply with the aforesaid requirements of the Code during the term of Tax-Exempt Debt if the failure to comply with such requirements would not adversely affect the tax-exempt status of such Debt.

(C) Nothing herein prevents any transfer of all or a substantial part of the Airport System to another body corporate and politic (including, but not necessarily limited to, a joint action agency or an airport authority) which assumes the City's obligations under this Master Ordinance and in any Supplement, in whole or in part, if (i) in the written opinion of an Airport Consultant, the ability to meet the budget covenant under this Master Ordinance and in any Supplement are not materially and adversely affected and (ii) in the written opinion of Bond Counsel, such transfer and assumption will not cause the interest on any Outstanding Parity PFC Obligations that are Tax-Exempt Debt to be includable in gross income of the owners thereof for federal income tax purposes. In such event, following such transfer and assumption, all references to the City, any City officials, City ordinances, City budgetary procedures and any other officials, actions, powers or characteristics of the City shall be deemed references to the transferee entity and comparable officials, actions, powers or characteristics of such entity. In the event of any such transfer and assumption, nothing therein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of an Airport Consultant, such retention will not materially and adversely affect nor unreasonably restrict the transferee entity's ability to comply with the requirements of the budget covenant and the other covenants of this Master Ordinance and any Supplement.

(h) ***Special Facilities.*** The City may finance Special Facilities from the proceeds of Special Facilities Debt issued by or on behalf of the City without regard to any requirements of this Master Ordinance with respect to the issuance of Parity PFC Obligations, subject, however, to the following conditions:

(i) Such Special Facilities Debt shall be payable solely from rentals derived by or on behalf of the City under a Special Facilities Lease entered into between the City (or an entity acting on behalf of the City) and the person, firm or corporation which will be utilizing the Special Facilities to be financed; and

(ii) In addition to all rentals with respect to the Special Facilities to be financed, a fair and reasonable rental for the land upon which said Special Facilities are to be constructed shall be charged by the City, and said ground rent shall not be available for the payment of such Special Facilities Debt.

(i) ***Accounts and Fiscal Year***. It shall keep proper books, records and accounts relating to the Airport System separate and apart from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Airport System, and the City shall cause said books and accounts to be audited annually as of the close of each Fiscal Year by an Accountant (which may be part of the City's comprehensive annual financial report). The City agrees to operate the Airport System and keep its books of records and account pertaining thereto on the basis of its current Fiscal Year.

(j) ***Audits***. After the close of each Fiscal Year while any Parity PFC Obligation is Outstanding, an audit will be made by an Accountant of the books and accounts relating to the Airport System and the PFC Revenues (which may be included in the City's comprehensive annual financial report). As soon as practicable after the close of each such Fiscal Year, and when said audit has been completed and made available to the City, a copy of such audit for the preceding Fiscal Year shall be mailed to the Municipal Advisory Council of Texas, any Bond Insurer or Credit Provider, and to any owner of any then Outstanding Parity PFC Obligations who shall so request in writing promptly after it is readily available to the general public, and also to each information depository then required pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission, or similar rule, within the time period required by

such Rule 15c2-12. Such annual audit reports shall be open to the inspection of the owners of the Parity PFC Obligations and their agents and representatives at all reasonable times during regular business hours of the City.

(k) ***Annual Budget.*** The City shall prepare, prior to the beginning of each Fiscal Year, an Annual Budget for the Airport System (which may be included in the City's general annual budget), in accordance with law, reflecting an estimate of cash receipts and disbursements for the ensuing Fiscal Year in sufficient detail to indicate the probable PFC Revenues and expenditures related to PFC Eligible Airport-Related Projects and Debt Service on PFC Parity Obligations and Subordinated PFC Debt for such Fiscal Year. A copy of the Annual Budget shall be filed with any Bond Insurer or Credit Provider promptly after it is readily available to the general public.

(l) ***Insurance***. The City shall cause to be insured such parts of the Airport System as would usually be insured by entities operating like properties, with a responsible insurance company or companies, against risks, accidents or casualties against which and to the extent insurance is usually carried by corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance and public liability and property damage insurance; provided, however, that public liability and property damage insurance need not be carried if the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. All insurance premiums shall be paid as an expense of operation of the Airport System. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Bondholders and their representatives at all reasonable times. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by the City for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the Airport System shall be deposited in a special and separate trust fund, at the Depository, to be designated the "Insurance Account". The Insurance Account shall be held until such time as other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required.

(m) ***Governmental Agencies.*** The City will duly observe and comply with all valid requirements of all Federal and State authorities relative to the ownership, operation, and maintenance of the Airport System, including all PFC Eligible Airport-Related Projects. Additionally, the City will comply with all of the terms and conditions of any and all grants and assurances, franchises, permits and authorizations applicable to or necessary with respect to the Airport System, including all PFC Eligible Airport-Related Projects, and which have been obtained from any governmental agency; and the City has or will obtain and keep in full force and effect all franchises, permits, authorization and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the Airport System, including all PFC Eligible Airport-Related Projects.

(n) ***Rights of Inspection***. The owner of Parity PFC Obligations shall have the right at all reasonable times during regular business hours of the City to inspect all records, accounts and data of the City relating to the Parity PFC Obligations and the PFC Eligible Airport-Related Projects.

(o) ***Legal Holidays.*** In any case where the date of maturity of interest on or principal of the Parity PFC Obligations or the date fixed for redemption of any Parity PFC Obligations or any other payment obligation under a Parity PFC Obligation not be a Business Day, then payment of interest or principal need not be made on such date but may be made on the next succeeding Business Day 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.

(p) ***Bondholders' Remedies.*** This Master Ordinance and any Supplement shall constitute a contract between the City and the owners of the Parity PFC Obligations from time to time Outstanding and this Master Ordinance and the Supplement authorizing the issuance of Parity PFC Obligations shall be and remain irrepealable until the Parity PFC Obligations and any interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided in a Supplement. In the event of a default in the payment of the principal of or interest on any Parity PFC Obligation or a default in the performance of any duty or covenant provided by law or in this Master Ordinance, the owner or owners of any Parity PFC Obligation 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 Parity PFC Obligation may at law or in equity, by suit, action, mandamus, or other proceedings filed in any court of competent jurisdiction, enforce and compel performance of all duties required to be performed by the City under this Master Ordinance and any Supplement, including the deposit of the PFC Revenues into the Funds and Accounts provided in this Master Ordinance and any Supplement, and the application of such PFC Revenues in the manner required in this Master Ordinance and any Supplement.

SECTION 5. CREATION OF FUNDS AND ACCOUNTS. The following special Funds and Accounts are hereby created and established in connection with the issuance of Parity PFC Obligations and shall continue to be maintained on the books of the City so long as any of the Parity PFC Obligations, or interest thereon, are Outstanding and unpaid:

(a) *City of San Antonio Airport System PFC Revenue Fund*, herein called the "PFC Revenue Fund";

(b) *City of San Antonio Airport System Parity PFC Obligations Bond Fund*, herein called the "PFC Bond Fund"*;*

(c) *City of San Antonio Airport System Parity PFC Obligations Reserve Fund*, herein called the "PFC Bond Reserve Fund";

(d) *City of San Antonio Airport System PFC Capital Improvement Fund*, herein called the "PFC Capital Improvement Fund".

SECTION 6. REVENUE FUND. All PFC Revenues shall be kept and accounted for separate and apart from all other funds of the City and shall be credited from day to day as received to the credit of the PFC Revenue Fund. PFC Revenues in the PFC Revenue Fund shall be deposited to the credit of the other Funds and Accounts created by this Master Ordinance, in the manner and amounts hereinafter provided, and each of such Funds and Accounts shall have priority as to such deposits in the order in which they are treated in the following Sections 7 through 10.

SECTION 7. PFC BOND FUND. (a) ***Purpose of and Payments into the PFC Bond Fund***. The PFC Bond Fund shall be used solely to pay the principal of, premium, if any, and interest on, and other payments incurred in connection with Parity PFC Obligations, as such principal matures and such interest and other payments comes due. There shall be credited to the PFC Bond Fund the following:

(i) immediately after the sale and delivery of any series of Parity PFC Obligations, any accrued interest on such Parity PFC Obligations; and

(ii) on or before the 25th day of each month, commencing with the month following the delivery of each series of Parity PFC Obligations, such amounts, in approximately equal monthly installments, as will be sufficient, together with any other funds on deposit therein and available for such purpose, to pay the principal of, premium, if any and interest on, and other payments scheduled to come due on all Outstanding Parity PFC Obligations on the next applicable payment date.

(b) ***Accounts***. The City reserves the right in any Supplement to (i) establish within the PFC Bond Fund various Accounts to facilitate the timely payment of Parity PFC Obligations as the same become due and owing and (ii) provide other terms and conditions with respect to payment obligations with respect to a Parity PFC Obligation not inconsistent with the provisions of this Master Ordinance.

SECTION 8. PFC BOND RESERVE FUND. (a) ***Payments into the PFC Bond Reserve Fund***. After the delivery of each series of Parity PFC Obligations, the City shall cause the amount on deposit in the PFC Bond Reserve Fund to contain an amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity PFC Obligations which will be Outstanding after such delivery. An amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity PFC Obligations at any time Outstanding is hereby designated as the "Required Reserve Amount". Any increase in the Required Reserve Amount may be funded from PFC Revenues, or from proceeds from the sale of Parity PFC Obligations, or any other available source or combination of sources. All or any part of the Required Reserve Amount not funded initially and immediately after the delivery of any installment or issue of Parity PFC Obligations shall be funded, within not more than five years from the date of such delivery, by deposits of PFC Revenues in approximately equal monthly installments on or before the 25th day of each month. Principal amounts of Parity PFC Obligations which must be redeemed pursuant to any applicable mandatory redemption requirements shall be deemed to be maturing amounts of principal for the purpose of calculating principal and interest requirements on such Parity PFC Obligations. When and so long as the amount in the PFC Bond Reserve Fund is not less than the Required Reserve Amount no deposits shall be made to the credit of the PFC Bond Reserve Fund; but when and if the PFC Bond Reserve Fund at any time contains less than the Required Reserve Amount, then the City shall transfer from PFC Revenues in the PFC Revenue Fund and deposit to the credit of the PFC Bond Reserve Fund, monthly, on or before the 25th day of each month, a sum equal to 1/60th of the Required Reserve Amount, until the PFC Bond Reserve Fund is restored to the Required Reserve Amount. The City specifically covenants that when and so long as the PFC Bond Reserve Fund contains the Required Reserve Amount, the City shall cause all interest and income derived from the deposit or investment of the PFC Bond Reserve Fund to be deposited to the credit of the PFC Bond Fund.

(b) ***Purpose***. The PFC Bond Reserve Fund shall be used to pay the principal of or interest on all Parity PFC Obligations at any time when the PFC Bond Fund is insufficient for such purpose, and may be used finally to retire the last debt service requirements on the Parity PFC Obligations.

(c) ***Authority to Use Credit Facility***. The City may satisfy its covenant to maintain the PFC Bond Reserve Fund in an amount equal to the Required Reserve Amount with a Credit Facility that will provide funds, together with other Reserve Fund Obligations, if any, credited to the PFC Bond Reserve Fund, at least equal to the Required Reserve Amount. The City may replace or substitute a Credit Facility for all or a portion of the cash or Eligible Investments on deposit in the PFC Bond Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, cash or Eligible Investments on deposit in the PFC Bond Reserve Fund which, taken together with the face amount of any existing Credit Facilities, are in excess of the Required Reserve Amount may be withdrawn by the City, at the option of the Designated Financial Officer, and transferred to the PFC Bond Fund (or to the PFC Revenue Fund if the City receives an opinion of Bond Counsel that transferring such funds to the PFC

Revenue Fund would not adversely effect the tax exempt status of any Outstanding Parity PFC Obligations originally issued as Tax-Exempt Debt; provided that withdrawn cash constituting bond proceeds shall be used only for PFC Eligible Airport-Related Projects); provided, however, that at the option of the Designated Financial Officer, acting on behalf of the City, the face amount of any Credit Facility for the PFC Bond Reserve Fund may be reduced in lieu of such transfer.

(d) ***Withdrawals from PFC Bond Reserve Fund.*** If the City is required to make a withdrawal from the PFC Bond Reserve Fund for any of the purposes described in this Section, the Designated Financial Officer, acting on behalf of the City, shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the PFC Bond Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys or Eligible Investments then on deposit in the PFC Bond Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency. Should there be more than one provider of Credit Facilities that are on deposit in or credited to the PFC Bond Reserve Fund, the order of priority with respect to the drawings on such Credit Facilities shall be determined by the City and the providers of the Credit Facilities prior to any such drawings being made thereunder.

(e) ***Deficiencies.*** In the event of a deficiency in the PFC Bond Reserve Fund, such that the PFC Bond Reserve Fund contains less than the Required Reserve Amount, then the City shall restore the Required Reserve Amount in the manner described in Section 8(a) above. In the event the Required Reserve Amount is funded through the use of a Credit Facility, and the Credit Facility specifies a termination or expiration date that is prior to the final maturity of the Parity PFC Obligations so secured thereby, the City shall provide that such Credit Facility shall be renewed at least twelve (12) months prior to the specified termination or expiration date or in the alternative provide that any deficiency that will result upon the termination or expiration of such Credit Facility will be accounted for either by (i) obtaining a substitute Credit Facility no sooner than twenty-four (24) months or no later than twelve (12) months prior to the specified termination or expiration date of the then existing Credit Facility or (ii) by depositing cash into the PFC Bond Reserve Fund in no more than twenty-four (24) monthly installments of not less than one-twenty fourth (1/24th) of the amount of such deficiency on or before the 25th day of each month, commencing on the 25th day of the month which is twelve (12) months prior to such termination or expiration date, to restore the PFC Bond Reserve Fund to the Required Reserve Amount.

(f) ***Redemption or Defeasance.*** In the event of the redemption or defeasance of any Parity PFC Obligation, any Reserve Fund Obligations on deposit in the PFC Bond Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to the PFC Bond Fund, as a result of (i) the redemption of the Parity PFC Obligations, or (ii) funds for the payment of the Parity PFC Obligations having been deposited irrevocably with the paying agent or place of payment therefor in the manner described in a Supplement, the result of such deposit being that such Parity PFC Obligations no longer are deemed to be Outstanding under the terms of this Master Ordinance and such Supplement.

(g) ***Credit Facility Draws.*** In the event there is a draw upon the Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from PFC Revenues; however, such reimbursement from PFC Revenues shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on Parity PFC Obligations.

SECTION 9. SUBORDINATED PFC DEBT FUND. (a) ***Subordinated PFC Debt Fund Authorized to be Established.*** For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (including payments to a related debt service reserve fund) incurred in connection with Subordinated PFC Debt, the City may create in a Supplement which authorizes the issuance of Subordinated PFC Debt a separate fund designated as the Subordinated PFC Debt Fund. Such Subordinated PFC Debt Fund shall be established and maintained on the books of the City and accounted for separate and apart from all other funds of the City. Moneys in the Subordinated PFC Debt Fund shall be deposited and maintained in an official depository bank of the City.

(b) ***Additional Accounts.*** The City may create, establish and maintain on the books of the City additional Accounts within the Subordinated PFC Debt Fund from which moneys can be withdrawn to pay the principal of and interest on Subordinated PFC Debt which hereafter may be issued or incurred.

SECTION 10. PFC CAPITAL IMPROVEMENT FUND. Subject to satisfying the requirements of Sections 7, 8 and 9 of this Master Ordinance, the City shall transfer the balance remaining in the PFC Revenue Fund at the end of each month and deposit same to the credit of the PFC Capital Improvement Fund. The PFC Capital Improvement Fund shall be used for the purposes, and with priority of claim thereon, as follows: first, for the payment of principal, interest, and reserve requirements on Parity PFC Obligations if funds on deposit in the PFC Bond Fund and the PFC Bond Reserve Fund are insufficient to make such payments; second, for the payment of principal, interest, and reserve requirements on Subordinated PFC Debt if funds on deposit in the Subordinated PFC Debt Fund and any related debt service reserve fund are insufficient to make such payments; third, for the purpose of paying the costs of PFC Eligible Airport-Related Projects; and fourth, for any other purpose related to the Airport System permitted by applicable state and federal law.

SECTION 11. CONSTRUCTION FUND AND REBATE FUND. The City, in a Supplement, hereafter may create, establish and maintain on the books of the City (i) a separate Fund or Account into which the City may deposit proceeds of any Parity PFC Obligations authorized by such Supplement to pay costs associated with the construction

of PFC Eligible Airport-Related Projects, and (ii) a separate fund or account into which the City may deposit funds and investment earnings to make payments to the United States of America pursuant to section 148 of the Code.

SECTION 12. DEFICIENCIES IN FUNDS. If in any month the City shall fail to deposit into the PFC Bond Fund or PFC Bond Reserve Fund the amounts required, amounts equivalent to such deficiencies shall be set apart and paid into said Funds from the first available and unallocated PFC Revenues and other funds pledged to secure any Parity PFC Obligations for the following month or months, and such payments shall be in addition to the amounts otherwise required to be paid into said Funds during such month or months.

SECTION 13. SECURITY FOR FUNDS. All Funds and Accounts created by this Master Ordinance shall be secured in the manner and to the fullest extent permitted or required by law for the security of public funds, and such Funds and Accounts shall be used only for the purposes and in the manner permitted or required by this Master Ordinance.

SECTION 14. PAYMENT OF PARITY PFC OBLIGATIONS. On or before each principal and interest payment date while any of the Parity PFC Obligations are Outstanding and unpaid, the City shall make available to the paying agents therefor, out of the PFC Bond Fund, or if necessary, out of the PFC Bond Reserve Fund, money sufficient to pay, on each of such dates, the principal of and interest on the Parity PFC Obligations as the same matures and comes due, or to redeem the Parity PFC Obligations prior to maturity, either upon mandatory redemption or at the option of the City. The Paying Agents shall destroy all paid Parity PFC Obligations, and the coupons appertaining thereto, if any, and furnish the City with an appropriate certificate of cancellation or destruction if requested by the City.

SECTION 15. ISSUANCE OF ADDITIONAL PARITY PFC OBLIGATIONS. (a) ***Additional Parity PFC Obligations***. The City reserves the right to issue or incur, for any lawful purpose, pursuant to this Master Ordinance and a Supplement, Additional Parity PFC Obligations; provided, however, that no such Parity PFC Obligations shall be delivered unless:

(i) *No Default*. The Designated Financial Officer and the Aviation Director certify that, upon incurring, issuing or otherwise becoming liable in respect to such Parity PFC Obligations, the City will not be in default under any term or provision of this Master Ordinance (including the budget covenant described in Section 3(a) of this Master Ordinance), any Parity PFC Obligations then Outstanding or any Supplement pursuant to which any of such Parity PFC Obligations were issued or incurred.

(ii) *Proper Fund Balances*. The Designated Financial Officer certifies that, upon the issuance of such Parity PFC Obligations, the PFC Bond Fund will have the required amounts on deposit therein and that the PFC Bond Reserve Fund will contain the applicable Required Reserve Amount or so much thereof as is required to be funded at such time. Upon the issuance of such Parity PFC Obligations, any additional amounts necessary to cause the PFC Bond Reserve Fund to be funded in the Required Reserve Amount may be funded (A) with proceeds of such Additional Parity PFC Obligations, (B) over a 60-month period in the manner provided for in Section 8(a) of this Master Ordinance, (C) with a Credit Facility in the manner provided in Section 8(c) of this Master Ordinance, or (D) a combination thereof.

(iii) *Projected Coverage*. An Airport Consultant provides a written report setting forth projections which indicate that the estimated PFC Revenues for each of three consecutive Fiscal Years beginning in the later of:

(A) the first complete Fiscal Year following the estimated date of completion and initial use of all revenue producing PFC Eligible Airport-Related Projects to be financed with Parity PFC Obligations, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or

(B) the first complete Fiscal Year in which the City will have scheduled payments of interest on or principal of the Parity PFC Obligations to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Parity PFC Obligations, investment income thereon or from other appropriated sources (other than PFC Revenues),

are equal to at least 1.25 times of the Annual Debt Service Requirements on all Parity PFC Obligations scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Annual Debt Service Requirements for the Additional Parity PFC Obligations then being issued or incurred.

(iv) *Alternative Coverage for Parity PFC Obligations*. In lieu of the certification in clause (iii) above, the Designated Financial Officer may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the PFC Revenues were equal to at least 1.25 times of the maximum Annual Debt Service Requirements on all Parity PFC Obligations scheduled to occur in the then current or any future Fiscal Year after taking into consideration the Parity PFC Obligations proposed to be issued or incurred.

(b) ***Refunding Obligations***. If Parity PFC Obligations are being issued for the purpose of refunding less than all Outstanding Parity PFC Obligations, neither of the certifications described in subsections (a)(iii) or (a)(iv) of this Section are required so long as the Designated Financial Officer provides a certificate showing that the aggregate debt service requirements of such refunding Parity PFC Obligations will not exceed the aggregate debt service requirements of the Parity PFC Obligations being refunded.

(c) ***Completion Obligations***. The City reserves the right to issue or incur Parity PFC Obligations to pay the cost of completing any PFC Eligible Airport-Related Project for which Parity PFC Obligations have previously been issued.

Prior to the delivery of Completion Obligations, the City must provide, in addition to all of the applicable certificates required by subsection (a) of this Section (other than the certificates not required under the circumstances described below), the following documents:

(i) a certificate of the consulting engineer engaged by the City to design the PFC Eligible Airport-Related Project for which the Completion Obligations are to be delivered stating that such PFC Eligible Airport-Related Project has not materially changed in scope since the most recent series of Parity PFC Obligations was issued or incurred for such purpose (except as permitted in the Supplement authorizing such Parity PFC Obligations) and setting forth the aggregate cost of the PFC Eligible Airport-Related Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(ii) a certificate of the Aviation Director (A) stating that all amounts allocated to pay costs of the PFC Eligible Airport-Related Project from the proceeds of the most recent series of Parity PFC Obligations issued or incurred in connection with the PFC Eligible Airport-Related Project for which the Completion Obligations are being issued or incurred were used or are still available to be used to pay costs of such PFC Eligible Airport-Related Project; (B) containing a calculation of the amount by which the aggregate cost of that PFC Eligible Airport-Related Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the PFC Eligible Airport-Related Project paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the PFC Eligible Airport-Related Project plus any other moneys which the Aviation Director, in the discretion thereof, has determined are available to pay such costs in any other fund; and (C) certifying that, in the opinion of the Aviation Director, it is necessary to issue or incur the Completion Obligations to provide funds for the completion of the PFC Eligible Airport-Related Project.

Completion Obligations may be issued or incurred for any Airport System facility or project which shall be declared in the Supplement to be a PFC Eligible Airport-Related Project. Any such Supplement may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such PFC Eligible Airport-Related Project. Anything herein to the contrary, the provisions of subsections (a)(iii) and (a)(iv) of this Section do not apply to Completion Obligations if the aggregate principal amount of the Completion Obligations then to be issued does not exceed 15% of the aggregate principal amount of the Parity PFC Obligations initially issued to pay the cost of such PFC Eligible Airport-Related Project.

(d) ***Subordinated PFC Debt and Special Facilities Debt***. Subordinated PFC Debt and Special Facilities Debt may be issued or incurred by the City without limitation. Subordinated PFC Debt shall be payable from moneys deposited to the credit of the Subordinated PFC Debt Fund. Special Facilities Debt is permitted to be issued, as described in Section 4(g) hereof, and shall not be secured by a lien on and pledge of PFC Revenues.

(e) ***Credit Agreements***. Payments to be made under a Credit Agreement may be treated as Parity PFC Obligations if the governing body of the City makes a finding in the Supplement authorizing the treatment of the obligations of the City incurred under a Credit Agreement as a Parity PFC Obligation that, based upon the findings contained in a certificate executed and delivered by a Designated Financial Officer, the City will have sufficient funds to meet the financial obligations of the Airport System payable in whole or in part from PFC Revenues, including sufficient PFC Revenues to satisfy the Annual Debt Service Requirements of the Outstanding Parity PFC Obligations and the financial obligations of the City relating to all PFC Eligible Airport-Related Projects after giving effect to the treatment of the Credit Agreement as a Parity PFC Obligation.

(f) ***Determination of PFC Revenues***. In making a determination of PFC Revenues for any of the purposes described in this Section, the Airport Consultant or the Designated Financial Officer may take into consideration a change in the passenger facility charges imposed by the City that became effective at least 30 days prior to the last day of the period for which PFC Revenues are determined and, for purposes of satisfying the PFC Revenues tests described above, make a pro forma determination of the PFC Revenues for the period of time covered by the certification or opinion based on such change in rates and charges being in effect for the entire period covered by the certificate or opinion.

SECTION 16. DEFEASANCE. The provisions relating to the terms and conditions upon which a defeasance of Parity PFC Obligations shall be effected shall be contained in the Supplement authorizing such Parity PFC Obligations.

SECTION 17. AMENDMENT OF MASTER ORDINANCE. The City hereby reserves the right to amend this Master Ordinance subject to the following terms and conditions, to-wit:

(a) ***Amendments Without Consent of Holders or Credit Providers***. The City may from time to time, with notice to each Credit Provider but without the consent of any Holder, except as otherwise required by paragraph (b) below, amend this Master Ordinance in order to:

(1) cure any ambiguity, defect or omission in this Master Ordinance that does not materially adversely affect the interests of the Holders;

(2) grant additional rights or security for the benefit of the Holders;

(3) add events of default as shall not be inconsistent with the provisions of this Master Ordinance and which shall not materially adversely affect the interests of the Holders;

(4) qualify this Master Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect;

(5) make such amendments to this Master Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(6) make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity PFC Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity PFC Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Master Ordinance and which shall not adversely affect the interests of the owners of the Parity PFC Obligations;

(7) make such changes, modifications or amendments as may be necessary or desirable in order to obtain the approval of the Parity PFC Obligations by the Office of the Attorney General of the State of Texas, to the extent such approval is required by law, or to obtain or maintain the granting of a rating on the Parity PFC Obligations by a Credit Rating Agency, or to obtain or maintain a Credit Agreement or a Credit Facility;

(8) make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity PFC Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity PFC Obligations; and

(9) make any other change (other than any change described in clauses (1) through (5) of subsection (b) below) with respect to which the City receives written confirmation from each Rating Agency that such amendment would not cause such Rating Agency to withdraw or reduce its then current rating on the Parity PFC Obligations.

Notice of any such amendment of the nature described in this Section 17(a) may be provided in the manner described in Section 17(c) hereof; provided, however, that the giving of such notice shall not constitute a condition precedent to the adoption of an ordinance providing for such amendment, and the failure to provide such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(b) ***Amendments With Consent of Holders and Credit Providers***. Except as provided in Section 17(a) above, each Credit Provider and the Holders of Parity PFC Obligations aggregating a majority in principal amount of the aggregate principal amount of then Outstanding Parity PFC Obligations which are the subject of a proposed amendment or are affected by a proposed amendment shall have the right from time to time to approve any amendment to this Master Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the Holders in aggregate principal amount of the then Outstanding Parity PFC Obligations affected by such amendment, nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this Master Ordinance or in any of the Parity PFC Obligations affected by such amendment so as to:

(1) Make any change in the maturity of any of such Parity PFC Obligations;

(2) Reduce the rate of interest borne by any of such Parity PFC Obligations;

(3) Reduce the amount of the principal of or redemption premium, if any, payable on any of such Parity PFC Obligations;

(4) Modify the terms of payment of principal or of interest or redemption premium on such Outstanding Parity PFC Obligations or any of them or impose any condition with respect to such payment; or

(5) Change the minimum percentage of the principal amount of the Parity PFC Obligations necessary for consent to such amendment.

(c) ***Notice of Amendment***. Whenever the City shall desire to make any amendment or addition to or rescission of this Master Ordinance requiring consent of each Credit Provider and/or the Holders of the Parity PFC Obligations, the City shall cause notice of the amendment, addition, or rescission to be sent by first class mail, postage prepaid, to (i) each Credit Provider, and (ii) the Holders (if the Holders of all Parity PFC Obligations or at least a majority in aggregate principal amount of the Parity PFC Obligations are required to consent) at the respective addresses shown on the Registration Books. Whenever at any time within one year after the date of the giving of such notice, the City shall receive an instrument or instruments in writing executed by each Credit Provider and the Holders of all or a majority (as the case may be) in aggregate principal amount of the Parity PFC Obligations then outstanding affected by any such amendment, addition, or rescission requiring the consent of the Holders, which instrument or instruments shall refer to the proposed amendment, addition, or rescission described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the City may adopt such amendment, addition, or rescission in substantially such form, except as herein provided.

(d) ***Amendments Binding on All Holders***. No Holder may thereafter object to the adoption of any amendment, addition, or rescission which is accomplished pursuant to and in accordance with the provisions of this Section, or to any of the provisions thereof, and such amendment, addition, or rescission shall be fully effective for all purposes.

(e) ***Consents Irrevocable and Binding on Future Holders***. Any consent given by the Holder of a Parity PFC Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the publication of the notice provided for in this Section, and shall be conclusive and binding upon all future Holders of the same Parity PFC Obligation during such period. Such consent may be revoked at any time after six months from the date of the publication of said notice by the Holder who gave such consent, or by a successor in title, by filing notice with the City, but such revocation shall not be effective if the Holders of a majority in aggregate principal amount of the affected Parity PFC Obligations then Outstanding, have, prior to the attempted revocation, consented to and approved the amendment.

(f) ***Ownership of Parity PFC Obligations***. For the purposes of establishing ownership of the Parity PFC Obligations, the City shall rely solely upon the registration of the ownership of such Parity PFC Obligations on the registration books kept by the Paying Agent/Registrar.

(g) ***Ownership.*** For the purpose of this Section, the ownership and other matters relating to all Parity PFC Obligations shall be determined as provided in each Supplement.

(h) ***Amendments of Supplements***. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Outstanding Parity PFC Obligations under such Supplement a priority over the owners of any other Outstanding Parity PFC Obligations.

SECTION 18. INVESTMENTS. Money in any Fund established pursuant to this Master Ordinance or any Supplement may, at the option of the City, be invested in any investment permitted by the provisions of the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), or other applicable law; provided, however, 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. Such investments shall be valued in terms of current market value as of the last day of each Fiscal Year of the City. All interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, except to the extent otherwise provided in Section 8 of this Master Ordinance with respect to the PFC Bond Reserve Fund. Such investments shall be sold promptly when needed or when necessary to prevent any default in connection with the Parity PFC Obligations, consistent with the ordinances, respectively, authorizing their issuance. It is further provided, however, that any interest earnings on proceeds of Parity PFC Obligations, or on funds on deposit in any Fund or Account, which are required to be rebated to the United States of America in order to prevent any Parity PFC Obligations from being arbitrage bonds shall be deposited to the Rebate Fund authorized to be established by a Supplement in accordance with Section 11 of this Master Ordinance and shall not be considered as interest earnings for the purposes of this Section or for the purposes of determining PFC Revenues.

THE FOLLOWING SECTIONS 7 THROUGH 11 AND 14 APPEAR IN THE SECOND SUPPLEMENT TO THE MASTER PFC ORDINANCE

SECTION 7. SECURITY. (a) ***PFC Revenues.*** The Series 2005 Bonds are special obligations of the City payable from and secured by a first lien on and pledge of the PFC Revenues pursuant to the Master PFC Ordinance and this Second Supplement. The PFC Revenues are hereby pledged to the payment of the principal of, premium, if any, and interest on the Series 2005 Bonds as the same shall become due and payable.

(b) ***Lien on Subordinate Net Revenues***. (i) The Series 2005 Bonds are additionally secured by a lien on and pledge of the Subordinate Net Revenues. As provided in the definition of Subordinate Net Revenues, all payments from Net Revenues to pay debt service on the Series 2005 Bonds shall be subordinated to the timely payment of debt service on all Parity Obligations issued pursuant to the Master GARB Ordinance and any "Supplement" related thereto which are then outstanding or subsequently issued; consequently, the Series 2005 Bonds are considered "Subordinated Debt" as permitted by Section 4(f) of the Master GARB Ordinance.

(ii) This Second Supplement, to the extent that it grants, and for the purpose of (i) additionally securing the Series 2005 Bonds with, a lien on Subordinate Net Revenues as permitted by the Master GARB Ordinance, and (ii) establishing conditions for the issuance of obligations payable in whole or in part with a lien on and pledge of Subordinate Net Revenues, also serves as the "Seventh Supplemental Ordinance" or the "Seventh Supplement" to the Master GARB Ordinance.

(iii) In the event it becomes necessary for the City to use Subordinate Net Revenues of the Airport System to pay all or any portion of any debt service payment on the Series 2005 Bonds, the City will establish a "Subordinated Debt Fund" in the manner contemplated and required by Section 10 of the Master GARB Ordinance (if such Subordinated Debt Fund has not previously been established) and may establish an account within the Subordinated Debt Fund specifically for the purpose of depositing Subordinate Net Revenues to pay all or a portion of the debt service coming due on the Series 2005 Bonds. Each Designated Financial Officer is further authorized from time to time to transfer funds on deposit in the Subordinated Debt Fund relating to the Series 2005 Bonds to the PFC Bond Fund to pay principal, premium, if any, and interest on the Series 2005 Bonds.

(c) ***PFC Bond Reserve Fund.*** The Series 2005 Bonds are to be secured by the PFC Bond Reserve Fund. On the date of issuance of the Outstanding PFC Obligations, the City deposited $2,747,178.16 of proceeds of the Outstanding PFC Obligations, which amount was equal to the Required Reserve Amount in connection with such Outstanding PFC Obligations. The City certifies that the amount currently on deposit in the PFC Bond Reserve Fund is at least equal to the Required Reserve Amount relating to the Outstanding PFC Obligations. With respect to the Series 2005 Bonds, the average annual principal and interest requirements on such Bonds is equal to $2,685,000. In order to comply with the requirements of Section 8(a) of the Master PFC Ordinance, on the date of issuance of the Series 2005 Bonds, the City will purchase a Reserve Fund Credit Facility from Financial Security Assurance having a maximum amount to be drawn thereon equal to $2,685,000 (the "Series 2005 Reserve Fund Credit Facility"). The Series 2005 Reserve Fund Credit Facility will be credited to the PFC Bond Reserve Fund upon the issuance of the Series 2005 Bonds. For so long as said the Series 2005 Reserve Fund Credit Facility is in effect, the ordinance requirements of Financial Security Assurance, as a condition to the issuance of said Credit Facility, attached hereto as Exhibit D hereto, are incorporated by reference into this Second Supplement and made a part hereof for all purposes, notwithstanding any other provision of this Second Supplement to the contrary. If deemed necessary by the Attorney General's Public Finance Division in connection with their approval of the Series 2005 Bonds, the City Manager is hereby authorized to enter into an agreement with Financial Security Assurance to further evidence the requirements and the City's obligations set forth in Exhibit D.

SECTION 8. PAYMENTS; PFC BOND FUND. (a) ***Moneys Made Available to Paying Agent.*** The City agrees to pay the principal of, premium, if any, and the interest on the Series 2005 Bonds when due, whether by reason of maturity or redemption. The City shall make available to the Paying Agent/Registrar, on or before such principal, redemption, or interest payment date, money sufficient to pay such interest on and such principal of the Series 2005 Bonds as will accrue or mature, or be subject to redemption prior to maturity. The Paying Agent/Registrar shall cancel all paid Series 2005 Bonds and shall furnish the City with an appropriate certificate of cancellation upon the City's request.

(b) ***PFC Bond Fund.*** Pursuant to Section 6 of the Master PFC Ordinance, moneys in the PFC Revenue Fund shall be applied by the City on the dates and in the amounts, and in the order of priority with respect to the Funds and Accounts that such applications are described in the Master PFC Ordinance, including making monthly deposits into the PFC Bond Fund to provide sufficient funds to pay all principal of and interest on all Parity PFC Obligations, including the Series 2005 Bonds.

SECTION 9. PFC CONSTRUCTION FUND; REBATE FUND. (a) ***PFC Construction Fund.*** There is hereby created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund designated as the PFC Construction Fund. Proceeds from the sale of the Series 2005 Bonds, other than accrued interest, capitalized interest and moneys, if any, for deposit to the credit of the PFC Bond Reserve Fund, shall be deposited to the credit of the PFC Construction Fund for use by the City for payment of all lawful costs associated with the construction, improvement, renovation, enlargement and equipping of the Projects, as hereinbefore provided. Upon payment of all such costs, any moneys remaining on deposit in the PFC Construction Fund shall be transferred FIRST to the Rebate Fund, to the extent the City is liable to pay rebate amounts to the United States of America pursuant to the terms of the Code and NEXT to the PFC Bond Fund. Amounts so

deposited to the PFC Bond Fund shall be used in the manner described in the Master PFC Ordinance. Additionally, if the Series 2005 Bonds are optionally or mandatorily redeemed prior to maturity as a whole in accordance with their terms, any amount remaining in the PFC Construction Fund shall be transferred to the Rebate Fund to the extent the amount therein is less that the rebate amount the City is liable to pay the United States of America pursuant to the terms of section 148 of the Code as of the date of such redemption.

(b) ***Rebate Fund.*** There is hereby created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund designated as the Rebate Fund. The Rebate Fund shall be for the sole benefit of the United States of America and shall not be subject to the lien created by this Second Supplement or to the claim of any other Person, including the Holders of the Series 2005 Bonds. Amounts deposited to the Rebate Fund, together with any investment earnings thereon, shall be held in trust and applied solely as provided in section 148 of the Code.

SECTION 10. AMENDMENT OF SUPPLEMENT. (a) ***Amendments Without Consent***. This Second Supplement and the rights and obligations of the City and of the owners of the Series 2005 Bonds may be modified or amended at any time without notice to or the consent of any owner of the Series 2005 Bonds or any other Parity PFC Obligations, but with prior notice to the Insurer, solely for any one or more of the following purposes:

(i) To add to the covenants and agreements of the City contained in this Second Supplement, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the City in this Second Supplement;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Second Supplement, upon receipt by the City of an opinion of Bond Counsel, that the same is needed for such purpose, and will more clearly express the intent of this Second Supplement;

(iii) To supplement the security for the Series 2005 Bonds, replace or provide additional credit facilities, or change the form of the Series 2005 Bonds or make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding Series 2005 Bonds;

(iv) To make any changes or amendments requested by (A) any Credit Rating Agency then rating or requested by the City to rate Parity PFC Obligations, as a condition to the issuance or maintenance of a rating, or (B) as may be necessary or desirable in order to obtain the approval of the Series 2005 Bonds by the Office of the Attorney General of the State of Texas, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding PFC Obligations;

(v) To make such changes, modifications or amendments as are permitted by Section19(c)(v) of this Second Supplement;

(vi) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Outstanding Parity PFC Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of Credit Agreements with respect to the Parity PFC Obligations; or

(vii) To make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of Outstanding Parity PFC Obligations.

Notice of any such amendment may be published by the City in the manner described in subsection (c) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(b) ***Amendments With Consent***. Subject to the other provisions of this Second Supplement, the Insurer and the owners of Outstanding Series 2005 Bonds aggregating a majority in Outstanding Principal Amount shall have the right from time to time to approve any amendment, other than amendments described in Subsection (a) of this Section, to this Second Supplement which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the Outstanding Series 2005 Bonds, the amendment of the terms and conditions in this Second Supplement or in the Series 2005 Bonds so as to:

(i) Make any change in the maturity of the Outstanding Series 2005 Bonds;

(ii) Reduce the rate of interest borne by Outstanding Series 2005 Bonds;

(iii) Reduce the amount of the principal payable on Outstanding Series 2005 Bonds;

(iv) Modify the terms of payment of principal of or interest on the Outstanding Series 2005 Bonds, or impose any conditions with respect to such payment;

(v) Affect the rights of the owners of less than all Series 2005 Bonds then Outstanding; or

(vi) Change the minimum percentage of the Outstanding Principal Amount of Series 2005 Bonds necessary for consent to such amendment.

(c) ***Notice***. If at any time the City shall desire to amend this Second Supplement other than pursuant to subsection (a) of this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Registrar for inspection by all owners of Series 2005 Bonds. Such publication is not required, however, if the City gives or causes to be given such notice in writing to each owner of Series 2005 Bonds.

(d) ***Receipt of Consents***. Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the City shall receive an instrument or instruments executed by the Insurer and all of the owners or the owners of at least a majority in Outstanding Principal Amount of Series 2005 Bonds, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the City may adopt the amendatory ordinance in substantially the same form.

(e) ***Effect of Amendments***. Upon the adoption by the City of any ordinance to amend this Second Supplement pursuant to the provisions of this Section, this Second Supplement shall be deemed to be amended in accordance with the amendatory ordinance, and the respective rights, duties, and obligations of the City and all the owners of then Outstanding Series 2005 Bonds and all future owners of the Series 2005 Bonds shall thereafter be determined, exercised, and enforced under the Master PFC Ordinance and this Second Supplement, as amended.

(f) ***Consent Irrevocable***. Any consent given by any owner of Series 2005 Bonds pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same Series 2005 Bonds during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Registrar and the City, but such revocation shall not be effective if the owners of a majority in Outstanding Principal Amount of Series 2005 Bonds, prior to the attempted revocation, consented to and approved the amendment.

(g) ***Ownership***. For the purpose of this Section, the ownership and other matters relating to all Series 2005 Bonds registered as to ownership shall be determined from the Registration Books. The Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Registrar.

SECTION 11. ISSUANCE OF ADDITIONAL INDEBTEDNESS SECURED WITH SUBORDINATE NET REVENUES. (a) ***No Superior Lien Permitted***. No Debt or other obligations of the City may be issued which is secured in whole or in part with a lien on and pledge of Subordinate Net Revenues that is superior to the lien on and pledge of Subordinate Net Revenues that has been granted in this Second Supplement to secure the Series 2005 Bonds (or that may be granted in the future on a parity basis in connection with any Additional Parity PFC Obligations or other indebtedness of the City).

(b) ***Additional Indebtedness Secured in Whole or in Part with Parity Pledge of Subordinate Net Revenues***. The City reserves the right to secure Debt (including Additional Parity PFC Obligations) or other indebtedness, secured in whole or in part with a lien on and pledge of Subordinate Net Revenues on a parity with the lien on and pledge of Subordinate Net Revenues which has been granted in this Second Supplement to further secure the Series 2005 Bonds, upon satisfaction of the following conditions (which conditions are in addition to satisfaction of the conditions set forth in Section 15 of the Master PFC Ordinance if such additional indebtedness is considered to be Additional Parity PFC Obligations):

(i) *No Default*. The Designated Financial Officer and the Aviation Director certify that, upon incurring, issuing or otherwise becoming liable in respect to such additional indebtedness, the City will not be in default under any term or provision of any ordinance which authorized the issuance of indebtedness then outstanding that is secured in whole or in part with a lien on Subordinate Net Revenues on a parity with the lien on Subordinate Net Revenues which has been granted in this Second Supplement to further secure the Series 2005 Bonds (including, if applicable, the Master PFC Ordinance and any Supplement).

(ii) *Proper Fund Balances*. The Designated Financial Officer certifies that, upon the issuance of such additional indebtedness: (i) the Bond Fund established by the Master GARB Ordinance will have the required amounts on deposit therein; (ii) all other similar debt service funds established in connection with outstanding obligations payable in whole or in part with a lien on and pledge of Subordinate Net Revenues to provide funds to pay the principal and interest on such obligations will have the required amounts on deposit therein; (iii) the Bond Reserve Fund established by the Master GARB Ordinance will contain the applicable Required Reserve Amount or so much thereof as is required to be funded at such time; and (iv) all other similar debt service reserve funds established in connection with the

issuance of any obligations payable in whole or in part with a lien on and pledge of Subordinate Net Revenues will contain the amount then required to be funded at such time.

(iii) *Subordinate Net Revenue Coverage*. The Designated Financial Officer certifies that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Subordinate Net Revenues were equal to at least 1.10 times the maximum Annual Debt Service Requirements on all indebtedness of the City which is secured in whole or in part with a lien on and pledge of the Subordinate Net Revenues on parity with the lien on and pledge of Subordinate Net Revenues granted in this Second Supplement to secure the Series 2005 Bonds, and which is scheduled to occur in the then current or any future Fiscal Year after taking into consideration the additional indebtedness proposed to be issued or incurred.

(c) ***Other Indebtedness Secured in Whole or in Part with Junior Pledge of Subordinate Net Revenues***. The City further reserves the right to issue Debt or other indebtedness secured in whole or in part with a lien on and pledge of Subordinate Net Revenues which is junior and subordinate to the lien on and pledge of Subordinate Net Revenues that has been granted in this Second Supplement to further secure the Series 2005 Bonds without the necessity of complying with any historical or projected revenue requirements unless otherwise required by the ordinance or ordinances which authorize the issuance of such Debt or other indebtedness.

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SECTION 14. SECOND SUPPLEMENT AND MASTER PFC ORDINANCE TO CONSTITUTE A CONTRACT; EQUAL SECURITY. In consideration of the acceptance of the Series 2005 Bonds, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this Second Supplement shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Series 2005 Bonds and the pledge made in this Second Supplement by the City and the covenants and agreements set forth in this Second Supplement to be performed by the City shall be for the equal and proportionate benefit, security, and protection of all Holders, without preference, priority, or distinction as to security or otherwise of any of the Series 2005 Bonds authorized hereunder over any of the others by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Second Supplement.

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APPENDIX D

EXCERPTS FROM THE MASTER GARB ORDINANCE

THE FOLLOWING CAPITALIZED TERMS ARE DEFINED IN THE MASTER GARB ORDINANCE AND ARE APPLICABLE TO THE SEVENTH SUPPLEMENT:

"**Account**" means any account created, established and maintained under the terms of any Supplement.

"**Accountant**" means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

"**Additional Parity Obligations**" shall mean the additional parity revenue obligations which the City reserves the right to issue in the future as provided in Section 17 of the Master Ordinance.

"**Airport System**" means and includes the City of San Antonio International Airport and Stinson Municipal Airport, as each now exists, and all land, buildings, structures, equipment, and facilities pertaining thereto, together with all future improvements, extensions, enlargements, and additions thereto, and replacements thereof, and all other airport facilities of the City acquired or constructed with funds from any source, including the issuance of Parity Obligations; provided, however, on and after the First Automatic Amendment Date, and for the purpose of providing further clarification, the term "Airport System" shall not include Industrial Properties and Special Facilities Properties.

"Airport Consultant" means an airport consultant or airport consultant firm or corporation having a wide and favorable reputation for skill and experience with respect to the operation and maintenance of airports, in recommending rental and other charges for use of airport facilities and in projecting revenues to be derived from the operation of airports, and not a full time employee of the City.

"Annual Budget" means the annual budget of the Airport System (which may be included in the City's general annual budget), as amended and supplemented, adopted or in effect for a particular Fiscal Year.

"**Annual Debt Service Requirements**" means, for any Fiscal Year, the principal of and interest on all Parity Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, less and except any such principal or interest for the payment of which provision has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, notes or other obligations, from interest earned or to be earned thereon, from Airport System funds other than Gross Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated Fund or Account, the proceeds of which are required to be transferred as needed into the Bond Fund or directly to the Paying Agent for such Parity Obligations; and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(1) Committed Take Out. If the City has entered into a Credit Agreement constituting a binding commitment within normal commercial practice, from any bank, savings and loan association, insurance company, or similar institution to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(2) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the City) in any Fiscal Year either is equal to at least 25% of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(3) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer shall deliver to the City a certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt according to a fixed

schedule stated in such certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such Debt on or before the times required by such schedule; and provided further that this clause (3) shall not apply where the City has elected to apply the rule set forth in clause (2) above;

(4) Prepaid Debt. Principal of and interest on Parity Obligations, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal or interest are payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Debt;

(5) Variable Rate.

(A) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the average for the then immediately preceding five years of the BMA Index, plus 20 basis points; provided, however, that (i) if, after the issuance of the Variable Rate Obligations then proposed to be issued, more than 20% of the aggregate of the Parity Obligations Outstanding will bear interest at a variable rate and (ii) any Parity Obligation is then insured by a Bond Insurer, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the greater of (x) the most recently announced 30-year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Master Ordinance was adopted, in The City of New York, New York, (y) the rate of interest then borne by any Variable Rate Obligations then Outstanding, and (z) 1.25 times the average variable rate borne by any Variable Rate Obligations then Outstanding during the then immediately preceding twelve-month period, or if no Variable Rate Obligations are then Outstanding, 1.25 times the average variable rate for similarly rated obligations with comparable maturities during the then immediately preceding twelve-month period, and

(B) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations outstanding at the time of such calculation shall be deemed to be the lesser of (i) the then current per annum rate of interest borne by such Variable Rate Obligations or (ii) the average per annum rate of interest borne by such Variable Rate Obligations during the then immediately preceding twelve-month period; provided, however, that for any period during which (a) more then 20% of the aggregate of the Parity Obligations then Outstanding bear interest at a variable rate and (b) any Parity Obligation is then insured by a Bond Insurer, the rate of interest on such Variable Rate Obligations shall be the greater of (x) the most recently announced 30 year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Master Ordinance was adopted, in The City of New York, New York, (y) the rate of interest then in effect with respect to such Variable Rate Obligations in accordance with their terms, and (z) 1.25 times the average variable rate borne by such Variable Rate Obligations during the then immediately preceding twelve-month period;

(6) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement (other than payments made by the City in connection with the termination or unwinding of a Credit Agreement), from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (1) through (5) above and any payments otherwise included above under (1) through (5) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. With respect to any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, with respect to prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

"Average Annual Debt Service Requirements" means, as of the time of computation, the aggregate of the Annual Debt Service Requirement for each Fiscal Year that Parity Obligations are Outstanding from the date of such computation, divided by the number of Fiscal Years remaining to the final Stated Maturity of such Parity Obligations.

"Aviation Director" means the director of the City's Department of Aviation, or the successor or person acting in such capacity.

"BMA Index" means the "high grade" seven-day index made available by The Bond Markets Association of New York, New York, or any successor thereto, based upon 30-day yield evaluation at par of bonds, the interest income on which is excludable from gross income of the recipients thereof for federal income tax purposes. In the event that neither The Bond Markets Association nor any successor thereto makes available an index conforming to the requirements of the preceding sentence, the term "BMA Index" shall mean an index determined by the City based upon the rate for bonds rated in the highest short-term rating category by Moody's and Standard & Poor's, the interest income on which is excludable from gross income of the recipients thereof for federal income tax purposes, in respect of issuers most closely resembling the "high grade" component issuers selected by "BMA Index".

"**Bond Counsel**" means an independent attorney or firm of attorneys selected by the City whose opinions respecting the legality or validity of securities issued by or on behalf of states or political subdivisions thereof are nationally recognized.

"**Bond Fund**" means the "City of San Antonio General Airport Revenue Parity Obligations Bond Fund", the existence of which is confirmed in Section 5(b), and is further described in Section 7, of the Master Ordinance.

"Bond Insurer" means any insurance company insuring payment of municipal bonds and other similar obligations if such bond or obligations so insured by it are eligible for a rating by a Credit Rating Agency, at the time of the delivery of a Municipal Bond Insurance Policy, in one of its two highest rating categories.

"**Bond Reserve Fund**" means the "City of San Antonio General Airport Revenue Parity Obligations Reserve Fund", the existence of which is confirmed in Section 5(c), and is further described in Section 8, of the Master Ordinance.

"Business Day" means any day other than a Saturday, a Sunday or a day on which the City or the city in which the payment office of the Paying Agent is located is authorized by law to remain closed and is closed.

"Capital Improvement Fund" means the "City of San Antonio Capital Improvement Fund", the existence of which is confirmed in Section 5(e), and is further described in Section 12, of the Master Ordinance.

"Capital Improvements" means improvements, extensions and additions to the Airport System (other than Special Facilities) that are properly chargeable to capital account by generally accepted accounting practice and includes, without limitations, equipment and rolling stock so chargeable and real estate (and easements and other interests therein) on, under or over which any such improvements, extensions or additions are, or are proposed to be, located.

"**Chapter 1371**" means Chapter 1371, Texas Government Code.

"**Chapter 2256**" means Chapter 2256, Texas Government Code.

"**City**" or "**Issuer**" mean the City of San Antonio, Texas.

"**Code**" means the Internal Revenue Code of 1986, as amended, any successor federal income tax laws or any regulations promulgated or rulings published pursuant thereto.

"Completion Obligations" means any bonds, notes or other obligations issued or incurred by the City for the purpose of completing any Capital Improvement for which Parity Obligations have previously been issued or incurred by the City, as described in Section 17(c) of the Master Ordinance effective after the First Automatic Amendment Date.

"**Credit Agreement**" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of Parity Obligations and on a parity therewith.

"**Credit Facility**" means (i) a policy of insurance or a surety bond, issued by a Bond Insurer or an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Credit Rating Agency having an outstanding rating on Parity Obligations would rate the Parity Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter of credit or line of credit issued by any financial institution, provided that a Credit Rating Agency having an outstanding rating on the Parity Obligations would rate the Parity Obligations in its two highest generic rating categories for such obligations if the letter of credit or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Obligations and the interest thereon.

"**Credit Provider**" means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement or Credit Facility.

"Credit Rating Agency" means (a) Fitch, (b) Moody's, (c) Standard & Poor's, (d) any successor to any of the foregoing by merger, consolidation or otherwise, and (e) any other nationally recognized municipal securities rating service from whom the City seeks and obtains a rating on any issue or series of Parity Obligations.

"**Debt**" of the City payable from Gross Revenues or Net Revenues means all:

(1) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the City issued or incurred for the Airport System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(2) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations at or for

the Airport System that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the "Debt" payable from the Gross Revenues, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. Except as may be otherwise provided above, no item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"**Designated Financial Officer**" means the City Manager, the Director of Finance, or such other financial or accounting official of the City so designated by the governing body of the City.

"**Eligible Investments**" means (i) those investments in which the City is now or hereafter authorized by law, including, but not limited to, Chapter 2256, to purchase, sell and invest its funds and funds under its control and (ii) any other investments not specifically authorized by Chapter 2256 but which may be designated by the terms of a Supplement as Eligible Investments under authority granted by Chapter 1371.

"Federal Payments" means those funds received by the City from the federal government or any agency thereof as payments for the use of any facilities or services of the Airport System.

"**First Automatic Amendment Date**" means the date on which the aggregate principal amount of all then Outstanding Pre-2001 Parity Obligations whose owners have not consented to the amendment being effectuated by the applicable provision of this Master Ordinance constitute less than 49% of all Parity Obligations then Outstanding. *[Note: The First Automatic Amendment Date has occurred.]*

"**Fiscal Year**" means the successive twelve-month period designated by the City as its fiscal year of the City, which currently ends on September 30 of each calendar year.

"**Fitch**" means Fitch, Inc.

"**Fund**" means any fund created, established and maintained under the terms of the Master Ordinance and any Supplement.

"**Funded Debt**" of the Airport System means all Parity Obligations (and, for purposes of Section 17(d) of the Master Ordinance after the First Automatic Amendment Date, all Subordinated Debt) created or assumed by the City and payable from Gross Revenues that mature by their terms (in the absence of the exercise of any earlier right of demand), or that are renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"**Gross Revenues**" means all of the revenues and income of every nature and from whatever source derived by the City (but excluding grants and donations for capital purposes) from the operation and/or ownership of the Airport System, including the investment income from the investment or deposit of money in each Fund (except the Construction Fund, any Rebate Fund, and interest earnings required to be deposited to any Rebate Fund) created, maintained or confirmed by the Master Ordinance; provided, however, that if the net rent (excluding ground rent) from any Special Facilities Lease is pledged to the payment of principal, interest, reserve, or other requirements in connection with revenue bonds issued by the City to provide Special Facilities for the Airport System for the lessee (or in connection with obligations issued to refund said revenue bonds) the amount of such net rent so pledged and actually used to pay such requirements shall not constitute or be considered as Gross Revenues, but all ground rent, and any net rent in excess of the amounts so pledged and used, shall be deposited in the Revenue Fund described in the Master Ordinance. Without limiting the generality of the foregoing, the term *Gross Revenues* shall include all landing fees and charges, ground rentals, space rentals in buildings and all charges made to concessionaires, and all revenues of any nature derived from contracts or use agreements with airlines and other users of the Airport System and its facilities; provided, however, that the term Gross Revenues shall not include any "passenger facility charges" described substantially in the manner provided in the "Aviation Safety and Capacity Expansion Act of 1990" (P.L. 101-508, Title IX) or the "Aviation Investment and Reform Act for the 21st Century" enacted by Congress in the year 2000, or other similar federal laws and the rules and regulations promulgated thereby, or any other similar charges that may be imposed pursuant to federal law.

"**Holder**" or "**Bondholder**" or "**owner**" means the registered owner of any Parity Obligation registered as to ownership and the holder of any Parity Obligation payable to bearer, or as otherwise provided for in a Supplement.

"Industrial Properties" means (a) the real and personal properties situated at and around the Airport System which are owned by the City and (i) leased to industrial or commercial tenants engaged in activities which are unrelated to the City's public airport operations, or (ii) held by the City for future industrial and commercial development, and (b)

any other real or personal property now owned or hereafter acquired by the City which is unrelated to the City's public airport operations.

"**Master Ordinance**" means Ordinance No. 93789 of the City, adopted on April 19, 2001, which established the General Airport Revenue Bond Financing Program.

"**Maturity**" when used with respect to any Debt means the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

"Moody's" means Moody's Investors Service, Inc.

"**Net Revenues**" means the Gross Revenues after deducting Operation and Maintenance Expenses.

"**Operation and Maintenance Expenses**" means the reasonable and necessary current expenses of the City paid or accrued in administering, operating, maintaining, and repairing the Airport System. Without limiting the generality of the foregoing, the term "Operation and Maintenance Expenses" shall include all costs directly related to the Airport System, that is, (1) collecting Gross Revenues and of making any refunds therefrom lawfully due others; (2) engineering, audit reports, legal, and other overhead expenses directly related to its administration, operation, maintenance, and repair; (3) salaries, wages and other compensation of officers and employees, and payments to pension, retirement, health and hospitalization funds and other insurance, including self-insurance for the foregoing (which shall not exceed a level comparable to airports of a similar size and character); (4) costs of routine repairs, replacements, renewals, and alterations not constituting a capital improvement, occurring in the usual course of business; (5) utility services; (6) expenses of general administrative overhead of the City allocable to the Airport System; (7) equipment, materials and supplies used in the ordinary course of business not constituting a capital improvement, including ordinary and current rentals of equipment or other property; (8) fidelity bonds, or a properly allocable share of the premium of any blanket bond, pertaining to the Airport System or Gross Revenues or any other moneys held hereunder or required hereby to be held or deposited hereunder; and (9) costs of carrying out the provisions of the Master Ordinance, including paying agent's fees and expenses; costs of insurance required hereby, or a properly allocable share of any premium of any blanket policy pertaining to the Airport System or Gross Revenues, and costs of recording, mailing, and publication. To provide further clarification, Operation and Maintenance Expenses shall not include the following: (1) any allowances for depreciation; (2) costs of capital improvements; (3) reserves for major capital improvements, Airport System operations, maintenance or repair; (4) any allowances for redemption of, or payment of interest or premium on, Debt; (5) any liabilities incurred in acquiring or improving properties of the Airport; (6) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent that they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases; (7) liabilities based upon the City's negligence or other ground not based on contract; and (8) to the extent Federal Payments may not be included as Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

"**Outstanding**" when used with respect to Parity Obligations means, as of the date of determination, all Parity Obligations theretofore delivered under the Master Ordinance and any Supplement, except:

(1) Parity Obligations theretofore cancelled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;

(2) Parity Obligations deemed paid pursuant to the defeasance provisions as set forth in any Supplement;

(3) Parity Obligations upon transfer of or in exchange for and in lieu of which other Parity Obligations have been authenticated and delivered pursuant to the Master Ordinance and any Supplement; and

(4) Parity Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless the same is acquired for purposes of cancellation, Parity Obligations owned by the City shall be deemed to be Outstanding as though it was owned by any other owner.

"**Outstanding Principal Amount**" means, with respect to all Parity Obligations or to a series of Parity Obligations, the outstanding and unpaid principal amount of such Parity Obligations paying interest on a current basis and the outstanding and unpaid principal and compounded interest on such Parity Obligations paying accrued, accreted, or compounded interest only at maturity as of any "Record Date" established by a Registrar in a Supplement or in connection with a proposed amendment of the Master Ordinance. For purposes of this definition, payment obligations of the City under the terms of a Credit Agreement that is treated as a Parity Obligation shall be treated as outstanding and unpaid principal.

"**Parity Obligations**" means (i) prior to the First Automatic Amendment Date, the Outstanding Pre-2001 Parity Obligations and any Additional Parity Obligations issued pursuant to a Supplement and in accordance with Section 17 of the Master Ordinance, and (ii) on and after the First Automatic Amendment Date, all Outstanding Pre-2001 Parity Obligations, any Additional Parity Obligations issued pursuant to a Supplement and in accordance with Section 17 of the Master Ordinance, and all other Debt of the City which may be issued, incurred or assumed in accordance with the

terms of the Master Ordinance and a Supplement and which is secured by a first lien on and pledge of the Gross Revenues.

"**Paying Agent**" means each entity designated in a Supplement as the place of payment of a series or issue of Parity Obligations.

"**Person**" means any natural person, firm, partnership, association, corporation, or public body.

"**Registrar**" means each entity designated in a Supplement as the registrar of a series or issue of Parity Obligations.

"**Required Reserve Amount**" means an amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity Obligations at any time Outstanding.

"**Reserve Fund Obligations**" means cash, Eligible Investments, any Credit Facility, or any combination of the foregoing.

"**Revenue Fund**" means the "City of San Antonio Airport System Revenue Fund", the existence of which is confirmed in Section 5a, and is further described in Section 6 of, the Master Ordinance.

"**Second Automatic Amendment Date**" means the date on which all Pre-2001 Parity Obligations are no longer Outstanding. *[Note: The Second Automatic Amendment Date has not occurred and is not expected to occur until July 1, 2006.]*

"**Special Contingency Reserve Fund**" means the "City of San Antonio Parity Obligations Special Contingency Reserve Fund", the existence of which is confirmed in Section 5(d), and is further described in Section 11, of the Master Ordinance.

"Special Facilities" and **"Special Facilities Properties"** mean structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, inflight kitchens, training facilities and any and all other facilities and appurtenances being a part of or related to the Airport System the cost of the construction or other acquisitions of which is financed with the proceeds of Special Facilities Debt. Upon the retirement of Special Facilities Debt, the City may declare such facilities financed with such Special Facilities Debt to be within the meaning of "Airport System," as hereinabove defined.

"Special Facilities Debt" means those bonds, notes or other obligations from time to time hereafter issued or incurred by or on behalf of the City pursuant to Section 17(d) of the Master Ordinance effective after the First Automatic Amendment Date.

"Special Facilities Lease" means any lease or agreement, howsoever denominated, pursuant to which a Special Facility is leased by or on behalf of the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Debt issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Debt) and (ii) the operation and maintenance expenses of the Special Facility.

"Standard & Poor's means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies.

"**Stated Maturity**" means, when used with respect to any Debt or any installment of interest thereon, any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"**Subordinated Debt**" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Obligations then Outstanding or subsequently issued.

"**Subordinated Debt Fund**" means the "City of San Antonio General Airport Revenue Subordinated Debt Fund" established pursuant to Section 10 of the Master Ordinance.

"**Supplement**" or "**Supplemental Ordinance**" mean an ordinance supplemental to, and authorized and executed pursuant to the terms of, the Master Ordinance.

"Tax-Exempt Debt" means Debt interest on which is excludable from the gross income of the Holder for federal income tax purposes under section 103 of the Code.

"**Term of Issue**" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or (ii) twenty-five years.

"Variable Rate Obligations" means Parity Obligations that bear interest at a rate per annum which is subject to adjustment so that the actual rate of interest is not ascertainable at the time such Parity Obligations are issued; provided, however, that upon the conversion of the rate of interest on a Variable Rate Obligation to a fixed rate of interest (whether or not the interest rate thereon is subject to conversion back to a variable rate of interest), such Parity

Obligation shall not be treated as a "Variable Rate Obligation" for so long as such Parity Obligation bears interest at a fixed rate.

THE FOLLOWING SECTIONS 2 THROUGH 20 APPEAR IN THE MASTER GARB ORDINANCE:

SECTION 2. SECURITY AND PLEDGE. (a) ***First Lien on Gross Revenues***. The Parity Obligations are and shall be secured by and payable from a first lien on and pledge of the Gross Revenues, in accordance with the terms of this Master Ordinance, any Supplement and, with respect to the Pre-2001 Parity Obligations only, the ordinances of the City which authorized the issuance of such Pre-2001 Parity Obligations; and the Gross Revenues are further pledged to the establishment and maintenance of the Bond Fund, Bond Reserve Fund and the other Funds and Accounts (excluding any Rebate Fund) provided in accordance with the terms of this Master Ordinance and any Supplement. The Parity Obligations are and will be secured by and payable only from the Gross Revenues, and are and will not be secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, constituting any portion of the Airport System. The owners of the Parity Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Master Ordinance or any Supplement.

(b) ***Ability to Pledge Other Revenues***. In addition to securing all Parity Obligations with a first lien on and pledge of the Gross Revenues, the City reserves the right to further secure the payment of any Parity Obligations, or to secure the payment of any Debt (including Subordinated Debt) or other short term or long term indebtedness incurred by the City relating to the Airport System with a lien on and pledge of any other lawfully available revenues of the Airport System, including, but not limited to, all or a portion of "passenger facility charges" authorized to be levied and collected by the City in accordance with the provisions of the *"Aviation Safety and Capacity Expansion Act of 1990"* (P.L. 101-508, Title IX) or the *"Aviation Investment and Reform Act for the 21st Century"* enacted by Congress in the year 2000, or other similar federal laws and the rules and regulations promulgated thereby, or any other similar charges that may be imposed pursuant to federal law, all pursuant to the Supplement which authorizes the issuance of such Parity Obligations or Subordinated Debt.

SECTION 3. RATE COVENANT; RECOMMENDATION OF AIRPORT CONSULTANT. (a) ***Rate Covenant***. The City covenants and agrees with the holders of all Parity Obligations, as follows:

(1) It will at all times fix, maintain, enforce, charge, and collect rates, fees, charges, and amounts for the use, occupancy, services, facilities, and operation of the Airport System which will produce in each Fiscal Year Gross Revenues at least sufficient: (A) to pay all Operation and Maintenance Expenses during each Fiscal Year, and also (B) to provide an amount equal to 1.25 times the Annual Debt Service Requirements during each Fiscal Year on all then Outstanding Parity Obligations.

(2) If the Airport System should become legally liable for any other obligations or indebtedness, the City shall fix, maintain, enforce, charge, and collect additional rates, fees, charges, and amounts for the use, occupancy, services, facilities and operation of the Airport System sufficient to establish and maintain funds for the payment thereof.

[The following Section 3(b) shall be effective on and after the First Automatic Amendment Date]

(b) ***Recommendation of Airport Consultant***. If the Gross Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, shall request an Airport Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses, or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing rate covenant. Copies of such request and the recommendation of the Airport Consultant, if any, shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendation of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under this Master Ordinance even if the resulting Gross Revenues are not sufficient to be in compliance with the rate covenant set forth above, so long as the Annual Debt Service Requirements on the Parity Obligations are paid when due.

SECTION 4. GENERAL COVENANTS. While any Parity Obligation is Outstanding, the City further covenants and agrees that in accordance with and to the extent required or permitted by law:

(a) ***Performance***. The City will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Master Ordinance and any Supplement; it will promptly pay or cause to be paid the principal amount of and interest on every Parity Obligation, on the dates and in the places and manner prescribed in a Supplement and such Parity Obligations; and it will, at the time and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Funds and Accounts as provided in accordance with this Master Ordinance and any Supplement.

(b) ***City's Legal Authority***. The City is a duly created and existing home rule municipality and is duly authorized under the laws of the State of Texas to issue and incur Parity Obligations; that all action on its part to issue or incur Parity Obligations shall have been duly and effectively taken, and that the Parity Obligations in the hands of the owners thereof are and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) ***Title.*** It has or will obtain lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Airport System, that it warrants that it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof, against the claims and demands of all Persons

whomsoever, that it is lawfully qualified to pledge the Gross Revenues to the payment of the Parity Obligations in the manner prescribed herein, and has lawfully exercised such rights.

(d) ***Liens.*** It will from time to time and before the same become delinquent pay and discharge all taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon it, or the Airport System; it will pay all lawful claims for rents, royalties, labor, materials and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens granted in accordance with the terms of this Master Ordinance, so that the priority of the liens granted in accordance with the terms of this Master Ordinance shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens granted in accordance with the terms of this Master Ordinance, or do or suffer any matter or thing whereby the liens granted in accordance with the terms of this Master Ordinance might or could be impaired; provided, however, that no such tax, assessment or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the City.

(e) ***Operation of Airport System***. The City will continuously and efficiently operate the Airport System and shall maintain the Airport System in good condition, repair, and working order, all at reasonable cost. The City will not supply space, services, or privileges at the Airport System without making commensurate charges therefor, except to the extent actually required by law in connection with Federal and State authorities.

(f) ***Further Encumbrance***. The City will not additionally encumber the Gross Revenues or the Net Revenues in any manner, except as permitted in this Master Ordinance and any Supplement in connection with Parity Obligations, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Master Ordinance and any Supplement; but the right of the City to issue or incur Subordinated Debt payable in whole or in part from a subordinate lien on the Net Revenues is specifically recognized and retained.

(g) ***Sale, Lease, or Encumbrance of Airport System***. Except for the use of the Airport System or services pertaining thereto in the normal course of business, neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Parity Obligations have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, other than (i) in connection with the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities thereat, (ii) in connection with any pledges of and liens on revenues derived from the operation and use of the Airport System or any part thereof, or any Special Facilities pertaining thereto, for the payment of Parity Obligations, Subordinated Debt, Special Facilities Debt, and any other obligations pertaining to the Airport System and (iii) except as otherwise provided in the next three paragraphs.

(A) The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, shall be paid into the Revenue Fund, or shall be applied to retire or pay Annual Debt Service Requirements of Parity Obligations.

(B) The preceding provisions to the contrary notwithstanding, the City will not enter into any lease of, or sell or otherwise dispose of, any part of the Airport System or enter into a management or other similar operating agreement for the operation of any part of the Airport System if, as a result of such lease, sale or other disposition, the interest income on any of the Parity Obligations would become includable in gross income of the recipients thereof for federal income tax purposes. Without limiting the generality of the foregoing, the City (i) will not take any action that would cause any part of the Airport System financed with the proceeds of Tax-Exempt Debt to cease to be "owned by" the City (as the term "owned by" is used in section 142(b)(1)(A) of the Code), (ii) will require, as a condition to the leasing of any part of the Airport System, or the entering into of any management or other similar operating agreement for the operation of any part of the Airport System, that the lessee or the other party to such management or other similar operating agreement, as the case may be, make an irrevocable election, in accordance with the provisions of section 142(b)(1)(B) of the Code and the regulations issued thereunder, not to claim depreciation or an investment credit with respect to the property leased to it by the City, or in the case of a management or other similar operating agreement, the property managed or operated by it, (iii) will not enter into any lease, management or other similar operating agreement with respect to any portion of the Airport System if such lease, management or other operating agreement has a term of eighty percent (80%) or more of the reasonably expected economic life of the property subject to such lease, management or other similar operating agreement within the meaning of section 142(b)(1)(B)(ii) of the Code, and (iv) will not enter into any lease, management or other similar operating agreement if the lessee or other party to a management or other similar operating agreement has an option to purchase any portion of the Airport System for a price other than the fair market value of such property at the time such option is exercised. The foregoing notwithstanding, the City shall not be obliged to comply with the aforesaid requirements of the Code during the term of Tax-Exempt Debt if the failure to comply with such requirements would not adversely affect the tax-exempt status of such Debt.

(C) Nothing herein prevents any transfer of all or a substantial part of the Airport System to another body corporate and politic (including, but not necessarily limited to, a joint action agency or an airport authority) which assumes the City's obligations under this Master Ordinance and in any Supplement, in whole or in part, if (i) in the written opinion of an Airport Consultant, the ability to meet the rate covenant under this Master Ordinance and in any Supplement are not materially and adversely affected and (ii) in the written opinion of Bond Counsel, such transfer and assumption will not cause the interest on any Outstanding Parity Obligations that are Tax-Exempt Debt to be includable in gross income of the owners thereof for federal income tax purposes. In such event, following such transfer and assumption, all references to the City, any City officials, City ordinances, City budgetary procedures and any other officials, actions, powers or characteristics of the City shall be deemed references to the transferee entity and comparable officials, actions, powers or characteristics of such entity. In the event of any such transfer and assumption, nothing therein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of an Underwriter, such retention will not materially and adversely affect nor unreasonably restrict the transferee entity's ability to comply with the requirements of the rate covenant and the other covenants of this Master Ordinance and any Supplement.

(h) ***Special Facilities.*** The City may finance Special Facilities from the proceeds of Special Facilities Debt issued by or on behalf of the City without regard to any requirements of this Master Ordinance with respect to the issuance of Parity Obligations, subject, however, to the following conditions:

(i) Such Special Facilities Debt shall be payable solely from rentals derived by or on behalf of the City under a Special Facilities Lease entered into between the City (or an entity acting on behalf of the City) and the person, firm or corporation which will be utilizing the Special Facilities to be financed; and

(ii) In addition to all rentals with respect to the Special Facilities to be financed, a fair and reasonable rental for the land upon which said Special Facilities are to be constructed shall be charged by the City, and said ground rent shall be deemed Gross Revenues not available for the payment of such Special Facilities Debt.

(i) ***Accounts and Fiscal Year***. It shall keep proper books, records and accounts relating to the Airport System separate and apart from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Airport System, and the City shall cause said books and accounts to be audited annually as of the close of each Fiscal Year by an Accountant (which may be part of the City's comprehensive annual financial report). The City agrees to operate the Airport System and keep its books of records and account pertaining thereto on the basis of its current Fiscal Year.

(j) ***Audits***. After the close of each Fiscal Year while any Parity Obligation is Outstanding, an audit will be made by an Accountant of the books and accounts relating to the Airport System and the Gross Revenues (which may be included in the City's comprehensive annual financial report). As soon as practicable after the close of each such Fiscal Year, and when said audit has been completed and made available to the City, a copy of such audit for the preceding Fiscal Year shall be mailed to the Municipal Advisory Council of Texas, any Bond Insurer or Credit Provider, and to any owner of any then Outstanding Parity Obligations who shall so request in writing promptly after it is readily available to the general public, and also to each information depository then required pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission, or similar rule, within the time period required by such Rule 15c2-12. Such annual audit reports shall be open to the inspection of the owners of the Parity Obligations and their agents and representatives at all reasonable times during regular business hours of the City.

(k) ***Annual Budget; Tax Levy for Operation and Maintenance; Elimination of Tax Levy.*** (1) The City shall prepare, prior to the beginning of each Fiscal Year, an Annual Budget for the Airport System (which may be included in the City's general annual budget), in accordance with law, reflecting an estimate of cash receipts and disbursements for the ensuing Fiscal Year in sufficient detail to indicate the probable Gross Revenues and Operation and Maintenance Expenses for such Fiscal Year. Such budget is required to contain, among other items, the following: estimated Gross Revenues, Operation and Maintenance Expenses and Net Revenues for such Fiscal Year, the estimated amounts to be deposited during such Fiscal Year in each of the Funds and Accounts established in this Master Ordinance and any Supplement, and the estimated expenditures during such Fiscal Year for the replacement of Capital Improvements. A copy of the Annual Budget shall be filed with any Bond Insurer or Credit Provider promptly after it is readily available to the general public.

[The following subparagraph 4(k)(2) shall be effective only until the Second Automatic Amendment Date. On and after the Second Automatic Amendment Date, such subparagraph 4(k)(2) shall no longer be effective.]

(2) To the extent that excess Gross Revenues are not available at any time to make payment of all Operation and Maintenance Expenses, after providing for all Bond Fund and Bond Reserve Fund requirements in connection with the Parity Obligations, the General Fund of the City shall be used to make such payment, and the proceeds of an annual ad valorem tax are hereby pledged for such payment to the extent so required, in accordance with Section 1503.003, Texas Government Code. During each year while any of the Parity Obligations are Outstanding and unpaid, the City Council shall compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to make the aforesaid payment to the extent required; and said tax shall be based on the latest approved tax rolls of the City, with full allowance being made for tax delinquencies and the cost of tax collection. Said rate and amount of ad valorem tax is hereby levied, and is hereby ordered to be levied, against all taxable property in the City for each year while any of the Parity Obligations, or interest coupons appertaining thereto, are Outstanding and

unpaid; and said tax shall be assessed and collected each such year and used for such purpose to the extent so required. Said ad valorem taxes sufficient to provide for the payment of such Operation and Maintenance Expenses, to the extent so required, are hereby pledged irrevocably for such payment; provided, however, that in no event shall the amount of such tax levy exceed the rate of five cents (5¢) on each one hundred dollars ($100) of assessed valuation of taxable property in the City for any one year.

(l) ***Insurance***. The City shall cause to be insured such parts of the Airport System as would usually be insured by corporations operating like properties, with a responsible insurance company or companies, against risks, accidents or casualties against which and to the extent insurance is usually carried by corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance and public liability and property damage insurance; provided, however, that public liability and property damage insurance need not be carried if the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. All insurance premiums shall be paid as an expense of operation of the Airport System. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Bondholders and their representatives at all reasonable times. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by the City for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the Airport System shall be deposited in a special and separate trust fund, at the Depository, to be designated the "Insurance Account". The Insurance Account shall be held until such time as other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required.

(m) ***Governmental Agencies.*** The City will duly observe and comply with all valid requirements of all Federal and State authorities relative to the ownership, operation, and maintenance of the Airport System. Additionally, the City will comply with all of the terms and conditions of any and all grants and assurances, franchises, permits and authorizations applicable to or necessary with respect to the Airport System, and which have been obtained from any governmental agency; and the City has or will obtain and keep in full force and effect all franchises, permits, authorization and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the Airport System.

(n) ***Rights of Inspection***. The owner of Parity Obligations shall have the right at all reasonable times during regular business hours of the City to inspect all records, accounts and data of the City relating to the Airport System.

(o) ***Legal Holidays.*** In any case where the date of maturity of interest on or principal of the Parity Obligations or the date fixed for redemption of any Parity Obligations or any other payment obligation under a Parity Obligation not be a Business Day, then payment of interest or principal need not be made on such date but may be made on the next succeeding Business Day 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.

(p) ***Bondholders' Remedies.*** This Master Ordinance and any Supplement shall constitute a contract between the City and the owners of the Parity Obligations from time to time Outstanding and this Master Ordinance and the Supplement authorizing the issuance of Parity Obligations shall be and remain irrepealable until the Parity Obligations and any interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided in a Supplement. In the event of a default in the payment of the principal of or interest on any Parity Obligation or a default in the performance of any duty or covenant provided by law or in this Master Ordinance, the owner or owners of any Parity Obligation 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 Parity Obligation may at law or in equity, by suit, action, mandamus, or other proceedings filed in any court of competent jurisdiction, enforce and compel performance of all duties required to be performed by the City under this Master Ordinance and any Supplement, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the Funds and Accounts provided in this Master Ordinance and any Supplement, and the application of such Gross Revenues in the manner required in this Master Ordinance and any Supplement.

SECTION 5. CREATION OF FUNDS AND ACCOUNTS. The following special Funds and Accounts have been created and established in connection with the issuance of the Pre-2001 Parity Obligations and shall continue to be maintained on the books of the City, so long as any of the Parity Obligations, or interest thereon, are Outstanding and unpaid:

(a) *City of San Antonio Airport System Revenue Fund*, herein called the "Revenue Fund"; and there has been created and there shall continue to be maintained within the Revenue Fund an account entitled the San Antonio Airport System Operation and Maintenance Account, herein called the "Operation and Maintenance Account";

(b) *City of San Antonio Airport System Parity Obligations Bond Fund, herein called the "Bond Fund";*

(c) *City of San Antonio Airport System Parity Obligations Reserve Fund*, herein called the "Bond Reserve Fund";

(d) *City of San Antonio Airport System Parity Obligations Special Contingency Reserve Fund*, herein called the "Special Contingency Reserve Fund"; and

(e) *City of San Antonio Airport System Capital Improvement Fund*, herein called the "Capital Improvement Fund".

SECTION 6. REVENUE FUND. All Gross Revenues shall be kept and accounted for separate and apart from all other funds of the City and shall be credited from day to day as received to the credit of the Revenue Fund. Gross Revenues in the Revenue Fund shall be deposited to the credit of the other Funds and Accounts created or maintained by this Master Ordinance, in the manner and amounts hereinafter provided, and each of such Funds and Accounts shall have priority as to such deposits in the order in which they are treated in the following Sections 7 through 12.

SECTION 7. BOND FUND. (a) ***Purpose of and Payments into the Bond Fund***. The Bond Fund shall be used solely to pay the principal of, premium, if any, and interest on, and other payments (other than Operation and Maintenance Expenses) incurred in connection with Parity Obligations, as such principal matures and such interest and other payments comes due. There shall be credited to the Bond Fund the following:

(1) immediately after the sale and delivery of any series of Parity Obligations, any accrued interest on such Parity Obligations; and

(2) on or before the 25th day of each month, commencing with the month following the delivery of each series of Parity Obligations, such amounts, in approximately equal monthly installments, as will be sufficient, together with any other funds on deposit therein and available for such purpose, to pay the principal of, premium, if any and interest on, and other payments scheduled to come due on all Outstanding Parity Obligations on the next applicable payment date.

(b) ***Accounts***. The City reserves the right in any Supplement to (i) establish within the Bond Fund various Accounts to facilitate the timely payment of Parity Obligations as the same become due and owing and (ii) provide other terms and conditions with respect to payment obligations with respect to a Parity Obligation not inconsistent with the provisions of this Master Ordinance.

SECTION 8. BOND RESERVE FUND. (a) ***Payments into the Bond Reserve Fund***. There is currently on deposit in the Bond Reserve Fund an amount at least equal to the Average Annual Debt Service Requirements of the Pre-2001 Parity Obligations. After the delivery of any future Additional Parity Obligations, the City shall cause the Bond Reserve Fund to be increased, if and to the extent necessary, so that such fund will contain an amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity Obligations which will be Outstanding after such delivery. An amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity Obligations at any time Outstanding is hereby designated as the "Required Reserve Amount". Any increase in the Required Reserve Amount may be funded from Gross Revenues, or from proceeds from the sale of any Additional Parity Obligations, or any other available source or combination of sources. All or any part of the Required Reserve Amount not funded initially and immediately after the delivery of any installment or issue of Additional Parity Obligations shall be funded, within not more than five years from the date of such delivery, by deposits of Gross Revenues in approximately equal monthly installments on or before the 25th day of each month. Principal amounts of Parity Obligations which must be redeemed pursuant to any applicable mandatory redemption requirements shall be deemed to be maturing amounts of principal for the purpose of calculating principal and interest requirements on such bonds. When and so long as the amount in the Bond Reserve Fund is not less than the Required Reserve Amount no deposits shall be made to the credit of the Bond Reserve Fund; but when and if the Bond Reserve Fund at any time contains less than the Required Reserve Amount, then the City shall transfer from Gross Revenues in the Revenue Fund, and deposit to the credit of the Bond Reserve Fund, monthly, on or before the 25th day of each month, a sum equal to 1/60th of the Required Reserve Amount, until the Bond Reserve Fund is restored to the Required Reserve Amount. The City specifically covenants that when and so long as the Bond Reserve Fund contains the Required Reserve Amount, the City shall cause all interest and income derived from the deposit or investment of the Bond Reserve Fund to be deposited to the credit of the Bond Fund.

(b) ***Purpose***. The Bond Reserve Fund shall be used to pay the principal of or interest on all Parity Obligations at any time when the Bond Fund is insufficient for such purpose, and may be used finally to retire the last debt service requirements on the Parity Obligations.

(c) ***Authority to Use Credit Facility***. The City may satisfy its covenant to maintain the Bond Reserve Fund in an amount equal to the Required Reserve Amount with a Credit Facility that will provide funds, together with other Reserve Fund Obligations, if any, credited to the Bond Reserve Fund, at least equal to the Required Reserve Amount. The City may replace or substitute a Credit Facility for all or a portion of the cash or Eligible Investments on deposit in the Bond Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, cash or Eligible Investments on deposit in the Bond Reserve Fund which, taken together with the face amount of any existing Credit Facilities, are in excess of the Required Reserve Amount may be withdrawn by the City, at the option of the Designated Financial Officer, and transferred to the Bond Fund (or to the Revenue Fund if the City receives an opinion of Bond Counsel that transferring such funds to the Revenue Fund would not adversely effect the tax exempt status of any Outstanding Parity Obligations originally issued as Tax-Exempt Debt); provided, however, that

at the option of the Designated Financial Officer, acting on behalf of the City, the face amount of any Credit Facility for the Bond Reserve Fund may be reduced in lieu of such transfer.

(d) ***Withdrawals from Bond Reserve Fund.*** If the City is required to make a withdrawal from the Bond Reserve Fund for any of the purposes described in this Section, the Designated Financial Officer, acting on behalf of the City, shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Bond Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys or Eligible Investments then on deposit in the Bond Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency. Should there be more than one provider of Credit Facilities that are on deposit in or credited to the Bond Reserve Fund, the order of priority with respect to the drawings on such Credit Facilities shall be determined by the City and the providers of the Credit Facilities prior to any such drawings being made thereunder.

(e) ***Deficiencies.*** In the event of a deficiency in the Bond Reserve Fund, such that the Bond Reserve Fund contains less than the Required Reserve Amount, then the City shall restore the Required Reserve Amount in the manner described in Section 8(a) above. In the event the Required Reserve Amount is funded through the use of a Credit Facility, and the Credit Facility specifies a termination or expiration date that is prior to the final maturity of the Parity Obligations so secured thereby, the City shall provide that such Credit Facility shall be renewed at least twelve (12) months prior to the specified termination or expiration date or in the alternative provide that any deficiency that will result upon the termination or expiration of such Credit Facility will be accounted for either by (i) obtaining a substitute Credit Facility no sooner than twenty-four (24) months or no later than twelve (12) months prior to the specified termination or expiration date of the then existing Credit Facility or (ii) by depositing cash into the Bond Reserve Fund in no more than twenty-four (24) monthly installments of not less than one-twenty fourth (1/24th) of the amount of such deficiency on or before the 25th day of each month, commencing on the 25th day of the month which is twelve (12) months prior to such termination or expiration date, to restore the Bond Reserve Fund to the Required Reserve Amount.

(f) ***Redemption or Defeasance.*** In the event of the redemption or defeasance of any Parity Obligation, any Reserve Fund Obligations on deposit in the Bond Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to the *[Revenue Fund]*, as a result of (i) the redemption of the Parity Obligations, or (ii) funds for the payment of the Parity Obligations having been deposited irrevocably with the paying agent or place of payment therefor in the manner described in a Supplement, the result of such deposit being that such Parity Obligations no longer are deemed to be Outstanding under the terms of this Master Ordinance and such Supplement.

(g) ***Credit Facility Draws.*** In the event there is a draw upon the Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Gross Revenues; however, such reimbursement from Gross Revenues shall be subject to the provisions of Section 7(d) hereof and shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on Parity Obligations.

SECTION 9. OPERATION AND MAINTENANCE ACCOUNT IN THE REVENUE FUND; PAYMENT OF OPERATION AND MAINTENANCE EXPENSES AND TRANSFERS TO SUBORDINATED DEBT FUND. All amounts in the Revenue Fund in excess of those required to be made to the credit of the Bond Fund and the Bond Reserve Fund shall be deemed to constitute, and shall be designated as, the Operation and Maintenance Account in the Revenue Fund. The amounts in the Operation and the Maintenance Account shall be, first, used to pay all Operation and Maintenance Expenses, and second, transferred to the Subordinated Debt Fund (authorized to be established in a Supplement pursuant to Section 10 of this Master Ordinance) at the times and in the amounts required by a Supplement to provide for the payment of principal, premium, if any, and interest on, and other payments (excluding any Operation and Maintenance Expenses but including payments to a related debt service reserve fund) incurred in connection with, any Subordinated Debt. Such payments and transfers described in the preceding sentence shall have priority over all deposits to the credit of the Special Contingency Reserve Fund and the Capital Improvement Fund as hereinafter provided. It is further specifically provided that no deposit shall ever be made to the credit of the Special Contingency Reserve Fund or the Capital Improvement Fund if any such deposit would reduce the amount on hand in the Operation and Maintenance Account to less than the budgeted or estimated Operation and Maintenance Expenses for the ensuing three calendar months.

SECTION 10. SUBORDINATED DEBT FUND. (a) ***Subordinated Debt Fund Authorized to be Established.*** For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (excluding any Operation and Maintenance Expenses but including payments to a related debt service reserve fund) incurred in connection with Subordinated Debt, the City may create in a Supplement which authorizes the issuance of Subordinated Debt a separate fund designated as the Subordinated Debt Fund. Such Subordinated Debt Fund shall be established and maintained on the books of the City and accounted for separate and apart from all other funds of the City. Moneys in the Subordinated Debt Fund shall be deposited and maintained in an official depository bank of the City.

(b) ***Additional Accounts.*** The City may create, establish and maintain on the books of the City additional Accounts within the Subordinated Debt Fund from which moneys can be withdrawn to pay the principal of and interest on Subordinated Debt which hereafter may be issued or incurred.

[Beginning on the First Automatic Amendment Date, Section 11 below shall no longer be effective, and all funds on deposit in the Special Contingency Reserve Fund shall be transferred to the Capital Improvement Fund]

SECTION 11. SPECIAL CONTINGENCY RESERVE FUND. (a) ***Payments into Special Contingency Reserve Fund***. Subject to satisfying the requirements of Sections 7, 8, 9 and 10 of this Master Ordinance, on or before the 25th day of each month following the date of passage of this Master Ordinance the City shall transfer from the Operation and Maintenance Account in the Revenue Fund and deposit to the credit of the Special Contingency Reserve Fund a sum not less than $7,084 nor more than $25,000; provided, however, that no deposit shall ever be made to the credit of the Special Contingency Reserve Fund unless the amount of money and market value of investments therein is less than an aggregate of $300,000, and provided further that all excess over $300,000 in said Fund shall be deposited immediately to the credit of the Capital Improvement Fund. Notwithstanding the foregoing provisions of this Section, the City reserves the right, and shall be authorized, to provide in any ordinance authorizing the issuance of Additional Parity Obligations for an increase in the amount of monthly deposits, and the maximum amount permitted to be on deposit, to the credit of the Special Contingency Reserve Fund.

(b) ***Purpose***. The Special Contingency Reserve Fund may be used by the City for any lawful purpose related to the Airport System.

SECTION 12. CAPITAL IMPROVEMENT FUND. Subject to satisfying the requirements of Sections 7, 8, 9, 10 and 11 of this Master Ordinance, the City shall transfer the balance remaining in the Operation and Maintenance Account in the Revenue Fund at the end of each Fiscal Year and deposit same to the credit of the Capital Improvement Fund. The Capital Improvement Fund shall be used for the purposes, and with priority of claim thereon, as follows: first, for the payment of principal, interest, and reserve requirements on Parity Obligations if funds on deposit in the Bond Fund and the Bond Reserve Fund are insufficient to make such payments; second, for the payment of principal, interest, and reserve requirements on Subordinated Debt if funds on deposit in the Subordinated Debt Fund and any related debt service reserve fund are insufficient to make such payments; third, for the purpose of paying the costs of improvements, enlargements, extensions, additions, replacements, repairs or other capital expenditures related to the Airport System; and fourth, for any other lawful purpose related to the Airport System.

SECTION 13. CONSTRUCTION FUND AND REBATE FUND. The City, in a Supplement, hereafter may create, establish and maintain on the books of the City a separate Fund or Account for use by the City for payment of all lawful costs associated with the construction, improvement and equipping of the Airport System, and for making payments to the United States of America pursuant to section 148 of the Code.

SECTION 14. DEFICIENCIES IN FUNDS. If in any month the City shall fail to deposit into the Bond Fund or Bond Reserve Fund the amounts required, amounts equivalent to such deficiencies shall be set apart and paid into said Funds from the first available and unallocated Gross Revenues for the following month or months, and such payments shall be in addition to the amounts otherwise required to be paid into said Funds during such month or months. To the extent necessary, the City shall increase the rates, fees, charges, and amounts for the use, occupancy, services, facilities and operation of the Airport System to make up for any such deficiencies.

SECTION 15. SECURITY FOR FUNDS. All Funds and Accounts created or maintained by this Master Ordinance shall be secured in the manner and to the fullest extent permitted or required by law for the security of public funds, and such Funds and Accounts shall be used only for the purposes and in the manner permitted or required by this Master Ordinance.

SECTION 16. PAYMENT OF PARITY OBLIGATIONS. On or before each principal and interest payment date while any of the Parity Obligations are Outstanding and unpaid, the City shall make available to the paying agents therefor, out of the Bond Fund, or if necessary, out of the Bond Reserve Fund, money sufficient to pay, on each of such dates, the principal of and interest on the Parity Obligations as the same matures and comes due, or to redeem the Parity Obligations prior to maturity, either upon mandatory redemption or at the option of the City. The Paying Agents shall destroy all paid Parity Obligations, and the coupons appertaining thereto, if any, and furnish the City with an appropriate certificate of cancellation or destruction if requested by the City.

SECTION 17. ISSUANCE OF ADDITIONAL PARITY OBLIGATIONS. (a) ***Additional Parity Obligations***. The City reserves the right to issue or incur, for any lawful purpose, pursuant to this Master Ordinance and a Supplement, Additional Parity Obligations; provided, however, that no such Parity Obligations shall be delivered unless:

(i) *No Default*. The Designated Financial Officer and the Aviation Director certify that, upon incurring, issuing or otherwise becoming liable in respect to such Parity Obligations, the City will not be in default under any term or provision of this Master Ordinance, any Parity Obligations then Outstanding or any Supplement pursuant to which any of such Parity Obligations were issued or incurred.

(ii) *Proper Fund Balances*. The Designated Financial Officer certifies that, upon the issuance of such Parity Obligations, the Bond Fund will have the required amounts on deposit therein and that the Bond Reserve Fund will contain the applicable Required Reserve Amount or so much thereof as is required to be funded at such time. Upon the issuance of such Parity Obligations, any additional amounts necessary to cause the Bond Reserve Fund to be funded in the Required Reserve Amount may be funded over a 60-month period in the manner provided for in Section 8(a) of this Master Ordinance, with a Credit Facility in the manner provided in Section 8(c) of this Master Ordinance, or a combination thereof.

(iii) *Projected Coverage*. An Airport Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues of the Airport System for each of three consecutive Fiscal Years beginning in the later of:

(A) the first complete Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Parity Obligations, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or

(B) the first complete Fiscal Year in which the City will have scheduled payments of interest on or principal of the Parity Obligations to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Parity Obligations, investment income thereon or from other appropriated sources (other than Net Revenues),

are equal to at least 1.25 times of the Annual Debt Service Requirements on all Parity Obligations scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Annual Debt Service Requirements for the Additional Parity Obligations then being issued or incurred.

(iv) *Alternative Coverage for Parity Obligations*. In lieu of the certification in clause (iii) above, the Designated Financial Officer may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues of the Airport System were equal to at least 1.25 times of the maximum Annual Debt Service Requirements on all Parity Obligations scheduled to occur in the then current or any future Fiscal Year after taking into consideration the Parity Obligations proposed to be issued or incurred.

(b) ***Refunding Obligations***. If Parity Obligations are being issued for the purpose of refunding less than all Outstanding Parity Obligations, neither of the certifications described in subsections (a)(iii) or (a)(iv) of this Section are required so long as the Designated Financial Officer provides a certificate showing that the aggregate debt service requirements of such refunding Parity Obligations will not exceed the aggregate debt service requirements of the Parity Obligations being refunded.

(c) ***Completion Obligations***. The City reserves the right to issue or incur Parity Obligations to pay the cost of completing any Capital Improvements for which Parity Obligations have previously been issued.

Prior to the delivery of Completion Obligations, the City must provide, in addition to all of the applicable certificates required by subsection (a) of this Section (other than the certificates not required under the circumstances described below), the following documents:

(i) a certificate of the consulting engineer engaged by the City to design the Capital Improvement for which the Completion Obligations are to be delivered stating that such Capital Improvement has not materially changed in scope since the most recent series of Parity Obligations was issued or incurred for such purpose (except as permitted in the Supplement authorizing such Parity Obligations) and setting forth the aggregate cost of the Capital Improvement which, in the opinion of such consulting engineer, has been or will be incurred; and

(ii) a certificate of the Aviation Director (A) stating that all amounts allocated to pay costs of the Capital Improvement from the proceeds of the most recent series of Parity Obligations issued or incurred in connection with the Capital Improvement for which the Completion Obligations are being issued or incurred were used or are still available to be used to pay costs of such Capital Improvement; (B) containing a calculation of the amount by which the aggregate cost of that Capital Improvement (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Capital Improvement paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the Capital Improvement plus any other moneys which the Aviation Director, in the discretion thereof, has determined are available to pay such costs in any other fund; and (C) certifying that, in the opinion of the Aviation Director, it is necessary to issue or incur the Completion Obligations to provide funds for the completion of the Capital Improvement.

Completion Obligations may be issued or incurred for any Airport System facility or project which shall be declared in the Supplement to be a Capital Improvement. Any such Supplement may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such Capital Improvement. Anything herein to the contrary, the provisions of subsections (a)(iii) and (a)(iv) of this Section do not apply to Completion Obligations if the aggregate principal amount of the Completion Obligations then to be issued does not exceed 15% of the aggregate principal amount of the Parity Obligations initially issued to pay the cost of such Capital Improvement.

(d) ***Subordinated Debt and Special Facilities Debt***. Subordinated Debt and Special Facilities Debt may be issued or incurred by the City without limitation. Subordinated Debt shall be payable from moneys deposited to the credit of the Subordinated Debt Fund. Special Facilities Debt is permitted to be issued, as described in Section 4(g) hereof, and shall not be secured by a lien on and pledge of Gross Revenues or Net Revenues.

(e) ***Credit Agreements***. Payments to be made under a Credit Agreement may be treated as Parity Obligations if the governing body of the City makes a finding in the Supplement authorizing the treatment of the obligations of the City incurred under a Credit Agreement as a Parity Obligation that, based upon the findings contained in a certificate executed and delivered by a Designated Financial Officer, the City will have sufficient funds to meet the financial obligations of the Airport System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of the Airport System and the financial obligations of the City relating to the Airport System after giving effect to the treatment of the Credit Agreement as a Parity Obligation.

(f) ***Determination of Net Revenues***. In making a determination of Net Revenues for any of the purposes described in this Section, the Airport Consultant or the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Airport System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues tests described above, make a pro forma determination of the Net Revenues of the Airport System for the period of time covered by the certification or opinion based on such change in rates and charges being in effect for the entire period covered by the certificate or opinion.

SECTION 18. DEFEASANCE. The provisions relating to the terms and conditions upon which a defeasance of Parity Obligations shall be effected shall be contained in the Supplement authorizing such Parity Obligations.

[Prior to the Second Automatic Amendment Date, Section 19 shall read as follows:]

SECTION 19. AMENDMENT OF MASTER ORDINANCE. (a) ***Authority to Amend Master Ordinance***. The holders of Parity Obligations aggregating in principal amount of 51% of the aggregate principal amount of the then Outstanding Parity Obligations shall have the right from time to time to approve any amendment to this Master Ordinance which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions of this Master Ordinance or in the Parity Obligations so as to:

(1) Make any change in the maturity of any of the Outstanding Parity Obligations;

(2) Reduce the rate of interest borne by any of the Outstanding Parity Obligations;

(3) Reduce the amount of the principal payable on the Outstanding Parity Obligations;

(4) Modify the terms of payment of principal of or interest on the Outstanding Parity Obligations, or impose any conditions with respect to such payment;

(5) Affect the rights of the holders or owners of less than all of the Parity Obligations then Outstanding; or

(6) Change the minimum percentage of the principal amount of Parity Obligations necessary for consent to such amendment.

(b) ***Notice of Amendment***. If at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, or in the City of Austin, Texas, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the paying agents for inspection by all holders of Parity Obligations. Such publication is not required, however, if notice in writing is given to each holder or owner of Parity Obligations.

(c) ***Receipt of Consents***. Whenever at any time not less than 30 days, and within one year, from the date of the first publication of said notice or other service of written notice the City shall receive an instrument or instruments executed by the holders of at least 51% in aggregate principal amount of all Parity Obligations then Outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the paying agents, the City Council may pass the amendatory ordinance in substantially the same form.

(d) ***Amendments Binding on All Holders*** Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Master Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations under this Master Ordinance of the City, and all the holders of then Outstanding Parity Obligations and all future Parity Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(e) ***Consent Irrevocable for Certain Period***. Any consent given by the holder or owner of any Parity Obligations shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future holders of the same Parity Obligations during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the holder who gave such consent, or by a successor in title, by filing written notice thereof with the paying agents and the City, but such revocation by any holder shall not be effective if the holders or owners of 51% in aggregate principal amount of the then Outstanding Parity Obligations as in this Section defined have, prior to the attempted revocation, consented to and approved the amendment.

(f) ***Ownership of Parity Obligations***. For the purpose of this Section, the fact of the holding of Parity Obligations which are not registered as to principal by any bondholder and the amount and numbers of such Parity Obligations and the date of their holding same, may be proved by the affidavit of the person claiming to be such holder, or by a certificate executed by any trust company, bank, banker, or any other depository wherever situated showing that at the date therein mentioned such person had on deposit with such trust company, bank, banker, or other depository, the Parity bonds described in such certificate. The City may conclusively assume that such ownership continues until written notice to the contrary is served upon the City.

[On and after the Second Automatic Amendment Date, Section 19 shall read as follows:]

SECTION 19. AMENDMENT OF MASTER ORDINANCE. The City hereby reserves the right to amend this Master Ordinance subject to the following terms and conditions, to-wit:

(a) ***Amendments Without Consent of Holders or Credit Providers***. The City may from time to time, with notice to each Credit Provider but without the consent of any Holder, except as otherwise required by paragraph (b) below, amend this Master Ordinance in order to:

(1) cure any ambiguity, defect or omission in this Master Ordinance that does not materially adversely affect the interests of the Holders;

(2) grant additional rights or security for the benefit of the Holders;

(3) add events of default as shall not be inconsistent with the provisions of this Master Ordinance and which shall not materially adversely affect the interests of the Holders;

(4) qualify this Master Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect;

(5) make such amendments to this Master Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(6) make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Master Ordinance and which shall not adversely affect the interests of the owners of the Parity Obligations;

(7) make such changes, modifications or amendments as may be necessary or desirable in order to obtain the approval of the Parity Obligations by the Office of the Attorney General of the State of Texas, to the extent such approval is required by law, or to obtain or maintain the granting of a rating on the Parity Obligations by a Credit Rating Agency, or to obtain or maintain a Credit Agreement or a Credit Facility;

(8) make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity Obligations; and

(9) make any other change (other than any change described in clauses (1) through (5) of subsection (b) below) with respect to which the City receives written confirmation from each Rating Agency that such amendment would not cause such Rating Agency to withdraw or reduce its then current rating on the Parity Obligations.

Notice of any such amendment of the nature described in this Section 19(a) may be provided in the manner described in Section 19(c) hereof; provided, however, that the giving of such notice shall not constitute a condition precedent to the adoption of an ordinance providing for such amendment, and the failure to provide such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(b) ***Amendments With Consent of Holders and Credit Providers***. Except as provided in Section 19(a) above, each Credit Provider and the Holders of Parity Obligations aggregating a majority in principal amount of the aggregate principal amount of then Outstanding Parity Obligations which are the subject of a proposed amendment or are affected by a proposed amendment shall have the right from time to time to approve any amendment to this Master Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the Holders in aggregate principal amount of the then Outstanding Parity Obligations affected by such amendment, nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this Master Ordinance or in any of the Parity Obligations affected by such amendment so as to:

(1) Make any change in the maturity of any of such Parity Obligations;

(2) Reduce the rate of interest borne by any of such Parity Obligations;

(3) Reduce the amount of the principal of, or redemption premium, if any, payable on any of such Parity Obligations;

(4) Modify the terms of payment of principal or of interest or redemption premium on such Outstanding Parity Obligations or any of them or impose any condition with respect to such payment; or

(5) Change the minimum percentage of the principal amount of the Parity Obligations necessary for consent to such amendment.

(c) ***Notice of Amendment***. Whenever the City shall desire to make any amendment or addition to or rescission of this Master Ordinance requiring consent of each Credit Provider and/or the Holders of the Parity Obligations, the City shall cause notice of the amendment, addition, or rescission to be sent by first class mail, postage prepaid, to (i) each Credit Provider, and (ii) the Holders (if the Holders of all Parity Obligations or at least a majority in aggregate principal amount of the Parity Obligations are required to consent) at the respective addresses shown on the Registration Books. Whenever at any time within one year after the date of the giving of such notice, the City shall receive an instrument or instruments in writing executed by each Credit Provider and the Holders of all or a majority (as the case may be) in aggregate principal amount of the Parity Obligations then outstanding affected by any such amendment, addition, or rescission requiring the consent of the Holders, which instrument or instruments shall refer to the proposed amendment, addition, or rescission described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the City may adopt such amendment, addition, or rescission in substantially such form, except as herein provided.

(d) ***Amendments Binding on All Holders***. No Holder may thereafter object to the adoption of any amendment, addition, or rescission which is accomplished pursuant to and in accordance with the provisions of this Section, or to any of the provisions thereof, and such amendment, addition, or rescission shall be fully effective for all purposes.

(e) ***Consents Irrevocable and Binding on Future Holders***. Any consent given by the Holder of a Parity Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the publication of the notice provided for in this Section, and shall be conclusive and binding upon all future Holders of the same Parity Obligation during such period. Such consent may be revoked at any time after six months from the date of the publication of said notice by the Holder who gave such consent, or by a successor in title, by filing notice with the City, but such revocation shall not be effective if the Holders of a majority in aggregate principal amount of the affected Parity Obligations then Outstanding, have, prior to the attempted revocation, consented to and approved the amendment.

(f) ***Ownership of Parity Obligations***. For the purposes of establishing ownership of the Parity Obligations, the City shall rely solely upon the registration of the ownership of such Parity Obligations on the registration books kept by the Paying Agent/Registrar.

(g) ***Ownership.*** For the purpose of this Section, the ownership and other matters relating to all Parity Obligations shall be determined as provided in each Supplement.

(h) ***Amendments of Supplements***. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Outstanding Parity Obligations under such Supplement a priority over the owners of any other Outstanding Parity Obligations.

SECTION 20. INVESTMENTS. Money in any Fund established pursuant to this Master Ordinance or any Supplement may, at the option of the City, be invested in any investment permitted by the provisions of the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended); 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. Such investments shall be valued in terms of current market value as of the last day of each Fiscal Year of the City. All interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, except to the extent otherwise provided in Section 8 and 11 of this Master Ordinance with respect to the Bond Reserve Fund and Special Contingency Reserve Fund. Such investments shall be sold promptly when needed or when necessary to prevent any default in connection with the Parity Obligations, consistent with the ordinances, respectively, authorizing their issuance. It is further provided, however, that any interest earnings on proceeds of Parity Obligations, or on funds on deposit in any Fund or Account, which are required to be rebated to the United States of America in order to prevent any Parity Obligations from being arbitrage bonds shall be deposited to the Rebate Fund authorized to be established by a Supplement in accordance with Section 13 of this Master Ordinance and shall not be considered as interest earnings for the purposes of this Section or for the purposes of determining Gross Revenues.

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APPENDIX E

SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

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CITY OF SAN ANTONIO

P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

April 19, 2005

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2004. This report is published to provide the City Council, City staff, our citizens, and other readers with detailed information concerning the financial position and activities of the City.

This document was prepared and is presented by the City's Finance department. Accordingly, City management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures.

It should be noted that the public accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA, have audited the basic financial statements contained herein. As reflected in the independent auditors' report, the City's financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles.

The audit of the aforementioned independent auditors was also designed to meet the requirements of the Single Audit Act Amendments of 1996, Office of Management and Budget (OMB) Circular A-133, and the State of Texas Single Audit Circular. The Independent Auditors' Report on the basic financial statements, MD&A (required supplementary information), and required disclosures and schedules are included in the Financial Section of this CAFR. Required reports and schedules mandated by the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular are in separate documents.

THE REPORT

The CAFR is presented in three sections: introductory, financial, and statistical.

- The introductory section contains the transmittal letter, a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, and a list of principal officials.
- The financial section includes the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), the basic financial statements, which consist of government-wide and fund financial statements and notes to the financial statements, required supplementary information other than MD&A, and other supplementary information.
- The statistical section consists of selected financial and demographic information presented on a multi-year basis.
- As noted above, included in the Financial Section of the CAFR is the MD&A, which presents a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter complements the MD&A and should be read in conjunction with it. The City of San Antonio's MD&A can be found immediately following the report of the independent auditors.

THE REPORTING ENTITY AND CITY SERVICES

The City of San Antonio is a home rule city that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two-year terms, limited to two consecutive terms. San Antonio is located in South Central Texas, approximately seventy-five miles south of the state capital of Austin and serves as the county seat for Bexar County. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including championship golf courses, theme parks, historical attractions, museums, professional sporting attractions and a lively performing arts environment.

As of September 30, 2004, the City's geographic area was approximately 512.2284 square miles making it one of the largest cities in the United States. The United States Census Bureau cites the City as the second most populated city in the state of Texas and eighth most populated city in the country. The estimated population grew from 1,262,800 in fiscal year 2003 to 1,278,300 in fiscal year 2004, an increase of 1.23%.

Below are further details regarding the City as a reporting entity and public service provider.

Reporting Entity

Pursuant to the reporting standards contained in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14", other related entities are included in the CAFR as blended or discretely presented component units. Blended component units are those entities that are considered as part of the City's operations but are legally separate entities. Those entities are the City of San Antonio Health Facilities Development Corporation, the City of San Antonio Industrial Development Authority, the San Antonio Fire and Police Pension Fund, the San Antonio Fire and Police Retiree Health Care Fund, the City of San Antonio Texas Municipal Facilities Corporation, and the City of San Antonio Texas Starbright Industrial Development Corporation.

Entities that require discrete presentation are the San Antonio Development Agency (SADA), the City of San Antonio Education Facilities Corporation (SAEFC), the Greater Kelly Development Authority (GKDA), the San Antonio Housing Trust Foundation, Inc. (SAHTF), the San Antonio Local Development Company, Inc. dba South Texas Business Fund (SALDC), Brooks Development Authority (BDA), San Antonio Water System (SAWS) and City Public Service (CPS). SAWS and CPS are independently managed, municipally owned utility systems that operate under quasi-independent boards of trustees. For additional details on each of these entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, Note No. 1, entitled "Reporting Entity".

Services

The City provides a vast array of municipal services. These services include but are not limited to fire and police protection, street and sidewalk maintenance, libraries, parks, water and electric services, and solid waste disposal. In addition, the City maintains preventive health services, and facilitates economic and neighborhood development. These services are funded from various sources, which include ad valorem taxes, hotel/motel taxes, sales taxes, grants, user fees, revenues from municipally owned utilities, and bond proceeds.

City services are augmented through non-City agencies and local foundations such as SADA, SAEFC, SAHTF, and SALDC.

ECONOMIC CONDITIONS AND OUTLOOK

As a community, San Antonio has positioned itself for long-term growth and prosperity by successfully following a strategy to diversify its economy and improve quality-of-life for all citizens. City government has played an integral part by implementing "A Strategic Plan for Enhanced Economic Development" through the collaborative efforts of San Antonio, Inc., a group of economic development organizations within San Antonio.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

The City's economic plan involves further development of San Antonio's major industries, which include biomedical research and health services, international trade and distribution, information technology and security, telecommunications, aerospace, tourism, financial services, automotive manufacturing and the military. Untapped economic opportunities are also a part of the City's economic development plan.

The City is also undertaking on-going infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as providing assistance and attraction programs that are geared to businesses of all sizes. Both government and citizens are working toward increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in San Antonio.

The North American Free Trade Agreement (NAFTA) has enabled the City to capitalize on international trade opportunities by becoming a distribution point and center for companies doing business in Mexico. San Antonio is the closest major U.S. city to Mexico's biggest markets and enjoys close cultural and business ties to that nation.

Following are additional details that provide a more in-depth look at the business climate and local economy for the City of San Antonio.

Business Climate and Local Economy

San Antonio's healthy economy and positive business climate are enhanced by elements key to continued economic growth, such as an advanced telecommunications system, significant recent accomplishments in the area of higher education, and strong workforce development programs. Also enhancing San Antonio's business appeal is the high quality-of-life the City offers and a cost-of-living that is well below the national average. Below is a brief discussion on the City's local economic development activities that will help to ensure its economic sustainability and viability.

KellyUSA

At KellyUSA, a former U.S. Air Force Base, GKDA is transforming the base into a multi-use airport and rail-served business park. As of December 2004, there were 70 tenants (commercial companies and federal agencies) employing over 12,171 people with an average salary of $38,000 and a total economic impact of $2.5 billion per year. Major commercial employers at KellyUSA include Boeing, Lockheed Martin, General Electric, Standard Aero, Pratt & Whitney, Chromalloy, and EG&G.

With 96 percent of the marketable 8.6 million square feet leased, GKDA is now focused on development of new Class A facilities leveraging public and private investment to create more jobs for San Antonio. GKDA has begun Phase II development at KellyUSA to construct another 514,400 square feet of new facilities to accommodate market demand over the next one to three years. This growth is projected to increase the economic impact on San Antonio to over $4.3 billion per year. GKDA is also planning in Phase II to generate some $364 million in investment capital by leveraging City, State, Federal and GKDA funding. Phase II includes key transportation infrastructure projects that will facilitate the development of several facility projects that allow KellyUSA to respond to market demand opportunities. These projects are expected to create employment for an additional 6,400 employees at KellyUSA.

Brooks City-Base

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, 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.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Brooks City-Base (Continued)

The City and County are also planning to construct a $24.5 million new Emergency Operations Center at Brooks. Additionally, BDA also recently completed the sale of 62 acres for a major commercial retail development at the northeast end of the park called City-Base Landing. This $50 million investment will bring 500 new jobs to the Southside. The BDA is contracting with Grubb & Ellis, a national real estate developer and property management firm, to manage Brooks Technology & Business Park facilities.

Fort Sam Houston

Fort Sam Houston 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 Houston. 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 Army relocated U.S. Army South from Puerto Rico to Fort Sam Houston, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. To facilitate this relocation, 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.

The continued success of this unique public-private partnership at Fort Sam Houston is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP. This 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 Houston currently available for redevelopment.

Base Realignment and Closure (BRAC 2005)

In 2005, another round of military base realignment and closures BRAC is scheduled. 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. To prepare for BRAC 2005, the City of San Antonio in partnership with the Greater San Antonio Chamber of Commerce and Bexar County, has established the San Antonio Military Missions (SAMM) Task Force. In November 2003, the SAMM Task Force hired an Executive Director and staff to begin developing and implementing a strategy for BRAC 2005 focused on promoting the military value of the community's military assets.

San Antonio Technology Accelerator Initiative (SATAI)

SATAI is a targeted economic development initiative focused on developing an advanced technology economy in the San Antonio region. SATAI's mission is to accelerate the regional technological economy through providing hands-on development of advanced technology start-up companies and assisting established companies in accessing tech-based solutions through Enterprise Services. One of the largest SATAI projects is the coordination of several homeland security initiatives through its leadership of the Southwest Enterprise for Regional Preparedness. SATAI's efforts in this area will lead to several state of the art technologies that will be commercialized through new start-up technology companies.

SATAI has been very successful in becoming a key component in the development of San Antonio's advanced technology economy. For example, SATAI helps companies pursuing venture capital funding prepare for venture capitalist presentations. Statistics indicate that companies completing this preparation program have a 50% chance of receiving funding. Conversely, companies that do not complete this program have a 1-5% chance of receiving funding from venture capitalists. SATAI has also been very successful in attracting the interest of venture capital firms throughout the country to participate in the San Antonio investment market. This has filled a huge void in the community's efforts to develop the advanced technology economy.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Aerospace Industry Development

The aerospace industry's annual economic impact to the City is about $2.9 billion. This industry provides over 8,283 jobs, with employees earning annual wages totaling over $320 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, 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, 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 (SAT) 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 during the spring and summer. SAT is currently developing construction plans for a new Terminal B and Parking Garage, with ground breaking expected respectively in the spring and summer of 2005. SAT is also in the process of an Environmental Impact Statement for implementation of proposed airfield capacity enhancement projects recommended in the Airport Master Plan.

Stinson Municipal Airport 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. Implementation of the Master Plan recommendations is currently in process pending the successful completion of an Environmental Assessment for certain airfield improvements.

At KellyUSA, the MRO business is strong as tenants such as Boeing and Lockheed Martin continue to secure long-term government contracts. KellyUSA is also working to add air cargo activity as recommended by an Air Cargo Study and Strategic Plan completed 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.

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.

New Business Prospects

As of the third quarter of 2004, the San Antonio Economic Development Foundation, Inc., reported to the City's Economic Development department that it had 107 active business prospects. The new businesses are categorized as business services, transportation equipment, miscellaneous manufacturing, fabricated metal products, food products, and others.

Downtown Development Projects

During 2004, a new 265 all-suites hotel, La Contessa, began construction. A proposal by Drury Inns Southwest, Inc. to redevelop the historic Alamo Bank Building into a Drury Plaza Hotel utilitizing Empowerment Zone facility bonds to partially fund the project has had a positive reception by the City Council. Included in that project is a $1.5 million extension of the Riverwalk at the developer's expense. Construction continued on the 350-room La Quinta Inn & Suites hotel project, which will reshape the downtown skyline. The City also continued its efforts to facilitate the development of a convention headquarters hotel adjacent to the recently enlarged Henry B. Gonzalez Convention Center. The Convention Center Hotel Advisory Board (CCHAB) commissioned a study to recommend financing and development options for this 1000-room hotel. Additionally, La Cascada, a 150-unit condominium project along the San Antonio River is the first high-rise project in the downtown. Sales of housing units have been brisk in anticipation of this project's completion.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

International Trade

The Directory of San Antonio Exporters and Support Organizations has identified over 500 local companies that export to other nations or provide export assistance.

During FY 03-04 the International Affairs Department worked with 73 international delegations that included 1,578 delegates that visited San Antonio. The department also assisted more than 600 business clients that generated over $27 million in bilateral trade between San Antonio and Mexico for the last 2 years.

As of December 31, 2004 the North American Development Bank (NADB) had authorized loans and grants totaling approximately $695.8 million for the development and financing of 84 infrastructure projects throughout the 10 states that compromise the U.S.-Mexico border region. These projects represent a total investment of approximately $2.33 billion, and are benefiting an estimated 7.8 million border residents in the United States and Mexico.

The NADB has been the catalyst to significant and unprecedented levels of investment in environmental infrastructure along the U.S. Mexico border. NADB participation represents about 30% of the total investment in these projects. Of these, 20 have completed, 52 are currently under construction or in various states of completion and 12 are in the design or bidding stage. In the area of local capacity building, the NADB to date has authorized technical assistance for 163 projects in 77 communities on both sides of the border.

As of the fourth quarter of 2004, the Free Trade Alliance San Antonio through its International Business Development Center, an incubator program for foreign companies, has nine companies enrolled with an economic impact of over $1.5 million for the year.

International Outlook

After five years, the City's International Affairs Department continues to develop an Export Leaders Program that focuses on small to medium size San Antonio companies with a high potential and strong commitment to develop and expand international markets. The San Antonio Export Leaders Program is a competitive eight-month program that offers the tools, training, consultation and coaching necessary for about fifteen companies to be successful in exporting and offers the participants a new export experience. In five years, the program has graduated 57 companies and generated $5.4 million in trade in 2003.

San Antonio continues to develop itself as an INLAND PORT for imports and exports to/from Mexico, Latin America and other regions of the world. This encompasses transportation, manufacturing, and logistics facilities, professional services and value-added services involved in producing, marketing and moving freight within, into and out of the San Antonio area. Over the past twelve years, the City has operated three commercial trade offices in Mexico's three largest cities: Mexico City, Guadalajara, and Monterrey.

The City's commitment to international trade is evidenced in the City's International Center which houses the North American Development Bank, International Conference Center, the Trade Commission of Mexico, Mexican State Trade Offices, the Free Trade Alliance San Antonio, the U.S. Department of Commerce, the City's International Affairs Department and the Convention & Visitors Bureau.

FINANCIAL INFORMATION

Accounting system and budgetary control

The City's accounting system supports an adequate internal control structure. The structure helps to safeguard the City's assets against loss, theft, or misuse. The accounting system provides reliable financial records for preparing financial statements in conformity with generally accepted accounting principles. The internal control structure provides reasonable, but not absolute, assurance that the City's assets are safeguarded. The concept of reasonable assurance first recognizes that the cost of a control should not exceed the benefits likely to be derived. Secondarily, the evaluation of costs and benefits require estimates and judgments by management.

FINANCIAL INFORMATION (Continued)

Accounting System and Budgetary Control (Continued)

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end, however, encumbrances generally are appropriated as part of the following year's budget. For the fiscal year ending September 30, 2003, the Government Finance Officers Association of the United States and Canada ("GFOA") presented an award of Distinguished Budget Presentation to the City.

As demonstrated by the statements and schedules in the Financial Section of this report, the City continues to meet its responsibility for sound financial management. As in the Financial Section, all monetary amounts presented in the remainder of this letter are expressed in thousands, except where noted.

Fiscal Management and Administrative Topics

Pension and Postemployment Retirement Benefits

The City provides pension retirement benefits for its eligible employees through two plans. For uniformed Fire and Police employees, retirement benefits are provided through the Fire and Police Pension Fund, a single-employer defined benefit retirement plan. Contribution and benefit levels are established under State statute. For fiscal year 2004, active members contributed 12.32% of covered payroll, or $24.13 million and the City contributed 24.64%, or $48.04 million.

The City provides all other eligible employees, exclusive of fire and police employees, retirement benefits through the Texas Municipal Retirement System (TMRS), a nontraditional, joint contributory, hybrid defined benefit plan. TMRS is a statewide agent multiple-employer public employee retirement system. Contributions to the system are actuarially determined. The required contribution from City employees is 6%, while the City matches at a rate of approximately 11.63%. Both the City and its covered employees made the required contributions of $23.06 million and $11.95 million, respectively. For additional information on the City's pension plans, see Note 8 in the notes to the financial statements.

With respect to post-employment health benefits, the City provides benefits for all non-uniformed City retirees and for all pre-October 1, 1989 uniformed fire and police retirees. The cost of the program is reviewed annually and actuarially determined costs of medical claims are funded jointly on a pay-as-you-go basis with the City contributing 2/3 and the retirees contributing 1/3 of the cost. As of September 30, 2004, 1,512 retirees were participating in the program and currently there are 6,067 active civilian employees who may become eligible for this program in the future.

The second post-employment health benefit program provides retirement health care benefits for eligible fire and police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). Contribution and benefits levels are established under the City's collective bargaining agreements with the Fire and Police Unions. The benefits of this plan are financed on a prefunded basis. For fiscal year 2004, the City contributed $16.56 million to the Fund and active employees and retirees contributed $2.5 million. Recent actuarial studies have resulted in different results and indicate that the current contribution levels are not sufficient to amortize the unfunded liability of the Fund. The City continues to review the Fund in order to develop a comprehensive framework for a long-term solution. For additional information on City's post-employment health benefits, please see Note 9, of the notes to the financial statements.

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Employee Benefits Program

The City's Self-Insurance Fund continues to experience increased expenses due to rising health care costs, increased prescription drug costs, increased claims volume and changing employee demographics. The City continues to focus on cost containment programs such as: hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization to assist in managing the rising cost of medical care. Such strategies have been effective for the City in managing medical costs in a changing health care industry.

In addition to continuing enhancement of these cost containment programs, the City will seek the services of an outside consultant in 2005 to perform a comprehensive review of the Employee Benefits Programs. To maximize efficiency and ensure competitive medical pricing in the plan, a combined Health and Benefits Request for Proposal (RFP) was released in March of 2004 to consolidate plan administration and improve provider discounts. The total cost savings projected for fiscal year 2005, as a result of the new contract, program changes and increased premiums, is estimated at $8.1 million. In fiscal year 2004, the Employee Benefits Fund had cash and investments in reserve totaling $126,683 and a negative net assets balance of $31.75 million. For additional information on the City's risk and employee benefit programs, please see Note 12, of the notes to the financial statements.

Risk Management Programs

For the seventh time in thirteen years, the Insurance Reserve Fund maintained a positive net assets balance of $4.56 million for the fiscal year 2004. The Workers' Compensation Fund reflected a negative net assets balance of $6.59 million for the fiscal year 2004. The Insurance Reserve and Workers' Compensation Funds carried cash and investments in reserve at September 30, 2004 in the amount of $11.62 million and $4.06 million, respectively.

The Risk Management Division Safety Office has continued aggressive efforts this year to promote Accident Prevention/Loss Control projects. This year 2,347 employees received formal classroom training on a number of subjects, totaling 18,776 classroom hours collectively. Training classes include Defensive Driving, First Aid and CPR, Drug and Alcohol Awareness training for commercial drivers and supervisors, New Employee Safety Orientations, Professional Truck Driving, Supervisor's Accident Investigation training, Hazardous Chemicals training, Ergonomics Awareness, and other specialized training courses.

In addition, the Safety Office continues to improve the quality of safety and health education to serve the needs of all City employees by developing customized training programs and updating training materials and/or training methods. The Safety Office has also provided departments 2,946 hours of technical assistance and one-on-one informal training on a variety of safety and health topics in fiscal year 2004.

Cash and Investment Management

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

The City is authorized to use demand accounts, time accounts, certificates of deposit, and other permissible investments including Obligations of the U.S. Treasury and U.S. Agencies, Obligations of States and Cities, Commercial Paper, Repurchase Agreements, Money Market Funds, and Investment Pools. The City's investment portfolio does not include callable obligations or any derivative products. It is not the City's policy to use derivative products in its portfolio, nor does the City leverage its investments.

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Cash and Investment Management (Continued)

At September 30, 2004, City investment funds were 87.41% invested in obligations of the United States, or its agencies and instrumentalities, and 11.38% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 1.21% of the City's portfolio includes the Convention Center Debt Service Reserve Fund of $8.5 million, which was invested in a fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and the City's investment policy objectives, which are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings. For additional information on Cash and Investments, please see Note 3 of the notes to the financial statements.

Debt Administration

The City utilizes a comprehensive debt management financial planning program (The Debt Management Plan), which is updated annually. The Debt Management Plan is a major component of the City's financial planning. The model projects financing needs while measuring and assessing the cost and timing of each debt issuance. It involves comprehensive financial analysis which utilizes computer modeling, and incorporates variables such as interest rate sensitivity, assessed values changes, annexations, and current ad valorem tax collection rates. Use of this financial management tool has assisted the City in meeting its financing needs by facilitating timely and thorough planning which has allowed the City to capitalize on market opportunities.

Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "Aa2", "AA+" and "AA+" bond rating by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Public Ratings Services, a division of McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") respectively. The positive trend in the City's credit strength is evidenced by S&P's rating upgrade in December 1998 from "AA" to its current "AA+" and Fitch's rating upgrade in October 1999 from "AA" to "AA+". For additional information on the City's long-term debt, please see Note 6 of the notes to the financial statements.

OTHER INFORMATION

Independent Audit

State statutes require that an annual audit by an independent certified public accountant be conducted. The City's Audit Committee selected the accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA in 2002. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular. The Independent Auditors' Report on the basic financial statements, management's discussion and analysis (required supplementary information), required disclosures and schedules is included in the Financial Section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular are in separate documents.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended September 30, 2003. This was the 28th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

OTHER INFORMATION

Awards (Continued)

The City of San Antonio Planning Department was recognized by the Texas Chapter of the American Planning Association (APA) with two (2) 2003 Texas APA Planning Awards. The Department received the 2003 Project Planning Award for the Southside Initiative Community Plan. In addition, the Neighborhood Conservation District program was honored with the 2003 Current Planning Award.

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2004, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division. Each member of the Department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Manager, Assistant City Managers, Assistants to the City Manager, and their staff, for their continued support.

Respectfully Submitted,

Milo D. Nitschke
Director
Finance Department

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio, Texas

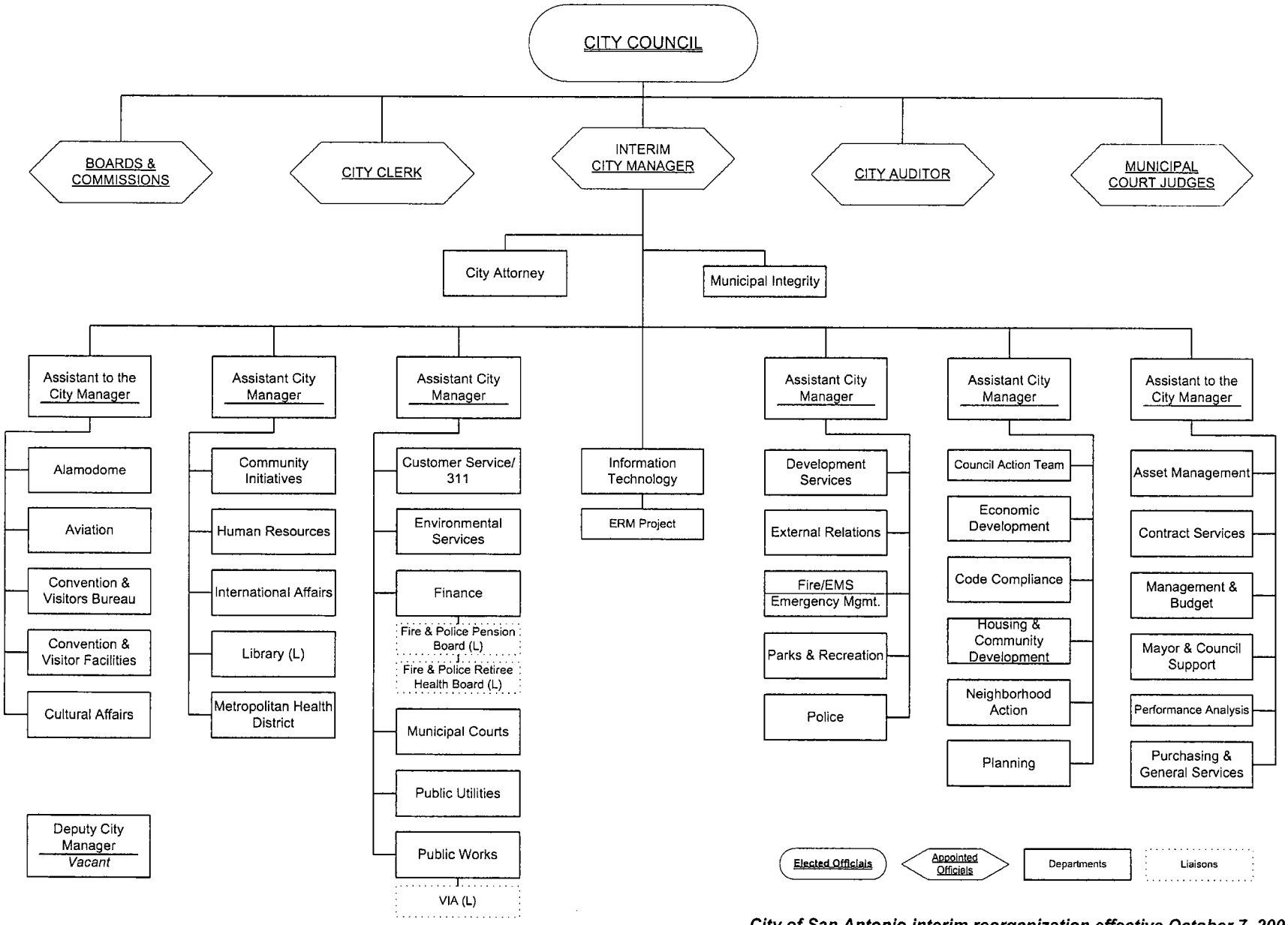
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

CITIZENS OF SAN ANTONIO



City of San Antonio interim reorganization effective October 7, 2004

CITY OF SAN ANTONIO, TEXAS

Incorporated December 14, 1837 *Charter Adopted October 2, 1951*
Council - Manager Form of Government

CITY COUNCIL
Edward D. Garza, Mayor

Roger O. Flores
Joel Williams
Ron H. Segovia
Richard Perez
Patti Radle

Enrique M. Barrera
Julian Castro
Art A. Hall
Carroll W. Schubert
Christopher Haass

INTERIM CITY MANAGER
J. Rolando Bono

ASSISTANT CITY MANAGER
Christopher J. Brady

ASSISTANT CITY MANAGER
Melissa Byrne Vossmer

ASSISTANT CITY MANAGER
Jelynne LeBlanc Burley

ASSISTANT CITY MANAGER
Frances A. Gonzalez

ASSISTANT TO THE CITY MANAGER
Roland A. Lozano

ASSISTANT TO THE CITY MANAGER
Erik J. Walsh

MEMBER OF THE GOVERNMENT FINANCE OFFICERS
ASSOCIATION OF THE UNITED STATES & CANADA

City of San Antonio
Texas

Financial Section

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City of San Antonio
Texas

Independent Auditors' Report

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KPMG

300 Convent, Suite 1200
San Antonio, TX 78205

RJW

Robert J. Williams
Certified Public Accountant
P.O. Box 34058
San Antonio, TX 78265-4058

LEAL & CARTER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
11122 Wurzbach Rd. / Suite 200
San Antonio, Texas 78230-2573

Independent Auditors' Report

The Honorable Mayor
and Members of City Council
City of San Antonio, Texas:

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of and for the year ended September 30, 2004, which collectively comprise the City of San Antonio, Texas' basic financial statements as listed in the accompanying table of contents under "Basic Financial Statements." These financial statements are the responsibility of the City of San Antonio, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain discretely presented component units and blended component units included in the governmental and fiduciary funds of the City of San Antonio, Texas, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP, Robert J. Williams, CPA, and Leal & Carter, P.C., acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, are based solely on the reports of the other auditors.

	Percent not jointly audited	
	Total assets	Total revenue
Government-wide		
Governmental activities	0%	0%
Business-type activities	0%	0%
Discretely presented component units	100%	100%
Fund statements		
Major funds	0%	0%
Aggregate remaining fund information	75%	32%

	Percent audited by KPMG separately		Percent audited by Leal & Carter separately		Percent audited by Robert J. Williams separately	
	Total assets	Total revenue	Total assets	Total revenue	Total assets	Total revenue
Government-wide						
Discretely presented component units	72%	82%	1%	1%	72%	82%
Fund statements						
Aggregate remaining fund information	0%	0%	6%	4%	0%	0%

KPMG LLP. KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss cooperative.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 12, the Budgetary Comparison Schedule on page 119, and Schedules of Funding Progress on page 120 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We, and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we, and the other auditors, did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of San Antonio, Texas' basic financial statements. The introductory section, the combining financial statements, schedules and other supplementary information, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining financial statements and schedules and other supplementary information have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP Robert J Williams CPA Leal & Carter, P.C.

April 1, 2005

City of San Antonio
Texas

Management's Discussion and Analysis

(Required Supplementary Information)

(Unaudited)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2004. This discussion and analysis is intended to assist readers in focusing on significant financial issues and changes in the City's financial position, and identifying any significant variances from the adopted budget. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the financial statements provided in this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City exceeded its liabilities by $2,535,564 (net assets). Of this amount, $105,630 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $536,728, an increase of $10,478 compared to the fiscal year 2003 fund balance. The total unreserved fund balance of $317,992 is available for spending at the government's discretion. Of this amount, $39,620 designated and $278,372 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $90,410 or 16.9% of the total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction of the City of San Antonio's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business financial presentation.

The *statement of net assets* is a presentation of the City's assets and liabilities, including capital and infrastructure assets, and long-term liabilities. This statement reports the difference between assets and liabilities as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information regarding increases and decreases to the government's net assets for the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, sanitation, health services, environmental protection and control, culture and recreation, convention and tourism, conservation, urban redevelopment and housing, welfare and economic development opportunity. The business-type activities of the City include the airport system, parking system, and environmental services.

In addition, the basic financial statements provide information regarding the City's legally separate discretely presented component units. Component unit financial information is reported separately from the primary government in the government-wide financial statements.

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are used to present financial information detailing resources that have been identified for specific activities. The focus of the fund financial statements is on the City's major funds, although non-major funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into three types: governmental, proprietary, and fiduciary. Fund financial statements allow the City to present information regarding fiduciary funds, since they are not reported in the government-wide financial statements.

Governmental funds. Governmental funds are used for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

As the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The City of San Antonio maintains five individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, both of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each non-major governmental fund is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the functions presented in business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its airport, parking and environmental services funds. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions, including, self-insurance programs, other internal services and information technology services. The services provided by these funds predominantly support the governmental rather than the business-type functions. They have been included within the governmental activities in the government-wide financial statements that are reported alongside the business activities.

Proprietary fund financial statements provide separate and more detailed information for the airport, parking, and environmental services funds. The airport and parking funds are considered major funds of the City while internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. Fiduciary funds are not reflected in the government-wide financial statements as the resources of those funds are not available to support the City's programs and operations. The accounting for fiduciary funds is much like that used for the proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information on the City's General Fund budget, which is adopted on an annual basis, and schedules of funding progress related to pension and retirement plans. A budgetary comparison statement has been provided for this fund in order to demonstrate budgetary compliance with this budget.

Government-wide Financial Analysis

GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments*, requires that the City provide a comparative analysis of government-wide data. Below is a comparative summary of the governmental activities and business-type activities as required by GASB Statement No. 34:

City of San Antonio, Texas
Statement of Net Assets
For the Year Ended September 30, 2004
(With Comparative Totals for September 30, 2003)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and other assets	$ 708,633	$ 731,143	$ 202,559	$ 206,703	$ 911,192	$ 937,846
Capital Assets	3,047,629	3,001,042	296,394	294,308	3,344,023	3,295,350
Total Assets	3,756,262	3,732,185	498,953	501,011	4,255,215	4,233,196
Current and other liabilities	135,687	146,728	11,900	13,440	147,587	160,168
Long-term liabilities	1,312,631	1,287,466	259,433	266,780	1,572,064	1,554,246
Total Liabilities	1,448,318	1,434,194	271,333	280,220	1,719,651	1,714,414
Net Assets						
Investment in capital assets, net of related debt	2,118,418	2,079,719	197,929	156,567	2,316,347	2,236,286
Restricted	89,867	92,524	23,720	56,489	113,587	149,013
Unrestricted	99,659	125,748	5,971	7,735	105,630	133,483
Total Net Assets	$ 2,307,944	$ 2,297,991	$ 227,620	$ 220,791	$ 2,535,564	$ 2,518,782

For the year ended September 30, 2004, total assets exceeded liabilities by $2,535,564. The largest portion of the City's net assets, $2,316,347 (91.4%) represents its investment in capital assets less any related debt used to acquire those assets that is still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment.

Capital assets are used to provide services to the citizens of San Antonio and are not available for further spending. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Of the total net assets, $113,587 (4.5%) represents resources that are subject to external restrictions on how they may be used. The remaining $105,630 (4.1%) represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

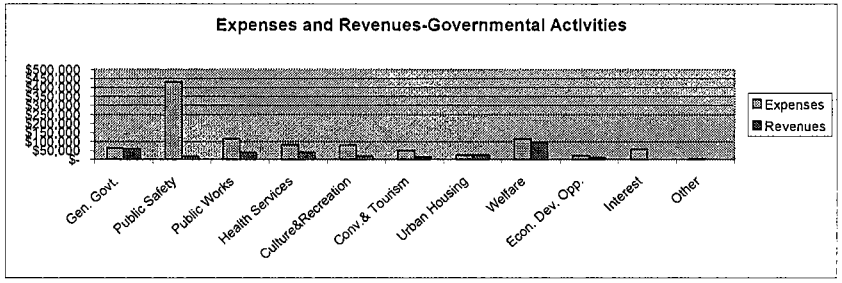
City of San Antonio, Texas
Changes in Net Assets
For the year ended September 30, 2004
(With Comparative Totals for September 30, 2003)

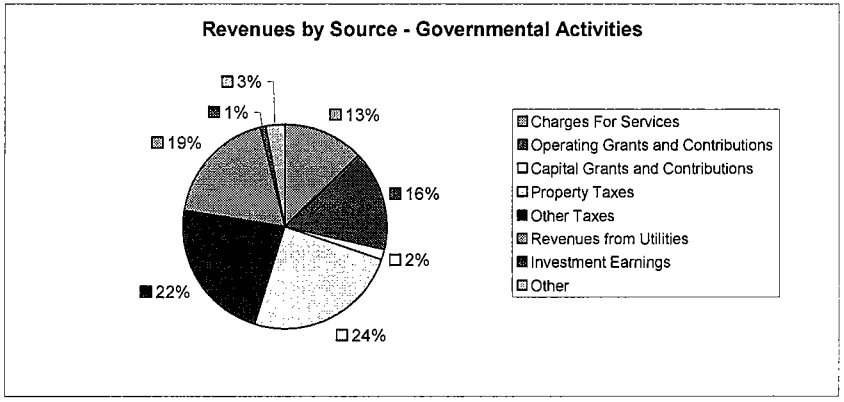
	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for services	$ 133,709	$ 136,118	$ 103,739	$ 100,998	$ 237,448	$ 237,116
Operating grants and contributions	168,120	190,746			168,120	190,746
Capital grants and contributions	16,614	51,189	27	3,865	16,641	55,054
General revenues:						
Property Taxes	257,514	236,947			257,514	236,947
Other Taxes	238,700	232,009			238,700	232,009
Revenues from Utilities	196,793	210,854			196,793	210,854
Investment Earnings	7,189	8,536	2,046	2,557	9,235	11,113
Net Increase (Decrease) in Fair Value of Investments		(20)		(6)		(26)
Miscellaneous	28,542	(1,639)	10,378	9,406	38,920	7,767
Gain (Loss) on Sale of Capital Assets	611	542		39	611	581
Capital Contributions	1,585	1,115			1,585	1,115
Total Revenues	$ 1,049,377	$ 1,066,417	$ 116,190	$ 116,859	$ 1,165,567	$ 1,183,276
Expenses:						
Primary Government:						
Governmental Activities:						
General Government	63,610	67,034			63,610	67,034
Public Safety	428,607	378,316			428,607	378,316
Public Works	116,629	128,374			116,629	128,374
Sanitation	2,787	7,102			2,787	7,102
Health Services	82,233	84,239			82,233	84,239
Environmental Protection and Control	36	298			36	298
Culture and Recreation	80,051	77,434			80,051	77,434
Convention and Tourism	50,100	51,141			50,100	51,141
Urban Redevelopment and Housing	23,981	28,653			23,981	28,653
Welfare	116,701	133,455			116,701	133,455
Economic Development Opportunity	21,277	19,847			21,277	19,847
Commercial Paper Fees		84				84
Interest on Long-term Debt	55,855	54,490			55,855	54,490
Business-type Activities:						
Airport			49,427	45,164	49,427	45,164
Parking Facilities			6,264	7,523	6,264	7,523
Environmental Services			51,227	48,252	51,227	48,252
Total Expenses	1,041,867	1,030,467	106,918	100,939	1,148,785	1,131,406
Increase in Net Assets before transfers	7,510	35,950	9,272	15,920	16,782	51,870
Transfers	2,443	5,488	(2,443)	(5,488)		
Net Increase in Net Assets	9,953	41,438	6,829	10,432	16,782	51,870
Beginning Net Assets	2,297,991	2,256,553	220,791	210,359	2,518,782	2,466,912
Ending Net Assets	$ 2,307,944	$ 2,297,991	$ 227,620	$ 220,791	$ 2,535,564	$ 2,518,782

Governmental Activities

The City's total revenues were $1,165,567 for fiscal year ended September 30, 2004. Revenues from governmental activities totaled $1,049,377 and revenues from business-type activities totaled $116,190. General revenues represented 63.8% of the City's total revenue, while program revenues provided 36.2% of revenue received in fiscal year 2004.

Expenses for the City totaled $1,148,785. Governmental activity expenses totaled $1,041,867, or 90.7% of total expenses.



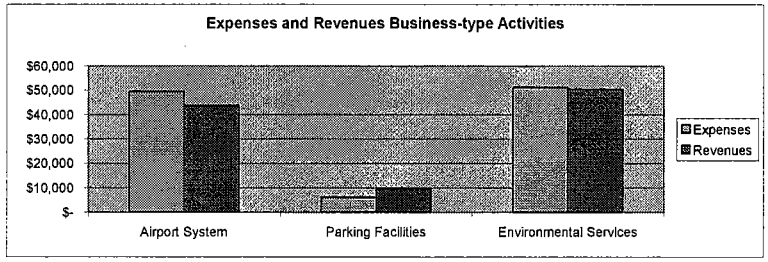


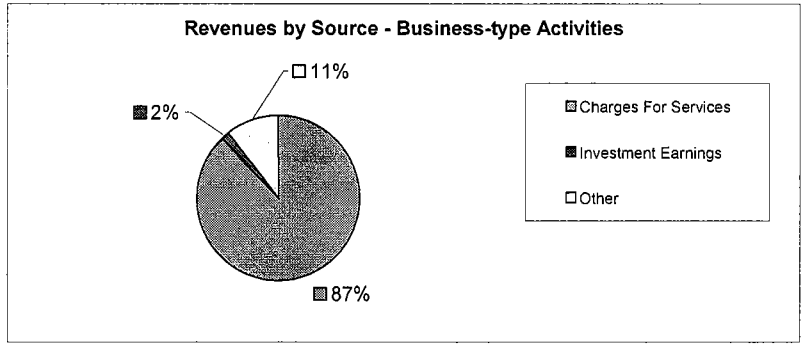
Revenues exceeded expenses by $16,782. General revenues increased over fiscal year 2003 by $42,488, which was partially attributed to an in increase in Property Taxes by $20,567 and an increase in Miscellaneous Revenues by $31,153. The City collected more in Property Taxes in fiscal year 2004 because the overall estimated appraised value of properties increased over the prior year, thereby increasing revenues.

Expenses increased slightly over prior year amounts. Public Safety spending increased by 13.3%, which was due to an increase in salaries and depreciation expense for the City's radio system tower and equipment, most of which was placed into service during fiscal year 2004. Welfare expenses decreased by 14.4% as a result of increased expenses from the prior year for the Child Care Delivery System federal grant received in fiscal year 2003, but not in 2004. Public Works expenses also decreased by 10.1%, which was mostly attributable to a decrease of project related expenses in the Categorical Grant-In Aid fund from fiscal year 2003.

Business-type Activities/Proprietary Funds

Program revenues for the City's business-type activities totaled $103,766, which is $1,097 lower than the previous fiscal year. Expenses for business-type activities were $106,918 compared to prior years expenses of $100,939. The current year's increase in expenses is attributed to increased expenses incurred in the Airport and Environmental Services funds over the prior year. The remaining revenue was a result of interest and other miscellaneous items.





Financial Analysis of Governmental Funds

Activities of the Primary Government's General Fund, Special Revenue Funds, and Debt Service Funds are considered general government functions. The General Fund is the City's general operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted as to expenditure. The Debt Service Funds are used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations.

Revenues from taxes increased by $27,258 which was primarily attributable to: (1) a $13,173 or 8.8% increase in property tax revenue in the General Fund, (2) an $9,856 or 6.9% increase in sales tax revenue in the General Fund, and (3) a $5,345 or 5.2% increase in property tax revenue for the Debt Service Fund as a result of increased property valuation, new construction, and annexation. Revenues for the utilities category, which is represented in the City's General Fund decreased by $14,061 or 6.7%. This is primarily attributed to a decrease of $14,510 in the City's payment from CPS which is based on CPS' gross revenues. CPS revenues are impacted by a number of variables such as fuel costs, weather, types of electric generation used as well as other factors.

The total fund balance of the General Fund at year-end was $98,510, an increase of $16,868 from the total fund balance of $81,642 for the close of fiscal year 2003. The total unreserved general fund balance for fiscal year 2004 is $90,410, which represents $29,175 in designated and $61,235 in undesignated fund balance. The undesignated fund balance, which represents amounts available for additional appropriations, in the General Fund at the close of the fiscal year increased by $19,751 from the previous year.

The total fund balance of the Debt Service Fund at year-end was $83,723; a decrease of $4,165 from the total fund balance for the close of fiscal year 2003. The entire fund balance is reserved for payment of debt service.

General Fund Budgetary Highlights

Significant Variances in Budget Appropriations
General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 57,504	$ 77,710	$ 54,215
Public Safety	365,593	378,062	376,925
Public Works	14,041	10,638	10,657
Health Services	15,811	12,911	13,410
Sanitation	2,537	2,536	2,380
Welfare	17,366	16,989	16,481
Culture and Recreation	62,676	62,463	57,919
Economic Development and Opportunity	19,126	22,864	8,043
Transfers to other funds	72,786	76,111	76,441
Total	$ 627,440	$ 660,284	$ 616,471

Changes in original budget appropriations to the final amended budget appropriations were a $32,844 increase in appropriations. This increase can be summarized by the following discussion.

General Government had a $20,206 increase composed of $5,928 of budget carry forwards and a $14,278 budget increase. Of the $12,469 increase in Public Safety, $1,076 was due to budget carry forwards and an $11,393 budget increase. Public Works had a $3,403 decrease composed of an increase of $106 in budget carry forwards and a $3,509 budget decrease. Health Services had a $2,900 budget decrease, which consisted of $125 of budget carry forwards and $3,025 of budget decreases. Sanitation had a $1 budget decrease. All of the $377 decrease in Welfare was due to a budget decrease. Culture and Recreation's $213 decrease was due to a $1,098 increase for budget carry forwards and $1,311 as a decrease in budget. The $3,738 increase in Economic Development and Opportunity was due to a $169 increase in budget carry forwards and a $3,569 budget increase. The $3,325 increase in transfers was due to amounts funded from various government functions.

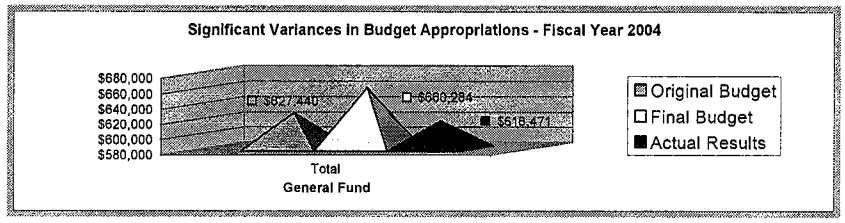
Final budgeted appropriations for the General Fund were $660,284 while actual expenditures were $616,471, creating a positive variance of $43,813. Significant variances are as follows:

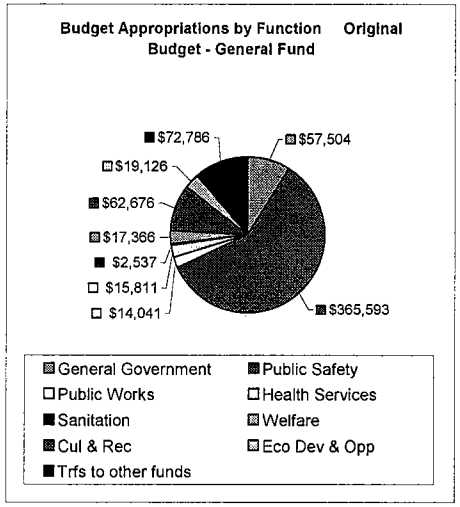
- General Government had a $23,495 positive variance, which was composed of $13,278 of budgeted salaries, $1,235 of anticipated improvements, $601 of improvements to computers to include software licenses, $210 for training and incentives, $6,533 in various contractual services, and $1,281in unrealized expenditures for commodities such as supplies and repair and maintenance, and $357 in unrealized capital expenditures.

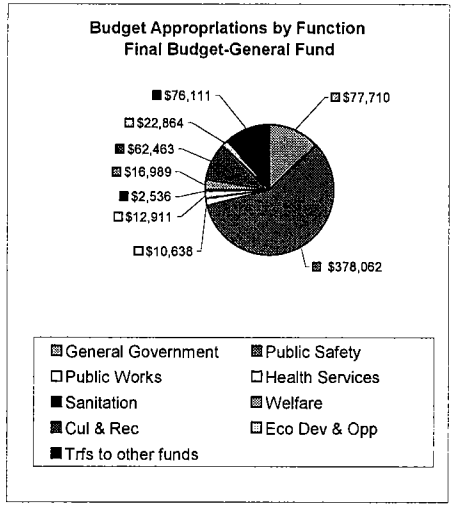
- Culture and Recreation had a positive variance of $4,544, which was due to $2,447 of budgeted salaries, $1,603 in contractual services, $449 in expenditures for commodities, and $45 in capital expenditures

- Economic Development and Opportunity had a $14,821 positive variance, which was mostly attributable to $12,000 in anticipated expenditures for infrastructure improvements to be made at Brooks City-Base. Other savings include $2,741 in contractual services and $80 in unrealized capital expenditures.

The following charts provide a comparison of the City's budget appropriations.





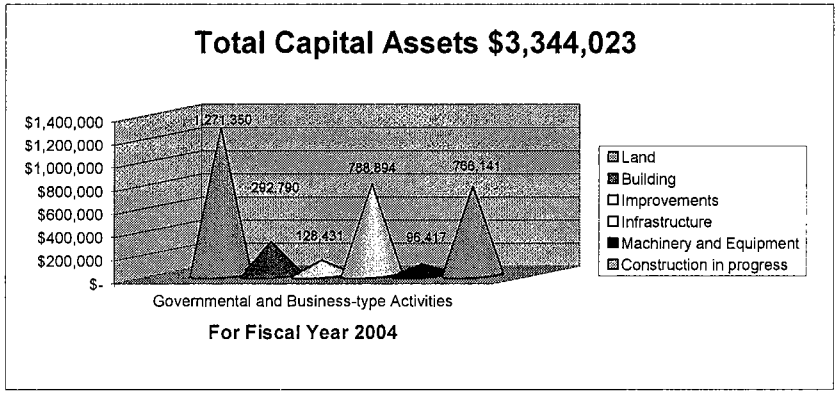


Capital Assets

The City of San Antonio's investment in capital assets for its governmental and business-type activities as of September 30, 2004, amounts to $3,344,023 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, and machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was 1.5%, which is comprised of a 1.6% increase for governmental activities and a 0.7% increase for business-type activities.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Land	$ 1,259,362	$ 1,238,908	$ 11,988	$ 11,988	$ 1,271,350	$ 1,250,896
Buildings	220,650	239,019	72,140	75,380	292,790	314,399
Improvements	40,379	34,974	88,052	92,682	128,431	127,656
Infrastructure	788,894	805,327			788,894	805,327
Machinery and Equipment	92,823	96,856	3,594	4,690	96,417	101,546
Construction in Progress	645,521	585,958	120,620	109,568	766,141	695,526
Totals	$ 3,047,629	$ 3,001,042	$ 296,394	$ 294,308	$ 3,344,023	$ 3,295,350

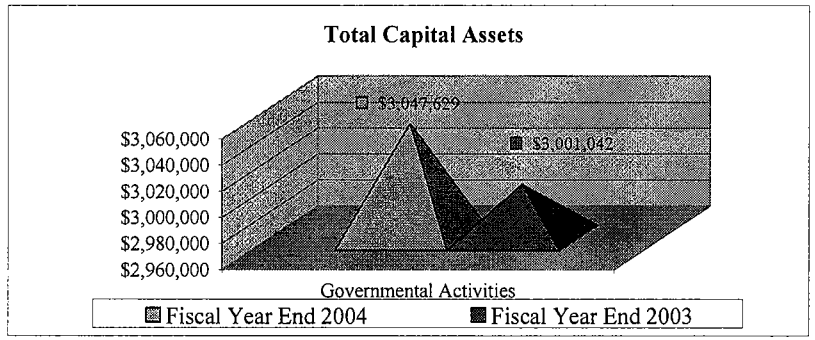
The following schedule provides a summary of the City's capital assets:

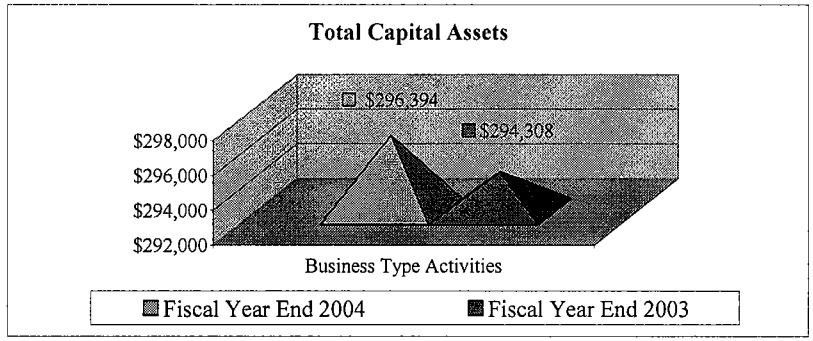


Change in Capital Assets
September 30, 2004

	Governmental Activites	Business-Type Activities	Total
Beginning Balance	$ 3,001,042	$ 294,308	$ 3,295,350
Additions	154,271	11,476	165,747
Deletions	(13,460)	(933)	(14,393)
Accumulated Depreciation	(94,224)	(8,457)	(102,681)
Total	$ 3,047,629	$ 296,394	$ 3,344,023

The following charts provide a summary of the changes in capital assets:





Additional information on the City's capital assets can be found in Note 4 of the notes to the financial statements.

Debt Administration

Long-term Debt

At the end of the current fiscal year, the City of San Antonio had a total of $1,394,988 in bonds, certificates, revenue bonds and commercial paper outstanding, an increase of 1.3% over last year. Additional information on the City of San Antonio's long-term debt, including descriptions of the new issues, can be found in Note 6 in the Notes to the Financial Statements.

City of San Antonio's Outstanding Debt
September 30, 2004 and 2003

	Governmental Activities	
	2004	2003
Bonds Payable:		
General Obligation Bonds	$ 655,141	$ 666,983
Tax-Exempt Commercial Paper		10,500
Tax-Exempt Certificate of Obligation	214,470	196,280
Taxable Certificates of Obligation	4,580	5,165
Revenue Bonds	264,697	234,918
Total	$ 1,138,888	$ 1,113,846

	Business-type Activities	
	2004	2003
Bonds Payable:		
General Obligation Bonds	$ 13,245	$ 12,475
Tax-Exempt Certificate of Obligation		135
Revenue Bonds	242,855	250,265
Total	$ 256,100	$ 262,875

On September 30, 2003, outstanding bonds, certificates and commercial paper debt totaled $1.377 billion. In April 2004, the City issued additional indebtedness for a total of $63.1 million. The $63 million was comprised of $33,570 in general obligation bonds and $29,525 in tax-exempt certificates of obligation. The general obligation bonds and certificates of obligation are to be utilized to fund capital improvement projects to include streets and pedestrian improvements, drainage improvements, library system improvements, parks and recreation improvements and public health and safety. Additionally, in April 2004, the City issued $13.2 million in taxable general obligation refunding bonds, together with a cash contribution from the City, which were used to refund $11.7 million of the City's outstanding tax supported debt, which was used to finance or refinance certain parking facilities owned and operated by the City. Hotel Occupancy Tax Subordinate Lien Revenue Refunding bonds were issued in June 2004, for the amount of $10.4 million, for the purpose of refunding certain of its outstanding Prior Lien Bonds. Another $111.4 million in Hotel Occupancy Tax Subordinate Lien Revenue and Refunding bonds were issued in June 2004, which was used, together with a cash contribution from the city, for the purpose of construction of permanent improvements relating to the expansion of the Convention Center, and refunding $82.2 million of Prior Lien Bonds.

Standard & Poor's, Moody's and Fitch's underlying rating for City obligations are as follows:

	Standard & Poor's	Moody's	Fitch
General Obligation/ Certificates of Obligation	AA+	Aa2	AA+
Airport	A+	A1	A+
Airport PFC	A-	A2	A+
Convention Center - Prior Lien	A+	A1	A+
Convention Center - Subordinate Lien	A+	A2	A
Parking	A+	A2	A+
Drainage	AA-	A1	A+

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2004 was $49,723,286, which provides a debt ceiling of $4,972,329.

Requests for Information

This financial report is designed to provide a general overview of the City's position for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, P.O. Box 839966, San Antonio, TX 78283-3966.

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City of San Antonio
Texas

Basic Financial Statements

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STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2004
(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets				
Cash and Cash Equivalents	$ 110,424	$ 1,059	$ 111,483	$ 74,287
Investments	422,178	16,481	438,659	262,991
Receivables (net)	121,452	6,102	127,554	235,559
Due from Fiduciary Funds	52		52	
Due from Other Governmental Agencies	37,443		37,443	2,589
Internal Balances	7,146	(7,146)		
Inventories of Materials and Supplies, at Cost	5,122	546	5,668	116,484
Prepaid Expenses	131	18	149	39,229
Deposits	418		418	
Restricted Assets:				
Cash and Cash Equivalents		10,548	10,548	58,157
Investments		170,403	170,403	1,251,100
Receivables - Accrued Interest		341	341	9,061
Capital Assets:				
Non-depreciable	1,904,883	132,608	2,037,491	855,860
Depreciable, net	1,142,746	163,786	1,306,532	5,966,407
Assets Held for Resale				8,147
Prepaid Rent Long Term - Leaseback				535,972
Unamortized Debt Expense	4,267	4,207	8,474	34,926
Total Assets	3,756,262	498,953	4,255,215	9,450,769
Liabilities				
Accounts Payable and Other Current Liabilities	101,868	8,081	109,949	207,349
Deferred Revenues	17,998	868	18,866	2,492
Accrued Interest	8,067	3	8,070	
Accrued Bond and Certificate Interest		2,948	2,948	6,311
Due to Other Governmental Agencies	7,754		7,754	1,107
Noncurrent Liabilities:				
Due within one year	102,305	15,096	117,401	150,974
Due in more than one year	1,210,326	244,337	1,454,663	5,068,381
Total Liabilities	1,448,318	271,333	1,719,651	5,436,614
Net Assets				
Invested in Capital Assets, net of related debt	2,118,418	197,929	2,316,347	2,790,336
Restricted for:				
Debt Service	87,311	23,720	111,031	9,968
Equipment Renewal and Replacement	12		12	620,191
Improvement and Contingency				
Conservation				158,683
Perpetual Care:				
Expendable	943		943	
Nonexpendable	1,601		1,601	
Unrestricted	99,659	5,971	105,630	434,977
Total Net Assets	$ 2,307,944	$ 227,620	$ 2,535,564	$ 4,014,155

The accompanying notes are an integral part of these financial statements.

CITY OF SAN ANTONIO, TEXAS

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CITY OF SAN ANTONIO, TEXAS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

FUNCTION/PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS – PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT: TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
General Government	$ 63,610	$ 57,203	$ 1,480	$ 0	$ (5,368)	$ 0	$ (5,368)	
Public Safety	428,607	7,172	8,347	1,893	(411,195)		(411,195)	
Public Works	116,629	28,271	3,545	7,610	(77,203)		(77,203)	
Sanitation	2,787		25		(2,762)		(2,762)	
Health Services	82,233	17,924	22,915	290	(41,104)		(41,104)	
Environmental Protection and Control	36				(36)		(36)	
Culture and Recreation	80,051	9,411	2,976	6,140	(61,083)		(61,083)	
Convention and Tourism	50,100	13,268			(36,832)		(36,832)	
Urban Redevelopment and Housing	23,981	217	23,343	460	39		39	
Welfare	116,701		95,471	221	(21,009)		(21,009)	
Economic Development Opportunity	21,277	243	10,018		(11,016)		(11,016)	
Interest on Long-term Debt	55,855				(55,855)		(55,855)	
Total governmental activities	1,041,867	133,709	168,120	16,614	(723,424)		(723,424)	
Business-type Activities								
Airport System	49,427	43,701		27		(5,699)	(5,699)	
Parking Facilities	6,264	9,647				3,383	3,383	
Environmental Services	51,227	50,391				(836)	(836)	
Total business-type activities	106,918	103,739		27		(3,152)	(3,152)	
Total primary government	$ 1,148,785	$ 237,448	$ 168,120	$ 16,641	(723,424)	(3,152)	(726,576)	
Component units:								
San Antonio Water System	256,440	241,085	0	66,291				$ 50,936
City Public Service	1,542,449	1,503,814		47,191				8,556
Other Component Units	50,767	12,112		34,836				(3,819)
Total component units	$ 1,849,656	$ 1,757,011	$ 0	$ 148,318	0	0	0	55,673
General Revenues:								
Taxes:								
Property Taxes					257,514	0	257,514	0
General Sales and Use Taxes					162,383		162,383	
Selective Sales and Use Taxes					4,189		4,189	
Gross Receipts Business Taxes					22,787		22,787	
Occupancy Taxes					46,343		46,343	
Penalties and Interest on Delinquent Taxes					2,998		2,998	
Revenues from Utilities					196,793		196,793	
Investment Earnings					7,189	2,046	9,235	73,065
Miscellaneous					28,542	10,378	38,920	6,765
Gain (Loss) on Sale of Capital Assets					611		611	(6,056)
Capital Contributions					1,585		1,585	
Transfers (net)					2,443	(2,443)		
Total General Revenues, Special Items, and Transfers					733,377	9,981	743,358	73,774
Change in Net Assets					9,953	6,829	16,782	129,447
Net Assets - Beginning					2,297,991	220,791	2,518,782	3,882,497
Prior Period Adjustment								2,211
Net Assets - Ending					$ 2,307,944	$ 227,620	$ 2,535,564	$ 4,014,155

The accompanying notes are an integral part of these financial statements.

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CITY OF SAN ANTONIO, TEXAS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2004
(In Thousands)

	MAJOR FUNDS			
	GENERAL	DEBT SERVICE	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets				
Cash and Cash Equivalents	$ 1,242	$ 21,662	$ 81,954	$ 104,858
Investments	23,303	59,903	302,269	385,475
Receivables	88,159	9,860	90,137	188,156
Allowance for Uncollectibles	(17,636)	(544)	(50,582)	(68,762)
Prepaid Expenditures	50		78	128
Due from Other Funds	39,888	1,054	3,991	44,933
Due from Other Governmental Agencies	336		36,926	37,262
Allowance for Uncollectibles			(331)	(331)
Inventories of Materials and Supplies, at Cost	2,395		1,115	3,510
Deposits			261	261
Total Assets	$ 137,737	$ 91,935	$ 465,818	$ 695,490
Liabilities and Fund Balances				
Liabilities:				
Vouchers Payable	$ 0	$ 0	$ 66	$ 66
Accounts Payable - Other	5,355		32,403	37,758
Accrued Payroll	7,196		2,444	9,640
Accrued Leave Payable	4,607		1,166	5,773
Deferred Revenues	18,482	8,212	25,202	51,896
Due To:				
Other Funds	3,587		42,999	46,586
Other Governmental Agencies			7,043	7,043
Total Liabilities	39,227	8,212	111,323	158,762
Fund Balances:				
Reserved:				
Reserved for Encumbrances	5,655		125,719	131,374
Reserved for Inventories	2,395		1,116	3,511
Reserved for Prepaid Expenditures	50		78	128
Reserved for Debt Service		83,723		83,723
Unreserved:				
Designated	29,175			29,175
Designated: Special Revenue Funds			7,844	7,844
Designated: Permanent Funds			2,601	2,601
Undesignated	61,235			61,235
Undesignated: Special Revenue Funds			61,749	61,749
Undesignated: Capital Projects Funds			145,090	145,090
Undesignated: Permanent Funds			10,298	10,298
Total Fund Balances	98,510	83,723	354,495	536,728
Total Liabilities and Fund Balances	$ 137,737	$ 91,935	$ 465,818	$ 695,490

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
AS OF SEPTEMBER 30, 2004
(In Thousands)

Fund Balances - Total Governmental Funds		$ 536,728
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets		
Land and Land Improvements	1,259,362	
Construction In Progress	645,521	
Buildings	387,648	
Improvements	77,538	
Infrastructure Assets	1,979,118	
Machinery and Equipment	88,714	
Less: Accumulated Depreciation	(1,430,525)	
Total Capital Assets		3,007,376
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds.		35,154
Internal service funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.		37,575
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Governmental bonds payable	(1,158,521)	
Premium on bonds	(40,343)	
Deferred Amount on Refunding	15,863	
Leases Payable	(6,545)	
Unamortized Debt Expense	4,267	
Accrued Interest	(8,067)	
Arbitrage Rebate	(968)	
Compensated Absences	(114,575)	
		(1,308,889)
Net assets of governmental activities		$ 2,307,944

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

	MAJOR FUNDS			
	GENERAL	DEBT SERVICE	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues				
Taxes:				
Property Taxes	$ 162,629	$ 94,056	$ 1,346	$ 258,031
General Sales and Use Taxes	148,492		13,891	162,383
Selective Sales and Use Taxes	4,189			4,189
Gross Receipts Business Taxes	26,550			26,550
Occupancy Taxes			46,343	46,343
Penalties and Interest on Delinquent Taxes	1,848	1,080	70	2,998
Licenses and Permits	17,026			17,026
Intergovernmental	2,696		179,021	181,717
Revenues from Utilities	196,405			196,405
Charges for Services	30,029		63,780	93,809
Fines and Forfeits	11,713			11,713
Miscellaneous	9,644		24,682	34,326
Interest	1,115	1,967	3,814	6,896
In-Kind Contributions			10,407	10,407
Total Revenues	612,336	97,103	343,354	1,052,793
Expenditures				
Current:				
General Government	53,456		6,145	59,601
Public Safety	375,316		16,634	391,950
Public Works	10,657		54,548	65,205
Health Services	13,384		66,459	79,843
Environmental Protection and Control			30	30
Sanitation	2,380			2,380
Welfare	15,921		99,693	115,614
Culture and Recreation	57,073		17,270	74,343
Convention and Tourism			48,188	48,188
Urban Redevelopment and Housing			23,904	23,904
Economic Development and Opportunity	7,688		12,546	20,234
Capital Projects			130,981	130,981
Debt Service:				
Principal Retirement		72,410		72,410
Interest		52,558		52,558
Issuance Costs		2,061		2,061
Total Expenditures	535,875	127,029	476,398	1,139,302
Excess (Deficiency) of Revenues Over (Under) Expenditures	76,461	(29,926)	(133,044)	(86,509)
Other Financing Sources (Uses)				
Long-Term Debt Issued		97,770	88,821	186,591
Payments to Refunded Bond Escrow Agent		(99,526)		(99,526)
Premium on Long-term Debt		4,879	4,609	9,488
Transfers In	15,348	22,638	143,571	181,557
Transfers Out	(74,941)		(106,182)	(181,123)
Total Other Financing Sources (Uses)	(59,593)	25,761	130,819	96,987
Net Change in Fund Balances	16,868	(4,165)	(2,225)	10,478
Fund Balances, October 1	81,642	87,888	356,720	526,250
Fund Balances, September 30	$ 98,510	$ 83,723	$ 354,495	$ 536,728

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

Net change in Fund Balances - Total Governmental Funds		$ 10,478
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Expenditures for capital assets	139,866	
Less current year deletions	(1,757)	
Less current year depreciation	(88,738)	49,371
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(6,078)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.		
Bond and loan amounts	(196,079)	
Bond costs	2,055	
Payments to Escrow Agent	99,526	
Amortization of Bond Premiums and Deferred Charges (net)	(1,167)	
Principal payments	72,410	(23,255)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(1,564)
Internal service funds are used by management to charge the cost of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.		(18,999)
Change in net assets of governmental activities		$ 9,953

The accompanying notes are an integral part of these financial statements.

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2004
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 335	$ 126	$ 598	$ 1,059	$ 5,566
Investments	10,554	2,919	3,008	16,481	36,703
Receivables:					
Other Accounts	1,642	59	2	1,703	2,388
Less: Allowance for Uncollectibles	(437)	(57)		(494)	(1,566)
Accrued Interest	27	7	9	43	116
Accrued Revenue	756		4,094	4,850	555
Due From Other Funds	668			668	23,848
Due From Other Governmental Agencies					678
Less: Allowance for Uncollectibles					(166)
Inventories	335	199	12	546	1,612
Prepaid Expenses	18			18	3
Deposits					157
Total Current Assets	13,898	3,253	7,723	24,874	69,894
Noncurrent Assets:					
Restricted Assets:					
Debt Service Accounts:					
Cash and Cash Equivalents	6,687	1,668		8,355	
Investments	17,430	855		18,285	
Receivables-Accrued Interest	30	3		33	
Due From Other Funds	67			67	
Construction Accounts:					
Cash and Cash Equivalents	40	365	62	467	
Investments	102,015	8,067	343	110,425	
Receivables-Accrued Interest	214	22	1	237	
Due From Other Funds	761			761	
Improvement and Contingency Accounts:					
Cash and Cash Equivalents	1,203	310	81	1,594	
Investments	39,211	1,413	406	41,030	
Receivables-Accrued Interest	65	3	1	69	
Other Restricted Accounts:					
Cash and Cash Equivalents	132			132	
Investments	663			663	
Receivables-Accrued Interest	2			2	
Due From Other Funds	2			2	
Total Restricted Assets	168,522	12,706	894	182,122	
Capital Assets:					
Land	2,970	8,125	893	11,988	
Buildings	115,656	18,985	46	134,687	178
Improvements Other Than Buildings	156,110	1,283	3,025	160,418	194
Machinery and Equipment	10,299	571	3,743	14,613	109,387
Construction in Progress	107,750	12,434	436	120,620	
Total Capital Assets	392,785	41,398	8,143	442,326	109,759
Less: Accumulated Depreciation	133,194	9,455	3,283	145,932	69,506
Net Capital Assets	259,591	31,943	4,860	296,394	40,253
Unamortized Debt Expense	3,342	865		4,207	
Total Assets	$ 445,353	$ 48,767	$ 13,477	$ 507,597	$ 110,147

The accompanying notes are an integral part of these financial statements.

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2004
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES					
Current Liabilities:					
Vouchers Payable	$	$	$	$ -	$
Accounts Payable-Other	4,213	75	2,749	7,037	53,581
Accrued Payroll	421	80	543	1,044	821
Accrued Leave Payable	174	18	137	329	649
Deferred Revenues	868			868	693
Accrued Interest			3	3	
Due to Other Funds	73	2		75	22,335
Total Current Liabilities Payable from Current Assets	5,749	175	3,432	9,356	78,079
Current Liabilities Payable from Restricted Assets:					
Accrued Bond and Certificate Interest	2,939	7	2	2,948	
Current Portion of Bonds and Certificates	8,390	1,580		9,970	
Due to Other Funds	448	783		1,231	
Lease Purchase			143	143	146
Other Payables	3,084	519	1,051	4,654	
Total Current Liabilities Payable from Restricted Assets	14,861	2,889	1,196	18,946	146
Total Current Liabilities	20,610	3,064	4,628	28,302	78,225
Noncurrent Liabilities					
Revenue Bonds (Net of Current Portion)	210,020	23,995		234,015	
General Obligation Bonds and Certificates (Net of Current Portion)		12,115		12,115	
Unamortized Premium/Discount on New Series	2,752	(768)		1,984	
Less: Deferred Amount on Refunding	(4,037)	(1,648)		(5,685)	
Accrued Leave Payable	872	89	684	1,645	539
Lease Purchase			263	263	435
Due to Other Governmental Agencies					711
Total Noncurrent Liabilities	209,607	33,783	947	244,337	1,685
Total Liabilities	230,217	36,847	5,575	272,639	79,910
NET ASSETS					
Invested In Capital Assets, net of related debt	145,574	4,754	4,858	155,186	40,057
Restricted:					
Debt Service	21,268	2,452		23,720	
Renewal and Replacement Improvements and Contingency	41,017	1,726		42,743	
Unrestricted	7,277	2,988	3,044	13,309	(9,820)
Total Net Assets	$ 215,136	$ 11,920	$ 7,902	$ 234,958	$ 30,237
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(7,338)	
Net assets of business-type activities.				$ 227,620	

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues					
Charges for Services	$ 43,701	$ 9,647	$ 50,391	$ 103,739	$ 151,190
Total Operating Revenues	43,701	9,647	50,391	103,739	151,190
Operating Expenses					
Personal Services	16,659	2,986	22,321	41,966	35,771
Contractual Services	8,481	1,069	20,950	30,500	88,806
Commodities	1,256	443	3,300	4,999	4,924
Materials					16,572
Other	1,703	463	2,410	4,576	18,794
Depreciation	7,996	556	419	8,971	14,491
Total Operating Expenses	36,095	5,517	49,400	91,012	179,358
Operating Income (Loss)	7,606	4,130	991	12,727	(28,168)
Nonoperating Revenues (Expenses)					
Interest and Other	1,825	166	55	2,046	626
Other Nonoperating Revenue	9,890	1,572	114	11,576	1,624
Gain (Loss) on Sale of Fixed Assets	(9)	(199)	(23)	(231)	610
Interest and Debt Expense	(11,983)	(1,551)	(20)	(13,554)	(31)
Other Nonoperating Expense	(555)	(18)		(573)	
Total Nonoperating Revenues (Expenses)	(832)	(30)	126	(736)	2,829
Change in Net Assets Before Contributions and Transfers	6,774	4,100	1,117	11,991	(25,339)
Capital Contributions	27			27	1,585
Transfers In (Out)					
Transfers In	761	421	35	1,217	6,512
Transfers Out	(477)	(1,523)	(1,660)	(3,660)	(4,503)
Total Transfers	284	(1,102)	(1,625)	(2,443)	2,009
Change In Net Assets	7,085	2,998	(508)	9,575	(21,745)
Net Assets - Beginning	208,051	8,922	8,410		51,982
Net Assets - Ending	$ 215,136	$ 11,920	$ 7,902		$ 30,237
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(2,746)	
Change in net assets of business-type activities.				$ 6,829	

The accompanying notes are an integral part of these financial statements.

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—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities					
Cash Received from Customers	$ 44,845	$ 9,672	$ 50,649	$ 105,166	$ 148,014
Cash Payments to Suppliers for Goods and Services	(10,678)	(1,981)	(27,330)	(39,989)	(126,451)
Cash Payments to Employees for Service	(16,500)	(2,978)	(22,222)	(41,700)	(35,482)
Other Nonoperating Revenues	9,890	1,572	114	11,576	1,624
Net Cash Provided by (Used for) Operating Activities	27,557	6,285	1,211	35,053	(12,295)
Cash Flows from Non-Capital Financing Activities					
Transfers In from Other Funds	761	421	35	1,217	6,512
Transfers Out to Other Funds	(477)	(1,523)	(1,660)	(3,660)	(4,503)
Due to/from Other Funds	(1,056)	2	(6)	(1,060)	995
Net Cash Provided by (Used for) Non-Capital Financing Activities	(772)	(1,100)	(1,631)	(3,503)	3,004
Cash Flows from Capital and Related Financing Activities					
Acquisitions and Construction of Capital Assets	(10,429)	(2,243)	41	(12,631)	(11,579)
Proceeds from Issuance of Long-Term Debt		13,233		13,233	278
Principal Payments on Long-Term Debt	(7,010)	(505)	(138)	(7,653)	(19)
Interest Paid on Long-Term Debt	(12,057)	(1,820)	(21)	(13,898)	
Debt Issuance Costs		(266)		(266)	
Defeasance of Revenue Bonds		(12,505)		(12,505)	
Principal Payments on Notes					(139)
Interest Paid on Notes					(13)
Proceeds from Sale of Assets	13			13	2,091
Net Cash Provided by (Used for) Capital and Related Financing Activities	(29,483)	(4,106)	(118)	(33,707)	(9,381)
Cash Flows from Investing Activities:					
Purchases of Investment Securities	(498,931)	(67,546)	(10,845)	(577,322)	(105,949)
Maturity of Investment Securities	424,735	61,708	9,388	495,831	98,202
Interest on Investments	1,728	149	51	1,928	594
Net Cash Provided by (Used for) Investing Activities	(72,468)	(5,689)	(1,406)	(79,563)	(7,153)
Net Increase (Decrease) in Cash and Cash Equivalents	(75,166)	(4,610)	(1,944)	(81,720)	(25,825)
Cash and Cash Equivalents, October 1	83,563	7,079	2,685	93,327	31,391
Cash and Cash Equivalents, September 30	$ 8,397	$ 2,469	$ 741	$ 11,607	$ 5,566

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities					
Operating Income (Loss)	$ 7,606	$ 4,130	$ 991	$ 12,727	$ (28,168)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided Used for Operating Activities:					
Depreciation	7,996	556	419	8,971	14,491
Other Nonoperating Revenues	9,890	1,572	114	11,576	1,624
Changes in Assets and Liabilities:					
(Increase) Decrease In Other Accounts Receivable	1,181	11		1,192	(2,146)
(Increase) Decrease In Allowance for Uncollectibles	(68)	(12)		(80)	1,473
(Increase) Decrease In Accrued Revenues	9	26	258	293	(468)
(Increase) In Due from Other Funds					(2,722)
(Increase) In Due from Other Gov'tl Agencies					(187)
(Increase) Decrease In Inventories	112	(10)	3	105	133
(Increase) In Prepaid Expenses					(2)
Decrease In Deposits					116
(Decrease) In Vouchers Payable	(275)	(12)	(1,501)	(1,788)	(2,920)
Increase In Other Payables	927	16	828	1,771	5,206
Increase In Due to Other Funds		8		8	305
Increase In Accrued Payroll	114		122	236	216
Increase (Decrease) In Accrued Leave Payable	44		(23)	21	71
(Decrease) in Contracts Payable					(10)
Increase In Deferred Revenue	21			21	693
Net Cash Provided by (Used for) Operating Activities	$ 27,557	$ 6,285	$ 1,211	$ 35,053	$ (12,295)
Noncash Investing, Capital and Financing Activities:					
Acquisitions and Construction of Capital Assets from Capital Contributions	$ 27	$	$	$ 27	$
Net (Decrease) in Fair Value of Investments	$	$	$	$	$

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF FIDUCIARY NET ASSETS/BALANCE SHEET
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2004
(In Thousands)

ASSETS	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Current Assets			
Cash and Cash Equivalents	$ 141,645	$ 5	$ 9,016
Security Lending Collateral	159,835		
Investments, at fair value:			
US Government and Agency Issues	141,387	27	
Corporate Bonds	187,849		
Preferred Common Stock	52,773		
Other	1,131,249		
Total Investments, at fair value	1,513,258	27	
Receivables:			
Other Accounts	5,504		437
Accrued Interest	5,641		2
Accrued Revenue	1,186		
Prepayments	15		
Total Current Assets	1,827,084	32	9,455
Capital Assets			
Computer Equipment	76		
Buildings	556		
Total Capital Assets	632		
Less: Accumulated Depreciation	(322)		
Net Capital Assets	310		
Total Assets	1,827,394	32	$ 9,455
LIABILITIES			
Vouchers Payable	3,550		
Accounts Payable- Other	43,055		9,399
Accrued Payroll	71		4
Due to Other Funds			52
Securities Lending	159,835		
Total Liabilities	206,511	0	$ 9,455
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	$ 1,620,883	$ 32	

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS:		
Contributions:		
Employer	$ 64,601	$ 0
Employee	26,631	
Other Contributions		6
Total Contributions	91,232	6
Investment Earnings:		
Net Increase in Fair Value of Investments	144,560	
Real Estate Income, net	340	
Interest and Dividends	32,429	
Securities Lending	1,429	
Other Income	739	
Total Investment Earnings	179,497	
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(6,615)	
Securities Lending Expenses:		
Borrower Rebates	(1,037)	
Lending Fees	(137)	
Net Investment Income	171,708	
Total Additions	262,940	6
DEDUCTIONS:		
Benefits	73,976	
Refunds of Contributions	418	16
Administrative Expense	1,539	
Salaries, Wage and Employee Benefits	517	
Total Deductions	76,450	16
Change in Net Assets	186,490	(10)
Net Assets - Beginning of Year	1,434,393	42
Net Assets - End of Year	$ 1,620,883	$ 32

The accompanying notes are an integral part of these financial statements.

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2004
(In Thousands)

ASSETS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Assets:				
Cash and Cash Equivalents	$	$ 51,532	$ 22,755	$ 74,287
Investments	24,136	238,813	42	262,991
Receivables:				
Notes			12,177	12,177
Other Accounts	28,116	187,995	3,421	219,532
Accrued Interest	1,911	1,864	75	3,850
Inventories of Materials and Supplies	4,858	111,579	47	116,484
Due from Other Governmental Agencies			2,589	2,589
Prepaid Expenses	3,292	35,652	285	39,229
Total Current Assets	62,313	627,435	41,391	731,139
Noncurrent Assets:				
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents		13		13
Investments	11,467			11,467
Receivables-Accrued Interest				
Construction Accounts:				
Cash and Cash Equivalents	38,397			38,397
Investments	235,119	18,253		253,372
Receivables-Accrued Interest		658		658
Repair and Replacement Account:				
Cash and Cash Equivalents				
Investments		612,556		612,556
Receivables-Accrued Interest		5,433		5,433
Conservation Accounts:				
Investments	5,823			5,823
Improvement and Contingency Accounts:				
Investments	12,007			12,007
Other Restricted Accounts:				
Cash and Cash Equivalents		16,931	2,816	19,747
Investments		355,875		355,875
Receivables-Accrued Interest		2,970		2,970
Total Noncurrent Assets	302,813	1,012,689	2,816	1,318,318
Capital Assets:				
Land	86,758	55,196	8,494	150,448
Infrastructure			33,680	33,680
Buildings			95,327	95,327
Utility Plant in Service	2,145,315	6,709,503		8,854,818
Machinery and Equipment	99,236		60,779	160,015
Construction in Progress	428,226	248,585	16,002	692,813
Utility Property Leased		18,785		18,785
Nuclear Fuel - Net		302,379		302,379
Non-utility Property - Land		12,599		12,599
Total	2,759,535	7,347,047	214,282	10,320,864
Less: Accumulated Depreciation	743,692	2,725,483	29,422	3,498,597
Net Capital Assets	2,015,843	4,621,564	184,860	6,822,267
Assets Held for Resale	8,147			8,147
Prepaid Rent Long Term-Leaseback		535,972		535,972
Unamortized Debt Expense	9,350	25,576		34,926
Total Assets	$ 2,398,466	$ 6,823,236	$ 229,067	$ 9,450,769

The accompanying notes are an integral part of these financial statements.

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2004
(In Thousands)

LIABILITIES	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Liabilities:				
Accounts Payable and Other Current Liabilities	$ 25,503	$ 166,724	$ 15,122	$ 207,349
Deferred Revenues			2,492	2,492
Notes Payable	647		715	1,362
Due to Other Governmental Agencies			1,107	1,107
Total Current Liabilities (Payable from Current Assets)	26,150	166,724	19,436	212,310
Current Liabilities (Payable from Restricted Assets):				
Accrued Bond and Certificate Interest	6,311			6,311
Current Portion of Bonds and Certificates	7,735	121,245		128,980
Other Payables	16,774		3,858	20,632
Total Current Liabilities (Payable from Restricted Assets)	30,820	121,245	3,858	155,923
Total Current Liabilities	56,970	287,969	23,294	368,233
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	1,040,710	2,501,225		3,541,935
Commercial Paper	269,000	350,000		619,000
Unamortized Premium on New Series Bonds	7,955	103,956		111,911
Plus: Unamortized Discount on New Series Bonds	(13,753)			(13,753)
Deferred Amount on Refunding	(24,004)	(158,721)		(182,725)
Long-Term Lease/Notes Payable	2,012	611,015	77,606	690,633
Other Payables	1,390	298,416	1,574	301,380
Total Noncurrent Liabilities	1,283,310	3,705,891	79,180	5,068,381
Total Liabilities	1,340,280	3,993,860	102,474	5,436,614
NET ASSETS				
Invested in Capital Assets, net of related debt	972,501	1,722,770	95,065	2,790,336
Restricted for Renewal and Replacement		617,989	2,202	620,191
Restricted for Debt Service	5,156	13	4,799	9,968
Restricted for Conservation	5,823	152,765	95	158,683
Unrestricted	74,706	335,839	24,432	434,977
Total Net Assets	$ 1,058,186	$ 2,829,376	$ 126,593	$ 4,014,155

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

		Program Revenues		Net (Expense) Revenue and Changes In Net Assets			
	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTALS
San Antonio Water System	$ 256,440	$ 241,085	$ 66,291	$ 50,936	$	$	$ 50,936
City Public Service	1,542,449	1,503,814	47,191		8,556		8,556
Nonmajor Component Units	50,767	12,112	34,836			(3,819)	(3,819)
Total	$ 1,849,656	$ 1,757,011	$ 148,318	50,936	8,556	(3,819)	55,673
General Revenues:							
Investment Earnings				5,659	66,697	709	73,065
(Loss) on Disposal of Capital Assets				(389)		(5,667)	(6,056)
Miscellaneous					3,073	3,692	6,765
Total General Revenues				5,270	69,770	(1,266)	73,774
Change in Net Assets				56,206	78,326	(5,085)	129,447
Net Assets - Beginning				1,000,559	2,751,050	130,887	3,882,496
Prior Period Adjustment				1,421		791	2,212
Net Assets - Ending				$ 1,058,186	$ 2,829,376	$ 126,593	$ 4,014,155

The accompanying notes are an integral part of these financial statements.

TABLE OF NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2004

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of San Antonio (City) have been prepared in conformance with generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

A. Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14". The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials, and accordingly, the definition of the financial reporting entity is based on accountability.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable (blended), and (c) component units, which the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statement No. 39 and Statement No. 14 outlined below, potential component units were evaluated for inclusion in or exclusion from the reporting entity, whether the organizations were financially accountable or not, and were further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others only discretely presented.

The following criteria (as set forth in GASB Statement No. 14 and Statement No. 39) were used in the evaluation of potential component units of the City:

1) Legally separate

2) Financial accountability
   a) Appointment of a voting majority
   b) Imposition of will
   c) Financial benefit to or burden on the City
   d) Fiscal dependency

3) The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete.

4) Service rendered by the potential component unit is provided entirely or almost entirely to the City.

5) The City, or its component units, are entitled to, or have the ability to access, the majority of the resources received or held by the separate organization.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The criteria outlined above were excerpted from GASB Statement No. 14 and Statement No. 39. For a more detailed explanation of the criteria established by the statements, we refer the reader to the Codification of Governmental Accounting and Financial Reporting Standards, as of June 30, 2004, published by GASB, Section 2600. GASB Statement No. 39 further clarifies that a not-for-profit may not be financially accountable to the City, but may be considered a component unit based on the nature and significance of their relationship with the City. Based upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity:

Blended with the Primary Government (the relationship among the following component units and the City meet the criteria, as set forth in GASB Statement No. 14 and Statement No. 39, for inclusion in the Reporting Entity and is such that the financial statements are blended in with those of the City):

As set forth in GASB Statement No. 34, "Basic Financial Statements--and Management's Discussion and Analysis—for State and Local Governments", the City excludes fiduciary funds and component units that are fiduciary in nature from the government-wide financial statements. The City's component units that are fiduciary in nature are the San Antonio Fire and Police Pension Fund and the San Antonio Fire and Police Retiree Health Care Fund. These component units are presented in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

City of San Antonio Health Facilities Development Corporation

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of, the City as a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The HFDC is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

City of San Antonio Industrial Development Authority

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979, in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City as an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects which may further the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The IDA is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

San Antonio Fire and Police Pension Fund

The San Antonio Fire and Police Pension Fund (Pension Fund) is a Single Employer Defined Benefit Plan established in accordance with state law. The Pension Fund is administered by a nine member Board of Trustees, including three City Council members. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state law. Benefit levels are also set by state law. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers upon retirement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Fire and Police Retiree Health Care Fund

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide postemployment healthcare benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these postemployment healthcare benefits for eligible uniformed employees of the City. The Health Fund is administered by a nine-member board of trustees, including three City Council Members, and is funded primarily by contributions from the City and contributions made by active and retirees on behalf of their dependents. The City and active and retiree contribution rates are established pursuant to the Fire and Police collective bargaining agreements.

City of San Antonio Texas Municipal Facilities Corporation

The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in fiscal year 2001 in accordance with state law for the purposes of and to act on behalf of the City in acquisition, construction, equipping, financing, operation and maintenance of land and other municipal facilities for the City. The TMFC is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

City of San Antonio Texas Starbright Industrial Development Corporation

The City of San Antonio Texas Starbright Industrial Development Corporation (TSIDC) was established in fiscal year 2003 in accordance with state law for the purposes of and to act on behalf of the City in the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare, including but not limited to the acquisition of land. The TSIDC is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

Discretely Presented With the Primary Government (the relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statement No. 14 and Statement No. 39, for inclusion in the reporting entity, and accordingly are included, however are such that the financial statements are discretely presented alongside, but not blended with those of the City):

San Antonio Water System

On February 13, 1992, the City Council determined it was in the best interest of the citizens of San Antonio and the customers served by the water and wastewater utilities to consolidate all water utilities, agencies, and activities into one institution. It was determined that the best mechanism for effecting the consolidation of all water systems, agencies, and activities into a single institution was through a refunding of all the then outstanding water and sewer bonds. The consolidation was consummated on May 19, 1992, with the creation of the San Antonio Water System (SAWS) that included the former City Water Board, Alamo Water Conservation and Re-use District, and the City's Sewer and Stormwater system.

Additionally, it was further determined by the City Council that the interests of the citizens and customers could best be served by placing authority for management and control of SAWS, as consolidated, in a Board of Trustees. This Board of Trustees includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. The rates for user charges and bond issuance authorizations are approved by the City Council.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

City Public Service

City Public Service (CPS), a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS is governed by a Board of Trustees, which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. The rates for user charges and bond issuance authorizations are approved by the City Council.

San Antonio Development Agency

The San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the State of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate, for urban renewal, such areas, as it deems advisable, subject to approval by the City Council and the Federal Agency, which administers the overall program. SADA receives a majority of its operating funds from the City as pass-through grant funds and is governed by a seven member Board of Commissioners appointed by the City Council.

San Antonio Education Facilities Corporation

The City of San Antonio Higher Education Authority (SAHEA) was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and as its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to the San Antonio Education Facilities Corporation (SAEFC). The Act authorizes the SAEFC to issue revenue bonds for these purposes on behalf of the City but the bonds are not obligations of the City. SAEFC is governed by an eleven member Board of Directors appointed by the City Council for two-year terms. Board members are subject to removal by the City Council for cause or at will and the City reserves the right to terminate and dissolve the SAEFC at any time.

Greater Kelly Development Authority

The Greater Kelly Development Corporation (GKDC) was established in 1996 as the local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base (Kelly). In November 1999, the City established the Greater Kelly Development Authority (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA will have the powers previously enjoyed by the GKDC while at the same time clarifying such powers and preserving the property tax exempt status of prior commercial tenants at Kelly. The GKDA is a special district and political subdivision of the State of Texas and was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The GKDA is governed by an eleven member Board of Directors, appointed by the City Council. The City Council also has the ability to remove appointed members of the organization's governing board at will. The GKDA is authorized to issue bonds to finance any project as permitted by Texas Law, but said bonds are not obligations of the City.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Housing Trust Foundation, Inc.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) is a non-profit corporation incorporated in 1990 under the laws of the State of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, specifically for providing housing for low and middle income families and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, a Permanent Fund of the City. The Housing Trust Fund was established by the City for the purposes of providing additional and continuing housing opportunities for low and moderate-income families; promoting public health, safety, convenience, and welfare; and revitalizing neighborhoods and the downtown area through appropriate housing activities. SAHTF is governed by an eleven member Board of Directors appointed by the City Council. SAHTF administers The San Antonio Housing Trust Finance Corporation. The City has the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the SAHTF as it authorizes a contract for the administration and management of the operations on an annual basis.

San Antonio Local Development Company, Inc. dba South Texas Business Fund (STBF)

The San Antonio Local Development Company Inc. (SALDC) is a non-profit corporation organized in 1978 under the laws of the State of Texas and the auspices of the City. In 2004, SALDC changed its name to the San Antonio Local Development Company dba South Texas Business Fund (STBF). The STBF also expanded the area served from twelve counties to all of the counties in the state of Texas. STBF was formed to participate in the Neighborhood Business Revitalization Program (NBRP), which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration, and the U.S. Department of Housing and Urban Development (HUD). STBF is governed by a thirty-three member Board of Trustees, appointed by the City Council, and an eleven member Board of Directors appointed from the Board of Trustees. STBF, under agreement with the City, administers and operates a revolving loan fund, NBRP, that provides qualifying local businesses with loans under economic development programs administered by the SBA. STBF also administers, by agreement with the City, a U.S. Department of Commerce Title IX Revolving Loan Fund, SBA MicroLoan Program, and a HUD 108 Fund. Currently, STBF has an outstanding note payable to HUD, which is guaranteed by the City.

Brooks Development Authority

The Brooks Development Authority (BDA) is a special district and political subdivision of the State of Texas. It was established on September 27, 2001, as a defense base development authority in accordance with state law for the purposes of and to act on behalf of the City in improving mission effectiveness, reduce the cost of providing quality installation support through improved capital asset management and promote economic development on Brooks Air Force Base and in the surrounding community. An eleven member Board of Directors appointed by the City Council governs the BDA for two-year terms and will oversee the Brooks Technology and Business Park in support of the Brooks City-Base Project. The City has the ability to impose its will on this organization as the City Council has the power to remove board members by adopting a resolution.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office. The addresses are as follows:

Discretely Presented Component Units

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298
Contact Person: Stacey L. Isenberg
Telephone No. (210) 704-7431

City Public Service
P.O. Box 1771
San Antonio, Texas 78296-1771
Contact Person: Richard E. Williamson
Telephone No. (210) 353-2397

San Antonio Development Agency
P. O. Box 831386
San Antonio, Texas 78283-1386
Contact Person: Felix Lopez
Telephone No. (210) 207-5444

San Antonio Education Facilities Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

Greater Kelly Development Authority
143 Billy Mitchell Blvd., Ste 6
San Antonio, Texas 78226
Contact Person: Bruce Miller
Telephone No. (210) 362-7800

San Antonio Housing Trust Foundation, Inc.
2515 Blanco Rd.
San Antonio, Texas 78212
Contact Person: John Kenny
Telephone No. (210) 735-2772

San Antonio Local Development Company Inc.
dba South Texas Business Fund
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

Brooks Development Authority
8030 Challenger Drive
Brooks City-Base, Texas 78235
Contact Person: Virginia Cobarrubias
Telephone No. (210) 536-6710

Blended Component Units

San Antonio Health Facilities Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Industrial Development Authority
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Fire and Police Retiree Health Care Fund
300 Convent Street, Suite 2500
San Antonio, Texas 78205
Contact Person: Paul Villarreal
Telephone No. (210) 220-1385

San Antonio Fire and Police Pension Fund
311 Roosevelt
San Antonio, Texas 78210-2700
Contact Person: Warren Schott
Telephone No. (210) 534-3262

San Antonio Texas Municipal
Facilities Corporation
P.O. Box 839966
San Antonio, Texas 78283
Contact Person: Milo Nitschke
Telephone No. (210) 207-8620

San Antonio Texas Starbright Industrial
Development Corp.
P.O. Box 839966
San Antonio, TX 78283
Contact Person: Milo Nitschke
Telephone No. (210) 207-8620

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS and SAWS would be misleading. CPS and SAWS have been identified as major discretely presented component units both as they relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements. Discretely presented component units with different fiscal year ends from the City are the San Antonio Water System with a fiscal year-end of December 31, and City Public Service with a fiscal year-end of January 31.

Related Organizations

The City Council appoints the members to the Board of Directors for the San Antonio Housing Authority. However, the City's accountability for this entity does not extend beyond making appointments to the Board of Directors and the coordination and approval of strategic plans.

B. Basic Financial Statements – GASB Statement No. 34

Effective October 1, 2001, the City implemented the provisions of GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments". In fiscal year 2003, the City implemented the portion of GASB Statement No. 38, "Certain Financial Statement Note Disclosures" relating to the disaggregation of receivable and payable balances. These statements comply with the requirements of the new reporting model.

Government-wide and Fund Financial Statements

The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, the City has early implemented requirements for infrastructure reporting. GASB Statement No. 34 requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of the capital assets, as well as the related depreciation, to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

The Statement of Net Assets reflects both short-term and long-term assets and liabilities. In the Government-wide Statement of Net Assets governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges for services. Long-term assets, such as capital assets, infrastructure assets, and long-term obligations are now reported with the assets of governmental activity. The components of net assets, previously shown as fund balances, are presented in three separate components; 1) Invested in Capital Assets, net of related debt, 2) Restricted, and 3) Unrestricted. Interfund receivables and payables between governmental and business-type activities have been eliminated in the government-wide Statement of Net Assets, which minimizes the duplicating of assets and liabilities within the governmental and business-type activities. Component units are reported in the Statement of Net Assets as well.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements – GASB Statement No. 34 (Continued)

Government-wide and Fund Financial Statements (Continued)

The Statement of Activities reflects both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales tax, intergovernmental revenues, etc.). Direct (gross) expenses of a given function or segment are offset by program revenues, and operating and capital grants. Program revenues must be directly associated with the function of business-type activity. The presentation allows users to determine which functions are self-supporting, and which rely on the tax base in order to complete their mission. Internal service fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental and business-type activities of the Statement of Activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the internal service fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the internal service funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets. The only reconciling item is the internal service fund allocation.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: Governmental Funds, Proprietary Funds, and Fiduciary Funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported separately in the Fund Financial Statements. Nonmajor funds are independently presented in the combining statements.

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund is a follows: The total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type (that is, total governmental or total enterprise funds), and total assets and liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

The following is a brief description of the major governmental funds that are each presented in a separate column in the fund financial statements:

The General Fund is always presented as a major fund.

The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs except that which is accounted for in proprietary type funds.

The following is a brief description of the major enterprise funds that are each presented in a separate column in the fund financial statements:

The Airport System accounts for the operation of the San Antonio International Airport and Stinson Municipal Airport. Financing for the Airport System operations is provided by user fees.

The Parking System accounts for the operations of the City's parking facilities. Financing for the Parking Facilities Operations is provided by user fees.

1. Governmental Funds

General Fund - The General Fund of the City is the primary operating fund, which accounts for all financial resources of the general government except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than private-purpose trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

Permanent Funds - Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry.

2. Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

2. Proprietary Funds (Continued)

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in this fund.

3. Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include Pension Trust, Retiree Health Care Trust, Private Purpose Trust Funds, and Agency Funds. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The statement of net assets and the statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The City recognizes revenue from property taxes when collected and those taxes expected to be collected within 60 days after the period end, along with related interest and penalties. For additional disclosure related to property taxes see Note 2. Other taxes and fees are recognized as revenue in the year they are earned. Revenue from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied.

Program Revenues are presented in the Government-wide Statement of Activities. The City reports program revenues into three categories: 1) Charges for services, 2) Operating grants and contributions and 3) Capital grants and contributions. (Further descriptions of these three categories follow.) They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by transactions with outside parties who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those funds to specific programs. Investment earnings that are legally restricted to specific programs are also reported as program revenues.

1) Charges for services are revenues that are generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, golf course fees, and food establishment licenses. Fines and forfeitures are also reported under charges for services.

2) Operating grants and contributions are those revenues that are restricted in the way they may be spent - either for operations of a particular program or to purchase a capital asset for a particular program.

3) Capital grants and contributions are also restricted revenues; the funds may only be spent to purchase capital assets for specified programs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. Revenues are recognized in the accounting period in which they become available and measurable. For this purpose, the City considers revenues, other than grants, to be available if the revenues are collected within sixty days after year-end. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider are met. Grant funds received in advance and delinquent property taxes are recorded as deferred revenue until earned and available. Gross receipts and sales taxes are considered available when in the hands of intermediary collecting governments and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain. Expenditures are recognized in the accounting period in which the fund liability is incurred. However, compensated absences, debt service expenditures, claims and judgments and arbitrage rebate are recorded only when the liability is matured.

The reported fund balance (net current assets) for each fund is considered a measure of "current financial resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "current financial resources" during the period.

Special reporting treatments are applied to governmental fund inventories and prepaid expenditures to indicate that they do not represent "current financial resources," since they do not represent net current assets. Such amounts are generally offset by fund balance reserve accounts.

Proprietary, Pension Trust, Private Purpose Trust, and Retiree Health Care Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred. These funds are accounted for on a cost of services or "economic resources" measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. The reported Proprietary Fund net assets are segregated into three components: 1) invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

Proprietary funds report both operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and street lot fees are operating revenues of the Parking Fund. This definition is consistent with GASB Statement No. 9, which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered nonoperating.

The City's enterprise funds, pension trust, private purpose trust and retiree health care funds and business-type activities, as well as its discretely presented component units apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The City and its discretely presented major proprietary component units, CPS and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

CPS' operating revenue includes receipts from energy sales and miscellaneous revenue related to the electric and gas systems operations. Miscellaneous revenue includes late payment fees, rental income, jobbing and contract work, ancillary services, and merchandise sales. Operating expenses include those expenses that result from the ongoing operations of the electric and gas systems. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues consist primarily of investment income, including the changes in fair value of investments. The amortization of net gains from the lease-leaseback and the sale of water rights in prior years are also included. Some miscellaneous income from renting general property and miscellaneous service is also recorded in nonoperating when it's not directly identified with the electric or gas systems.

SAWS' principal operating revenues are charges to customers for water and wastewater services. Operating expenses include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues consist primarily of investment income, including the changes in fair value of investments. Some miscellaneous income from renting general property and miscellaneous service is also recorded in nonoperating when it's not directly identified with the water or wastewater services.

E. Future GASB Implementations

GASB Statement No. 40, "Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3", addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The provisions of this Statement are effective for fiscal years beginning after June 15, 2004.

GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", establishes accounting and financial reporting standards for the service utility of an asset which has declined significantly and unexpectedly. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2004.

GASB Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and supersedes the interim guidance included in Statement No. 26. GASB Statement No. 43 follows a similar approach to GASB Statement No. 25 with modifications to reflect differences between pension plans and OPEB plans. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2005.

GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section", an amendment of NCGA Statement 1, addresses new standards to improve the understandability and usefulness of the information that state and local governments present as supplementary information in the statistical section. The provisions of this Statement are effective for fiscal periods beginning after June 15, 2005.

GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2006.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Future GASB Implementations (Continued)

GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", helps governments determine when net assets have been restricted to a particular use by the passage of enabling legislation, and specifies how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The provisions of this Statement are effective for fiscal periods beginning after June 15, 2005.

The City has not fully determined the effect that implementation of Statements No. 40 and 42-46 will have on the City's financial statements.

F. Cash and Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's Investment Policy. City cash is required to be deposited in FDIC-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized which enables the City to have one central depository. Investments are pooled into two primary categories, operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. As of September 30, 2004, the City's investment portfolio did not contain any derivative products nor is it leveraged in any way, except as noted in the Fire and Police Pension Fund. For a listing of authorized investments, see Note 3.

The City, CPS, and SAWS account for and report investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The Fire and Police Pension Plan and the Fire and Police Health Care Fund report investments at fair value in accordance with GASB Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The City's policy with respect to money market investments, which had a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, SAWS, and CPS consider all highly liquid investments with an original maturity of approximately ninety days or less to be cash equivalents.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories and Prepaid Items

Inventories of materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in, first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for inventories. Under the consumption method, inventory acquisitions are recorded in inventory accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

Prepaid items are goods and services that are paid for in advance. These payments reflect costs applicable to future accounting periods, and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

H. Capital Assets and Depreciation

1. Primary Government (City)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported on the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. With the implementation of GASB Statement No. 34, the City has established capitalization thresholds for infrastructure and machinery and equipment that include computer equipment. All infrastructure assets are reported in the financial statements and the estimated useful lives and capitalization thresholds applied are as follows:

Assets	Useful Life Years	Capitalization Threshold
Buildings	15-40	$100
Improvements (Other than buildings)	20-40	$100
Machinery and Equipment	2-20	$5
Furniture and Office Equipment	5-10	$5
Infrastructure	15-100	$250

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

2. City Public Service (CPS)

The CPS utility plant is stated at the cost of construction, including costs of contracted services, direct equipment, material and labor, indirect costs, including general engineering, labor, equipment, and material overheads, and an allowance for funds used during construction (AFUDC). CPS computes AFUDC using rates that approximate the cost of borrowed funds, or the short-term investment rate for other funds used for construction. AFUDC is applied to projects estimated to require 30 days or more to complete.

CPS computes depreciation using the straight-line method over the estimated service lives of the depreciable property using specifically identified service lives for each asset type. In 2003, a depreciation study was conducted to determine if existing depreciation rates remained applicable to the depreciable property groups. New rates were applied beginning in 2003. Total depreciation and depletion as a percentage of total depreciable assets net of nuclear fuel was 3.40% in 2004.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS' share of the STP generation that is available for sale to CPS customers. The charge is included in fuel expense monthly. For further discussion regarding the STP, see Note 10.

The estimated useful lives of capital assets are as follows:

Buildings and structures	15-60 years
Systems and improvements:	
Generation	8-45 years
Transmission and distribution	20-55 years
Gas	50-65 years
Machinery and equipment	4-30 years
Lignite mineral rights and other	20-40 years
Nuclear fuel	1-2 years

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

3. San Antonio Water System (SAWS)

The SAWS' capital assets in service are recorded on the unit cost equal to or greater than $1. Assets acquired through capital leases are recorded on the cost basis and are included in utility plant in service. Assets acquired through contributions, such as those from land developers, are capitalized and recorded in the plant accounts at estimated fair value at date of donation. SAWS capitalizes certain interest costs on revenue bonds and commercial paper associated with newly constructed utility plant additions. Maintenance, repairs, and minor renewals are charged to operating expense, while major plant replacements are capitalized.

SAWS' capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully depreciate the costs of the asset group over their estimated average useful lives. The table below shows estimated average useful lives used in providing for depreciation of the SAWS' capital assets:

Structures and improvements	50 years
Pumping and purification equipment	10 - 50 years
Distribution and transmission system	25 - 50 years
Collection system	50 years
Treatment facilities	25 years
Equipment and machinery	5 - 20 years
Furniture and fixtures	10 years
Computer equipment	5 years
Software	3 years

I. General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, interest earned within the Debt Service Fund, and transfers from other funds.

J. Compensated Absences

In the governmental fund financial statements, the City accrues annual leave and associated employee related costs when matured (payable from available resources) for City non-uniformed employees and uniformed fire and police employees. In addition, the City accrues the matured portion of the City's uniformed fire and police employees accrued sick leave pay, holiday pay, and bonus pay. Compensatory time is also accrued for the matured portion of the City's non-uniformed non-exempt employees as well as uniformed police officers.

For governmental fund types, the matured current portion of the liability resulting from the accrual of these compensated absences is recorded in the respective governmental fund and reported in the fund financial statements, while the entire vested liability is reported in the government-wide financials. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary fund.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Insurance

Activity for the City's self-insurance programs is recorded in the Internal Service Funds. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, extended sick leave, and employee wellness are included.

The City is insured for property and casualty liability. As of the fiscal year end, Allianz Insurance Company and RSUI Indemnity Company insured the City's property, while the State National Insurance Company provided excess liability coverage. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made, and claims incurred but not reported prior to the end of the fiscal year.

The City also provides employee health, workers' compensation, and unemployment benefits under its self-insured programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims for employees that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third party administrators. In addition, the City has excess workers' compensation coverage through the State National Insurance Company as of September 30, 2004. The City records all workers' compensation loss contingencies, including claims incurred but not reported.

Employee health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits. Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent". A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 12.

L. Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund equity represent tentative plans identified by management and are subject to change. Designations are utilized in the City's governmental funds for amounts that have been designated for subsequent year's expenditures and amounts allocated to making future improvements and replacements. Such designations will be reflected on the fund financial statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Revenue Recognition

Governmental fund types record revenues on the modified accrual basis of accounting and are reported as such in the fund financial statements. That is, revenues are recorded when they are both measurable and available to finance current operations or when they are considered susceptible to accrual. Revenues from property taxes, sales taxes, municipal court fines and fees, licenses, interest revenue and charges for services are recorded on the modified accrual basis of accounting, and therefore, are considered susceptible to accrual. The City's availability period is no more than 60 days beyond the end of the fiscal year. When collections are delayed beyond the normal time of receipt due to unusual circumstances, the amounts involved are still recognized as revenues of the current period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider have been met. Proprietary-type funds record revenues when earned. In the government-wide financial statements, all revenues are recorded when earned.

CPS revenues are recorded when earned. Customers' meters are read and bills are rendered monthly. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned under the accrual basis.

N. Allocation of Indirect Expenses

The City recovers indirect costs in the General Fund through the application of departmental indirect cost rates. These rates are developed and documented in the City's departmental indirect cost rate plan. In this plan, each department is classified by function. Indirect costs are budgeted by department and are used as a basis for the City's actual indirect cost allocation. Base rates are then applied to actual indirect costs recovered and indirect costs are reclassified to reduce general government expenditures. For fiscal year 2004, general government expenditures were reduced by $7,062, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of $4,115 and $2,947, respectively.

O. Nuclear Decommissioning

CPS, together with the other owners of the STP, filed with the Nuclear Regulatory Commission (NRC) a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1995, the owners conducted a review of decommissioning costs. The results estimated CPS' share of decommissioning costs at approximately $270,000 in 1994 dollars. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2004, CPS had accumulated approximately $211,100 of decommissioning funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amount of $70,400 at December 31, 2003. Based upon the 1998 and 1994 decommissioning cost studies, the annual level funding into the trust of $15,900 for 2004 was expensed by CPS.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts and debt issuance costs are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the funds in which proceeds of debt issuances are recorded.

Q. Elimination of Internal Activity

Eliminations of internal activity, particularly those related to internal service fund transactions, are needed to make the transition from governmental funds to government-wide activities. The overriding objective in "eliminating the effects of internal service fund activity" is to adjust the internal charges to cause a break-even result. Eliminating the "effect" of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. Net income derived from internal service fund activity would cause a pro rata reduction in the charges made to the participating funds/functions. Conversely, an internal service fund net loss would require a pro rata increase in the amounts charged to the participating funds/functions. Therefore, eliminations made to the statement of activities remove the "doubling up" effect of internal service fund activity. The residual internal balances between the governmental and business-type activities are reported in the statement of net assets and the internal balance amounts that exist within the governmental funds or within business-type funds are eliminated. The City reports internal service fund balances in both governmental and business-type activities based on the pro rata share of the amounts charged to the participating funds/functions.

The City has three internal service funds: Other Internal Services, Information Technology Services, and Self-Insurance Funds. Other Internal Services and Information Technology Services charges users fees for requested goods or services. Building maintenance charges, a component of the Other Internal Services Fund, are based on the space occupied by departments. Through the tracking of these charges to the applicable departments, the net income or loss will be allocated back to the user department based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year. The net income or loss generated by the Self-Insurance Funds is allocated back based on the same allocation by which the revenues are received.

R. Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditure is restricted to certain allowable costs. In situations where both restricted and unrestricted net assets are expended to cover allowable expenses, the City will first expend the restricted net assets and cover additional costs with unrestricted net assets. The City reserves the right to selectively defer the use of restricted assets.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Other Budget Disclosures

Excess of expenditures, transfers, and encumbrances over appropriations occurred as follows:

Excess of Expenditures, Transfers, and Encumbrances Over Appropriations			
Fund/Expenditures	Appropriations	Expenditures, Transfers, and Encumbrances	Excess of Expenditures, Transfers, and Encumbrances over Appropriations
General Fund:			
Public Works	$ 10,638	$ 10,657	$ 19
Health Services	12,911	13,410	499
Transfers	76,111	76,441	330
Debt Service Fund:	$ 127,012	$ 127,579	$ 567
Special Revenue Funds:			
Hotel/Motel 2%	$ 10,614	$ 13,627	$ 3,013
Project Management Office	4	263	259
Public Health Support	3,466	3,532	66
Brooks City Base	0	163	163

The excess expenditures over appropriations were fully offset by excess actual revenues or fund balances.

T. Prior Period Adjustments

SAWS' prior year net assets have been restated due to a change in the estimate of future claims to be paid with regards to the self-insured health plan in the amount of $3,236, change in the capitalization policy in the amount of ($1,528), recalculation of bond issuance costs in the amount of ($273), and the reclassification of a liability in the amount of ($14).

San Antonio Development Agency's (SADA) prior year net assets have been restated by $790 due to two errors in prior years. An increase of $685 was due to an error of property developed in fiscal year 1995 but accounted for as agency expenditures at that time. The remaining $105 increase to governmental fund equity was for a parcel of land acquired in fiscal 2002, where the offset was originally made to investment in general fixed assets rather than governmental fund equity. The corrections had no effect on SADA fiscal year 2004 activity.

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2. PROPERTY TAXES

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1, and becomes delinquent the following February 1. In fiscal year 1999, the City executed an inter-local agreement with the Bexar County Tax Assessor/Collector's Office to provide property tax billing and collection services at the same level of service to its citizens as previously provided by the City.

Property tax revenues are recognized when they become available which means when due, or past due and receivable within the current period or expected to be collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. Property tax receivable, net of allowances for uncollectible amounts, are offset by deferred revenues. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation. The tax rate approved by City ordinance for the year ended September 30, 2004, was $0.57854 per $100 taxable valuation, which means that the City has a tax margin of $1.92146 per $100 taxable valuation and could raise an additional $856,647 per year based on the net taxable valuation of $44,583,139 before the limit is reached.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

City monies are deposited in demand accounts at the City's approved depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata share of highly liquid investments, including U.S. Treasury securities, U.S. Government Agency securities, and repurchase agreements with original maturities of ninety days or less, summarized by fund type and included in the combined statement of net assets as Cash and Cash Equivalents. Overdrafts that result from a fund overdrawing its share of pooled cash are reported as interfund payables by the overdrawn fund and as interfund receivables of the contributing funds.

Collateral is required for demand deposits and certificates of deposit at 100% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Collateral pledged for demand deposits and certificates of deposit is required to be held in the City's name by the trust or safekeeping department of a bank other than the pledging bank.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a fair value adequate to cover the deposits and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository or federal depository insurance.

The City entered into repurchase agreements in connection with the investment of certain bond proceeds. Although these repurchase agreements are considered securities for purposes of credit risk classification, due to their 100% overnight liquidity, they are included with Cash and Cash Equivalents in the combined statement of net assets.

The investment policy of the City is governed by state statute and by its own written investment policy. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. Government Agency securities with original maturities of more than ninety days. Each funds' pro rata share of these longer-term investments are combined with similar non-pooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. Government Agency securities, and are reported as investments in the combined statement of net assets, as of September 30, 2004.

The City accounts for and reports investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". The City's policy with respect to money market investments that have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. There was not a decrease in fair value for investments of the City with a remaining maturity of greater than one year for the year ended September 30, 2004. The City does not participate in external investment pools.

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund Board of Trustees. Investments of the Pension Fund are reported at fair value and include: corporate bonds; common stock; preferred stock; U.S. Treasury securities; U.S. Government Agency securities; notes, mortgages and contracts; and real estate. Equity and fixed income securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments are based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Gains and losses on sales and exchange of securities are recognized on the trade date. Investments that do not have an established fair value are reported at estimated fair value. No investments in any one organization (other than those issued by the U.S. Government) represent 5% or more in plan net assets.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102% and 105% for domestic and international securities, respectively, of the loaned securities are maintained by the custodial bank.. Collateral may be in the form of cash, U.S. government securities and irrevocable letters of credit. Until the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote.

As of September 30, 2004, the Pension Fund had lending arrangements outstanding with a total fair value of $135,425, which were fully collateralized with cash and securities. Related to these loaned securities, cash collateral of $138,722 is recorded in the Pension Fund's statements of plan net assets. Net income for the year ended September 30, 2004, under the securities lending arrangement was $255.

The Pension Fund has only limited involvement with derivative and other structured financial instruments (as defined in GASB Technical Bulletin No. 94-1) and does not use them for trading purposes. The Pension Fund's investment philosophy in bond portfolios has centered on using derivatives and other structured financial instruments only when comparable cash alternatives are not available. Specifically, the Pension Fund has used the following basic guidelines when entering into such transactions: (1) small allocations, (2) no use of leverage, (3) price floors, (4) short maturities to mitigate potential problems with liquidity, and (5) attention to credit risk of the issuer. The fair value of structured financial instruments held for the Pension Fund at September 30, 2004, was approximately $35,846.

The Pension Fund periodically participates in options and futures to hedge the value of a portion of its investments. Financial options and futures are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. Total exposure on these options and futures of approximately $5,460 is included in the fair value of investments at September 30, 2004.

The Fire and Police Retiree Health Care Fund Board of Trustees administers investments of the Fire and Police Retiree Health Care Fund (Health Care Fund), a blended component unit. Investments are reported at fair value and short-term investments are reported at amortized cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established fair value are reported at estimated fair value. All investment income, including changes in fair value of investments, is reported as additions in the statement of changes in postemployment healthcare plan net assets. No investments in any one organization (other than those issued by the U.S. Government) represent 5% or more in plan net assets.

The Health Care Fund entered into an agreement with its custodian bank in June 2003 to lend the Health Care Fund's securities to one or more borrowers for a fee. It is the policy of the Fund and the custodian bank to require that collateral equal 100% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned and 102% of the loaned security's market value plus accrued interest for approved, domestic non-government or agency securities loaned be maintained by the custodian bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. If the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Fund may suffer a loss. Management of the Fund considers the possibility of such a loss to be remote. Cash collateral is invested in money market funds at September 30, 2004.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Health Care Fund's investment policy limits investment in derivative instruments to securities meeting the standards dictated by the Federal Financial Institutions Examinations Council.

As of September 30, 2004, the Health Care Fund held a CMO position and mortgage-backed securities in the form of GNMA, FNMA, FHLMC, and similar pass through obligations. The fair value of the CMO and mortgage-backed securities held by the Fund was approximately $5,279, as of September 30, 2004. The overall return or yield on CMO's and asset-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the Fund will receive the full amount of principal, if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment, is lost.

The Health Care Fund's Hedge Funds are held through investments in unregulated limited partnerships that invest in other hedge funds.

The investment policies of SAWS and CPS, the City's major discretely presented component units, are governed by state statute, local ordinance, and their own respective written investment policies. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements.

SAWS is permitted by City Ordinance No. 75686 to invest in time deposits or certificates of deposit secured in the manner required by law for public funds, or to invest in direct obligations of, including obligations for which the principal and interest are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or as otherwise permitted by SAWS' investment policy, which is governed by state statutes. SAWS' general depository agreement does not require SAWS to maintain an average monthly balance.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Under the provisions of GASB Statement No. 31, SAWS reports money market investments with a remaining maturity at time of purchase of one year or less at amortized cost, which approximates fair values. The net decrease during fiscal year 2003 in the fair value of the money market investments with an original maturity of greater than one year was $1,300. The unrealized gain on investments held at year-end was $598.

CPS cash deposits at January 31, 2004, were entirely insured by federal depository insurance or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government or Government Agency or U.S. Government guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS' name.

CPS' allowable investments as defined by CPS Board Resolution and Policy, Bond Ordinances, Tax-Exempt Commercial Paper Ordinance, and State law include U.S. Government or Government Agency or U.S. Government guaranteed obligations, collateralized mortgage obligations issued by the U.S., fully secured certificates of deposit issued by a state, national bank, or savings bank domiciled in the State of Texas, direct repurchase agreements, reverse repurchase agreements, defined bankers acceptances and commercial paper, no-load money market mutual funds, and other types of specific secured or guaranteed investments.

CPS' investments in the STP Decommissioning Master Trust are held by an independent trustee. Trust investments are limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement, and State law. These investments are subject to market risk, and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded.

CPS' investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. Fair value is determined by using generally accepted financial reporting services and publications and approved dealers and brokers as necessary. The specific identification method is used to determine costs in computing gain or loss on sales of securities.

CPS reports all STP Decommissioning Master Trust investments and employee health and welfare investments at fair value.

Investments in the employee health and welfare plans are held by an independent trustee. These investments are limited to those authorized by the plans' Administrative Committees, the Trust Agreements, and State law. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded. These investment policies follow the "prudent man" concept.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Combined cash and cash equivalents and investments are presented below as of year-end for the City, and its significant discretely presented Component Units, SAWS and CPS. The information is provided to give an indication of the proportionate amount of cash and investments held by each respective entity.

Combined Cash, Cash Equivalents, and Investments

	City [1]	SAWS [2]	CPS [3]
Cash and Cash Equivalents	$ 272,697	$ 38,397	$ 68,476
Security Lending Collateral Cash and Cash Equivalents	159,835		
Investments	2,216,564	320,401	1,290,513
Less: Investments with original maturities of less than ninety days included in cash equivalents	(94,217)	(31,849)	(65,016)
Total	$ 2,554,879	$ 326,949	$ 1,293,973

[1] The following amounts were held by the City in a fiduciary capacity and are excluded from the primary government statement of net assets: Cash and Cash Equivalents of $150,666; Security Lending Collateral-Cash and Cash Equivalents of $159,835; Investments of $1,513,285.

[2] For the fiscal year ended December 31, 2003

[3] For the fiscal year ended January 31, 2004

	City [1]	SAWS [2]	CPS [3]
Totals from Statement of Net Assets and Fiduciary Fund Statements			
Cash and Cash Equivalents	$ 262,149	$ 0	$ 51,532
Security Lending Collateral Cash and Cash Equivalents	159,835		
Investments	1,951,944	24,136	238,813
Restricted Cash and Cash Equivalents	10,548	38,397	16,944
Restricted Investments	170,403	264,416	986,684
Total Cash, Cash Equivalents and Investments	$ 2,554,879	$ 326,949	$ 1,293,973

[1] The following amounts were held by the City in a fiduciary capacity and are excluded from the primary government statement of net assets: Cash and Cash Equivalents of $150,666; Security Lending Collateral-Cash and Cash Equivalents of $159,835; Investments of $1,513,285.

[2] For the fiscal year ended December 31, 2003

[3] For the fiscal year ended January 31, 2004

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The composition of Cash and Cash Equivalents included in the financial statements for the City and its major discretely presented Component Units as of the respective year-ends is presented below.

	City	SAWS[1]	CPS[2]
Deposits with Financial Institutions	$35,762	$10,939	$3,312
Less: Deposits with Original Maturities of Greater than Ninety Days		(4,500)	
Investments with Original Maturities of Less than Ninety Days	94,217	31,849	65,016
Cash with Pension/Retiree Healthcare Fiscal Agents	142,492		
Cash with Other Financial Agents	27		13
Petty Cash Funds	198	109	135
Cash Over and Short	1		
Total Cash and Cash Equivalents	$272,697	$38,397	$68,476

[1] For the fiscal year ended December 31, 2003
[2] For the fiscal year ended January 31, 2004

Cash with fiscal agents of the Fire and Police Pension Fund of the City of San Antonio have been approved by the Funds' Board of Directors and are invested as authorized by Texas State Statutes. Cash with fiscal agents of the Fire and Police Retiree Healthcare Fund of San Antonio have been approved by the Funds' Board of Directors and are invested as authorized by the Investment Policy Statement and Guidelines of the San Antonio Fire and Police Retiree Health Care Fund, San Antonio.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits with financial institutions are classified into three categories of custodial credit risk based upon the following:

Category	Description
1	Deposits insured by the FDIC or collateralized with securities held by the City or the City's agent in the City's name.
2	Deposits collateralized by securities held by the pledging bank's agent in the City's name.
3	Deposits uncollateralized which include deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the City's name.

Accordingly, deposits of the City, SAWS, and CPS are categorized by custodial credit risk:

Units	Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
City Deposits:					
With Financial Institutions	$ 35,762	$ 46,395	$ 46,395	$ 0	$ 0
Deposits with Agents	142,519	142,519	142,519		
SAWS Deposits:					
Demand and Savings Accounts	6,439	11,285	11,285		
Certificates of Deposits	4,500	4,500	4,500		
CPS Deposits:					
With Financial Institutions	3,312	11,720	11,720		

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Health Care Fund of the City of San Antonio is classified as Category 1. The Fire and Police Pension Fund also had securities lending collateral - cash and cash equivalents in the amount of $138,722, which is not categorized for credit risk as it had been invested in a securities lending collateral investment pool. The Fire and Police Retiree Health Care Fund had securities lending collateral cash and cash equivalents in the amount of $21,113, which is not categorized for credit risk as it had not been invested in money market funds at September 30, 2004.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments are classified into three categories of custodial credit risk based upon the following:

Category	Description
1	Includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name.
2	Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
3	Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

Accordingly, the investments of the City, SAWS, and CPS are categorized below to give an indication of the level of custodial credit risk assumed:

Total Investments By Category

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
City:					
Corporate Bonds	$ 187,848	$ 0	$ 0	$ 187,848	$ 33,374
Preferred Stock	1,659			1,659	1,659
Common Stock	845,234			845,234	845,234
U.S. Treasury & Government Agency Securities	750,475			750,475	751,984
Repurchase Agreements		8,500		8,500	8,500
Total Categorized Investments	1,785,216	8,500	0	1,793,716	1,640,751
Investments not Categorized:					
Money Market Mutual Fund				116,594	116,594
Notes, Mortgages, Contracts				129,377	129,377
Real Estate Investments				55,200	55,200
Hedge Fund				11,700	11,700
Venture Capital Partnerships and Other Alternative Investments				109,977	109,977
Total City	$ 1,785,216	$ 8,500	$ 0	$ 2,216,564	$ 2,063,599
SAWS:					
Wachovia Held in Escrow	$ 0	$ 5,095	$ 0	$ 5,095	$ 5,095
Bank One Held in Escrow		9,138		9,138	9,138
U.S. Treasury & Government Agency Securities	301,668			301,668	301,700
Total SAWS	$ 301,668	$ 14,233	$ 0	$ 315,901	$ 315,933
CPS:					
U.S. Treasury & Government Agency Securities	$ 924,789	$ 0	$ 0	$ 924,789	$ 925,228
South Texas Nuclear Project Decommissioning Master Trust:					
U.S. Treasury & Government Agency Securities	$ 208,848			$ 208,848	$ 208,848
Employee Health and Welfare:					
Corporate bonds	$ 19,817			$ 19,817	$ 19,817
Common stock	88,841			88,841	88,841
U.S. Treasury & Government Agency Securities	22,729			22,729	22,729
Global Bonds	8,961			8,961	8,961
Foreign equities					
Total Health and Welfare Investments Categorized	140,348			140,348	140,348
Investments not Categorized:					
Money Market Mutual Fund				16,528	16,528
Total Employee Health and Welfare Funds	$ 140,348			$ 156,876	$ 156,876
Total CPS	$ 1,273,985	$ 0	$ 0	$ 1,290,513	$ 1,290,952

(amounts are expressed in thousands)

4. CAPITAL ASSETS

Capital asset activity for governmental activities, to include Internal Service Funds, for the year ended September 30, 2004, was as follows:

Capital Assets - Governmental Activities

Governmental Activities:	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets					
Land	$ 1,238,908	$ 20,454	$ 0	$ 0	$ 1,259,362
Construction in Progress	585,958	99,901		(40,338)	645,521
Total Non-Depreciable Assets	1,824,866	120,355	0	(40,338)	1,904,883
Depreciable Assets					
Buildings	385,133			2,693	387,826
Improvements	69,914			7,818	77,732
Infrastructure	1,949,975			29,143	1,979,118
Machinery and Equipment	176,961	33,916	(13,460)	684	198,101
Total Depreciable Assets	2,581,983	33,916	(13,460)	40,338	2,642,777
Accumulated Depreciation					
Buildings	(146,114)	(21,062)			(167,176)
Improvements	(34,940)	(2,413)			(37,353)
Infrastructure	(1,144,648)	(45,576)			(1,190,224)
Machinery and Equipment	(80,105)	(34,178)	9,005		(105,278)
Total Accumulated Depreciation	(1,405,807)	(103,229) [1]	9,005 [1]	0	(1,500,031)
Total Depreciable Assets, net	1,176,176	(69,313)	(4,455)	40,338	1,142,746
Total Capital Assets, net [1]	$ 3,001,042	$ 51,042	$ (4,455)	$ 0	$ 3,047,629

[1] **Depreciation expense was charged to governmental functions as follows:**

General Government	$ 434
Public Safety	20,633
Public Works	57,788
Health Services	325
Welfare	451
Culture and Recreation	4,359
Convention and Tourism	4,704
Urban Redevelopment and Housing	44
Depreciation on capital assets held by the City's internal service funds are charged to various functions based on asset usage	14,491
Total Depreciation Expense for Governmental Activities	$ 103,229

[1] The capital assets of internal service funds are included in governmental activities. In fiscal year 2004, internal service funds capital assets increased by $14,405, decreased by $11,496, resulting in an ending balance of $109,759. Depreciation expense of $14,491 resulted in an ending accumulated depreciation balance of $69,506, to arrive at a net book value of $40,253.

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(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended September 30, 2004, was as follows:

Capital Assets - Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land				
Aviation Fund	$ 2,970	$ 0	$ 0	$ 2,970
Parking Fund	8,125			8,125
Non-Major Funds	893			893
Total	11,988			11,988
Construction in Progress				
Aviation Fund	97,477	10,273		107,750
Parking Fund	11,591	843		12,434
Non-Major Funds	500		(64)	436
Total	109,568	11,116	(64)	120,620
Total Non-Depreciable Assets	121,556	11,116	(64)	132,608
Depreciable Assets				
Buildings				
Aviation Fund	115,657		(1)	115,656
Parking Fund	18,985			18,985
Non-Major Funds	46			46
Total	134,688		(1)	134,687
Improvements				
Aviation Fund	156,110			156,110
Parking Fund	1,639		(356)	1,283
Non-Major Funds	3,025			3,025
Total	160,774		(356)	160,418
Machinery and Equipment				
Aviation Fund	10,232	294	(227)	10,299
Parking Fund	759		(188)	571
Non-Major Funds	3,774	66	(97)	3,743
Total	14,765	360	(512)	14,613
Total Depreciable Assets	310,227	360	(869)	309,718
Accumulated Depreciation				
Buildings				
Aviation Fund	(51,147)	(2,760)		(53,907)
Parking Fund	(7,933)	(479)		(8,412)
Non-Major Funds	(228)			(228)
Total	(59,308)	(3,239)		(62,547)
Improvements				
Aviation Fund	(67,283)	(4,286)		(71,569)
Parking Fund	(576)	(59)	157	(478)
Non-Major Funds	(233)	(86)		(319)
Total	(68,092)	(4,431)	157	(72,366)
Machinery and Equipment				
Aviation Fund	(6,908)	(950)	140	(7,718)
Parking Fund	(734)	(18)	187	(565)
Non-Major Funds	(2,433)	(333)	30	(2,736)
Total	(10,075)	(1,301)	357	(11,019)
Total Accumulated Depreciation	(137,475)	(8,971)	514	(145,932)
Total Depreciable Assets, net	172,752	(8,611)	(355)	163,786
Total Capital Assets, net	$ 294,308	$ 2,505	$ (419)	$ 296,394

(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

CPS and SAWS capitalize interest incurred on construction projects, in accordance with Statement of Accounting Standard No. 62 issued by the Financial Accounting Standards Board. CPS and SAWS capitalized construction period interest in the amount of $3,073 and $13,714, respectively. Capital asset activity for CPS and SAWS was as follows:

Capital Assets - City Public Service [1]	Beginning Balance	Increases	Decreases	Ending Balance
City Public Service				
Non-Depreciable Assets				
Land	$ 54,928	$ 268	$ 0	$ 55,196
Land held for future use	12,599		(12,599)	
Nonutility property - land		12,599		12,599
Construction in Progress	330,672	230,420	(312,507)	248,585
Total Non-Depreciable Assets	398,199	243,287	(325,106)	316,380
Depreciable Capital Assets				
Utility Plant in Service	6,432,122	347,340	(69,959)	6,709,503
Utility Property Leased	18,785			18,785
Nuclear Fuel	291,439	10,940		302,379
Total Depreciable Assets	6,742,346	358,280	(69,959)	7,030,667
Accumulated Depreciation				
Utility Plant in Service	(2,302,023)	(228,875)	72,644	(2,458,254)
Utility Property Leased	(270)	(66)		(336)
Nuclear Fuel	(252,943)	(13,950)		(266,893)
Total Accumulated Depreciation	(2,555,236)	(242,891)	72,644	(2,725,483)
Total Depreciable Assets, net	4,187,110	115,389	2,685	4,305,184
Total Capital Assets, net	$ 4,585,309	$ 358,676	$ (322,421)	$ 4,621,564

Capital Assets - San Antonio Water System [2]	(Restated) Beginning Balance	Increases	Decreases	Ending Balance
San Antonio Water System				
Non-Depreciable Assets				
Land	$ 73,623	$ 13,430	$ (295)	$ 86,758
Construction in Progress	305,235	299,341	(176,350)	428,226
Total Non-Depreciable Assets	378,858	312,771	(176,645)	514,984
Depreciable Assets				
Utility Plant in Service	1,989,056	157,288	(1,029)	2,145,315
Machinery and Equipment	91,724	8,310	(798)	99,236
Total Depreciable Assets	2,080,780	165,598	(1,827)	2,244,551
Accumulated Depreciation				
Utility Plant in Service	(635,025)	(49,528)	959	(683,594)
Machinery and Equipment	(53,057)	(7,477)	436	(60,098)
Total Accumulated Depreciation	(688,082)	(57,005)	1,395	(743,692)
Total Depreciable Assets, net	1,392,698	108,593	(432)	1,500,859
Total Capital Assets, net	$ 1,771,556	$ 421,364	$ (177,077)	$ 2,015,843

Beginning balances have been restated per SAWS December 31, 2003, CAFR

[1] For the fiscal year ended January 31, 2004
[2] For the fiscal year ended December 31, 2003

(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

Construction-in-progress relating to the Capital Assets is comprised of the following:

Construction-In-Progress: Assets-Governmental Activities

	Project Authorization	Expended to Sept. 30, 2004	Committed	Required Future Financing
Buildings	$ 219,737	$ 172,070	$ 47,667	None
Streets and Bridges	339,646	145,500	194,146	None
Storm Drainage and Flood Prevention	235,960	118,552	117,408	None
Improvements Other Than Buildings	434,658	209,399	225,259	None
Total	$ 1,230,001	$ 645,521	$ 584,480	

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5. RECEIVABLES AND PAYABLES

A. Disaggregation of Receivables and Payables

Receivables

Net receivables at September 30, 2004, were as follows:

	Accounts	Taxes	Notes and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities:						
General Government	$ 26,572	$ 55,396	$ 0	$ 557	$ 799	$ 83,324
Public Safety	7			6		13
Public Works	8,129			571		8,700
Health Services	16,561			2		16,563
Environmental Protection and Control	220					220
Culture and Recreation	874			42		916
Convention and Tourism	5,561			33		5,594
Urban Redevelopment and Housing	5		5,952	157		6,114
Economic Development Opportunity				8		8
Total - Governmental Activities	$ 57,929	$ 55,396	$ 5,952	$ 1,376	$ 799	$ 121,452
Business-type Activities:						
Airport System	$ 1,961	$ 0	$ 0	$ 27	$ 0	$ 1,988
Parking Facilities	2			7		9
Environmental Services	4,096			9		4,105
Total - Business-type Activities	$ 6,059	$ 0	$ 0	$ 43	$ 0	$ 6,102

The receivable balances for General Government, Health Services, Environmental Protection and Control, Convention and Tourism, and Public Works Accounts have been reduced by the estimated allowance for doubtful accounts of $3,126, $50,456, $30, $76, and $20, respectively, and General Government Taxes of $15,054. The receivable balance for Business-type Activities has been reduced by the estimated allowance for doubtful accounts of $494.

The only receivables not expected to be collected within one year are $5,773 of notes and loans receivable in Urban Redevelopment and Housing.

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5. RECEIVABLES AND PAYABLES (Continued)

A. Disaggregation of Receivables and Payables (Continued)

Payables

Payables at September 30, 2004, were as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities:			
General Government	$ 69,563	$ 1,517	$ 71,080
Public Safety	6,548	5,670	12,218
Public Works	3,542	571	4,113
Health Services	321	879	1,200
Environmental Protection and Control		36	36
Culture and Recreation	1,355	723	2,078
Convention and Tourism	6,914	491	7,405
Urban Redevelopment and Housing	1,603	57	1,660
Welfare	1,218	354	1,572
Economic Development Opportunity	335	171	506
Total - Governmental Activities	$ 91,399	$ 10,469	$ 101,868
Business-type Activities:			
Airport System	$ 4,213	$ 421	$ 4,634
Parking Facilities	75	80	155
Environmental Services	2,749	543	3,292
Total - Business-type Activities	$ 7,037	$ 1,044	$ 8,081

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5. RECEIVABLES AND PAYABLES (Continued)

B. Interfund Receivable and Payable Balances

The following is a summary of interfund receivables and payables for the City as of September 30, 2004:

Summary Table of Interfund Receivables and Payables
As of September 30, 2004

	Due From Other Funds	Due To Other Funds
General Fund:		
Airport System Fund	$ 192	$ 26
Fiduciary Funds	52	
Internal Service Funds	1,457	2,924
Nonmajor Governmental Funds	38,119	637
Parking Fund	68	
Total General Fund	39,888	3,587
Debt Service Funds:		
Nonmajor Governmental Funds	339	
Parking Fund	715	
Total Debt Service Funds	1,054	
Airport System Fund:		
General Fund	26	
Airport Operating Fund from the Airport I&C Fund	255	
Airport Debt Service Fund from the Airport Operating Fund	66	
Airport Debt Service Fund from the Airport I&C Fund	1	
Airport Operating Fund to the Airport Debt Service Fund		66
Airport I&C Fund to the Airport Debt Service Fund		1
Airport Construction Fund to the General Fund		191
Airport I&C Fund to the Airport Operating Fund		255
Airport I&C Fund to the General Fund		1
Nonmajor Governmental Funds	1,150	
Internal Service Funds		7
Total Airport System Fund	1,498	521
Parking Fund:		
General Fund		68
Debt Service Fund		715
Internal Service Funds		2
Total Parking Fund		785
Fiduciary Agency Funds:		
General Fund		52
Total Fiduciary Agency Funds		52
Internal Service Funds:		
General Fund	2,924	1,457
Airport Fund	7	
Internal Service Funds	20,878	20,878
Nonmajor Governmental Funds	37	
Parking Fund	2	
Total Internal Service Funds	23,848	22,335
Nonmajor Governmental Funds:		
General Fund	637	38,119
Airport Fund		1,150
Debt Service Fund		339
Internal Service Funds		37
Nonmajor Governmental Funds	3,354	3,354
Total Nonmajor Governmental Funds	3,991	42,999
Total	$ 70,279	$ 70,279

5. RECEIVABLES AND PAYABLES (Continued)

B. Interfund Receivable and Payable Balances (Continued)

As of September 30, 2004, the balances represent short-term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year end. Of the $39,888 due from other funds in the General Fund, $33,424 is a result of overdraws of pooled cash.

6. LONG-TERM DEBT

A. Primary Government (City)

1. Governmental Activity Long-Term Debt

The City's on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2004. In April 2004, the City issued the following: $33,570 in General Improvement Bonds, Series 2004 and $29,525 Combination Tax and Revenue Certificates of Obligation, Series 2004. The 2004 Obligations are payable from ad valorem taxes. The 2004 Certificates are additionally secured by a lien on and pledge of certain Pledged Revenues (defined below) of the City's municipal parks system, not to exceed $1 during the entire period the 2004 Certificates or interest thereon remain outstanding.

In June 2004, the City issued $10,390 of Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A. Delivery of the bonds occurred on June 29, 2004, and, along with the 2004B Bonds, they are payable 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 net proceeds from the sale of the 2004A Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, less $346 of the original issue discount, were applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2004 refunding, the City will realize a total increase of $6,865 in debt service payments. Through the transaction, the City obtained a total economic loss (difference between the present values of the debt service payments on the old and new debt) of $280.

Concurrently, in June 2004, the City issued $111,425 of Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B. Delivery of the bonds occurred on June 29, 2004, and, together with the 2004A Bonds, are payable from and are equally and ratably secured by a lien on the Pledged Revenues, as defined above.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

The net proceeds from the sale of the 2004B Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, less $346 of the original issue discount, together with a cash contribution from the City, was applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2004B refunding, the City will realize a total decrease of $2,627 in debt service payments. Through the transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $12,281.

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%.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year ended September 30, 2004, for Governmental Activity Debt:

Governmental Activity Long-Term Debt (Ad Valorem Tax Pledge)							
Issue	Original Amount	Final Principal Payment[1]	Interest Rates (%)[1]	Balance Outstanding October 1, 2003	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2004
General Obligation Bonds[1]							
1988 Refunding	$ 132,978	2006	7.250-7.400	$ 4,008	$	$ 327	$ 3,681
1994	30,450	2004	6.000	1,350		1,350	
1996	35,330	2004	5.100	3,175		1,590	1,585
1996A Refunding	82,235	2016	4.650-6.000	51,155		1,405	49,750
1996B Refunding	6,030	2008	6.700	3,370		580	2,790
1998 Refunding	30,855	2018	4.500-5.000	27,785		1,070	26,715
1998 Forward Refunding	53,950	2008	5.500-6.000	29,130		8,375	20,755
1998A Refunding	47,955	2019	4.000-5.250	43,110		2,485	40,625
1999	12,000	2020	5.500-6.000	11,260		400	10,860
2000	27,565	2020	4.500-5.000	25,705		990	24,715
2000A	15,615	2021	5.250-5.375	15,160		480	14,680
2001	84,945	2022	3.000-5.250	84,030		660	83,370
2002 Forward Refunding	239,910	2013	4.500-5.250	215,880		15,355	200,525
2002	55,850	2023	3.000-5.500	55,250		3,685	51,565
2003	40,905	2014	2.750-5.000	40,905		6,615	34,290
2003A	55,710	2016	2.000-5.000	55,710		45	55,665
2004	33,570	2024	2.375-4.750		33,570		33,570
Subtotal	$ 985,853			$ 666,983	$ 33,570	$ 45,412	$ 655,141
Tax –Exempt Commercial Paper							
Series 2001	$ 32,700	2004	0.750-3.500	$ 10,500	$	$ 10,500	$
Subtotal	$ 32,700			$ 10,500	$	$ 10,500	$
Tax –Exempt Certificates of Obligation							
Series 1994	$ 9,900	2004	6.000	$ 465	$	$ 465	$
Series 1996	8,415	2005	5.100-5.200	775		335	440
Series 1996A	12,515	2006	4.600-4.750	1,665		540	1,125
Series 1998	4,315	2018	4.700-5.000	3,085		370	2,715
Series 1998A	36,535	2019	4.000-5.250	30,405		1,850	28,555
Series 1999	4,230	2020	5.750-6.000	3,970		140	3,830
Series 2000	8,490	2020	4.500-5.000	7,915		305	7,610
Series 2000A	8,810	2021	5.250-5.375	8,555		270	8,285
Series 2000C	6,415	2020	5.000-5.500	6,415		105	6,310
Series 2001	65,195	2014	4.000-5.250	63,100		4,610	58,490
Series 2002	69,930	2023	3.000-5.500	69,930		2,345	67,585
Series 2004	29,525	2024	2.000-5.000		29,525		29,525
Subtotal	$ 264,275			$ 196,280	$ 29,525	$ 11,335	$ 214,470
Taxable Certificates of Obligation							
Series 1996	$ 6,160	2009	6.550-6.050	$ 1,825	$	$ 250	$ 1,575
Series 1996B	7,375	2008	6.550-6.800	1,630		285	1,345
Series 2000B	1,755	2021	7.450-7.550	1,710		50	1,660
Subtotal	$ 15,290			$ 5,165	$	$ 585	$ 4,580
Revenue Bonds[2]							
Series 1996 Occupancy Tax	$ 182,012	2026	4.900-6.000	$ 177,348	$	$ 90,451	$ 86,897
2003 Drainage	44,150	2028	2.000-5.000	44,150		1,035	43,115
Series 2001 Municipal Facility Corp.	14,465	2020	3.625-5.200	13,420		550	12,870
Series 2004A	10,390	2029	5.000		10,390		10,390
Series 2004B	111,425	2020	2.000-5.000		111,425		111,425
Subtotal	$ 362,442			$ 234,918	$ 121,815	$ 92,036	$ 264,697
Total	$ 1,660,560			$ 1,113,846	$ 184,910	$ 159,868	$ 1,138,888

[1]Accretion of interest on 1988 General Improvement Refunding Bonds for Fiscal Year 2004 has resulted in an increase of $7,837 in General Obligation Bonds Payable. This increase is reflected on the Combined Statement of Net Assets but is not shown on above table.

[2]A portion of the Hotel Occupancy Tax Revenue Bonds, Series 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from date of delivery and will be payable only at maturity or redemption. Interest accreted through Fiscal Year 2004 has resulted in an increase of $11,796 in Revenue Bonds Payable. This increase is reflected on the Combined Statement of Net Assets but is not shown on above table.

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all General Obligation Bonds, Tax Exempt Commercial Paper, Certificates of Obligation, and Hotel Occupancy Tax Revenue Bonds outstanding as of September 30, 2004, are as follows:

Principal and Interest Requirements

Year Ending September 30,	General Obligation Bonds		Certificates of Obligation		Revenue Bonds Hotel Occupancy Tax		Total Annual Requirements
	Principal	Interest	Principal	Interest	Principal	Interest	
2005	$ 44,051	$ 36,951	$ 11,665	$ 10,457	$ 2,435	$ 12,446	$ 118,005
2006	44,850	34,692	11,900	9,942	3,075	12,371	116,830
2007	49,875	28,097	14,185	9,352	4,050	12,266	117,825
2008	53,370	25,584	16,370	8,645	4,725	12,123	120,817
2009	55,015	22,615	16,445	7,866	7,500	9,770	119,211
2010-2014	231,860	74,072	89,335	26,511	30,662	65,096	517,536
2015-2019	111,740	30,026	36,190	10,608	39,900	59,250	287,714
2020-2024	64,380	5,658	22,960	2,308	68,870	29,713	193,889
2025-2029					60,455	13,007	73,462
2030-2034					43,025	3,883	46,908
Total	$ 655,141	$ 257,695 [1]	$ 219,050	$ 85,689	$ 264,697 [2]	$ 229,925	$ 1,712,197

Total Principal & Interest Payable Within One Year

Principal	$ 44,051	$ 11,665	$ 2,435	$ 58,151
Interest	36,951	10,457	12,446	59,854
Total	$ 81,002	$ 22,122	$ 14,881	$ 118,005

[1] Accretion of interest on the 1998 General Improvement Bonds through the year ended September 30, 2004, has resulted in an increase of $7,837 in General Obligation Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

[2] A portion of the Hotel Motel Occupancy Tax Revenue Bonds (Series 1996) was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accretes from the date of delivery and will be payable only at maturity or redemption. The interest accreted through September 30, 2004, has resulted in an increase of $11,796 in Revenue Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Authorized But Unissued General Obligation Debt

Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized But Unissued
1-26-80 [1]	Drainage and Flood Control	$ 21,637	$ 17,413	$ 4,224
1-26-80 [1]	Fire Protection	4,257	2,125	2,132
1-26-80 [1]	Libraries	4,978	3,926	1,052
1-26-80 [1]	Street, Bridge, and Related Improvements	43,287	34,035	9,252
5-07-94	Street Improvements	25,600	25,600	
5-07-94	Drainage Improvements	34,400	34,400	
5-07-94	Parks and Recreation	41,600	41,600	
5-01-99	Streets and Pedestrian Improvements	41,300	41,300	
5-01-99	Drainage	19,000	19,000	
5-01-99	Flood Control	12,200	12,200	
5-01-99	Parks and Recreation	24,200	24,200	
5-01-99	Library System	13,200	13,200	
5-01-99	Public Safety	30,300	30,300	
11-04-03	Street & Pedestrian	29,398	14,231	15,167
11-04-03	Drainage	18,913	6,728	12,185
11-04-03	Parks and Recreation	27,224	10,967	16,257
11-04-03	Library System	3,965	354	3,611
11-04-03	Public Health & Safety	35,500	2,405	33,095
Total		$ 430,959	$ 333,984	$ 96,975

[1] In addition to the debt authorized on May 1, 1999, and November 2003, the City has authority pursuant to an election held on January 26, 1980, to issue $16,660 in bonds. The City does not currently intend to issue the bonds authorized in 1980. An additional $115,000 was authorized November 4, 2003, of which $80,315 remains to be issued.

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2004 was $49,723,286, which provides a debt ceiling of $4,972,328. The total outstanding debt that is secured by an ad valorem tax pledge is $883,755.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed $2.50 for each one hundred dollars of assessed valuation of taxable property. There is no limitation within the $2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from $1.50 tax rate calculated at 90% collections.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Leases

The City leases property and equipment from others. Leased property having elements of ownership are recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property, not having elements of ownership, are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when matured in the governmental fund financial statements. Total expenditures for operating leases for the fiscal year ended September 30, 2004, were approximately $3,085.

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for governmental activities are as follows:

Asset:	
Machinery and Equipment	$ 17,839
Less: Accumulated Depreciation	(5,705)
Total	$ 12,134

As of September 30, 2004, the City (excluding discretely presented component units) had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

Leases - Governmental Activities

	Capital Leases	Operating Leases	Total
Governmental Activities:			
Fiscal year ending September 30:			
2005	$ 3,210	$ 2,483	$ 5,693
2006	1,864	2,271	4,135
2007	1,490	1,147	2,637
2008	869	652	1,521
2009	69	655	724
2010-2014		3,431	3,431
2015-2019		3,236	3,236
2020-2024		1,736	1,736
2025-2029		91	91
Future Minimum Lease Payments	7,502	$ 15,702	$ 23,204
Less: Interest	(376)		
Present Value of Future Minimum Lease Payments	7,126		
Less: Current Portion	(3,009)		
Capital Leases, net of current portion	$ 4,117		

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt

Business-Type long-term debt applies to those City operations that relate to business and quasi-business activities where net income and capital maintenance are measured (Enterprise and Internal Service Funds). Long-term debt, which is to be repaid from proprietary funds resources, is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

Airport System: The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt is equally and ratably secured solely by a first lien on and pledge of the Gross Revenues of the Airport System. Gross Revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the System and its facilities.

Parking System: The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters, and retail/office space. Long-term debt is allocated to the Parking System on a pro-rata basis from proceeds received from the issuance of general obligation and certificate of obligation debt and is paid from revenues derived from the operation of the Parking System. This allocated debt is additionally secured by an ad valorem tax pledge. The bonds are payable from and secured by a first lien on and a pledge of the gross revenues derived from the ownership and operation of the City's Parking system. The bonds are retired serially in years 2004 to 2024 and bear interest rates from ranging from 5.000% to 5.750%.

In April 2004, the City issued $13,245 of General Improvement Refunding Bonds, Series 2004. Delivery of the bonds occurred on April 13, 2004. The obligations bear interest ranging from 2.000% to 5.000% and will be retired serially in the years 2006 through 2016. The bonds are secured by a pledge of ad valorem taxes and revenues from certain revenue generating operations. These obligations were issued to refund $11,747 of outstanding long-term debt, which was reported in proprietary funds.

The General Improvement and Refunding Bonds, Series 2004 were utilized to finance or refinance certain parking facilities owned and operated by the City. The Series 2004 Taxable General Improvement and Refunding Bonds are retired serially in the years 2005 through 2016 and bear interest rates ranging from 1.400% to 4.650%.

The net proceeds from the sale of the 2004 Taxable General Improvement and Refunding Bonds, less $11 of the original issue discount, was applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2004 refunding, the City will realize a total increase of $584 in debt service payments. Through the transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $28.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt (Continued)

The following table is a summary of changes in revenue bonds, general obligation bonds, and tax-exempt certificates of obligation for the fiscal year ended September 30, 2004.

Business-type Long-Term Debt

Issues	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2003	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2004
Airport System							
Revenue Bonds:							
Series 1996	$ 38,000	2014	5.700-5.750	$ 18,625	$ 0	$ 300	$ 18,325
Series 2001	17,795	2016	5.375	17,795			17,795
Series 2002	92,470	2027	5.000-5.750	92,470			92,470
Series 2002 PFC	37,575	2027	4.000-5.750	36,800		805	35,995
Series 2003 Refunding	50,230	2013	5.500-6.000	50,230		3,870	46,360
Series 2003-A	8,175	2006	2.000-2.250	6,245		2,035	4,210
Series 2003-B	3,255	2009	2.300-3.000	3,255			3,255
Subtotal	$ 247,500			$ 225,420	$ 0	$ 7,010	$ 218,410
Parking System							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 24,845	$ 0	$ 400	$ 24,445
General Obligation Bonds:							
Series 1996A Refunding	495	2014	4.650-6.000	375		375	
Series 1998A Refunding	1,155	2013	4.000-5.250	1,050		1,050	
Series 2002 Refunding	11,370	2013	4.000-5.250	10,245		10,245	
Series 2003A Refunding	805	2016	2.000-5.000	805		805	
Series 2004A Refunding	13,245	2016	1.400-4.650		13,245		13,245
Tax Exempt Certificates of Obligation							
Series 1994	700	2004	6.000	35		35	
Series 1996	1,105	2005	5.100-5.200	100		100	
Subtotal	$ 53,720			$ 37,455	$ 13,245	$ 13,010	$ 37,690
Total	$ 301,220			$ 262,875	$ 13,245	$ 20,020	$ 256,100

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to revenue bonds, general obligations, and certificates of obligation outstanding at September 30, 2004, are as follows:

Business-Type Long-Term Debt

Year End Sept. 30:	Airport System Principal	Airport System Interest	Airport System Total	Parking System Principal	Parking System Interest	Parking System Total
2005	$ 8,390	$ 11,754	$ 20,144	$ 1,580	$ 1,790	$ 3,370
2006	8,790	11,381	20,171	1,930	1,747	3,677
2007	8,750	10,987	19,737	1,720	1,692	3,412
2008	9,265	10,545	19,810	1,790	1,632	3,422
2009	10,670	10,069	20,739	1,950	1,565	3,515
2010-2014	62,290	40,458	102,748	9,890	6,724	16,614
2015-2019	43,865	23,645	67,510	9,275	4,099	13,374
2020-2024	38,170	13,631	51,801	9,555	1,710	11,265
2025-2029	28,220	3,016	31,236			
Total	$ 218,410	$ 135,486	$ 353,896	$ 37,690	$ 20,959	$ 58,649

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt (Continued)

Leases

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for business-type activities are as follows:

Asset:	
Machinery and Equipment	$ 709
Less: Accumulated Depreciation	(286)
Total	$ 423

As of September 30, 2004, the City (excluding discretely presented component units) had future minimum payments under capital leases with a remaining term in excess of one year for business-type activities as follows:

Leases - Business-type Activities: Nonmajor Enterprise Fund

	Capital Leases
Proprietary Activities	
Fiscal year ending September 30:	
2005	$ 156
2006	156
2007	117
Future Minimum Lease Payments	429
Less: Interest	(23)
Present Value of Future Minimum Lease Payments	406
Less: Current Portion	(143)
Capital Leases, net of current portion	$ 263

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Business-Type Long-Term Debt

Long-Term Obligations and Amounts Due Within One Year

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 666,983	$ 33,570	$ 45,412	$ 655,141	$ 44,051
Tax-Exempt Commercial Paper	10,500		10,500		
Tax-Exempt Certificates of Obligation	196,280	29,525	11,335	214,470	11,665
Taxable Certificates of Obligation	5,165		585	4,580	
Revenue Bonds	234,918	121,815	92,036	264,697	2,435
	1,113,846	184,910	159,868	1,138,888	58,151
Unamortized (Discount)/Premium	33,836	9,488	2,981	40,343	2,968
Deferred Amount on Refunding	(7,913)	(11,805)	(3,855)	(15,863)	(6,714)
Total Bonds Payable	1,139,769	182,593	158,994	1,163,368	54,405
Other Liabilities:					
Accrued Arbitrage Rebate Payable	1,344	151	527	968	344
Capital Leases	9,796	665	3,335	7,126	3,009
Compensated Absences	115,826	53,119	47,409	121,536	44,547
Total Other Liabilities	126,966	53,935	51,271	129,630	47,900
Total Governmental Activities Long-term Liabilities	$ 1,266,735	$ 236,528	$ 210,265	$ 1,292,998	$ 102,305
Business-type Activities:					
Bond Payable:					
General Obligation Bonds	$ 12,475	$ 13,245	$ 12,475	$ 13,245	$ 450
Revenue Bonds	250,265		7,410	242,855	9,520
Tax-Exempt Certificates of Obligation	135		135		
	262,875	13,245	20,020	256,100	9,970
Unamortized (Discount)/Premium	3,545	3	1,564	1,984	
Deferred Amount on Refunding	(5,151)	(1,144)	(610)	(5,685)	
Total Bonds Payable	261,269	12,104	20,974	252,399	9,970
Other Payables:					
Aviation	1,595	2,783	1,294	3,084	3,084
Parking	357	286	124	519	519
Nonmajor Fund	1,061		10	1,051	1,051
Total Other Payables	3,013	3,069	1,428	4,654	4,654
Capital Leases-Nonmajor Fund	543		137	406	143
Compensated Absences	1,955	1,591	1,572	1,974	329
Total Other Liabilities	5,511	4,660	3,137	7,034	5,126
Total Business-type Activities Long-term Liabilities	$ 266,780	$ 16,764	$ 24,111	$ 259,433	$ 15,096

The accreted interest through Fiscal Year 2004 has resulted in an increase of $11,796 in Hotel Tax Revenue Bonds Payable in governmental activites and an increase of $7,837 in General Obligation Bonds Payable. The accreted interest in the amount of $19,633 is reflected on the Statement of Net Assets but is not reflected in this table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Business-type Long-Term Debt (Continued)

Compensated Absences

The following is a summary of compensated absences for the year ended September 30, 2004:

Governmental Activities					
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 5,773	$ 38,576	$ 44,349	$ 75,999	$ 120,348
Internal Service Funds		198	198	990	1,188
Total Governmental Activities	$ 5,773	$ 38,774	$ 44,547	$ 76,989	$ 121,536

Business-Type Activities			
Fund	Short-Term	Long-Term	Total
Airport	$ 174	$ 872	$ 1,046
Parking	18	89	107
Non-Major Fund	137	684	821
Total Business-Type Activities	$ 329	$ 1,645	$ 1,974

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(amounts are expressed in thousands)

6. **LONG-TERM DEBT (Continued)**

A. **Primary Government (City) (Continued)**

3. **Governmental and Business-type Long-Term Debt (Continued)**

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction, or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2004, there were thirty-five series of Industrial Revenue Bonds, fifteen series of Health Facilities Development Bonds, and thirteen series of Education Facility Revenue Bonds outstanding. The aggregate principal amount payable for the one series of Industrial Revenue Bonds, the one series of Health Facilities Development Bonds, and the four series Education Facility Revenue Bonds issued after October 1, 1997 was $5,500, $9,200, and $65,057, respectively.

The City also facilitates the issuance of tax-exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from and secured by a pledge of rental receipts. As of June 30, 2004, twenty-three (23) series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of $131,255 and an aggregate principal amount issued of $164,320.

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Facilities Airport Revenue Bonds, Series 1995 and Special Airport Facilities Revenue Refunding Bonds, Series 1999. The bonds are payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third party trustee in-lieu of lease payments to the City. These payments are sufficient to pay when due the principal, premium, interest on, and purchase price of the bonds. The aggregate principal amount payable for the Special Facilities Airport Revenue Bonds, Series 1995 and for the Special Airport Facilities Revenue Refunding Bonds, Series 1999 at September 30, 2004, was $0 and $4,200, respectively.

The Starbright Industrial Development Corporation was created to act on behalf of the City in the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare, including but not limited to the acquisition of land. The City of San Antonio, Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003 were issued to finance the acquisition and conveyance of land to Toyota Motor Manufacturing North America, Inc. for the construction of a training facility. The bonds are secured by pledged revenues and property and are payable solely from payments made by the City sufficient to pay principal and interest on the bonds and are subject to annual budget appropriations. The bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2004, the Starbright Industrial Development Corporation Contract Revenue Bonds outstanding totaled $24,685.

Neither the City, the State of Texas, nor any political subdivision is obligated in any manner for repayment of the aforementioned bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

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6. **LONG-TERM DEBT (Continued)**

B. **City Public Service (CPS)**

As of January 31, 2004, the Bond Ordinances for New Series Bonds issued on and after August 6, 1992, contain, among others, the following provisions:

Funds in CPS's General Account shall be pledged and appropriated to be used in the following priority: (a) for maintenance and operating expenses of the systems, (b) for payments of the New Series Bonds, (c) for the payment of any obligations inferior in lien to the New Series Bonds which may be issued, (d) for an amount equal to 6% of the gross revenues of the systems to be deposited in the Repair and Replacement Account, (e) for cash payments and benefits to the City not to exceed 14% of the gross revenues of the systems, and (f) any remaining net revenues in the General Account to the Repair and Replacement Account.

The maximum amount in cash to be transferred or credited to the General Fund of the City from the net revenues of the systems during any fiscal year shall not exceed 14% of the gross revenues of the systems less the value of gas and electric services of the systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system. The percentage of gross revenues of the systems to be paid over or credited to the General Fund of the City each fiscal year shall be determined (within the 14% limitation) by the governing body of the City.

The net revenues of the systems are pledged to the payment of principal and interest on the New Series Bonds. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the systems.

The City agrees that it will at all times maintain rates and charges for the sales of electric energy, gas, or other services furnished, provided, and supplied by the systems to the City and all other consumers which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

(a) all maintenance and operating expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502, as amended, Texas Government Code;
(b) the interest on and principal of all New Series Bonds, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the New Series Bonds;
(c) the interest on and principal of the Prior Lien Bonds, including the Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued (all as defined in the New Series Bond Ordinances); as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Junior Lien Obligations and any Additional Junior Lien Obligations;
(d) to the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the Commercial Paper), the interest on and principal of all Notes (as defined in said ordinance), and the credit agreement (as defined in said ordinance); and
(e) a legal debt or obligation of the systems as and when the same shall become due.

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6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

Revenue Bonds

A summary of revenue bonds is as follows:

City Public Service Revenue Bonds

Bond Series	Weighted-Average Interest Rate on Outstanding Bonds	2004
Tax Exempt New Series Bonds, 1992-2003; 2005-2021	4.996%	$ 2,234,160
Taxable New Series		
Taxable New Series Bonds, 1998 & 2000; 2005-2021	6.696%	138,310
	5.109%	2,372,470
Tax-exempt Variable Rate Series Bonds, 2003, 2029-2033		250,000
Total revenue bonds outstanding		2,622,470
Less: Current maturities of bonds		121,245
Total Revenue Bonds, net of current maturities		$ 2,501,225

Principal and interest amounts due for the next five years and thereafter to maturity are:

City Public Service
Principal and Interest Requirements

Year	Principal	Interest	Total
2005	$ 121,245	$ 127,214	$ 248,459
2006	127,255	121,264	248,519
2007	135,155	114,642	249,797
2008	142,155	107,662	249,817
2009	148,570	100,422	248,992
2010-2014	862,080	377,503	1,239,583
2015-2019	616,925	170,485	787,410
2020-2024	219,085	26,413	245,498
2025-2029	50,000	12,375	62,375
2030-2033	200,000	4,950	204,950
Totals	$ 2,622,470	$ 1,162,930	$ 3,785,400

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6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

In May 2003, CPS issued $250,000 of variable rate Junior Lien Revenue Bonds. The bonds were issued initially in a weekly interest mode at par value. Of the proceeds, approximately $100,000 was issued to reimburse the Repair and Replacement account for prior capital improvements. The mode for Junior Lien Revenue Bonds or any portion thereof may be converted to a different mode, or to an auction rate with an interest rate period of different duration, at the direction of the City. Following such a conversion, the Junior Lien Revenue Bonds or portion thereof, will bear interest at the corresponding daily rate, weekly rate auction rate, commercial paper rate, term rate, or fixed rate.

In June 2003, CPS entered into a Forward Delivery Bond Purchase Agreement to issue $350,500 of New Series Refunding Bonds in November 2003. The bonds sold at a premium of $37,600 were issued to refund $375,500 of 1994-A New Series Bonds. The refunding transaction resulted in cash flow savings of $32,900, which equated to a present value savings of $24,000, or 6.39% of the par amount of refunded bonds. This transaction resulted in a loss for accounting purposes of $10,600, which has been deferred and will be amortized over the shorter of the life of the refunded or refunding bonds.

In July 2003, CPS issued $93,900 of New Series 2003A Revenue Refunding Bonds. The bonds were sold at a premium of $11,000 and were issued to advance refund $24,400 of 1994-A New Series Bonds, and $71,600 of 1995 New Series bonds. The refunding transaction resulted in a cash flow savings of $15,900, which equated to a present value savings of $5,800, or 6.09% of the par amount of the refunded bonds. This transaction resulted in a loss for accounting purposes of $7,900, which has been deferred and will be amortized over the shorter of the life of the refunded or refunding bonds.

In August 2002, $144,200 par value of 1997 Revenue and Refunding Bonds were legally defeased with cash. The net accounting loss of $7,100 reported included $149,700 paid for the actual defeasance, less the par value of the debt, plus unamortized reacquisition and bond issue costs net of float forward agreement proceeds of $1,600.

In September 2002, CPS issued $576,700 of Revenue and Refunding Bonds to refund $445,100 in certain outstanding New Series Bonds and to reimburse prior construction expenditures of $150,000. The bonds were sold at a combined net premium of $56,800.

The refunding bonds were issued to current refund $48,700 of 1992 New Series Bonds and advance refund $396,300 of other New Series Bonds. The refunding transaction resulted in cash flow savings of $24,100, which equated to a present value savings of $18,100, or 4.06% of the par amount of refunded bonds. This transaction resulted in a loss for accounting purposes of $34,400, which has been deferred and will be amortized over the shorter of life of the refunded or refunding bonds.

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6. LONG-TERM DEBT (Continued)

C. City Public Service (CPS) (Continued)

Long-Term Debt Activity

Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2003	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2004
Revenue and Refunding Bonds							
1992 Tax-exempt	$ 700,805	2017	6.048	$ 68,860	$	$	$ 68,860
1994-A Tax-exempt	684,700	2014	5.008	505,150		436,185	68,965
1994-C Tax-exempt	56,000	2006	5.008	42,710			42,710
1995 Tax-exempt	125,000	2018	5.500	90,200		75,400	14,800
1997 Tax-exempt	350,000	2020	5.738	169,715			169,715
1997 Tax-exempt	311,170	2014	5.509	115,090		12,035	103,055
1998A Tax-exempt	785,515	2021	4.918	650,400		31,370	619,030
1998B Taxable	99,615	2020	6.343	93,650		1,835	91,815
2000A Tax-exempt	170,770	2017	5.374	23,875		4,410	19,465
2000B Taxable	50,425	2021	7.403	47,890		1,395	46,495
2001 Tax-exempt	115,280	2011	3.843	115,280		8,850	106,430
2002 Tax-exempt	436,090	2017	4.055	436,090			436,090
2002 Tax-exempt	140,615	2020	4.751	140,615			140,615
2003 Tax-exempt Junior Lien	250,000	2033	Variable		250,000		250,000
2003A Tax-exempt	93,935	2014	3.675		93,935		93,935
2003 Tax-exempt	350,490	2013	3.081		350,490		350,490
				2,499,525	694,425	571,480	2,622,470
Less Bond current maturities				100,015	21,230		121,245
Less Bond discount/(premium)				(62,490)	(48,645)	(7,179)	(103,956)
Less Bond acquisition costs				159,744	43,157	44,180	158,721
Revenue Bonds, Net				2,302,256	678,683	534,479	2,446,460
Tax-Exempt Commercial Paper (TECP)				350,000			350,000
Long-term Debt, Net				$ 2,652,256	$ 678,683	$ 534,479	$ 2,796,460

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS)

On April 30, 1992, City Ordinance No. 75686 was adopted. This ordinance authorized the issuance of $635,925 Water System Revenue Refunding Bonds, Series 1992, dated April 15, 1992. These bonds were issued to refund in advance of maturity $253,065 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 52091, $330,125 of Sewer Revenue Bonds authorized and outstanding under terms of City Ordinance No. 51975, $14,500 of other bonded debt of annexed water districts, and $49,200 of Sewer System Commercial Paper. The purpose of this advance refunding was to release and discharge the covenants contained in City Ordinance No. 52091 and No. 51975 in order to permit the City to consolidate the operations of the water related utilities.

The System: City Ordinance No. 75686 defines SAWS as all properties, facilities, plants owned, operated and maintained by the City and/or the Board of Trustees, for the supply, treatment, transmission, and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS; however, the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code. See "Stormwater" below.

Funds Flow: City Ordinance No. 75686 requires that Gross Revenues of SAWS be applied in sequence to: (1) current maintenance and operating expenses including a two-month reserve based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) Payment of amounts required on Inferior Lien Obligations; and (7) Transfers to the City's General Fund and to the Renewal and Replacement Fund.

Reuse Contract: SAWS has a contract with City Public Service, the City owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities, and are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this contract were $2,000 during the twelve months ended December 31, 2003.

SAWS is developing a recycled water system that will provide non-potable water to various customers now using Edwards Aquifer water. During the twelve months ended December 31, 2003, SAWS generated an additional $2,456 in revenue from sales of recycled water. Revenue from recycled water sales is recorded as revenue of SAWS and has the same restrictions as the reuse contract.

Stormwater: In addition to the water related utilities which the Board has under its control, the City Council approved Ordinance No. 77949 on May 13, 1993, which established initial responsibilities over the Stormwater Program with the System and adopts a schedule of rates to be charged for stormwater services and programs. The Stormwater Program is deemed to not be a part of SAWS as the term is defined in City Ordinance No. 75686. Accordingly, operations of the Stormwater Program are not considered when determining compliance with debt covenants contained in City Ordinance 75686 or in calculating payments to be made to the City. In fiscal year 1997, the City Council placed the administrative responsibility with its own staff and entered into an interlocal agreement with SAWS for the provision of services related to certain water quality monitoring functions.

No Free Service: City Ordinance No. 75686 also provides for no free services except for municipal fire-fighting purposes.

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds

On March 27, 2003, SAWS issued $72,500 of City of San Antonio Water System Subordinate Lien Revenue and Refunding Bonds Series 2003-A, and $50,000 City of San Antonio Water System Subordinate Lien Revenue and Refunding Bonds Series 2003-B for a total principal amount of $122,500 in the variable rate bond market. The proceeds of the bonds were used (i) to provide funds for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and equipping the System, (ii) refund $76,000 in outstanding commercial paper notes, and (iii) pay the costs of issuing the Bonds. Since the proceeds were used to convert debt from short-term to long-term, there is no economic gain or loss associated with the refunding.

The City of San Antonio Water System Subordinate Lien Revenue and Refunding Bonds Series 2003-A and Series 2003-B were issued in the variable rate bond market and SAWS entered into an interest rate hedge agreement, which fixed the interest rate and realized a savings in comparison to a traditional fixed rate financing. This synthetic fixed rate, as obtained with the interest rate hedge agreement, provides a more favorable cost of capital to SAWS.

On August 26, 2003, SAWS issued $34,000 City of San Antonio Water System Junior Lien Revenue Bonds Series 2003 with the Texas Water Development Board. The bonds were sold under the Federal Cross Cutter Program with interest rates ranging from 0% - 3.10%. The proceeds from the sale of the Bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board Program and (ii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

Senior Lien Water System Revenue Bonds, comprised of Series 1996, Series 1997, Series 1999, Series 2001, Series 2002, and Series 2002-A outstanding in the amounts of $739,115 are collateralized by a senior lien and pledge of Gross Revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining an operating reserve for operating and maintenance expenses. At December 31, 2003, these bonds are due in varying amounts, from a low of $955 in 2004 to a high of $58,405 in 2028.

Junior Lien Water System Revenue Bonds, comprised of Series 1999, Series 1999-A, Series 2001, and Series 2001-A, Series 2002, Series 2002-A and Series 2003 outstanding in the amount of $186,830 at December 31, 2003, and are collateralized by a junior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS, maintaining an operating reserve for operating and maintenance expenses, and debt service on senior lien debt. At December 31, 2003, the Junior Lien bonds were due in varying amounts, from a low of $2,720 in 2023 to a high of $15,295 in 2019.

Subordinate Lien Water System Revenue Bonds, comprised of Series 2003-A and 2003-B outstanding in the amount of $122,500 at December 31, 2003, are collateralized by a subordinate lien and pledge of the Gross Revenues of SAWS after deducting and paying the current expenses of operation and maintenance expenses, and debt service on senior lien and junior lien debt. At December 31, 2003, the Subordinate Lien Bonds are due in varying amounts, from a low of $1,985 in 2004 to a high of $7,240 in 2033.

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

Revenue bonds currently outstanding are as follows:

San Antonio Water System

Purpose	Interest Rates	Amount
Build, improve, extend, enlarge, and repair the System	0.00-6.25%	$ 1,048,445

The following summarizes transactions of the revenue bonds for the year ended December 31, 2003:

	Beginning Balance Jan. 1, 2003	Additions	Reductions	Ending Balance Dec. 31, 2003	Due Within One Year
Bonds Payable	$ 897,460	$ 156,500	$ (5,515)	$ 1,048,445	$ 7,735
Deferred Amounts					
For issuance discounts/ premiums/losses	(30,746)	(270)	1,214	$ (29,802)	
Total Bonds Payable, Net	$ 866,714	$ 156,230	$ (4,301)	$ 1,018,643	$ 7,735

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Annual debt service requirements are shown as follows:

San Antonio Water System
Annual Debt Service Requirements
Revenue Bonds

Year Ended December 31,	Subordinate Lien Revenue and Refunding Bonds		Junior Lien Revenue and Refunding Bonds		Senior Lien Revenue and Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 1,985	$ 5,120	$ 4,795	$ 6,318	$ 955	$ 38,773
2005	2,080	5,038	4,935	6,168	9,480	38,538
2006	2,170	4,951	5,090	6,008	15,145	37,908
2007	2,275	4,860	7,840	5,806	13,310	37,113
2008	2,375	4,764	8,075	5,558	17,210	36,274
2009-2013	13,615	22,240	54,855	23,058	93,670	167,236
2014-2018	17,005	19,123	65,210	12,729	118,310	139,379
2019-2023	21,250	15,231	36,030	2,174	178,825	101,060
2024-2028	26,560	10,365			259,285	42,680
2029-2033	33,185	4,285			32,925	3,395
Total	$ 122,500	$ 95,977	$ 186,830	$ 67,819	$ 739,115	$ 642,356

Capitalized Interest Costs

Interest costs incurred on revenue bonds and short-term commercial paper debt totaled $50,688 during the twelve months ended December 31, 2003, of which $13,714 was capitalized as part of the cost of SAWS' utility plant additions.

Leases

SAWS entered into various lease agreements for financing the acquisition of computer equipment and heavy equipment. These lease agreements meet the requirements of capital leases for accounting purposes and therefore, are recorded at the present value of the future minimum lease payments as of the inception date. The terms of the leases are from two to five years with payments of $29,097 monthly and $341,430 annually. The annual percentage rate of the leases ranges from 5.5% to 7.5%. At the end of the respective lease terms, the ownership of the equipment transfers to SAWS or SAWS has the option to purchase the equipment. SAWS recorded capital leases related to computer equipment and heavy equipment in the amount of $401,654 and $570,487, respectively. Please note the amounts in this paragraph are not stated in thousands.

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

The future minimum lease obligations as of December 31, 2003, are as follows:

San Antonio Water System
Minimum Lease Obligation

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2004	$ 311	$ 30	$ 341
2005	262	12	274
2006	8		8
Total	$ 581	$ 42	$ 623

Note Payable

During fiscal year 2000, a contract was entered into between SAWS and CPS whereby SAWS acquired water right from certain CPS properties. A note was signed for 116 payments of $40 at an interest rate of 7.5%. Tota payments on this note are $4,640 including interest. The liability as of December 31, 2003, is included in th statement of net assets for both the current portion of $336 and long-term amount of $1,742. The annual principa and interest requirements are as follows:

San Antonio Water System
Principal and Interest Requirements

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2004	$ 336	$ 144	$ 480
2005	362	118	480
2006	390	90	480
2007	420	60	480
2008	452	28	480
2009	118	2	120
Total	$ 2,078	$ 442	$ 2,520

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS

A. Primary Government (City)

Commercial Paper

On November 9, 2000, the City Council approved issuance of $35,000 Sales Tax Commercial Paper Notes, Series A. The proceeds from the sale of the Notes are to provide for the planning, acquisition, establishment, development, construction, and renovation of the "Parks Development and Expansion Venue Project" authorized at an election held on May 6, 2000 which includes the acquisition of open space over the Edwards Aquifer Recharge Zone and linear parks along Leon Creek and Salado Creek, and the construction of improvements or additions to such Open Space Parks and Linear Parks. The Notes were supported by an irrevocable direct-pay Letter of Credit, dated as of December 5, 2000, issued by Landesbank Hessen-Thuringen Girozentrale, acting through its New York Bank (Helaba or the Bank). The Letter of Credit in an amount equal to $37,589 enabled the City to pay at maturity the principal amount of the Notes plus up to 270 days interest.

The City sold $32,700 in Sales Tax Revenue Commercial Paper Notes in fiscal year 2001.

The City made the determination that it would not renew the existing Letter of Credit and Reimbursement Agreement, which was due to, expire on November 30, 2003, pertaining to the City's existing Sales Tax Commercial Paper Program (the "Program"). The City made the determination that it would not take the actions at that point in time to secure a substitute credit provider for the Program, it paid from lawfully available funds on hand all outstanding notes at maturity (outstanding in the principal amount of $10,500 scheduled to mature on November 3, 2003, November 5, 2003, and November 7, 2003), and it will not issue any additional Commercial Paper Notes.

Revolving Line of Credit

The City uses a revolving line of credit for the Housing Asset Recovery Program. The line of credit is used to preserve housing stock and to revitalize neighborhoods by renovating and rehabilitating property owned by the City that is acquired through various programs (i.e. flood buyouts, facilities expansion, etc.). The City intends to finance their repayment with the proceeds received from the sale of the renovated houses. The amount of the line of credit is $1,250, of which $301 was outstanding as of September 30, 2004.

Revolving Line of Credit			
Beginning Balance	Increases	Decreases	Ending Balance
$ 331	$ 8	$ 38	$ 301

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

B. City Public Service (CPS)

Commercial Paper

In 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in Tax-Exempt Commercial Paper (TECP). This ordinance, as amended in June 1997, provides for funding to assist in the financing of eligible projects, in an aggregate amount not to exceed $450,000. Eligible projects include fuel acquisition, capital improvements to the utility systems (the Systems), and refinancing or refunding any outstanding obligations that are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The program's scheduled maximum maturities will not extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $350,000 for the purpose of paying principal due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 2005, and may be renewed for additional periods.

To date, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and any to be issued in the future.

As of January 31, 2004, a summary of TECP is as follows:

TECP Outstanding	$ 350,000
Weighted-average interest rate of outstanding TECP, approximate	1.01%
Average life of outstanding TECP (approximate number of days)	86

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

C. San Antonio Water System (SAWS)

Commercial Paper

SAWS maintains a Commercial Paper Program that is used to provide funds for the interim financing of a portion of capital improvements to the System.

On January 11, 2001, the City Council approved the expansion of the TECP Program (Tax Exempt Commercial Paper) from $175,000 to $350,000. The increase in the program provides interim financing for the increased level of future expenditures on water resource projects. Notes payable under the program cannot exceed maturities of 270 days and scheduled maturities of the short-term borrowing under the Commercial Paper Program may not extend past May 14, 2032.

The City has covenanted in the ordinance authorizing the Commercial Paper Program (the "Note Ordinance") to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing sufficient to pay the principal of the Commercial Paper Program. The credit facility is maintained under the terms of a revolving credit agreement.

To further support the issuance of the Commercial Paper Program, on June 2, 2001, the City entered into the agreements with the following:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Westdeutsche Landesbank Girozentrale and Landesbank Baden Wurttemberg.
- Issuing and Paying Agency Agreement with Bank One, National Association Chicago, Illinois.

The borrowings under the Commercial Paper Program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the Commercial Paper Program and (ii) borrowing under and pursuant to the revolving credit agreement.

Commercial paper notes of $269,000 are outstanding as of December 31, 2003. The proceeds of the notes have been used solely for financing of capital improvements of SAWS. The tax exempt commercial paper notes have been classified as long-term in accordance with the refinancing terms of the Credit Agreement and since management intends to continue the remarketing of the tax exempt commercial paper notes to maintain a portion of its debt in variable rates. Interest rates on the notes outstanding at year-end range from .90% to 1.20% and from 10 to 132 days in maturity. (The outstanding notes at December 31, 2003, had an average rate of 1.05% and averaged 55 days to maturity.)

The following summarizes transactions of the commercial paper program for the year ended December 31, 2003.

	Beginning Balance Jan. 1, 2003	Additions	Reductions	Ending Balance Dec. 31, 2003	Due Within One Year
Commercial Paper Notes	$255,000	$90,000	$76,000	$269,000	$0

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8. PENSION AND RETIREMENT PLANS

A. General Plan Information

The City of San Antonio, SAWS, and CPS participate in several contributory retirement plans. These are funded plans covering substantial full-time employees. Payroll and contribution information as of the year-end for each entity is presented below:

Contributory Pension and Retirement Plans

Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contributions
City	Fire and Police Pension Fund	Single Employer Defined Benefit Plan	$ 194,647	$ 24,129	$ 48,038	$ 72,167
	Texas Municipal Retirement System (TMRS)	Non Traditional Hybrid Defined Benefit Agent Plan	$ 199,180	11,952	23,062	35,014
Component Units:						
SAWS	[1]Texas Municipal Retirement System (TMRS)	Non Traditional Defined Contribution Agent Plan	Not Available	1,736	1,905	3,641
	[2]PMLIC Contract	Agent Multiple Employer Defined Benefit Plan	$ 55,364		3,324	3,324
CPS	[3]CPS All Employees Plan	Single Employer Defined Benefit Plan	$ 186,732	9,032	7,959	16,991

[1] Plan year ended December 31, 2003
[2] Plan year ended December 31, 2003
[3] Fiscal year ended January 31, 2004

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8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The City provides retirement benefits for all eligible full-time Fire and Police employees through the Pension Fund. Employees who terminate, having five to twenty years of service, may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for twenty years or more shall, upon application to the Board of Trustees of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest three years of pay of the last five years of service. The retirement annuity for employees retiring after September 30, 2001, is computed at the rate of 2.25% of this average for each of the first twenty years of service, plus 4.5% of the member's average total salary for each of the next seven years, plus 3% of the member's average total salary for each of the next three years of service, plus 0.5% of the member's average total salary for each of the next four years of service, with fractional years of service prorated based on full months served as a contributing member. In making the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary.

An employee with twenty years and one month of actual service credit may at the time of retirement elect a Backward Deferred Retirement Option Plan (Back DROP). The Back DROP election results in a lump sum payment equal to the number of full months of service elected by an employee that does not exceed the lesser of the number of months of service credit the employee had in excess of twenty years or thirty-six months and a reduced annuity payment.

There is also a provision for a 13th and a 14th pension check. The Board may authorize the disbursement of a 13th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. The Board may authorize a 14th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The 13th and 14th pension checks are paid to each retiree and beneficiary receiving a pension at the time of the disbursement and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year).

If service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, based on the same number of years of the member's pay as used to compute normal retirement benefits. If a member is killed in the line of duty, the member's surviving spouse and dependent children are entitled to a pension based upon actual base salary at time of death.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Contribution requirements of plan members and the City are established and may be amended by State statute. In the current year, the City contributed 24.64% of covered payroll and employees contributed 12.32% of covered payroll. The employer's required contribution of $48,038 and the employee's required contribution of $24,129 were made to the Pension Fund. (See summary of contribution information at Part A of this footnote).

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Effective October 1, 2001, in addition to the changes for credited service and the 14th check as mention previously, other new provisions include allowing the surviving spouse of an active member to elect to recei benefits in the form of a lump-sum payment and reduced annuity, similar to a Back DROP election made by retiring member, increasing the maximum benefit for surviving spouses and dependent children equal to a 27 ye pension, and increasing cost-of-living increases for all retirees who retired between August 30, 1971 and October 1991.

For the year ended September 30, 2004, the City's annual pension cost of $48,038 for the Pension Fund was equal the City's required and actual contributions. The annual required contribution was determined as part of the Octob 2003 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 8 investment rate of return, and (b) projected salary increase of 5.5% per year. Both (a) and (b) included an inflati component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of sho term volatility in the market value of investments over a five-year period. The Pension Fund's unfunded actuari liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortizati period at October 1, 2003, was 28.0 years.

Texas Municipal Retirement System (TMRS)

The City provides benefits for all eligible employees (excluding firefighters and police officers) through nontraditional, joint contributory, hybrid defined benefit plan in the TMRS. The TMRS is a statewide age multiple-employer public employee retirement system created by law in 1948 to provide retirement and disabili benefits to city employees. It is the opinion of the TMRS management that the plans in TMRS are substantial defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a bett understanding of some of the nontraditional characteristics of the plan.

TMRS issues a publicly available financial report that includes financial information related to participati municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 7871 9153 or calling (512) 476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financ monetary credits, with interest. At the date the plan began, the City granted monetary credits for service render before the plan began of a theoretical amount equal to two times what would have been contributed by t employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annuall another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, wh added to the employee's accumulated contributions and the monetary credits for service since the plan began, wou be the total monetary credits and employee contributions accumulated with interest if the current employ contribution rate and City matching percent had always been in existence and if the employee's salary had alwa been the average salary for the last three years. At retirement, the benefit is calculated as if the sum of t employee's accumulated contributions with interest and the City-financed monetary credits with interest were us to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years service or with 20 years of service regardless of age. The plan also provides death and disability benefits. member is vested after 5 years, but must leave accumulated contributions in the plan. If a member withdraws t contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

The plan provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contribution requirements are actuarially determined by TMRS's actuary (See summary of TMRS Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the City's employees is 6% and the matching percent is currently 11.63%, both as adopted by the governing body of the City. (See summary of contribution information in Part A of this footnote). Under the state law governing TMRS, the Employer's Contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's twenty-five year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is being amortized over a constant twenty-five year period as a level percent of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

C. San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System, a contract with Principal Mutual Life Insurance Company, and Social Security.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

1. 20 Years of credited service regardless of age, or
2. 25 Years of credited service and at least age 50, or
3. 10 Years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of credited service. Average Compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31, out of the latest ten compensation years prior to normal retirement date which gives the highest average.

The normal retirement benefit under the Principal Mutual contract is equal to:

1. 1.2% of the Average Compensation, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.375% of the Average Compensation, times years of credited service in excess of 35 years.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits. The following information related to the Texas Municipal Retirement System and Principal Mutual Life Insurance has been prepared as of January 1, 2002.

Texas Municipal Retirement System (TMRS)

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The TMRS was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas, and is administered in accordance with the Texas Municipal Retirement System Act. It is the opinion of the TMRS management that the plans in the TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the SAWS-financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, and 200%) of the employee's accumulated contributions. In addition, SAWS may grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and SAWS matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions and contribution requirements are adopted by SAWS within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contribution requirements are actuarially determined by TMRS's Actuary (See Summary of TMRS's Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the employees is 3% of salary, and SAWS matching rate approximates 100% of the employee rate, both as adopted by the SAWS. Under the state law governing TMRS, SAWS' contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to SAWS' matching percent, which are the obligation of SAWS as of an employee's retirement date not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of SAWS to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

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8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

When SAWS periodically adopts updated service credits and increases the annuities in effect, the increased unfunded actuarial liability is to be amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is to be amortized over the twenty-five year period. The unit credit actuarial cost method is used for determining SAWS contribution rate.

Contributions are made monthly by both the employees and SAWS. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. Significant assumptions used in the actuarial valuation of annual required contributions include a rate of return on the investment of present and future assets of 8.0% per year. Additionally, there is no need to project salary increases since the benefit credits earned for service to date are not dependent on future salaries. Likewise, inflation and cost-of-living adjustments are not accounted for in the actuarial study. Assets are valued at amortized cost.

Principal Mutual Life Insurance Company

The contract with Principal Mutual Life Insurance Company (PMLIC) serves as a supplement to the TMRS and Social Security benefits. SAWS' covered payroll at January 1, 2003, under this contract was $55,364.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit plan. Employees are eligible to participate in the plan on January 1 of the calendar year following date of hire. An employee covered by the plan may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. The plan allows an employee to accrue vesting benefits as follows:

Years of Service	Vested Percentage
Less than 5	0%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

Benefits for retired employees are fully guaranteed at retirement. The pension plans unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Life Insurance Co. The plan provisions and contribution requirements are governed by SAWS, which may amend plan provisions and is responsible for the management of plan assets.

Significant assumptions used by PMLIC's actuary to compute the actuarially determined contribution requirements include: (a) a rate of return on the investment of present and future assets of 8.25% per year, and (b) salary scale from Table S-5 of the Actuary's Pension Handbook, plus 3.4%.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Principal Mutual Life Insurance Company (Continued)

The PMLIC contract funding policy provides for actuarially determined periodic contributions so that sufficien assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal Frozen Initial Liability Method. This method spreads the total cost of the projected pension benefits for eacl employee evenly from the date the employee is first eligible for the plan to the employee's assumed retirement date As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total o annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined a: if the plan had always been in existence. Thus, as of the plan effective date, there are some accumulated Norma Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employe Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability Contribution requirements are established and may be amended by SAWS. Active members are not required tc contribute to the plan. Any obligation with respect to the pension plan shall be paid by SAWS. The actuaria valuation, which was performed for the plan year, ended December 31, 2002 reflects an unfunded frozen initia liability of $10,692.

The PMLIC issues a publicly available financial report that includes financial statements and required supplementa information. That report may be obtained by writing to Principal Life Insurance Company, Pension Diversifiec Retirement Services, Des Moines, Iowa 50392-0001 or by calling (515) 247-5111.

D. City Public Service (CPS)

All Employee Plan

The CPS Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service and to those employees who are ages 55 oı older with at least 10 years of benefit service. Retirement benefits are based on length of service anc compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service, oı age 62 with less than 25 years of service.

The Plan and contribution requirements are sponsored by and may be amended by CPS, acting by and through the General Manager and Chief Executive Officer of CPS. The Plan assets are held in a separate trust that is annually audited and which financial statements include historical trend information. Additional information may be obtained by writing the Employee Benefits Division of CPS, P.O. Box 1771, San Antonio, Texas 78296 or by calling (210) 978-2484.

Funding levels are established through annual actuarial evaluations and recommendations of an Administrative/Investment Committee, using both employee and employer contributions. Participating employees contribute 5% of their total compensation and are fully vested after completing 7 years of credited service or at age 40. The balance of contributions made amounted to 4.3% and is the responsibility of CPS, considering actuarial information, budgetary compliance, and the need to amend the Plan with legal requirements. (See Summary of Contribution Information at Part A of this footnote).

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8. PENSION AND RETIREMENT PLANS (Continued)

D. City Public Service (CPS) (Continued)

All Employee Plan (Continued)

As calculated under GASB Statement No. 27, CPS' annual pension cost and net pension obligation for the fiscal year ended January 31, 2004, was $7,651. The annual required contribution was determined as part of the January 1, 2003, actuarial valuation using (a) the five-year smoothed market method for asset valuation, (b) the projected unit credit for pension cost, and (c) the level dollar open for amortization. The remaining amortization period is 10.16 years and is calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 2003, actuarial valuation include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases averaging 5.0%, and (c) post-retirement cost-of-living increases of 2.0%. The projected salary increases include an inflation rate of 4.0%.

E. Three Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation as required by GASB Statement No. 27.

Three Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End of Year	Percentage of APC Contributed
Fire and Police	2002	43,615			43,615	(43,615)				100%
Pension-City of	2003	45,008			45,008	(45,008)				100%
San Antonio	2004	48,038			48,038	(48,038)				100%
TMRS-	2002	23,147			23,147	(23,147)				100%
City of	2003	22,684			22,684	(22,684)				100%
San Antonio	2004	23,062			23,062	(23,062)				100%
CPS All	2002	660	8	(14)	654	(753)	(99)	99		115%
Employee Plan [1]	2003	4,921			4,921	(4,921)				100%
	2004	7,651			7,651	(7,651)				100%
TMRS-	2001	1,044			1,044	(1,044)				100%
SAWS [2]	2002	1,772			1,772	(1,772)				100%
	2003	1,905			1,905	(1,905)				100%
PMLIC-	2001	2,969			2,969	(2,969)				100%
SAWS [3]	2002	2,857			2,857	(2,857)				100%
	2003	3,324			3,324	(3,324)				100%

1 Fiscal year ended January 31, 2004
2 Plan year ended December 31, 2003
3 Plan year ended December 31, 2003

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8. PENSION AND RETIREMENT PLANS (Continued)

F. Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation by the Texas Municipal Retirement System's (TMRS) actuary are provided in the table below for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Investment Return-City	7%
Investment Return-SAWS	8%
Inflation Rate	None
Projected Salary Increases	None
Post Retirement Benefit Increases	None
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost

Location of Schedules of Funding Progress

The Schedule of Funding Progress is located in the "Required Supplementary Information" section of this report. The schedules are designed to provide information about each entity's progress in accumulating sufficient assets to pay benefits due.

9. POSTEMPLOYMENT RETIREMENT BENEFITS

A. Primary Government (City)

In addition to the pension benefits discussed in Note 8, the City provides all their retired employees with certain health benefits under two postemployment benefit programs. The first program is a health insurance plan, which provides benefits for all non-uniformed City retirees and for all, pre-October 1, 1989, uniformed (fire and police) retirees. Currently, there are 6,067 active civilian employees who may become eligible in the future. Employees become eligible for the program when they reach eligibility for the TMRS Pension Plan, discussed in Note 8. At September 30, 2004, there were 1,512 retirees participating in the program which covers eligible expenses at 80% after a deductible of $250 (single)/$500 (family) for non-Medicare and $125/$250 for Medicare retirees. The cost of the program is reviewed annually, and actuarially determined costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis shared on a targeted 67% City - 33% retiree cost allocation. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands. For retirees, total expenses for the year were $7,268. For the year ended September 30, 2004, total contributions were as follows:

City	$ 3,509
Employees	2,279
TOTAL	$ 5,788

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9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

The second postemployment benefit program of the City provides retirement health care benefits for eligible Fire and Police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). The Fund was originally established as a fund of the City pursuant to the respective Fire and Police collective bargaining agreements to provide postemployment health benefits for San Antonio Fire Fighters and Police Officers who retired on or after October 1, 1989. Effective October 1, 1997, the Fund was created as a separate and distinct statutory trust. The Fund is governed by a nine member Board of Trustees comprised of the Mayor, two City Council members, two active police officers, two active fire fighters, a retiree representative of the Fire Department, and a retiree representative of the Police Department. The Board of Trustees is responsible for the investment of the assets of the Fund. Contribution and benefit levels are determined by the respective collective bargaining agreements with the Fire and Police Associations.

The benefits of this plan are financed on a prefunded basis. The City currently makes contributions on behalf of 3,417 active Fire Fighters and Police Officers who may be eligible for benefits under this plan in the future. The benefits of the plan are not available until the employee has completed twenty years of service and the plan is currently providing benefits to 1,086 eligible retirees. The Program reimburses 80% of the amount of eligible claims for standard medical costs and 100% for hospitalization costs incurred by the retiree and their eligible dependents for Prefund II retirees. Please note the number of firefighters, police officers, and retirees in this section are not expressed in thousands. For the year ended September 30, 2004, total expenses for retired employees was $10,223. Contribution levels from the current collective bargaining agreements between the City and the Fire and Police Associations, respectively, and total contributions to the Fund are summarized in the following tables. Additionally, for FY 2004, the City did not reduce its contribution to the Fund under the Fire Agreement to 8.51% of base pay plus longevity but rather maintained its contribution at 8.71 % of base plus longevity.

Fire Agreement Contribution Levels		
Effective Date	City % of Base Pay Plus Longevity	Firefighter Per Month
June 1, 2002	8.92%	$40
October 1, 2002	8.71%	$50
October 1, 2003	8.51%	$60
October 1, 2004	8.33%	$70

Police Agreement Contribution Levels		
Effective Date	City % of Base Pay Plus Longevity	Police Officer Per Month
November 1, 2003	9.4%+$20/member monthly	$40
April 1, 2004	9.4%+$20/member monthly	$50
October 1, 2004	9.4%+$20/member monthly	$60
April 1, 2005	9.4%+$20/member monthly	$70

Total Contributions to the Fund		
City	$	16,563
Employees and Retiree Dependent Premiums		2,502
Total Contributions	$	19,065

(amounts are expressed in thousands)

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Fund and whether the existing financing of the Fund can be reasonably expected to be adequate over a long period of time. Actuarial valuations over the past several years have indicated that contribution levels are not sufficient to amortize the unfunded liability. At the request of the Board of Trustees, the Fund's consulting actuaries performed an actuarial valuation dated February 20, 2004, as of October 1, 2003. The results of the actuarial valuation were that, in the opinion of the actuary, the Fund will have a long-term inadequate financing arrangement if present health benefits are left unchanged and if the monthly contributions remain at the amounts of $20 per month per active participant for police employees and $70 per month for active fire fighters after September 30, 2004. The actuary has also recommended that the contribution be increased to 21.41% of covered payroll in addition to the continuation of the specified monthly contributions. The City also had an actuarial valuation of the Fund conducted with a valuation date of April 1, 2003. This valuation also indicated that current contribution rates were not sufficient to the fund the benefits and retire the unfunded actuarial accrued liability.

While the results of the studies reflect significant changes would be required in contribution levels if benefits remain unchanged, the actuarial reports also state that the Fund does not have a short term financing problem. As of September 30, 2004, net assets available for postemployment benefits were $127,603 while benefits payments for the fiscal year ended September 30, 2004, were $10,223. As noted above, contribution and benefit levels are established pursuant to the collective bargaining agreements. The current agreement with the Fire Association will expire September 30, 2005, and has an evergreen clause through September 30, 2015. This agreement was negotiated prior to the issuance of the actuarial valuation indicating that contribution levels could not sufficiently amortize the unfunded liability, however, the agreement does contain a limited re-opener related to contributions to the Fund. The City is in discussions with the Fire Association regarding the limited re-opener under the current agreement.

The City approved an agreement in November of 2003 with the Police Association that will expire on September 30, 2006, and has an evergreen clause through September 30, 2016. This agreement with the Police Association increases both contributions by the City and active police officers over the term of the agreement. The agreement makes certain changes in benefits such as expanding the list of preventive services and for in-network and out-of-network pharmacy benefits with increased co-payments for drugs purchased at out-of-network pharmacies, which also became effective simultaneously under the Fire Contract. To coincide with the expiration of the City's current agreement with the Fire Association in September of 2005, the agreement with the Police Association also includes a re-opener on the benefits article in fiscal year 2005 which will allow the City to simultaneously work with both the Police and Fire Associations to continue to develop a comprehensive long-term solution for the Fund. The plan is based on a dual-track strategy of restructuring and redesigning the health benefits program and increasing City and employee contributions. Negotiations with both the Fire and Police Associations regarding health benefits issues are anticipated to begin in the summer of 2005.

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(amounts are expressed in thousands)

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

B. City Public Service (CPS)

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Plan assets are held as part of CPS' Group Health and Life Insurance Plans and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The Plans may be amended by CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs.

These costs approximated $4,400 for 2004. CPS reimbursed certain retirees and their spouses enrolled in Medicare Part B a percentage of the monthly premium, which totaled $256 for fiscal year 2004.

Retired employees and covered dependents contributed $1,900 for their health care and life insurance benefits in fiscal year 2004. There were approximately 2,261 retirees and covered dependents eligible for health care and life insurance benefits. Please note the number of retirees is not stated in thousands.

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1, 2003, valuations are $74,400 for health and $19,800 for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $45,900 for health, $5,600 for life insurance, and $3,000 for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $4,300 in 2004. For the health care plan, the actuarial cost method used is the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 2003, actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5% per year for the health, life, and disability plans, (b) projected salary increases for the plans ranging from 4.5% to 12.0% depending on age for base and other salaries, and (c) medical cost increases projected at 10.0% for 2003 decreasing to 6.0% in 2011 and thereafter.

C. San Antonio Water System (SAWS)

SAWS provides certain health care and life insurance benefits for retired employees. Substantially all full-time employees who retire from SAWS may become eligible for those benefits. On December 31, 2003, there were 442 retirees with life insurance and 283 retirees with medical coverage. Please note the numbers of retirees are not stated in thousands.

SAWS provides medical and life insurance for retirees and recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance. Premiums for medical insurance and life insurance amounted to $3,956 and $70, respectively for January 1, 2003, through December 31, 2003. Those and similar benefits for active employees are provided through insurance companies.

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10. CPS SOUTH TEXAS PROJECT (STP)

Joint Operations

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are Texas Genco, L.P., formerly known as Houston Lighting & Power and Reliant Energy, American Electric Power - Central Power and Light Company, and the City of Austin. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28% ownership in the STP represents 700 megawatts of plant capacity. At January 31, 2004, CPS' investment in the STP utility plant was approximately $1,700,000, net of accumulated depreciation. Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated and the STP Nuclear Operating Company (STP OPCO), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STP OPCO.

Nuclear Insurance

The Price-Anderson Act is a comprehensive statutory arrangement for providing limitations on liability and governmental indemnities with respect to nuclear accidents or events. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100,600, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10,000 per year per reactor for each nuclear incident. CPS and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the Nuclear Regulatory Commission (NRC), in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $600,000 for the nuclear industry as a whole, provides protection from nuclear-related claims.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1,060,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain $2,750,000 of nuclear property insurance, which is above the legally required amount of $1,060,000, but is less than the total amount available for such losses. The $2,750,000 of nuclear property insurance consists of $500,000 in primary property damage insurance and $2,025,000 of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at the nuclear plant of any utility insured by NEIL exceed the accumulated funds available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $25,500 during any one-policy year.

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10. CPS SOUTH TEXAS PROJECT (STP) (Continued)

Nuclear Decommissioning

CPS, together with the other owners of the STP, files with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1995, the owners conducted a review of decommissioning costs. The results showed that CPS' share of decommissioning costs at approximately $270,000 in 1994 dollars. In 1999, the owners conducted an additional review of decommissioning, and results estimated CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2004, CPS has accumulated approximately $211,100 of funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amounts of $70,400 at December 31, 2003.

Based upon the 1998 and 1994 decommissioning cost studies, the annual level funding into the trust of $15,900 for 2004 was expensed by CPS.

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11. COMMITMENTS AND CONTINGENCIES

A. Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2004. Grants awarded by federal, state, and other governmental agencies but not yet earned nor received in cash as of September 30, 2004, were $118,544.

Capital Improvement Program

The City will be undertaking various capital improvements to its airport system during fiscal year 2005. The estimated cost of these improvements is $163,015. Approximately $25,583 of the total will be funded by federal grants.

Litigation

The City is involved in various lawsuits related to alleged personal and property damages, wrongful death, breach of contract, various claims from contractors for additional amounts under construction contracts, property tax assessments, environmental matters, class action and promotional practices, and discrimination cases. The Office of the City Attorney estimates the probable liability for these suits, including those mentioned below, will approximate $8,995, which is included as a component of the reserve for claims liability in the amount of $17,271. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The City makes significant estimates in determining the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Self-Insurance Funds are adequate to cover losses for which the City may be liable. It is not determinable whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the government-wide financial statements.

Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This is a nuisance case alleging that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in Plaintiff's contracting acute lymphoblastic leukemia. Although the jury at trial entered against a judgment of more than $23,000 against the City, the trial court immediately reduced this by $6,000. On appeal, the Fourth Court subsequently sided with the City and reduced the judgment further by eliminating $10,000 in exemplary damages. The remaining issue is whether personal injuries are recoverable under the Plaintiff's theory of nuisance. The City believes they are not and that even if they are recoverable, damages are capped at $250 under the Texas Tort Claims Act. The City is appealing to the Texas Supreme Court.

Matthew Jackson et. al. v. City of San Antonio. This is a Fair Labor Standards Act ("FLSA") lawsuit with 175 named plaintiffs who claim that 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 175 plaintiffs. The Plaintiffs have a motion pending for class certification that could increase the size of the Plaintiff class to include all officers of the San Antonio Police Department, of which there are more than 2,000. Thus, the potential exists for more officers to join the lawsuit. The City expects to win the lawsuit, but the potential liability, if the case were lost, could be an amount well over $1,000.

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Non-compliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual and in the governmental fund type when matured.

Leases

The City leases City-owned property to others consisting of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. Total rental revenue on operating leases for fiscal year ended September 30, 2004, was $21,564. As of September 30, 2004, the leases provide for the following future minimum rentals:

Leases Receivable				
	Governmental Activities	Aviation	Parking	Total
Fiscal year ending September 30:				
2005	$ 1,854	$ 14,479	$ 102	$ 16,435
2006	1,641	13,755	60	15,456
2007	1,009	2,360		3,369
2008	844	2,052		2,896
2009	608	1,481		2,089
2010-2014	2,530	5,286		7,816
2015-2019	2,673	3,095		5,768
2020-2024	975	425		1,400
2025-2029	750	222		972
2030-2034	675			675
2035-2039	500			500
2040-2042	267			267
Future Minimum Lease Rentals	$ 14,326	$ 43,155	$ 162	$ 57,643

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, Federal and State laws required the City to incur certain postclosure care costs over a period of thirty years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,800. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a thirty-year period. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", the estimated postclosure cost of $3,800 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Environmental Services Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations.

Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year ended September 30, 2004, resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,051. This represents a decrease of $10 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

TCEQ Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission (TNRCC), related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City and the new permitee has provided adequate financial assurance for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

Brooks City-Base – Electric and Gas Utilities

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the "Air Force") and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks. On July 22, 2002, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology & Business Park, a facility that will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

As part of the conveyance, the electric and gas utilities were transferred to City Public Service (CPS), the City's utility. The electric and gas utility systems' infrastructure at Brooks are deficient and require extensive upgrades and improvements. Pursuant to the transfer, the Air Force, BDA, and CPS have committed to make certain improvements and upgrades to the electric and gas utility over a 20-year period. Funding for these improvements include $3,400 from the City and $6,300 from BDA and CPS each, respectively for a total of $16,000.

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Brooks City-Base – Electric and Gas Utilities (Continued)

With respect to BDA's obligation of $6,300, the City has agreed, under certain circumstances and if necessary, tc assist BDA in funding its obligation. The City has agreed to contribute to BDA on an annual basis an amoun equivalent to the incremental increase in the City's payment from CPS derived from Brooks. The City, as the owner of CPS, receives 14% of CPS' gross revenues and this amount represents additional resources available tc the City as a result of its increased payment from CPS derived at Brooks. Over the 20-year period, the City's annual payments will not exceed $3,400. In the event BDA has exhausted all of its available resources and ha: been unable to fulfill its obligation of $6,300 by the end of the 20-year term, the City has agreed in good faith tc utilize all of its funding options to enable BDA to satisfy its obligation.

Alamodome Soil Remediation

The City took an aggressive approach to dealing with environmental issues resulting from the construction of the Alamodome, a multi-purpose domed facility. It worked in conjunction with the Texas Commission or Environmental Quality (TCEQ) on the development and implementation of a remediation plan that addressed botl on and off-site locations that may have contained contaminated soil. As of September 30, 2004, the City hac expended approximately $13,460 related to Alamodome soil remediation efforts, inclusive of the supplementa environmental projects. In January 1996, TCEQ issued its Executive Director's Preliminary Report assessing a penalty against the City and VIA Metropolitan Transit (VIA) along with certain technical recommendations fo: alleged violations in the handling of contaminated soils at the Alamodome site. On February 12, 1997, the City anc TCEQ entered into an Agreed Order relating to enforcement actions taken by the Commission against the City anc VIA which provided for a reduced penalty amount because of positive actions taken by the City to initiate corrective actions in advance of the Agreed Order.

Under the Agreed Order, the Commission would also defer the remaining portion of the reduced fine upor successful completion, by the City, of certain supplemental environmental projects in the total amount of $628. The City, under separate agreement with VIA, would assume responsibility for the remediation of the remaining sites with VIA contributing $350 towards these efforts.

The City completed the Supplemental Environmental Projects as identified in the Agreed Order and has receiveo concurrence from the TCEQ that these projects were successfully completed. Additionally, the ten sites that required remedial activity under the Agreed Order were completed. The TCEQ has provided closure letters for all of these sites. Remediation was completed in fiscal year 2004 for the final site.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

B. City Public Service (CPS)

Other

Purchase and construction commitments amounted to approximately $1,500,000 at January 31, 2004. This amount includes approximately $40,300 that is expected to be paid for natural gas purchases to be made under various contracts currently in effect through June 2007; the actual amount to be paid will depend upon CPS' actual requirements during the contract period and the price of gas. Also included is $79,500 for coal purchases through December 2006, $246,200 for coal transportation through December 2014, and $3,000 for treated cooling water through December 2005, based upon the minimum firm commitment under these contracts.

CPS has also committed to purchase $199,500 in wind power; $22,500 for generation plant maintenance services, and $50,000 for distribution system construction and maintenance.

Additional purchase commitments at January 31, 2004, which are related to STP, include approximately $673,300 for raw uranium, associated fabrication, and conversion services. This amount represents services that will be needed for refueling through the year 2028.

The PUC promulgated new rules in 1996 designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule (Rule) mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on the amount of load served by each utility. CPS' cost for calendar year 2003 was approximately $16,100. The estimated cost for calendar year 2004 is approximately $13,000.

Joint Operations Agreement

A 1997 Joint Operations Agreement (JOA) resulted from the litigation settlement with Texas Genco, L.P., formerly known as Reliant Energy, Inc., and Houston Lighting & Power, over its management of STP during the construction and early operating periods. The JOA is an arrangement to jointly dispatch CPS' and Texas Genco, L.P.'s generating plants to take advantage of the most efficient plants and favorable fuel prices of each utility. Until June 2002, CPS received, in monthly cash payments, 90% of the savings realized from the jointly operated systems. As of June 2002, when Texas Genco, L.P. met the JOA $200,000 cumulative savings obligation, monthly cash payments were reduced to 50% of the savings realized from the jointly operated systems. As of January 31, 2004, CPS' total cumulative payments from savings realized was $235,800.

Litigation

Additionally, in the normal course of business, CPS is involved in other legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals, and discrimination cases. Also, CPS power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

C. San Antonio Water System (SAWS)

Other

SAWS is committed under various contracts for completion of construction or acquisition of utility plants totaling approximately $146,100 as of December 31, 2003. Funding of this amount will come from available revenues of SAWS, contributions from developers, and restricted assets.

Litigation

SAWS is the subject of various claims and litigation that have risen in the ordinary course of its operations. Management, in consultation with legal counsel, is of the opinion that SAWS' liabilities in these cases, if decided adversely to SAWS, will not be material.

12. RISK FINANCING

A. Primary Government (City)

Property and Casualty Liability

At September 30, 2004, the City has excess insurance coverage through State National Insurance Company for liability. The blanket policy provides general and auto liability along with police professional errors and omissions and EMS Medical Malpractice, and Civil Rights and Employee Benefits Liability Coverage. Allianz Insurance Company provides property coverage on the City's building and contents inventory. The City utilizes a third party administrator for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Internal Service Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported, and Departments are assessed premiums to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements did not exceed insurance coverage for each of the past three years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee benefit program including coverage for medical, dental and life insurance, vision, dependent care reimbursement accounts and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Self-Insurance Employee Benefits Insurance Internal Service Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

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12. RISK FINANCING (Continued)

A. Primary Government (City) (Continued)

Workers' Compensation

The City self-insures for Workers' Compensation. The City is a member of the Texas Municipal League (TML) Workers' Compensation Joint Insurance Fund, an unincorporated association of political subdivisions of the State of Texas. The TML Workers' Compensation Joint Insurance Fund is not intended to operate as an insurance company, but rather is intended to be a contracting mechanism, which the City as a member utilizes to administer self-insurance workers' compensation benefits to its employees for claims that occurred prior to September 30, 1986. The City also utilizes third party administrators for the handling of administration, investigation, and adjustment of workers' compensation claims that occurred after October 1, 1986. All loss contingencies, including claims incurred but not reported, if any, are recorded in the City's Self-Insurance Workers' Compensation Internal Service Fund and City departments are assessed premiums to cover expenditures. As of September 30, 2004, the City has excess workers' compensation coverage through the State National Insurance Company. Claims settlements did not exceed insurance coverage for each of the past three years.

Unemployment Compensation Program

The Unemployment Compensation Program of the Self-Insurance Internal Service Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year end, claims were being administered internally by the City and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

Extended Sick Leave Program

The Extended Sick Leave Program of the Self-Insurance Internal Service Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Self-Insurance Employee Wellness Program Internal Service Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program was established to offer City employees short-term mental health, marital, and financial counseling, as well as substance abuse intake and assessment. The Program was funded by a transfer from the Workers' Compensation Fund.

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12. RISK FINANCING (Continued)

A. Primary Government (City) (Continued)

Claims Liability

The liability for the Employees Benefits Program is based on the estimated aggregate amount outstanding at the statement of net assets date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the statement of net assets date and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims that have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability as management of the City feel it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for the Insurance Reserve Program is based on a 3% discounted rate.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Benefits, and Workers' Compensation Programs for the year ended September 30, 2004.

Schedule of Changes In Claims Liability

Fund	Liability Balance October 1,	Change in Estimates	Claims & Adjustments	Claims Payments	Liability Balance September 30, [1]
Insurance Reserve					
Fiscal Year 2003	$ 16,179	$	$ 4,836	$ (4,836)	$ 16,179
Fiscal Year 2004	16,179	1,092	3,370	(3,370)	17,271
Employee Benefits					
Fiscal Year 2003	$ 5,366	$ 3,182	$ 36,997	$ (36,997)	$ 8,548
Fiscal Year 2004	8,548		48,266	(48,266)	8,548
Workers' Compensation[1]					
Fiscal Year 2003	$ 23,205	$	$ 10,035	$ (10,035)	$ 23,205
Fiscal Year 2004	23,205		9,635	(9,635)	23,205

[1]The Workers' Compensation Liability Balance of $23,205 is comprised of $20,879 recorded in the Workers' Compensation Fund and the remaining liability of $2,326 is recorded in Proprietary Funds.

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12. RISK FINANCING (Continued)

B. City Public Service (CPS)

CPS is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS purchases commercial liability and property insurance coverages to provide protection in event of large/catastrophic claims. CPS performs actuarial studies periodically to determine its insurance retentions. An actuarial study was last performed in 2004.

In addition, CPS is exposed to risks of loss due to death of, and injuries to, or illness of, its employees. CPS makes payments to external trusts to cover the claims under the related plans. At January 31, 2004, CPS accumulated approximately $152,800 in these external trusts. The trust accounts and related claims liabilities are included in CPS' financial statements. CPS has recorded $27,700 of expense related to these plans for the year ended January 31, 2004.

Based upon the guidance of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the following information is provided regarding the changes in the insurance reserves for property, and employee and public liability claims for the years ended January 31:

City Public Service
Schedule of Changes In Claims Liability

Fund	Liability Balance February 1,	Claims & Adjustments	Claims Payments	Liability Balance January 31,
Property Insurance				
Fiscal Year 2003	$ 8,624	$ (3,019)	$ (52)	$ 5,553
Fiscal Year 2004	5,553	377	(95)	5,835
Employee & Public Liability Claims				
Fiscal Year 2003	$ 5,008	$ 1,968	$ (110)	$ 6,866
Fiscal Year 2004	6,866	1,371	(1,000)	7,237
Employee Health & Welfare Claims				
Fiscal Year 2003	$ 3,641	$ 29,425	$ (28,894)	$ 4,172
Fiscal Year 2004	4,172	35,939	(35,415)	4,696

The employee health and welfare plan assets are segregated from CPS's assets. They are separately managed by a committee whose members are appointed by the CPS General Manager and CEO. These plans have separate financial statements for calendar year 2003. These separately audited financial statements are available upon request from CPS.

12. RISK FINANCING (Continued)

C. San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

SAWS is self administered and self-insured for the first $500 of each worker's compensation and $250 for general liability, automobile liability, public official's liability and $100 for pollution legal liability claim whereby any claim exceeding the self-insured retention limit would be covered through SAWS' comprehensive commercial insurance program. For the year ended December 31, 2003, there were no reductions in insurance coverage from the previous year and there were no claims that exceeded the self-insured retention limit. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

SAWS had recorded a liability in the amount of $2,317 as of December 31, 2003, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. The claims liability includes medical and rehabilitation costs, which are considered incremental claim adjustment expenses. Changes in the liability amount for the last two fiscal years were:

San Antonio Water System
Schedule of Changes In Claims Liability

Year Ended	Balance at Beginning of Fiscal Year Liability	Claims & Adustments	Claims Payments	Balance at End of Fiscal Year Liability
Dec. 31, 2002	$ 1,729	$ 1,058	$ (1,603)	$ 1,184
Dec. 31, 2003	$ 1,184	$ 3,029	$ (1,896)	$ 2,317

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13. INTERFUND TRANSFERS

The following is a summary of interfund transfers for the City for the year ended September 30, 2004:

Summary Table of Interfund Transfers
for the Year Ended September 30, 2004

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
Airport System Fund	$ 153	$ 0
Parking System	717	411
Internal Service Funds	2,701	3,633
Nonmajor Governmental Funds	10,374	70,897
Nonmajor Enterprise Funds	1,403	
Total General Fund	15,348	74,941
Debt Service Funds:		
Nonmajor Governmental Funds	22,638	
Total Debt Service Funds	22,638	0
Airport System Fund:		
General Fund		153
Internal Service Funds		206
Nonmajor Governmental Funds	761	118
Total Airport System Fund	761	477
Parking Facilities Fund:		
General Fund	411	717
Internal Service Funds	10	701
Nonmajor Governmental Funds		105
Total Parking Facilities Fund	421	1,523
Internal Service Funds:		
General Fund	3,633	2,701
Airport System	206	
Parking System	701	10
Internal Service Funds	1,443	1,443
Nonmajor Governmental Funds	272	314
Nonmajor Enterprise Funds	257	35
Total Internal Service Funds	6,512	4,503
Nonmajor Governmental Funds:		
General Fund	70,897	10,374
Debt Service		22,638
Airport System	118	761
Parking System	105	
Internal Service Funds	314	272
Nonmajor Governmental Funds	72,137	72,137
Total Nonmajor Governmental Funds	143,571	106,182
Nonmajor Enterprise Funds:		
General Fund		1,403
Internal Service Funds	35	257
Total Nonmajor Enterprise Funds	35	1,660
Total	$ 189,286	$ 189,286

13. INTERFUND TRANSFERS (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches, and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

Other significant transfers by the General Fund include $615 set aside for the purchase of additional ladder trucks from fiscal year 2006 through fiscal year 2009. This is the third year that funds have been set aside for that purpose as the Master Plan recommended in fiscal year 2001 that $615 in funds be set aside each year through fiscal year 2005.

The Enterprise Resource Management Fund was established in fiscal year 2001 to record all operating revenues and expenditures associated with the development and implementation of the new enterprise system. Funding is provided by transfers from the Improvement Projects Fund. This year's support totaled $1,132.

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14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the Government-wide Statement of Net Assets.

One element of this reconciliation states, "Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds". The detail of the $35,154 is as follows:

Revenues previously reported as deferred in the fund financial statements	$ 45,111
Receivable applicable to governmental activities, which are not available in the current period	565
Deferred revenues previously reported as income in the fund financial statements	(10,522)
Revenues collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are not recognized in governmental funds	$ 35,154

Another element of this reconciliation states, "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds". The detail for the decrease related to capital leases is as follows

Total capital leases reported on the Government-wide Statement of Net Assets	$ 7,126
Less: Short-term available portion reported in fund financial statements	(581)
Net adjustment to decrease fund balance-total governmental funds to arrive at new assets-governmental activities for capital leases	$ 6,545

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14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the Government-wide Statement of Activities.

The details of the increase of bond costs are as follows:

Issuance costs expended per fund financial statements	$	2,061
Less: amounts expended attributable to current period		(6)
Total bonds costs	$	2,055

The details of the increase of bond premiums and deferred charges are as follows:

Amortization of bond premiums on long-term debt-Debt Service Fund, previously expensed in the fund financial statements	$	2,093
Amortization of bond premiums on long-term debt-General Obligation Bonds previously expensed in the fund financial statements		835
Less: premiums on bonds and certificates not previously recorded in the fund financial statements		(4,095)
Total amortization of bond premiums and deferred charges (net)	$	(1,167)

Another element of this reconciliation states, "Some expenses reported in the Statement of Activities are not reported as expenditures in governmental funds." The details of the ($1,564) are as follows:

Compensated Absences	$	(6,243)
Interest Expense		(760)
Principal Paid on Leases		5,590
Arbitrage Rebate Expense		(151)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	$	(1,564)

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15. DEFICITS IN FUND BALANCES / NET ASSETS

Special Revenue Funds

As of September 30, 2004, deficit fund balance at year-end is reported in the Categorical Grant In-Aid, and Community Development Program in the amounts of $853 and $251, respectively. The deficit is attributable to projects for which the Community Development Program Fund Budget needs to be adjusted. Upon reprogramming of funds, the deficit fund balances will be fully funded. The deficit for Categorical Grant-In Aid is attributable to projects that were overspent and for which local funding will be required to clear this deficit.

The Golf Course Fund had a deficit fund balance of $624 as of September 30, 2004. The deficit is attributable to a decline in revenues in recent years due to increased competition by the private sector and extreme weather patterns. In addition, increased labor, fuel, and equipment maintenance costs have contributed to the deficit.

The Alamodome Fund had a deficit fund balance of $879 as of September 30, 2004. This deficit is attributed to events programmed but not realized, due in part to the downturn of certain entertainment industries and local venue competition. Additionally, individual spending per event was expected to increase due to an anticipated economic upswing.

Internal Service Funds

As of September 30, 2004, a deficit of $31,752 in net assets is reported in the Employee Benefits Program. To address specific issues related to the increasing costs of health benefits, the City will seek the services of an outside consultant in 2005 to perform a comprehensive review of the Employee Benefits Programs. Establishing health care medical management programs focused on providing managed care for employees having chronic, high risk ailments involving high costs such as back pain, high risk maternity, heart disease, and depression are some of the areas on which the consultant will be focusing. Programs such as these will be carefully studied as means of providing long term solutions to address rising health care costs and increasing fund balance deficits. In March of 2004, a combined Health and Benefits Request for Proposal (RFP) was released. The purpose of the combined plan was to maximize efficiency, ensure competitive medical pricing, to consolidate plan administration, and to improve provider discounts.

Within the Internal Service Funds, the Workers Compensation Program also reported deficit net assets of $6,590, at September 30, 2004. The City will fund the deficit through assessments charged to various City funds in future years.

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16. OTHER DISCLOSURES

A. Donor Restricted Endowment

The City of San Antonio has four permanent funds: the San Jose Burial Park Permanent Fund, the Carver Cultural Center Endowment Fund, the San Antonio Housing Trust Fund, and the William C. Morris Endowment Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these endowment funds are classified as restricted net assets and are reported in the government-wide financial statements. The principal is required to be retained in perpetuity while the interest is available to cover specific expenditures.

The San Jose Burial Park Permanent Fund generated $26 in interest to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery.

The Carver's Endowment Fund generated $3 in interest. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated $275 in interest. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of this trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed, construed, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $1 in interest. These earnings are used on an annual basis to enhance the City's Library's Educational Programming and Services for Children. Any net income or net appreciation of the funds not used shall be accumulated and added to the principal of the funds. The earnings of the funds will be expended in accordance with the spending policy of the Library's Board of Directors or Trustees.

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17. SUBSEQUENT EVENTS

A. Primary Government (City)

On December 2, 2004, the City issued $33,090,000 "City of San Antonio, Texas General Improvement Forward Refunding Bonds, Series 2006," (the "2006 Bonds"). The 2006 Bonds are anticipated to be delivered on or about May 9, 2006. The 2006 Bonds have maturities from 2009 to 2016, with interest rates ranging from 5.250% to 5.500%.

On March 24, 2005, the City issued $61,060,000 "City of San Antonio, Texas, Municipal Drainage Utility System Revenue Bonds, Series 2005" (the "Stormwater Bonds"). The Stormwater Bonds were sold to finance the costs of making drainage improvements, including acquisition, construction, and repair of structures, equipment, and facilities for the City's Municipal Drainage Utility System and are anticipated to be delivered on or about April 20, 2005. The Stormwater Bonds have maturities from 2006 to 2030, with interest rates ranging from 3.500% to 5.250%.

On March 31, 2005, the City issued $116,170,000 "City of San Antonio, Texas General Improvement and Refunding Bonds, Series 2005," (the "2005 Bonds") and $10,535,000 "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2005," (the "2005 Certificates"). The 2005 Bonds and the 2005 Certificates are anticipated to be delivered on or about April 27, 2005. The 2005 Bonds have maturities from 2010 to 2025, with interest rates ranging from 3.500% to 5.250%. The 2005 Certificates have maturities from 2012 to 2025, with interest rates ranging from 4.000% to 5.250%.

The 2005 Bonds were issued to provide funds (1) to finance the construction of general improvements to the City, including (a) streets and pedestrian improvements; (b) drainage improvements; (c) parks and recreation improvements; (d) library improvements; and (e) public health and safety improvements; (2) to refund certain outstanding tax-exempt obligations and to effectuate a present value savings; and (3) to pay the costs of issuance.

The 2005 Certificates will be used for the purpose of providing funds for the payment of contractual obligations to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing public safety improvements, including renovating and improving existing fire stations, (2) constructing drainage improvements, sidewalk improvements, bridge improvements, street improvements and drainage incidental thereto, (3) constructing improvements and renovations to existing municipal facilities, including the Levi Strauss Building and the Witte Museum, (4) acquiring, constructing and renovating park facilities, (5) purchasing materials, supplies, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, street and public works purposes, and (6) the payment of professional services related to the construction and financing of the aforementioned projects.

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City of San Antonio
Texas

Required Supplementary Information Other Than MD&A

(Unaudited)

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City of San Antonio
Texas

Budgetary Comparison Schedule - General Fund

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	2004			
	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
Resources (inflows):				
Taxes	$ 332,745,965	$ 332,744,105	$ 343,707,952	$ 10,963,847
Licenses and Permits	17,010,019	17,008,539	17,026,379	17,840
Intergovernmental	2,892,200	2,892,200	2,695,842	(196,358)
Revenues from Utilities	184,239,975	184,239,975	196,405,099	12,165,124
Charges for Services	26,794,096	26,795,577	30,029,118	3,233,541
Fines and Forfeits	12,171,665	12,171,664	11,713,073	(458,591)
Miscellaneous	10,244,462	10,195,381	10,758,387	563,006
Transfers from other funds	5,212,686	14,174,639	15,348,182	1,173,543
Amounts Available for Appropriation	591,311,068	600,222,080	627,684,032	27,461,952
Charges to Appropriations (outflows):				
General Government	57,503,972	77,710,026	54,214,920	23,495,106
Public Safety	365,593,474	378,061,807	376,925,001	1,136,806
Public Works	14,041,263	10,637,869	10,656,685	(18,816)
Health Services	15,811,378	12,911,242	13,409,924	(498,682)
Sanitation	2,536,970	2,535,618	2,380,287	155,331
Welfare	17,366,033	16,988,837	16,480,979	507,858
Culture and Recreation	62,675,537	62,463,275	57,918,951	4,544,324
Economic Development and Opportunity	19,126,474	22,863,663	8,043,283	14,820,380
Transfers to other funds	72,785,414	76,111,164	76,440,760	(329,596)
Total Charges to Appropriations	627,440,515	660,283,501	616,470,790	43,812,711
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	(36,129,447)	(60,061,421)	11,213,242	71,274,663
Fund Balance Allocation	36,129,447	60,061,421	(11,213,242)	(71,274,663)
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	$ 0	$ 0	$ 0	$ 0

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	$ 627,684,032
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(15,348,182)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	$ 612,335,850
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	$ 616,470,790
Differences - budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	(4,155,441)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(76,440,760)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	$ 535,874,589

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function and activity within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City prepares an annual budget for the General Fund on a modified accrual basis which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year end.

City of San Antonio
Texas

Pension Schedules

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

FIRE AND POLICE PENSION PLAN--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-03	$ 1,429,378	$ 1,718,262	$ 288,884	83%	$ 191,647	151%
10-01-02	1,341,274	1,630,434	289,160	82%	183,686	157%
10-01-01	1,285,936	1,539,932	253,996	84%	179,554	141%

TEXAS MUNICIPAL RETIREMENT SYSTEM--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL (1)	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-03	$ 451,071	$ 602,927	$ 151,856	75%	$ 192,896	79%
12-31-02	436,046	566,203	130,157	77%	197,678	66%
12-31-01	412,867	532,821	119,954	78%	189,495	63%

CITY PUBLIC SERVICE ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-03	$ 783,000	$ 748,700	$ (34,300)	105%	$ 186,700	(18)%
01-01-02	758,200	691,800	(66,400)	110%	180,300	(37)%
01-01-01	713,600	643,500	(70,100)	111%	165,300	(42)%

NOTES: (1) Abstracted from City payroll records.

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-03	(2) $ 0	$ 0	$ 0		$ 0	
12-31-02	46,492	57,635	11,143	81%	51,889	21%
12-31-01	44,613	55,201	10,588	81%	51,958	20%

SAN ANTONIO WATER SYSTEM - PMLIC

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-03	$ 42,827	$ 52,602	$ 9,775	81%	$ 55,364	18%
01-01-02	39,270	45,947	6,677	85%	51,303	13%
01-01-01	31,341	40,797	9,456	77%	51,050	19%

(2) Balances for 12/31/03 not available

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

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APPENDIX F

FEASIBILITY REPORT

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UNISON MAXIMUS
CONSULTING SOLUTIONS

April 26, 2005

Mr. Kevin Dolliole
Director of Aviation
City of San Antonio
9800 Airport Boulevard
San Antonio, Texas 78216-9990

Subject: Financial Feasibility Report for the City of San Antonio Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005

Dear Mr. Dolliole:

UNISON-MAXIMUS, INC. ("Unison") is pleased to submit the attached Financial Feasibility Report in support of the intent of the City of San Antonio (the "City") to issue the City of San Antonio Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005 (the "Series 2005 PFC Bonds") in the approximate amount of $42.895 million. The Series 2005 PFC Bonds are being issued to fund a portion of the costs of certain capital projects that are included in the Capital Improvement Program (the "CIP") of the City's Department of Aviation (the "Department").

The Series 2005 PFC Bonds are special, limited obligations of the City payable from and secured by a pledge of Passenger Facility Charge ("PFC") Revenues and a pledge of the Airport System Net Revenues subordinate to the Parity Obligations.[1] PFC Revenues are generated from a PFC of $3.00 that was approved by the Federal Aviation Administration (the "FAA"), and was imposed by the City effective November 1, 2001. PFC Revenues are collected from certain enplaned passengers using San Antonio International Airport, less an air carrier collection fee of $0.11 per enplaned passenger. The Series 2005 PFC Bonds are being issued pursuant to the *Master Ordinance Establishing the Airport System Revenue Bond Financing Program with Respect to the Issuance of Obligations by the City of San Antonio, Texas Payable in Whole or in Part from Passenger Facility Charges* (the "Master PFC Ordinance") and the *Second Supplemental Ordinance to the Master Ordinance Relating to the Issuance of Obligations Secured in Whole or in Part with "Passenger Facility Charges" and the Seventh Supplemental Ordinance to the Master Ordinance Relating to the Issuance of Obligations Secured with Gross Revenues of the City's Airport*. The Master PFC Ordinance and the supplemental PFC ordinances are collectively referred to in the attached Report as the "PFC Ordinances."

[1] Parity Obligations are the currently outstanding general airport revenue bonds, which are secured by a first lien on Gross Revenues of the Department.

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The City owns and operates San Antonio International Airport ("SAT", or the "Airport") and Stinson Municipal Airport ("Stinson"), which together comprise the Airport System. SAT is the only commercial service airport serving the City and the San Antonio metropolitan area. Stinson is primarily a general aviation airport. SAT, which handled approximately 3.5 million enplanements in 2004, is classified by the FAA as a medium-hub airport.[2] Based on 2003 airport data, which is the most recent available, the Airports Council International (the "ACI") ranked SAT 52nd in the nation in terms of total passengers served and 42nd in the nation in terms of total cargo processed. Covering 2,600 acres, SAT is located approximately eight miles from the City's downtown central business district.

Purpose of the Bond Financing

The Department's CIP includes a number of capital projects for the Airport System during fiscal years[3] ("FY") 2005 through 2009. Department management has determined that the projects are necessary to accommodate the expected continued growth in aircraft and passenger activity at SAT, as discussed in Section IV, and to replace or rehabilitate certain facilities and equipment at SAT and Stinson. The Department's CIP costs, which are estimated to total approximately $329.0 million for the period FY 2005 through FY 2009, are expected to be funded from the following sources: (i) the Series 2005 PFC Bonds; (ii) the proceeds of the Series 2002 PFC Bonds; (iii) a future PFC bond issue; (iv) Pay-As-You-Go PFCs; (v) outstanding GARBs; (vi) a future GARB issue; (vii) Department funds; and (viii) federal and state grants.

The Series 2005 PFC Bonds are being issued to fund approximately $38.4 million in CIP costs, including a portion of the capital costs of the following projects: (i) Concourse B; (ii) Terminal Elevated Roadway; (iii) Central Plant Upgrade; (iv) Apron Replacement; and (v) New Utilities – Phase 1. These projects, which are collectively referred to in the attached Report as the "PFC Bond Projects."

Covenant to Budget PFC Debt Service Coverage

The Master PFC Ordinance requires the City to prepare an annual budget each Fiscal Year which will indicate that unused PFC Revenues from prior years, plus PFC Revenues during the current Fiscal Year, minus PFC "Pay-As-You-Go" costs during the current Fiscal Year, will equal at least 1.25 times the Annual Debt Service Requirements during the current Fiscal Year on all Outstanding Parity PFC Obligations. This provision of the Master PFC Ordinance is referred to as the Covenant to Budget PFC Debt Service Coverage. The attached Report examines the City's ability to fulfill this Covenant during the forecast period.

[2] Any airport that enplanes between 0.25% and 0.99% of total domestic U.S. enplanements is classified by the FAA as a medium hub airport

[3] The Department's fiscal year begins on October 1st and ends on September 30th.

The Master PFC Ordinance also requires that in the event any Parity PFC Obligations which are also secured with a lien on and pledge of Subordinate Net Revenues (defined as Net Revenues available after the debt service requirements on all Parity Obligations are satisfied) remain outstanding and the City is for any reason unable to collect, or does not actually collect, PFC Revenues in an amount sufficient to provide PFC Revenues to satisfy the Covenant to Budget PFC Debt Service Coverage, the City will at all times fix, maintain, enforce, charge, and collect rates, fees, charges, and amounts for Airport System facilities and operations which will produce in each Fiscal Year Subordinate Net Revenues at least equal to 1.10 times the annual debt service requirements during each Fiscal Year on all then outstanding Parity PFC Obligations.

The attached Report contains projections of the total Pledged Revenues available to pay PFC debt service, which are calculated as Net Revenues minus debt service on Parity Obligations, plus PFC Revenues. Included in the attached Report are projections of PFC debt service coverage.

Rate Covenant for Parity Obligations

The Master Ordinance governing Parity Obligations requires the City to generate Gross Revenues from the Airport System in each Fiscal Year that are at least sufficient: (A) to pay all O&M Expenses during each Fiscal Year, and also (B) to provide an amount equal to 1.25 times the Annual Debt Service Requirements during each Fiscal Year on all outstanding Parity Obligations. This provision is referred to as the Rate Covenant for Parity Obligations. The attached Report evaluates the City's ability to fulfill the Rate Covenant during the forecast period.

Airline Agreement

Effective October 1, 2001, the City entered into the current Airline-Airport Use and Lease Agreement ("Airline Agreement") with airlines operating at the Airport (the "Signatory Airlines"). Nine airlines (the "Signatory Airlines") are currently parties to the Airline Agreement, which specifies the terms and conditions of the Signatory Airlines' use of Airport facilities and their operations at the Airport. The Airline Agreement will expire on the earlier of either the Date of Beneficial Occupancy ("DBO") of the planned new Concourse B or on September 30, 2006. The financial analysis in the attached report assumes that the airline rates and charges methodology currently in effect will continue after the expiration of the current Airline Agreement, under one of the following possible conditions: (i) the extension of the current Airline Agreement, (ii) a new agreement with substantially similar terms and conditions, or (iii) a City ordinance that imposes a substantially similar methodology.

The principal types of rates and charges paid by the airlines are terminal rents, landing fees, charges for the Federal Inspection Service ("FIS") facilities, and other charges. Airline

terminal rents and landing fees, which represent the majority of the rents and fees paid by the airlines, are calculated by the Department to recover the airlines' share of annual terminal and airfield expenses, respectively. However, the Signatory Airlines may be eligible for terminal rent credits after the end of each fiscal year equal to a portion of the Gross Revenues available after the payment of all parity and subordinate debt service requirements, other obligations pursuant to the Bond Ordinances, and O&M Expenses.

Report Organization

Unison has prepared the attached Report to evaluate the ability of the City to meet the financial requirements established by the PFC Ordinances and the ordinances governing the City's general airport revenue bonds. The following summary of the components of the attached Report provides an overview of the comprehensive analysis performed:

- **Section I** describes the Airport System, the City and the Department.
- **Section II** describes the Department's Capital Improvement Program ("CIP"), including the projects to be funded with the proceeds of the Series 2005 PFC Bonds.
- **Section III** defines the Airport's air service area and discusses the local economic base.
- **Section IV** analyzes the historical aviation activity at the Airport and presents forecasts of future aviation activity.
- **Section V** reviews the Airline Agreement including the airline rates and charges methodology.
- **Section VI** reviews the framework for the financial operation of the Department, including key provisions of the PFC Ordinances and the bond ordinances governing the City's general airport revenue bond issues. This section also reviews the recent historical financial performance of the Department, and examines the ability of the Department to generate sufficient Gross Revenues and PFC Revenues in each year of the forecast period to meet the obligations of the PFC Ordinances and the bond ordinances.

Assumptions

The analysis and forecasts contained in the attached Report are based upon certain data, estimates, and assumptions that were provided by the Department, and certain data and projections from other independent sources. The attached Report should be read in its entirety for an understanding of the forecasts and the underlying assumptions. In our opinion,

the data, estimates, and assumptions used in the report are reliable, and provide a reasonable basis for our forecast given the information available and circumstances as of the date of this Report. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, the actual results achieved may vary from the forecasts, and the variations could be material.

The major assumptions utilized in the attached Report are listed below:

1. The Department will complete the projects listed in the CIP, including the projects to be funded with the proceeds of the Series 2005 PFC Bonds, within the budgeted costs and according to the estimated schedule.
2. The City will sell another PFC bond issue and another revenue bond issue during the forecast period to fund the costs of other projects included in the CIP.
3. The airlines operating at the Airport will continue collecting and remitting a $3.00 PFC throughout the forecast period.
4. The current airline rates and charges methodology will continue in effect after the expiration of the existing Airline Agreement, through the extension of the existing Airline Agreement, through a new agreement with substantially similar terms, or through a City ordinance.
5. Average annual inflation is estimated at approximately 2.4% during the forecast period, based on forecast annual inflation rates for the Consumer Price Index ("CPI") prepared by the U.S. Office of Management and Budget, as presented in the *Fiscal Year 2006 Budget of the United States Government*, published on February 7, 2005.

Findings and Conclusions

Based upon the assumptions and analysis presented in the attached Report, we forecast that the Department will be able to comply with the provisions of the Master PFC Bond Ordinance and other governing legal documents, while maintaining a reasonable airline cost per enplaned passenger. Specifically, we conclude the following:

- Debt service coverage for the PFC bonds, based only on projected PFC resources (pursuant to the Covenant to Budget Debt Service Coverage contained in the Master PFC Ordinance)[4], is projected to decrease during the forecast period as debt service starts for the Series 2005 PFC Bonds and a future anticipated PFC bond issue – but will remain at or above 2.32 times. Therefore, it is anticipated that during the forecast

[4] PFC resources to be used in the calculation of debt service pursuant to the Covenant to Budget Debt Service Coverage include the PFC Revenues in the current Fiscal Year, plus unusued PFC Revenues from the prior Fiscal Year, minus PFC "Pay-As-You-Go" costs during the current Fiscal Year.

period, the City will be able to satisfy the Covenant to Budget PFC Debt Service Coverage contained in the Master PFC Ordinance (1.25 required coverage).

- PFC debt service coverage based on total Pledged Revenues available for PFC debt service (including Net Revenues after the payment of debt service on Parity Obligations) is projected to decrease as new debt service requirements start, from 4.78 times in FY 2005 to 2.31 times in FY 2008 before increasing to 2.48 times in FY 2009.

- Debt service coverage for Parity Obligations, based on Gross Revenues, is projected to increase from 2.91 in FY 2005 to 3.53 in FY 2009. Debt service coverage for Parity Obligations, based on Net Revenues, is projected to increase from 1.35 in FY 2004 to 1.76 in FY 2009.

- The airline cost per enplaned passenger is projected to remain fairly low during the forecast period, compared to the airline cost per enplanement amounts for airports with a similar number of enplanements as SAT. SAT's airline cost per enplanement is projected to increase from $4.03 in FY 2005 to $4.10 in FY 2008 before decreasing to $3.87 in FY 2009.

- *Under the alternative air traffic forecast*: PFC debt service coverage based on total Pledged Revenues available for PFC debt service is projected to remain at or above 2.54 during the forecast period.

Based on the above, we conclude that it is financially feasible for the City to proceed with the issuance of the Series 2005 PFC Bonds.

Sincerely,

UNISON-MAXIMUS, INC.

Unison-Maximus, Inc.

SAN ANTONIO DEPARTMENT OF AVIATION
Financial Feasibility Report

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April 26, 2005

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SECTION I
INTRODUCTION

This report considers the financial feasibility of issuing the City of San Antonio Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005 (the "Series 2005 PFC Bonds"). The proceeds of the Series 2005 PFC Bonds will be used to fund a portion of the cost of capital projects that are included in the Capital Improvement Program ("CIP") of the City of San Antonio Department of Aviation (the "Department"). The City of San Antonio (the "City") owns San Antonio International Airport ("SAT," or the "Airport") and Stinson Municipal Airport ("Stinson"). The Department operates both SAT and Stinson, which are collectively referred to as the "Airport System." SAT operates as a commercial service airport, and Stinson primarily serves the general aviation community.

This report is organized into the following sections:

- **Section I** describes the Airport System, the City and the Department.
- **Section II** describes the Department's Capital Improvement Program ("CIP"), including the projects to be funded with the proceeds of the Series 2005 PFC Bonds.
- **Section III** defines the Airport's air service area and discusses the local economic base.
- **Section IV** analyzes the historical aviation activity at the Airport and presents forecasts of future aviation activity.
- **Section V** reviews the Airline Agreement including the airline rates and charges methodology.
- **Section VI** reviews the framework for the financial operation of the Department, including key provisions of the PFC Ordinances and the bond ordinances governing the City's general airport revenue bond issues. This section also reviews the recent historical financial performance of the Department, and examines the ability of the Department to generate sufficient Gross Revenues and PFC Revenues in each year of the forecast period to meet the obligations of the PFC Ordinances and the bond ordinances.

A. THE AIRPORT SYSTEM

Stinson Flying School was founded in 1915, and soon thereafter it was named Stinson Airport, San Antonio's first municipal airport. Stinson is the second oldest

continuously operated general aviation airport in the nation. In 1941, the City purchased 1,200 acres to establish San Antonio Municipal Airport, and in 1942 the U.S. Army established Alamo Airfield on the new airport property. The Airport was renamed San Antonio International Airport in 1944.

B. SAN ANTONIO INTERNATIONAL AIRPORT

SAT is the only commercial service airport serving the City and the San Antonio metropolitan area. In 2004, SAT enplaned approximately 3.5 million passengers. The Federal Aviation Administration (the "FAA") classifies SAT as a medium-hub airport.[5] Based on 2003 airport data, the Airports Council International ("ACI") ranked SAT 52nd in the nation in terms of total passengers served and 42nd in the nation in terms of aircraft operations and total cargo processed. Covering 2,600 acres, SAT is located approximately eight miles from the City's downtown central business district, adjacent to the Loop 410 freeway and U.S. Highway 281.

The following paragraphs describe the existing facilities at SAT. The Department is currently planning capital improvements to various facilities, as described in Section II ("Capital Improvement Program").

1. Airfield Facilities

The Airport's existing airfield infrastructure consists of runways and taxiways, ramp/apron areas and holding pads, and other airfield facilities. SAT has two all-weather air carrier runways (12R/30L and 3/21) and one general aviation runway (12L/30R), as follows:

	Length (ft.)	Width (ft.)	Type of Aircraft Accommodated
Runway 12R/30L	8502	150	air carrier
Runway 3/21	7505	150	air carrier
Runway 12L/30R	5519	100	general aviation

Each runway has a full-length parallel taxiway and a 90-degree entrance/exit taxiway located at each end, in addition to several 90-degree crossover taxiways along the runways. The airfield has approximately 85.9 acres of concrete apron for commercial aircraft parking in the terminal area and an additional 16.7 acres at the East Cargo Ramp. There are holding pads at the ends of Runways 12R and 3.

Other airfield facilities include underground storm sewer systems, fencing and security gates, navigational aids and an airfield lighting system, and an FAA Airport Traffic Control Tower.

[5] Airports that enplane between approximately 0.25% and 0.99% of annual domestic enplanements are classified as medium hub airports.

2. Terminal Facilities

SAT has two passenger terminals with abutting apron areas for aircraft parking. Terminal 1, which was constructed in 1984, has 16 gates and contains approximately 395,000 square feet. Terminal 2, which has 12 gates (including four ground-loaded commuter aircraft gates) and contains approximately 210,000 square feet, was constructed in 1953 with a satellite concourse added in 1968. The Department's CIP, which is discussed in Section II, includes the planned construction of a new concourse (Concourse B), currently scheduled to be completed in July 2007. It is Department management's intent to demolish Terminal 2 once Concourse B is operational. The Department plans to construct another new concourse (Concourse C) in the future, the timing of which will be determined by future increases in air traffic at SAT.

3. Parking Facilities

The Airport has approximately 6,800 parking spaces, consisting of approximately 5,800 public parking spaces and 1,000 employee parking spaces. Parking facilities include a short-term parking garage, a long-term parking garage, and surface parking. The Department's CIP includes the planned construction of a new parking structure, which is scheduled to be completed by December 2006 and will increase the Airport's public parking supply to approximately 8,300 spaces.

4. Air Cargo Facilities

Air cargo facilities at the Airport include an Air Cargo East complex and an Air Cargo West complex. A total of over 137,000 square feet of cargo warehouse space, and approximately 1.7 million square feet of air cargo aircraft apron space are available. The Airport includes two Foreign Trade Zones ("FTZ") and is served by 12 air cargo service providers.

5. Other Facilities

Other facilities at the Airport include a roadway system, Fixed Base Operator ("FBO") facilities, aircraft maintenance and manufacturing facilities, corporate/business facilities, Airport maintenance shops, and utility systems.

C. THE CITY

The City is located in south central Texas, approximately 75 miles south of the Texas state capital in Austin. Established in 1837 and chartered in 1951, the City covers approximately 430 square miles and is the county seat of Bexar County. According to statistics compiled by the U.S. Census Bureau, the City's population as of July 1, 2003 was approximately 1.2 million. The U.S. Census Bureau ranks the

City as the second largest city in Texas and the ninth largest city in the U.S. in terms of population.

The City Council is composed of 10 members who are elected by district. The Mayor is elected City-wide. In 1991, an amendment to the City Charter was approved by the voters that limited the service by the Mayor and City Council members to two full terms, each of which is two years in duration. The City Manager, who serves as the chief administrative officer of the City, is appointed by the City Council.

The Department and all other departments of the City follow the same process for developing their respective annual budgets. Each year, the City prepares its "Five Year Financial Forecast," followed by a "Goals and Objectives Work Session." Each City department is given a target budget based on current service requirements. The City Council then holds a series of work sessions, which include presentations by each department. After receiving input from each department and from citizens at public hearings, the City Council adopts a balanced budget. City staff members closely monitor all departmental budgets during each year, and report to the City Council the status of the various City funds.

D. THE DEPARTMENT

The Department is an enterprise fund department of the City. The operations and improvements at SAT and Stinson are paid for by Airport user charges, bond funds, and funds received from the FAA. No general tax fund revenues are used to operate or maintain either SAT or Stinson. The City Council appoints an 11-member Airport Advisory Committee. The Committee actively participates in all Airport System policy matters before such matters are presented to the City Council.

Kevin C. Dolliole, who has been Aviation Director since October 1999, recently submitted his resignation to the City to accept the position of Director of Lambert-St. Louis International Airport. Mr. Dolliole's last day as Aviation Director for the City will be April 30, 2005. Roland A. Lozano, Assistant to the City Manager, will serve as the Interim Aviation Director while a search for a new Aviation Director is conducted. As Interim Aviation Director, Mr. Lozano will have overall responsibility for the management, administration, and planning of the Airport System. The City has in place to assist the Interim Aviation Director an experienced Aviation department staff, including the Assistant Aviation Director – Operations and Maintenance, the Assistant Director of Aviation – Finance and Administration, and the Airport Finance Manager. The following are brief descriptions of the professional experience of each of the principal members of the Department's staff.

<u>Interim Director of Aviation</u>
Roland A. Lozano, who was named Assistant to the City Manager in April 2001, will serve as the Interim Aviation Director, effective with the departure of the current

Aviation Director on April 30, 2005. Mr. Lozano manages the City's facilities and visitors functions that support the convention and tourism industry. He oversees the Alamodome, Convention Facilities, Convention and Visitors Bureau, Cultural Affairs, and Aviation departments, and he coordinates city-wide special events. Prior positions held by Mr. Lozano with the City have included Executive Director of Facilities and Visitor Services, Director of the Asset Management Department, Director of the Office of Dome Development, Director of Planning, and Executive Assistant to the Director of the Department of Economic and Employment Development. Mr. Lozano has also worked for the U.S. Department of Labor, having served as special assistant to the Assistant Secretary of Labor for Employment and Training and as Assistant to the Administrator for the Employment and Training Administration. He holds an M.A. in Education and a B.S. in Industrial Education from Southwest Texas State University.

Assistant Aviation Director – Operations and Maintenance

Dom Smith, Assistant Aviation Director – Operations and Maintenance, has been employed by the Department since 1984. Mr. Smith served as Maintenance Manager prior to his appointment to his current position in 1999. His current responsibilities include airport operations, police, fire rescue coordination, ground transportation, noise abatement, and airport maintenance. Mr. Smith is a graduate of Texas A&M University with a degree in Agronomy.

Assistant Aviation Director – Finance and Administration

Ryan G. Martinez was appointed Assistant Aviation Director – Finance and Administration effective September 2001. Prior to his appointment, Mr. Martinez was employed by the Kansas City Department of Aviation, as Assistant Director of Aviation – Finance and Accounting, having previously served as the Finance Manager. He holds a Bachelor of Science degree in Accounting from Northwest Missouri State University and has taken Master of Business Administration courses at East Texas State University.

Airport Finance Manager

Rick Naylor, A.A.E., the Airport Finance Manager, has been with the City since 1972 and with the Department since 1982. Mr. Naylor's responsibilities include airport finances, budget, personnel, accounting, and data processing. He has a Bachelor's degree in Business Administration and a Master's degree in Economics from St. Mary's University.

SECTION II
CAPITAL IMPROVEMENT PROGRAM

The Department's CIP includes a number of capital projects for SAT and Stinson during fiscal years[6] ("FY") 2005 through 2009. Department management has determined that the projects are necessary to accommodate the expected continued growth in aircraft and passenger activity at SAT, as discussed in Section IV, and to replace or rehabilitate certain facilities and equipment at SAT and Stinson. The Master Plan Study completed in January 1998[7] determined that certain capital improvements were needed to the airfield facilities in order to avoid congestion and reduce aircraft delays in the future. In addition, the Master Plan Study found that the Airport's terminal gate capacity is insufficient to meet future demand. Therefore, the Department's CIP includes several runway and taxiway projects for SAT, as well as the construction of two new terminal concourses at SAT to replace Terminal 2, which has outlived its useful life and will be demolished.

The CIP costs are estimated to total approximately $340.6 million for the period FY 2005 through FY 2009. The projects included in the CIP are expected to be funded from the following sources: (i) the Series 2005 PFC Bonds; (ii) the Series 2002 PFC Bonds; (iii) a future PFC bond issue; (iv) Pay-As-You-Go PFCs; (v) outstanding GARBs; (vi) a future GARB issue; (vii) Department funds; and (viii) federal (FAA Airport Improvement Program, or "AIP") grants and state grants. The estimated CIP project costs and proposed funding sources for the period FY 2005 through 2009 are summarized on **Table II-1**.

A. PROJECTS TO BE FUNDED WITH THE SERIES 2005 PFC BONDS

It is anticipated that proceeds from the Series 2005 PFC Bonds will fund approximately $38.4 million of the CIP costs. The Series 2005 PFC Bonds will be secured by a pledge of PFC Revenues and a pledge of the Net Revenues of the Airport System subordinate to the payment of the GARBs, as described in Section VI. The Series 2005 PFC Bonds are being issued to fund a portion of the costs of the following capital projects: (i) Concourse B; (ii) Terminal Elevated Roadway; (iii) Central Plant Upgrade; (iv) Apron Replacement; and (v) New Utilities – Phase 1. These projects, which are collectively referred to in this Report as the "PFC Bond Projects," are summarized in **Table II-2** and described on the following pages.

[6] The Department's fiscal year begins on October 1st and ends on September 30th.
[7] Ricondo & Associates, Inc., et. al., *San Antonio International Airport Master Plan Study*, January 1998.

TABLE II-1
CAPITAL IMPROVEMENT PROGRAM, FY 2005-FY2009
ESTIMATED COSTS BY COST CENTER AND FUNDING SOURCE

Cost Center	Funding Source								
	Series 2005 PFC Bonds	Series 2002 PFC Bonds	Future PFC Bonds	PFC Pay-As-You-Go Funds	Outstanding GARBs	Future GARBs	Department Funds	Federal and State Grants	TOTAL
Terminals	$26,163,000	$17,255,000	$35,136,000	$1,845,000	$13,507,000	$20,969,000	$6,513,000	$0	$121,389,000
Roads	10,277,000	0	0	8,628,000	0	0	1,290,000	1,660,000	21,855,000
Apron	2,000,000	0	0	3,680,000	0	0	0	16,824,000	22,504,000
Airfield	0	0	12,325,000	8,748,000	0	0	1,983,000	63,639,000	86,695,000
Parking	0	0	0	0	46,530,000	0	335,000	0	46,865,000
Cargo	0	0	0	0	1,036,000	5,984,000	648,000	3,700,000	11,368,000
Stinson	0	0	0	0	0	0	5,408,000	3,703,000	9,111,000
Other	0	0	0	400,000	3,500,000	0	13,418,000	3,500,000	20,818,000
TOTALS	**$38,440,000**	**$17,255,000**	**$47,461,000**	**$23,301,000**	**$64,573,000**	**$26,953,000**	**$29,595,000**	**$93,026,000**	**$340,605,000**

TABLE II-2
SERIES 2005 PFC BOND PROJECTS

Project	Project Costs	Funding Source				
		Series 2005 PFC Bonds	Series 2002 PFC Bonds	Outstanding GARBs	AIP and PFC Funds [1]	Department Funds
Concourse B	$51,846,000	$21,083,000	$17,255,000	$13,507,000	$0	$0
Terminal Elevated Roadway	18,126,000	10,277,000	0	0	7,850,000	0
Central Plant Upgrade	3,388,000	1,545,000	0	0	961,000	883,000
Apron Replacement	16,000,000	2,000,000	0	0	14,000,000	0
New Utilities - Phase 1	4,781,000	3,535,000	0	0	0	1,245,000
TOTALS	**$94,141,000**	**$38,440,000**	**$17,255,000**	**$13,507,000**	**$22,811,000**	**$2,128,000**

[1] AIP grants and Pay-As-You-Go PFCs.

1. Concourse B

As the first phase of the overall SAT terminal expansion plan, Concourse B will be constructed immediately to the west of the existing Terminal 1. Concourse B will contain approximately 250,000 square feet and will include seven airline gates, hold rooms, operations areas, baggage-handling areas, ticketing areas, concessions, aviation offices, and common areas. Once Concourse B is completed and operational, Terminal 2 will be demolished to make room for the construction of future concourses. Based on the recommendations of the Master Plan, Department management has determined that any future investment in Terminal 2 is not cost effective because portions of Terminal 2 are over 50 years old.

2. Terminal Elevated Roadway

A bi-level roadway system will be constructed to provide vehicular access to the upper and lower levels of the planned Concourse B and another new concourse that is planned for the future (Concourse C). The bi-level roadway is planned to start where the present roadway ends in front of Concourse A at Terminal 1, and will run approximately 1,500 feet in front of the planned Concourse B and the future Concourse C. The roadway is planned to be three lanes wide to match the existing elevated roadway. The project will also include: the construction of interim ramps and roadways to maintain access during construction; the demolition of hangars currently in the footprint of the planned roadway; and incidentals such as traffic barricading, signage, and other security measures, such as closed circuit TV ("CCTV") cameras along the terminal curb, which will be tied into the Airport communications system.

3. Central Plant Upgrade

This project consists of phased infrastructure improvements to the central plant in support of the increased capacity demands of the planned Concourses B and C. Improvements will include new and replacement piping between the central plant, the new concourses, and the existing terminal facilities; two additional chillers; a new cooling tower; one additional boiler; and miscellaneous upgrades to the existing equipment and building.

4. Apron Replacement

A new aircraft parking apron totaling approximately 150,000 square feet will be constructed in phases surrounding the planned Concourses B and C and over the footprint of existing Terminal 2 after its demolition. The existing apron pavement will be used as much as possible in order to meet proper drainage requirements and National Fire Protection Association ("NFPA") safety standards. The project will include joint sealing and pavement markings; and underground drainage and utility relocations.

5. New Utilities – Terminal Expansion

The utilities and associated infrastructure will be expanded in support of the Terminal Expansion Program, including improvements to the existing Terminal 1 and the planned Concourses B and C. Improvements will include the removal and replacement/extension of waterlines, sanitary sewer lines, gas mains, electrical, communication, FAA duct bank and conductors, and hydraulic lines between the central utility plant and the terminal buildings.

B. THE DEPARTMENT'S PFC PROGRAM

The PFC Bond Projects are part of the Department's overall PFC Program, which has been developed in accordance with Federal regulations. In 1990, the United States Congress enacted the Aviation Safety and Capacity Expansion Act of 1990 (the "PFC Act"), which was amended in 1994, 1996, and 2000. The PFC Act, as amended, allows public agencies controlling commercial service airports (those with regularly scheduled service and enplaning 2,500 or more passengers annually) to charge enplaning passengers using the airport a $1.00, $2.00, $3.00, $4.00, or $4.50 facility charge, referred to as a Passenger Facility Charge or PFC. The purpose of the charge is to provide additional capital funding for the expansion of the national airport system. PFC collections are to be used to finance eligible airport-related projects that preserve or enhance safety, capacity, or security of the national air transportation system, reduce noise from an airport that is part of such system, or furnish opportunities for enhanced competition between or among air carriers. Public agencies wishing to impose a PFC must apply to the FAA for such authority and meet certain requirements specified in the PFC Act.

On August 29, 2001, the FAA issued a Record of Decision ("ROD") that authorized the City to impose a $3.00 PFC effective November 1, 2001, to collect approximately $102.5 million in PFCs, with an estimated charge expiration date of November 1, 2009. On February 15, 2005, the FAA issued a Final Agency Decision ("FAD") that approved a PFC amendment application, which included a requested increase in PFCs for the Concourse B project, one of the projects being funded with the proceeds of the Series 2005 PFC Bonds. On February 22, 2005, the FAA issued a FAD that approved a new PFC application that included 11 new projects, including the other four projects being funded with proceeds of the Series 2005 PFC Bonds (Terminal Elevated Roadways, New Utilities, Apron Replacement, and Central Plant Upgrade). Together, the amendment application and the new application increased the City's PFC collection authorization to approximately $167.1 million, with an estimated charge expiration date of April 1, 2016. The approved PFC projects are summarized on **Table II-3**.

TABLE II-3
APPROVED PFC PROJECTS

Project Title	Total Project Costs	Approved PFCs
Residential Noise Attenuation Program	$15,858,129	$3,171,626
Replace RON Apron	7,000,000	1,722,176
Terminal Modifications [1]	30,646,711	34,443,758
Concourse B [1]	51,845,551	76,527,983
Reconstruct Perimeter Road	2,209,427	552,357
Terminal Elevated Roadways [1]	18,126,121	28,876,104
Central Plant Upgrade [1]	3,387,845	4,120,922
Apron Replacement [1]	16,000,000	6,092,138
New Utilities - Terminal Expansion	5,975,858	8,117,081
Replace Two ARFF Vehicles	1,220,165	303,970
Environmental Impact Statement	3,000,000	750,000
Reconstruct Terminal Area Roads	225,000	225,000
Noise Monitoring System	1,225,772	245,154
Terminal and Airfield Security	4,674,171	1,168,543
Airfield Electrical Improvements	2,533,333	633,333
PFC Development	150,000	150,000
TOTALS	$164,078,082	$167,100,144

[1] Approved PFCs include bond financing costs.

SECTION III
LOCAL ECONOMIC BASE

Local demographic and economic trends influence air travel demand, particularly the origination and destination ("O&D") segment. This section identifies the air service area ("ASA") of the Airport and presents demographic and economic data that demonstrate the capability of the ASA to support traffic growth.

A. AIR SERVICE AREA

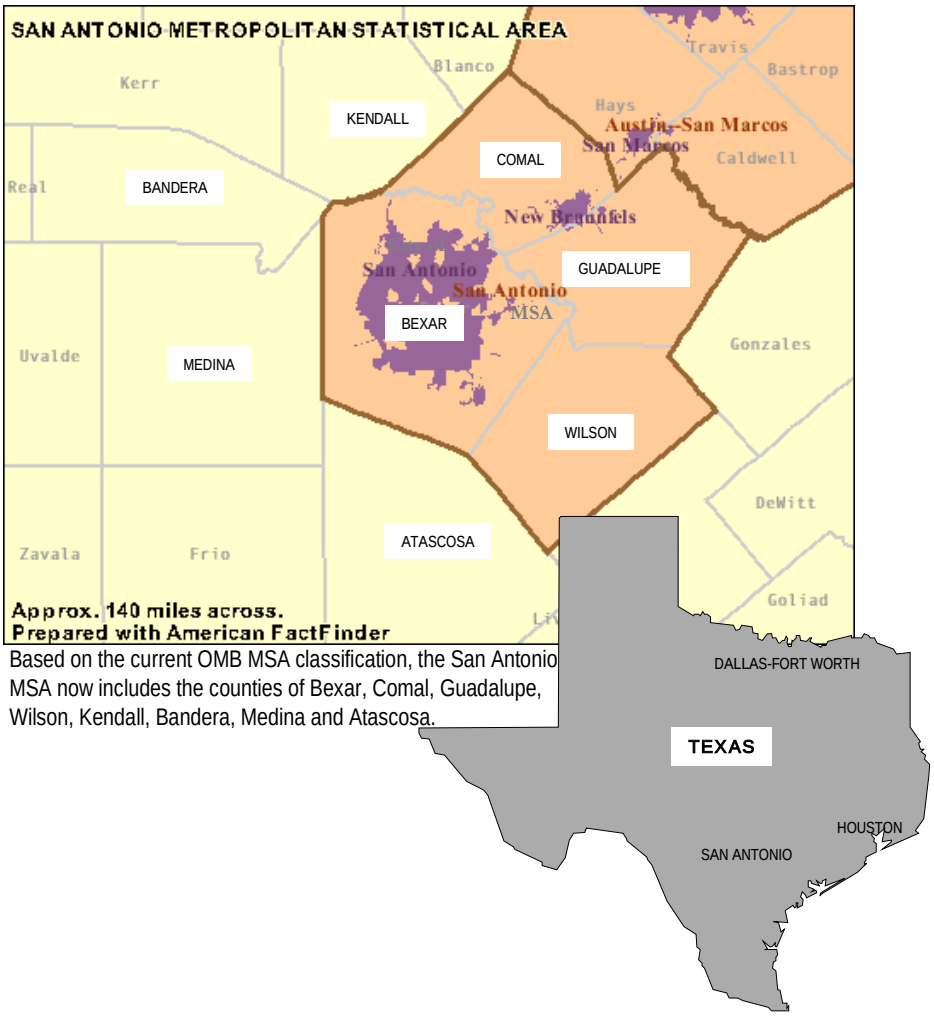
The Airport serves primarily the San Antonio Metropolitan Statistical Area (MSA), an area encompassing 7,340 square miles in south central Texas, near major Texas population centers and midway between the west and the east coasts. As shown in **Figure III-1**, the San Antonio MSA originally consisted of four counties: Bexar, Comal, Guadalupe and Wilson. On June 6, 2003, the Office of Management and Budget published a revised classification of MSAs. Under the new classification, the San Antonio MSA now includes the counties of Atascosa, Bandera, Kendall and Medina. The largest county in the San Antonio MSA is Bexar County. The seat of Bexar County is the City of San Antonio, the second largest city in Texas and the eighth largest city in the United States based on the 2003 Census population estimates.[8]

The Airport is the only major commercial airport in the San Antonio MSA. The other major commercial airports near the San Antonio MSA are Austin-Bergstrom International Airport ("AUS"), 66 miles away; George Bush Intercontinental Airport/Houston and William P. Hobby Airport, 190 miles away; and Dallas/Fort Worth International Airport and Dallas Love Field, 244 miles away.

AUS, the major commercial airport closest to the San Antonio MSA, provides alternative air service to San Antonio residents. Air service at AUS is, in many ways, similar to air service at SAT. As of April 2005, 18 passenger airlines operate approximately 130 departures per day from AUS to 31 nonstop destinations, while 17 passenger airlines operate approximately 121 departures per day from SAT to 29 nonstop destinations.[9] Southwest operates approximately 33% of total daily departures from AUS, compared to 35% of total daily departures from SAT. In CY 2004, AUS served approximately 3.7 million enplanements,[10] compared to SAT's 3.5 million.

[8] The Greater San Antonio Chamber of Commerce, *San Antonio Region Economic Trends, 1995-2005*, January 2005, pages 4-5.
[9] The statistics are based on scheduled commercial departures from each airport for April 2005 as published in BACK Aviation Solutions OAG Database as of April 14, 2005.
[10] The official website of Austin-Bergstrom International Airport at *www.ci.austin.tx.us/austinairport*.

FIGURE III-1
SAN ANTONIO INTERNATIONAL AIRPORT
PRIMARY AIR SERVICE AREA



Based on the current OMB MSA classification, the San Antonio MSA now includes the counties of Bexar, Comal, Guadalupe, Wilson, Kendall, Bandera, Medina and Atascosa.

B. POPULATION

The San Antonio MSA provides a large and growing population base for air travel demand. The Sales & Marketing Management 2004 Survey of Buying Power and Media Markets ("the S&MM Survey") ranked the San Antonio MSA 29th among U.S. metropolitan areas in total population. **Table III-1** presents the population estimates of the U.S. Census Bureau for the San Antonio MSA by county in 1993 and 2003. The population of the entire MSA increased by 2.0% per year on average, from 1.5 million in 1993 to 1.8 million in 2003. The annual population growth rate of the San Antonio MSA was slightly lower than the annual population growth rate of the state of Texas (2.3%), but was almost twice the U.S. annual population growth rate

(1.1%). Between 2000 and 2003, 49% of the population growth in the San Antonio MSA was due to natural increase and 51% was due to net in-migration.

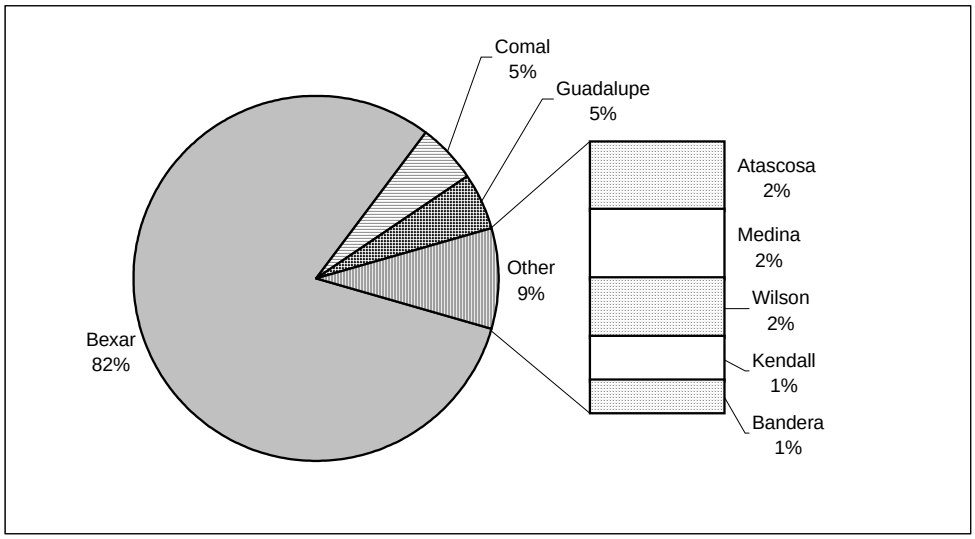
TABLE III-1
SAN ANTONIO MSA
POPULATION BY COUNTY
1993-2003

County/Area	Population Estimates		Avg. Annual Growth Rate
	July 1, 1993	July 1, 2003	1993-2003
San Antonio MSA			
Atascosa County	31,870	41,867	2.8%
Bandera County	11,687	19,347	5.2%
Bexar County	1,252,932	1,471,644	1.6%
-City of San Antonio	1,051,228	1,214,725	1.5%
Comal County	57,502	87,785	4.3%
Guadalupe County	68,586	97,101	3.5%
Kendall County	16,898	26,178	4.5%
Medina County	30,098	41,553	3.3%
Wilson County	24,729	35,244	3.6%
Total - MSA	**1,494,302**	**1,820,719**	**2.0%**
Texas	**17,650,479**	**22,118,509**	**2.3%**
United States	**257,782,608**	**288,368,698**	**1.1%**

Source: U.S. Census Bureau, *Population Estimates,* at *www.census.gov.*

Table III-1 shows that, between 1993 and 2003, the fastest growing counties in the San Antonio MSA were Bandera, with a population growth rate of 5.2%; Kendall, with a population growth rate of 4.5%; and Comal, with a population growth rate of 4.3%. Bexar County is the largest, with 82% of the San Antonio MSA population in 2003, as shown in **Figure III-2**.

FIGURE III-2
SAN ANTONIO MSA
POPULATION DISTRIBUTION BY COUNTY
2003



Source: U.S. Census Bureau, *Population Estimates,* at *www.census.gov.*

Within Bexar County is the City of San Antonio, the eighth largest city in the United States. In 2003 the City of San Antonio had a population of approximately 1.2 million, making up nearly 83% of the entire population of Bexar County and 67% of the entire population of the San Antonio MSA. Between 1993 and 2003, the City population grew steadily by 1.5% per year on average.

C. LABOR MARKET

Trends in the labor market generally reflect the state of the local economy. **Table III-2** presents data on the civilian labor force,[11] employment, and unemployment in the San Antonio MSA from 1994 to 2004. The area's labor force increased from 699,026 in 1994 to 839,402 in 2004, representing an average growth rate of 1.8% per year. The number of employed persons increased from 667,064 in 1994 to 797,381 in 2004. This represents an average growth rate of 1.8% per year, surpassing the average growth in employment of 1.6% in Texas and 1.2% in the United States. The number of unemployed persons in the San Antonio MSA increased from 31,962 in 1994 to 42,022 in 2004, representing an average growth rate of 2.8% per year.

The unemployment rate in the San Antonio MSA ranged between 3.1% and 5.5% in the past 11 years. As shown in **Figure III-3**, it had been consistently lower than the

[11] The civilian labor force consists of members of the population who are at least 16 years old and are either employed or actively seeking employment.

unemployment rates in Texas and the United States, although it followed the same cyclical trend.

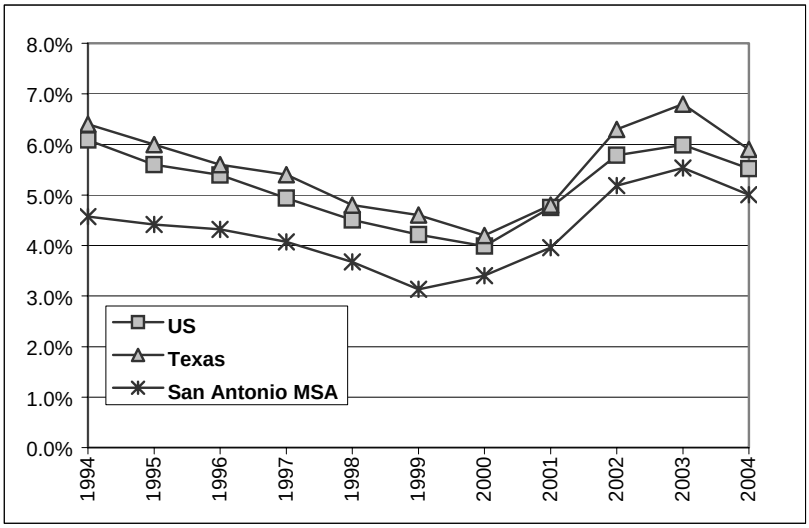
TABLE III-2
SAN ANTONIO MSA
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
1994-2004

Year	Civilian Labor Force			Unemployment Rate
	Total	Employed	Unemployed	
1994	699,026	667,064	31,962	4.6%
1995	720,812	688,968	31,844	4.4%
1996	730,707	699,152	31,555	4.3%
1997	746,286	715,896	30,390	4.1%
1998	759,370	731,443	27,927	3.7%
1999	770,690	746,525	24,165	3.1%
2000	781,108	754,502	26,606	3.4%
2001	793,053	761,661	31,392	4.0%
2002	809,160	767,226	41,934	5.2%
2003	827,319	781,555	45,764	5.5%
2004	839,402	797,381	42,022	5.0%
	Average Annual Growth Rate			
1994-2004	1.8%	1.8%	2.8%	-

Source: U.S. Bureau of labor Statistics at *stats.bls.gov*.

The San Antonio MSA has a diversified economic base that contributes to its ability to weather economic shocks and business cycles. As shown in **Table III-3**, no single major industry accounted for more than 20% of non-farm jobs in the San Antonio MSA. The government was the largest employer with 18.5% of non-farm jobs – a slightly larger share than nationwide (16.5%). The top private industry sectors are as follows: wholesale and retail trade with 15.1% of non-farm jobs; education and health services with 13.4%; professional and business services with 12.0%; and leisure and hospitality with 11.1%. As a whole, the private service-producing sector accounted for 69.6% of total non-farm jobs in the San Antonio MSA, compared to 66.9% nationwide. Private goods-producing industries together accounted for 11.9% of total non-farm jobs in the San Antonio MSA, compared to 16.7% nationwide.

FIGURE III-3
SAN ANTONIO MSA, TEXAS, AND UNITED STATES
UNEMPLOYMENT RATES
1994-2004



Source: U.S. Bureau of Labor Statistics at *stats.bls.gov*.

TABLE III-3
SAN ANTONIO MSA AND THE UNITED STATES
NON-FARM EMPLOYMENT SHARES BY MAJOR INDUSTRY CLASSIFICATION
2004

Major Industry Classification	Thousands, 2004	San Antonio MSA	United States
Total private goods-producing	**87.3**	**11.9%**	**16.7%**
Natural resources and mining	2.3	0.3%	0.4%
Construction	40.9	5.6%	5.3%
Manufacturing	44.0	6.0%	11.0%
Total private service-producing	**509.8**	**69.6%**	**66.9%**
Wholesale and retail trade	111.0	15.1%	15.7%
Transportation and utilities	19.3	2.6%	3.7%
Information	23.7	3.2%	2.4%
Financial activities	60.3	8.2%	6.1%
Professional and business services	88.2	12.0%	12.5%
Education and health services	98.5	13.4%	12.9%
Leisure and hospitality	81.3	11.1%	9.4%
Other services	27.7	3.8%	4.1%
Government	**135.6**	**18.5%**	**16.5%**

Source: U.S. Bureau of Labor Statistics, Current Employment Survey, at *stats.bls.gov*.

Table III-4 shows the percentage change in non-farm employment by major industry classification between 1994 and 2004 in the San Antonio MSA and the United States. Overall the San Antonio MSA performed better with a higher percentage gain in total non-farm employment (23.1%) than the entire nation (14.9%). The following major industry classifications in the San Antonio MSA realized the largest percentage gains in employment: professional and business services (52.6%); information (49.8%); construction (42.2%); and education and health services (40.1%).

TABLE III-4
SAN ANTONIO MSA AND THE UNITED STATES
PERCENTAGE CHANGE IN NON-FARM EMPLOYMENT
BY MAJOR INDUSTRY CLASSIFICATION
1994-2004

Major Industry Classification	Thousands, 1994	San Antonio MSA	United States
Total private goods-producing	**77.8**	**12.2%**	**-3.9%**
Natural resources and mining	2.0	13.8%	-10.9%
Construction	28.8	42.2%	35.8%
Manufacturing	47.0	-6.3%	-15.5%
Total private service-producing	**389.4**	**30.9%**	**21.5%**
Wholesale and retail trade	96.8	14.7%	10.4%
Transportation and utilities	16.9	14.0%	9.4%
Information	15.8	49.8%	15.7%
Financial activities	44.6	35.2%	17.2%
Professional and business services	57.8	52.6%	35.2%
Education and health services	70.3	40.1%	32.1%
Leisure and hospitality	63.8	27.4%	22.0%
Other services	23.4	18.3%	22.0%
Government	**127.9**	**6.0%**	**12.1%**
Total	**595.1**	**23.1%**	**14.9%**

Source: U.S. Bureau of Labor Statistics, Current Employment Survey, at *stats.bls.gov* .

Table III-5 lists the 25 largest public and private sector employers in the San Antonio MSA. The list reflects the diversity of the employment base in the San Antonio MSA.

Toyota Motor Manufacturing Texas Inc. will join the list of top private-sector employers in the San Antonio MSA in 2006, when a new $800 million Toyota plant will open. The plant will make 150,000 Tundra pickup trucks a year starting in 2006 and employ about 2,000 people with an annual payroll of $100 million. Toyota also plans to create a Supplier Park at the Toyota manufacturing site, which is projected to attract 18 Toyota supplier companies and create an additional 1,500 manufacturing and assembly jobs with a capital investment of $150 million. Local

business and civic leaders believe that the plant will bring an economic boom to the City of San Antonio and the state of Texas.[12]

TABLE III-5
SAN ANTONIO MSA
LARGEST EMPLOYERS
2004

Public Sector	Private Sector
Lackland Air Force Base/ 37th Training Wing	SBC Communications
Fort Sam Houston	H.E.B. Grocery Company
Randolph Air Force Base	Valero Energy Corporation
City of San Antonio	USAA
Northside ISD	Zachry Group
San Antonio ISD	Sanitors, Inc.
North East ISD	SBC Southwestern Bell
University of Texas Health Science Center at San Antonio	Baptist Health System
University Health System	Methodist Healthcare System
City Public Services	Administaff
Bexar County	Eye Care Centers of America
University of Texas at San Antonio	Taco Cabana
Brooke Army Medical Center	VIP Temporaries
Brooks City-Base	Frost National Bank
U.S. Postal Service	Southwestern Research Institute
San Antonio Police Department	Aaron Rents and Sells Furniture
South Texas Veterans Health Care System	Christus Santa Rosa Health Care
	World Savings
	JP Morgan Chase Bank
	Citicorp

Source: The Greater San Antonio Chamber of Commerce, Largest Employers Directory 2004, as cited in *San Antonio Facts*, March 2004.

Companies that have recently hired and/or are planning to hire additional workers in the San Antonio area include: Harris Corp. (a telecommunications company); LifeMasters Supported SelfCare Inc. (a health care company); Maxim (an electronics firm); Travelocity; Schultz Nursery; Kohl's Department Stores; Home Depot; H.E. Butt Grocery Co.; and Caremark (a health care firm).[13]

[12] Various news articles, for example: "Toyota picks S.A. for $800M plant," *Austin Business Journal*, February 5, 2003; and Sanford Nowlin, "S.A. gets Toyota plant, Japanese automaker makes the decision official," *San Antonio Express-News*, February 5, 2003.
[13] The Real Estate Center, *News Highlights*, at www.recenter.tamu.edu/mreports/sanantonio8.asp, as of April 12, 2005.

D. INCOME

Income is another important indicator of the state of the local economy. **Table III-6** shows the median household effective buying income (EBI) and the distribution of households by EBI group in the San Antonio MSA for 2003. That year the median household EBI in the San Antonio MSA was $36,751, 2.1% lower than the Texas median household EBI and 3.8% lower than the U.S. median household EBI. **Table III-6** also shows that the distribution of San Antonio households by EBI group is consistent with the statewide and nationwide distributions.

TABLE III-6
SAN ANTONIO MSA, TEXAS AND THE UNITED STATES
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME (EBI) AND
HOUSEHOLD DISTRIBUTION BY EBI GROUP
2003

Area	Median Household EBI	Percent of Household by EBI Group			
		Under $20,000	$20,000-$34,999	$35,000-$49,999	$50,000 & Over
San Antonio MSA	$36,751	23%	24%	20%	33%
Texas	$37,554	23%	23%	18%	35%
United States	$38,201	22%	23%	19%	35%

Source: *Sales & Marketing Management 2004 Survey of Buying Power and Media Markets*.

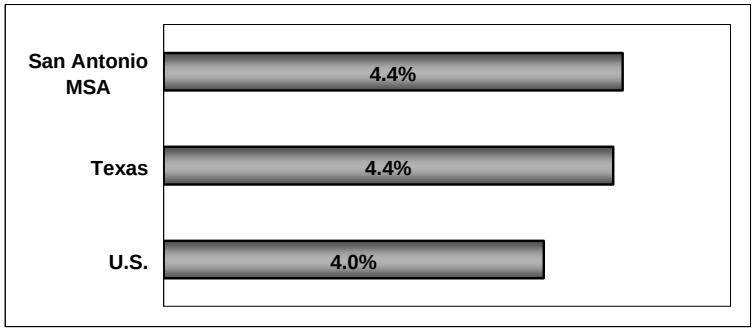
To examine historical income growth trend, we use data on per capita personal income from the U.S. Bureau of Economic Analysis. **Figure III-4** shows that, between 1992 and 2002, the average annual growth rate in per capita personal income in the San Antonio MSA was slightly higher than in Texas and in the United States. The 4.4% average annual growth in per capita personal income in the San Antonio MSA exceeded the average annual inflation by 1.9 percentage points. Growth in personal income promotes growth in air travel.

E. COST OF LIVING

While the median household EBI in San Antonio is 3.8% lower than the U.S. median household EBI, the cost of living in San Antonio is 4.8% lower than the U.S. average, according to the ACCRA[14] Cost of Living Index for the third quarter of 2004. **Figure III-5** shows that the cost of living in San Antonio is lower than many other U.S. metropolitan areas of similar population size. In particular, utilities, groceries, housing and transportation cost less in San Antonio than elsewhere in the U.S., on average, while health care and miscellaneous items cost more.

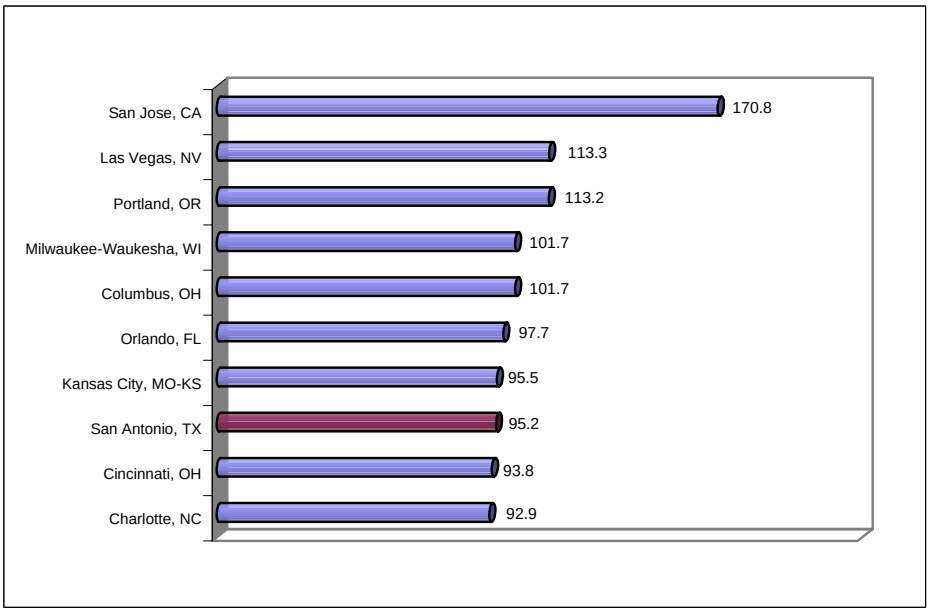
[14] American Chamber of Commerce Researchers Association.

FIGURE III-4
SAN ANTONIO MSA, TEXAS AND THE UNITED STATES
AVERAGE ANNUAL GROWTH RATE IN
PER CAPITA PERSONAL INCOME
1992-2002



Source: U.S. Bureau of Economic Analysis at *www.bea.doc.gov*.

FIGURE III-5
COST OF LIVING INDEX[1] OF SELECTED METROPOLITAN AREAS[2]
THIRD QUARTER 2004
U.S. Average = 100

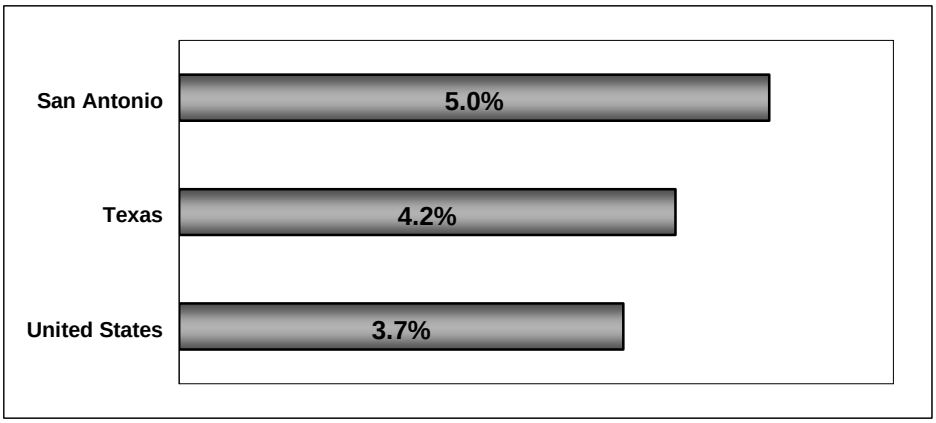


[1] The Cost of Living Index measures relative price levels for consumer goods and services in participating 324 participating urban areas.
[2] Selected metropolitan areas with population between 1.5 million and 2.3 million in 2004.
Source: *ACCRA Cost of Living Index, Data for Third Quarter 2004*, November 2004.

F. BUSINESS ESTABLISHMENTS

According to the S&MM 2004 Survey, the San Antonio MSA ranked 30th among the top metropolitan markets in the number of business establishments. The 2004 S&MM Survey estimates 69,630 business establishments in the San Antonio MSA. According to data from the U.S. Census Bureau County Business Patterns to examine the growth trend in business establishments in the San Antonio MSA. As **Figure III-6** shows, the San Antonio MSA posted a higher percentage increase in business establishments between 1998 and 2002 than Texas and the United States.

FIGURE III-6
SAN ANTONIO MSA, TEXAS AND THE UNITED STATES
PERCENT CHANGE IN THE NUMBER OF BUSINESS ESTABLISHMENTS
1998-2002

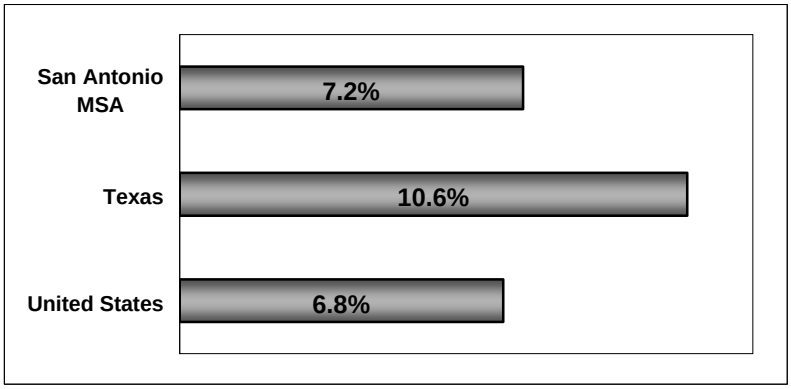


Source: U.S. Census Bureau County Business Patterns at www.census.gov.

G. RETAIL SALES

According to the S&MM 2004 Survey, the San Antonio MSA ranked 32nd among the top metropolitan markets in total retail sales. The S&MM Survey estimates total retail sales in the San Antonio MSA at $24.03 billion in 2004. **Figure III-7** shows that retail sales in the San Antonio MSA increased by 7.2% from 2001 to 2004, compared to 10.6% for the entire state of Texas and 6.8% nationwide.

FIGURE III-7
SAN ANTONIO MSA, TEXAS AND THE UNITED STATES
PERCENT CHANGE IN RETAIL SALES[1]
2001-2004[2]



[1] Based on estimates of net sales for all establishments primarily engaged in retail trade, including eating and drinking establishments, repairs and other services (by retailers). Values are in current dollars.
[2] The chart shows data only from 2001 because Sales & Marketing Management reported important changes to the survey beginning in 2001.
Source: Sales & Marketing Management, *Survey of Buying Power and Media Markets*, 2001-2004.

H. SAN ANTONIO'S LEADING AND EMERGING INDUSTRIES

Certain industries are notable for their effect on the San Antonio's economy.[15] In particular, the health care and leisure/hospitality industries have prospered in the San Antonio area. Other industries, such as information technology and aerospace, have also grown significantly and have helped to diversify the local economy.[16] Although the military presence has declined in recent years, the closure of military bases in the San Antonio area has provided economic opportunities through the reuse of the facilities.

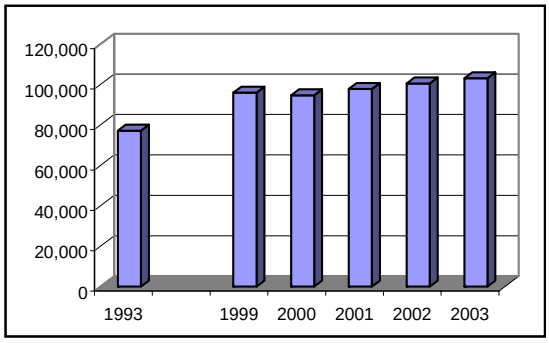
[15] The industry groupings discussed in this sub-section differ from the industry classifications used by the U.S. Bureau of Labor Statistics in compiling employment statistics, as presented on **Tables III-3** and **III-4**.
[16] Greater San Antonio Chamber of Commerce, *San Antonio Region Economic Trends, 1995-2005*, January 2005, page 45.

1. Health Care and Bioscience[17]

The health care and bioscience industry includes not only direct health care services, but also a variety of related industries. Direct health care services include services provided in hospitals, physicians' offices, nursing homes, the offices and clinics of a variety of other health care providers, and various other outpatient and ambulatory care settings. In San Antonio, health care services include civilian and military medicine, a Veterans Administration medical center, for-profit and nonprofit operations and facilities. A variety of related industries supports the direct provision of medical and health care. Examples include health insurance carriers, pharmaceutical companies, medical equipment manufacturers, biomedical research organizations, and residential care and social service providers.

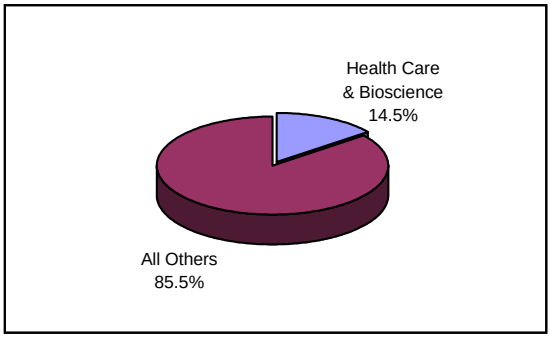
Figure III-8 shows that employment in the health care and bioscience industry grew by 33.5% over ten years. In 2003, the health care and bioscience industry employed 103,156 individuals – 71% in direct health care services and 29% in related industries. As shown in **Figure III-9**, health care and bioscience workers accounted for 14.5% of the San Antonio non-farm jobs in 2003.

FIGURE III-8
SAN ANTONIO MSA
HEALTH CARE AND BIOSCIENCE
NUMBER OF EMPLOYEES
1993-2003



Source: Richard V. Butler and Mary E. Stefl, *San Antonio's Health Care & Bioscience Industry Economic Impact in 2003.*

FIGURE III-9
SAN ANTONIO MSA
HEALTH CARE AND BIOSCIENCE
SHARE OF NONFARM JOBS
2003



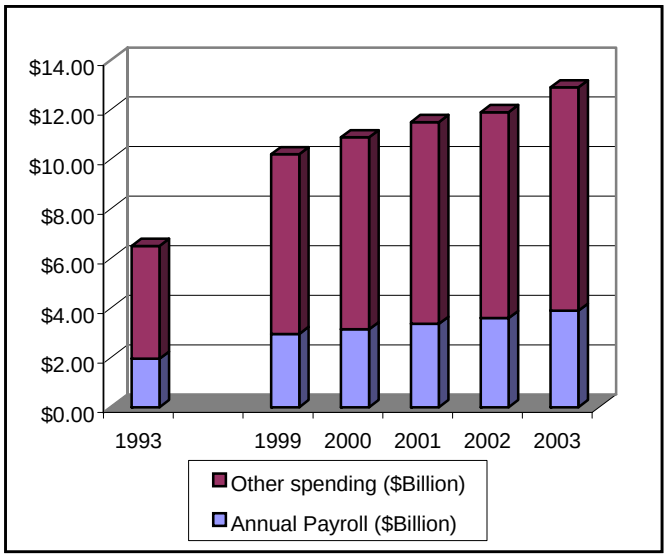
Source: Richard V. Butler and Mary E. Stefl, *San Antonio's Health Care & Bioscience Industry Economic Impact in 2003.*

The annual payroll of the health care and bioscience industry approached $3.9 billion in 2003, an increase of 99.5% from 1993. In total, the industry spent $12.9

[17] The description of the health care and bioscience industry and its economic impact is based on the following source: Richard V. Butler and Mary E. Stefl, *San Antonio's Health Care and Bioscience Industry Economic Impact in 2003*.

billion on products and services in San Antonio in 2003, an increase of 98.5% from 1993 (**Figure III-10)**.

FIGURE III-10
SAN ANTONIO MSA
HEALTH CARE AND BIOSCIENCE
ANNUAL ECONOMIC IMPACT
1993-2003



Source: Richard V. Butler and Mary E. Stefl, *San Antonio's Health Care & Bioscience Industry Economic Impact in 2003.*

2. Leisure and Hospitality[18]

The City of San Antonio and the Greater San Antonio Chamber of Commerce designates the leisure and hospitality industry as one of the region's major economic drivers. As shown in **Figure III-11**, the leisure and hospitality industry accounted for 11.1% of 2004 non-farm employment in San Antonio, with 81,275 employees in food, accommodation and other services.

[18] The discussion of the leisure and hospitality industry is based on the following sources:

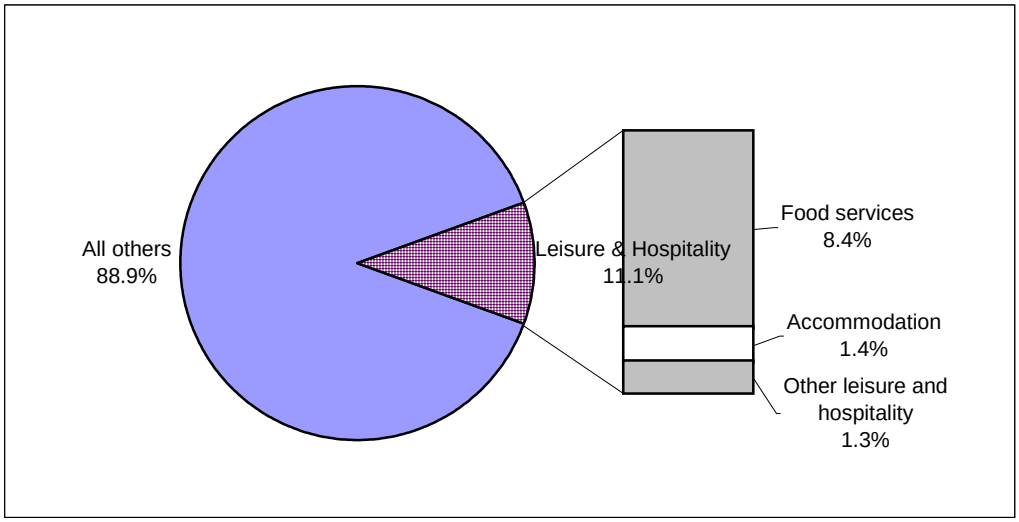
The Greater San Antonio Chamber of Commerce, "Convention & Tourism," *2001 Economic Profile of San Antonio*, 2001.

San Antonio Convention and Visitors Bureau in *www.sanantoniovisit.com.*

The Greater San Antonio Chamber of Commerce, *San Antonio Region Economic Trends 1995-2005*, January 2005.

Richard V. Butler and Mary E. Stefl, *San Antonio's Hospitality Industry Economic Impact in 2002*.

FIGURE III-11
SAN ANTONIO MSA
LEISURE AND HOSPITALITY - SHARE OF NONFARM JOBS
2004



Source: U.S. Bureau of Labor Statistics, Current Employment Survey, at stats.bls.gov.

According to research commissioned by the San Antonio Convention and Visitors Bureau, San Antonio ranks ninth among U.S. destinations for overnight leisure travel. The Greater San Antonio Chamber of Commerce describes the following visitor sites that make San Antonio a popular leisure travel destination:

- The Alamo – On the east side of Alamo Plaza is the most famous spot in Texas. The Mission San Antonio de Valero (The Alamo), established in 1718 as the City's first mission, is the location of the famous battle on March 6, 1836. Nearby is the Long Barracks Museum and Library, which contains relics and mementos from the Republic of Texas and offers narration on the fall of the Alamo.

- River Walk (Paseo del Rio) – River Walk, in the heart of downtown, is a popular tourist attraction with cobblestone walkways that lead to river-level restaurants and shops.

- Buckhorn Saloon & Museum – This classic 1881 saloon and museum offers a taste of the Old West and wildlife exhibits from all over the world.

- Other historic sites – Casa Navarro State Historical Park, King William Historic Area, San Antonio Missions National Historical Park, and Spanish Governor's Palace.

- Shopping and entertainment destinations – The IMAX Theatre at the Rivercenter, La Villita (a unique arts and crafts community), Majestic Theatre (home of the San Antonio Symphony and the AT&T Broadway Series), Market Square – El Mercado, Sunset Station, and Alamo Special Effects Theater.

- Gardens and aquariums – Japanese Tea Gardens, San Antonio Botanical Gardens, and San Antonio Zoological Gardens and Aquarium.

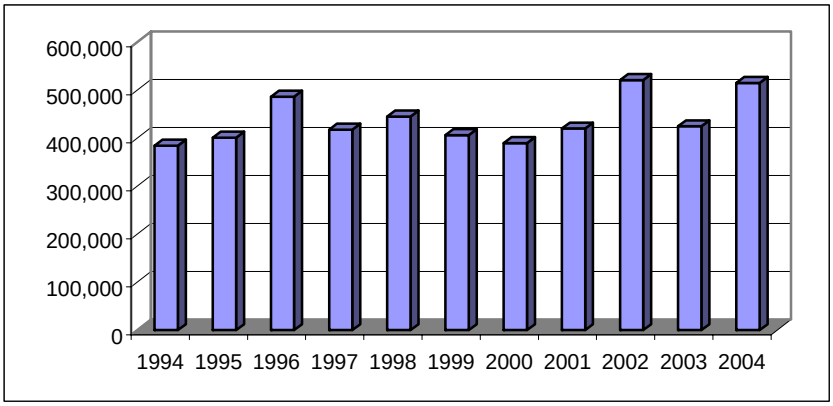
- Theme parks – SeaWorld® San Antonio, Six Flags® Fiesta Texas®, and Splashtown.

- Alamodome – Completed in May 1993 in downtown San Antonio, the Alamodome hosts major sporting events, concerts, and conventions.

The Alamo, the River Walk, SeaWorld® San Antonio, Six Flags® Fiesta Texas® and the San Antonio Zoo are among the ten most-visited attractions in Texas. In sports, San Antonio boasts several teams, such as the San Antonio Spurs (basketball), the San Antonio Rampage (hockey), and the San Antonio Missions (baseball).

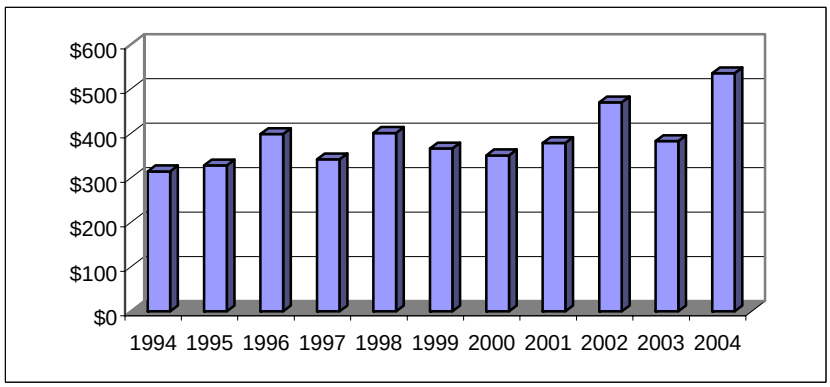
The City of San Antonio is also a popular convention site; and the recent expansion of the Henry B. Gonzalez Convention Center has enabled the area to compete for more and bigger conventions. For example, the largest booking made in 2004 was for the convention of the Shriners of North America in July 2009 with 15,000 attendees. Future bookings with 20,000 or more projected attendees include the Texas High School Coaches Association in July of 2005, 2008 and 2012; Evangelical Lutheran Church in America in July 2006; Narcotics Anonymous in August 2007; NCAA Men's Final Basketball Championship in April 2008; American Dental Association in October 2008; and Alcoholic Anonymous in July 2010. **Figure III-12** shows that the San Antonio Convention & Visitors Bureau booked between 384,000 and 522,000 convention delegates annually from 1994 through 2004, with estimated local spending by convention delegates from $314.7 million to $535.2 million annually (**Figure III-13**).

FIGURE III-12
SAN ANTONIO MSA
DELEGATE ATTENDANCE TO SACVB-BOOKED CONVENTIONS
1994-2004



The convention center was under construction during 1998-2001.
Source: The Greater San Antonio Chamber of Commerce, *San Antonio Economic Trends 1995-2005*, January 2005.

FIGURE III-13
SAN ANTONIO MSA
ESTIMATED LOCAL SPENDING BY DELEGATES TO SACVB-BOOKED CONVENTIONS (IN MILLION DOLLARS)
1994-2004



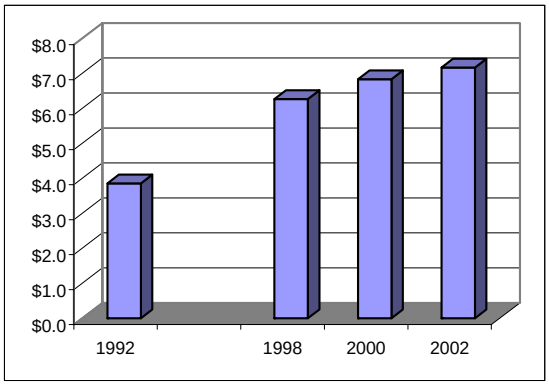
Source: The Greater San Antonio Chamber of Commerce, *San Antonio Economic Trends 1995-2005*, January 2005.

According to the most recent economic impact study of San Antonio's hospitality industry,[19] San Antonio received a total of 20 million visitors in 2002. Of these, 15.6

[19] Richard V. Butler and Mary E. Stefl, *San Antonio's Hospitality Industry Economic Impact in 2002*.

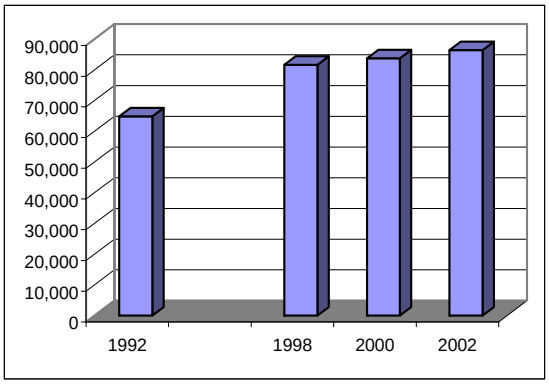
million came for leisure, and 4.3 million came for conventions and other business purposes. The research study estimated the economic impact of the San Antonio hospitality industry to be just under $7.2 billion in 2002, an increase of 86% from 1992 (**Figure III-14)**. Employment in the hospitality industry was estimated at 86,380 in 2002, an increase of 33% from 1992 (**Figure III-15**). In the research study, the hospitality industry was defined to include only those businesses that derive a significant portion of their sales from out-of-town visitors. Not surprisingly, these businesses are concentrated in industries that provide accommodation, food, transportation and entertainment services.

FIGURE III-14
SAN ANTONIO MSA
HOSPITALITY INDUSTRY - ECONOMIC IMPACT
(IN BILLION DOLLARS)
1992-2002



Source: Richard V. Butler and Mary E. Stefl, *San Antonio's Hospitality Industry Economic Impact in* 2002.

FIGURE III-15
SAN ANTONIO MSA
HOSPITALITY INDUSTRY - EMPLOYMENT
1992-2002



Source: Richard V. Butler and Mary E. Stefl, *San Antonio's Hospitality Industry Economic Impact in* 2002.

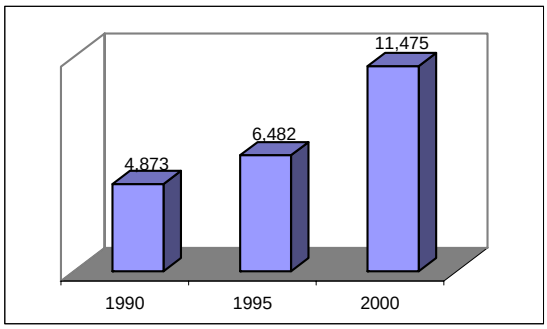
3. <u>Information Technology</u>

Information technology (IT) is one of the fastest growing sectors of the San Antonio economy. San Antonio's IT businesses include makers of components (including silicon chips), equipment providers and vendors, and a large computer services sector. Within the computer services sector, San Antonio is particularly strong in information security. According to the National Security Agency, San Antonio is a national leader in this field.

In 2000, information technology employed 11,475, up 135.5% from 4,873 in 1990 (**Figure III-16**). Total payroll was nearly $500 million in 2000, up 209.0% from $162 million in 1990 (**Figure III-17**). Butler and Stefl estimate that the information

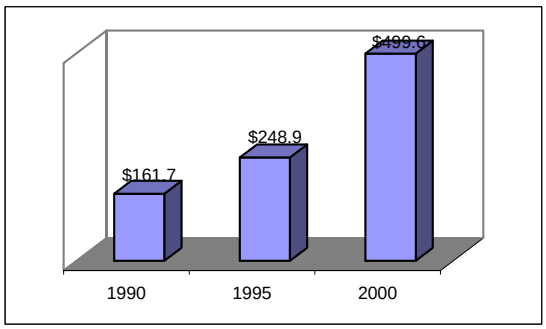
technology industry generated a total economic impact of approximately $3.4 billion in 2000.[20]

FIGURE III-16
SAN ANTONIO MSA
INFORMATION TECHNOLOGY - EMPLOYMENT
1990, 1995, and 2000



Source: Richard V. Butler and Mary E. Stefl, *The Information Technology Industry in San Antonio: Economic Impact in 2000*.

FIGURE III-17
SAN ANTONIO MSA
INFORMATION TECHNOLOGY - ANNUAL PAYROLL
(IN MILLION DOLLARS)
2000



Source: Richard V. Butler and Mary E. Stefl, *The Information Technology Industry in San Antonio: Economic Impact in 2000*

The Texas Workforce Commission projects occupations in information technology to become the fastest growing occupations in Bexar County between 2000 and 2010. In particular, these occupations are computer software engineers, computer support specialists, network and computer systems administrators, desktop publishers, and network systems and data communication analysts.[21]

4. Aerospace[22]

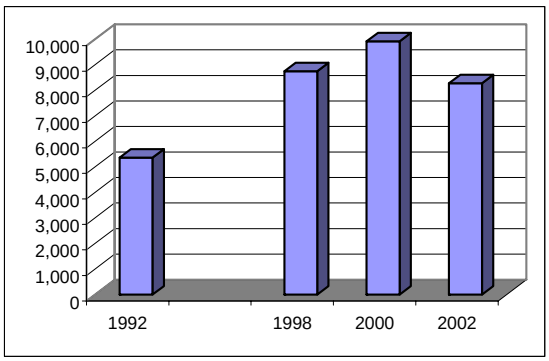
The aerospace industry is a vital and growing sector of the San Antonio economy. It is also featured as one of the region's economic drivers in the City of San Antonio's Economic Development Strategic Plan.

Military aviation traces its beginnings in San Antonio as the Kelly Air Force Base served as one of the world's largest military repair and maintenance facilities for many decades. With the conversion of Kelly AFB to KellyUSA, many of the world's largest aerospace corporations located in the area and provided a significant source of high-skilled employment. Civilian aviation has also grown in recent years, with significant maintenance activities at the Airport and a steady expansion of air transportation services.

[20] Richard V. Butler and Mary E. Stefl, The Information Technology in San Antonio: Economic Impact in 2000.
[21] "Projected fastest-growing occupations in Bexar County: 2000-2010," *San Antonio Business Journal*, September 12, 2003.
[22] The discussion of the aerospace industry is based on the following source: Richard V. Butler and Mary E. Stefl, *The Aerospace Industry in San Antonio: Economic Impact in 2002*.

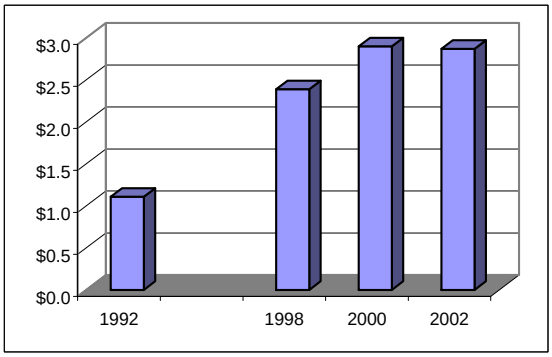
The San Antonio aerospace industry includes businesses that manufacture aircraft equipment and parts, service and repair aircraft, produce and distribute transportation equipment and supplies, and provide both scheduled and unscheduled air transportation. The Greater San Antonio Chamber of Commerce lists 51 companies that are identified with the aerospace industry. Butler and Stefl estimate that the industry employed 8,283 people in 2002 – an increase of 54.4% from 1992 and a decrease of 16.5% from a peak of 9,920 in 2000 (**Figure III-18**). The industry's economic impact was estimated at $2.87 billion in 2002 – an increase of 158.6% from 1992 and a decrease of 1.0% from 2000 (**Figure III-19**).

FIGURE III-18
SAN ANTONIO MSA
AEROSPACE - EMPLOYMENT
1992-2002



Source: Richard V. Butler and Mary E. Stefl, *The Aerospace Industry in San Antonio: Economic Impact in 2002*.

FIGURE III-19
SAN ANTONIO MSA
AEROSPACE - ECONOMIC IMPACT
(IN BILLION DOLLARS)
1992-2002



Source: Richard V. Butler and Mary E. Stefl, *The Aerospace Industry in San Antonio: Economic Impact in 2002*.

The decrease in employment and economic impact from 2000 to 2002 reflects the effects on the aerospace industry of the events of September 2001 and the financial crisis in the airline industry that followed. The closure of Dee Howard Aircraft Maintenance, Fairchild Dornier and the American Airlines reservation center meant the combined loss of more than 2,000 jobs in those three facilities alone. An economic impact study conducted for the Aerospace Committee of the Greater San Antonio Chamber of Commerce concluded that 2002 was the "bottom of the trough" For the aerospace industry in the area.[23] The economic impact study cited the transfer of control of the Dee Howard and Fairchild Dornier facilities to San Antonio Aerospace and M7 Aerospace as evidence that the San Antonio aerospace industry is positioned for future growth.

[23] *2002 Aerospace Industry in San Antonio*, at www.sachamber.org.

5. Military

The military is a major employment provider in San Antonio. Three active military installations are located in Bexar County: 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 military installation, was transferred from the United States 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 three active military installations and Brooks-City Base employed approximately 80,500 military, civilian and guard/reserve personnel with an annual aggregate payroll of over $3 billion.[24]

Brooks City-Base is a collaborative effort between the Air Force and the City 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 economic development on Brooks AFB and surrounding communities. The Air Force and City are using Brooks AFB resources to create Brooks Technology & Business Park, a facility that will foster the development of key industries, such as health care and biotechnology.

Kelly Air Force Base ("Kelly AFB"), which was closed on July 13, 2001, was transformed into business and industrial park, known as the "KellyUSA." 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.

Fort Sam also initiated leasing activities to reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the U.S. Army partnered with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), to redevelop and lease to commercial tenants the former Brooke Army Medical Center ("BAMC") and two other vacant buildings with a total of 500,000 square feet. In September 2003, the U.S. Army relocated U.S. Army South Headquarters from Puerto Rico to Fort Sam. The U.S. Army negotiated a lease with FSHRP to locate the U.S. Army South and the Southwest Region Installation Management Agency in the former BAMC.

With another round of base closures and realignments scheduled in 2005, the community has been proactive in strengthening the value of its military installations through efforts such as the Brooks City-Base Project and the Fort Sam leasing project.

[24] The Greater San Antonio Chamber of Commerce, *San Antonio Facts*, March 2003.

I. SUMMARY

The demographic and economic trends at the San Antonio MSA portray a thriving and diversified economic base that can support steady growth in aviation activity at San Antonio International Airport. The following are some of the characteristics that contribute to the economic health of the San Antonio MSA:

- **Large and growing population** – At approximately 1.82 million, the population of the San Antonio MSA is the 29th largest in the United States. Between 1993 and 2003, the area population grew at an average rate of 2.0% per year, surpassing the nation's population growth of 1.1% per year.

- **Growing employment and low unemployment** – Between 1994 and 2004, employment in the San Antonio MSA grew at 1.8% per year on average, outpacing employment growth statewide (1.6%) and nationwide (1.2% per year). The unemployment rate in the San Antonio MSA was also consistently lower than the state and national unemployment rates, although it followed the same cyclical trend.

- **Diversified employment base** – No single major industry sector accounts for more than 20% of non-farm jobs in the San Antonio MSA. The government is the largest employer, and the largest private major industry sectors are wholesale and retail trade, education and health services, professional and business services, and leisure and hospitality.

- **Increasing household incomes** – Between 1992 and 2002, the per capita personal income in the San Antonio MSA grew at 4.4% per year, faster than the income growth rate in the United States (4.0% per year).

- **Low cost of living** – The cost of living in San Antonio is 5.8% lower than the U.S. average.

- **Growing number of business establishments** – In 2004 the San Antonio MSA ranked 30th among U.S. metropolitan markets in the number of business establishments. Between 1998 and 2002, the number of business establishments in San Antonio increased by 5.0%, compared to 4.2% in Texas and 3.7% in the United States.

- **Growing retail sales** – In 2004 the San Antonio MSA ranked 32nd among the top metropolitan markets in total retail sales. Retail sales in the San Antonio MSA increased by 7.2% from 2001 to 2004, compared to 10.6% for the entire state of Texas and 6.8% nationwide.

The following are some of the largest and fastest growing industries in the San Antonio economy:

- **Health care and bioscience** – In 2003 health care and bioscience accounted for 14.5% of non-farm jobs in the San Antonio MSA, with over 103,000 employees and a total payroll of $3.9 billion. Employment in the health care and bioscience industry grew by 33.5% between 1993 and 2003.

- **Leisure and hospitality** – In 2004 leisure and hospitality accounted for 11% of non-farm jobs, employing over 81,000 people in food, accommodation and other services. San Antonio is popular tourist and business destination. In 2004, an estimated 20 million people visited San Antonio for leisure and business purposes.

- **Information technology** – Information technology is one the fastest growing sectors of the San Antonio economy. In 2000, information technology employed 11,475, up 135.5% from 1990. Total payroll was nearly $500 million in 2000, up 209.0% from 1990.

- **Aerospace** – The aerospace industry is a vital and growing sector of the San Antonio economy. Kelly AFB served as one of the world's largest military repair and maintenance facilities for many decades. With its conversion to KellyUSA, many of the world's largest aerospace corporations located in the area and provided a significant source of employment. In 2002, employment in the aerospace industry is estimated at 8,283 – an increase of 54.5% from 1992.

- **Military** – The military is a major employment provider in the San Antonio MSA. There are three active military installations in Bexar County: Lackland AFB, Fort Sam and Randolph AFB. In addition, the facilities of two former military bases – Brooks AFB and Kelly AFB – have been converted to business and industrial parks. As of September 2003, the three active military installations and the Brooks City-Base employed approximately 80,500 personnel with an annual payroll of over $3 billion.

SECTION IV
AVIATION ACTIVITY ANALYSIS AND FORECASTS

This section reviews the historical trends in passenger traffic and aircraft operations at SAT during the 1995-2004 period, and presents forecasts of enplanements and related commercial aviation activity for the 2005-2009 period. A discussion of the factors underlying both historical and forecast trends is also included.

A. HISTORICAL AVIATION ACTIVITY

1. The Airport

The FAA classifies SAT as a medium hub commercial airport, which is the class of airports that, individually, account for between 0.25% and 0.99% of annual U.S. domestic enplanements.[25] As of the date of this Report, there are eight U.S. air carriers, four commuter airlines, three foreign flag carriers, and several passenger charter airlines operating at SAT. The domestic air carriers were America West, American, Continental, Delta, Midwest, Northwest, Southwest, and United. The commuter airlines were Atlantic Southeast, Chautauqua, Comair, and SkyWest. The three foreign airlines were Aerolitoral, Aeromar, and Mexicana. Charter airlines that currently serve SAT include American Trans Air, Casino Express, Champion Air, Miami Air International, Sun Country Air, and Transmeridian. These passenger airlines provide scheduled and non-scheduled service to over 100 destinations across the United States and Mexico. Frontier Airlines has announced plans to operate at SAT, with daily non-stop service between San Antonio and Denver beginning on June 26, 2005.[26]

A number of all-cargo airlines also serve SAT. As of the date of this Report, the all-cargo airlines are Airborne Express, Ameriflight, Federal Express, Kitty Hawk, and UPS. These cargo operators provide scheduled and charter freight service to U.S. and foreign destinations from the Airport.

2. Enplanements

Table IV-1 shows annual enplanements at SAT over the 1995-2004 period. During the 1995-2000 period, annual enplanements increased at an average rate of 3.6%, from approximately 3.1 million in 1995 to approximately 3.6 million in 2000. The terrorist attacks of September 11, 2001 (the "September 11, 2001 Events") and the brief U.S. economic recession in 2001 resulted in the 5.6% decrease in 2001 enplanements compared to enplanements in 2000. Enplanements contined to

[25] The FAA *National Plan of Integrated Airport Systems (NPIAS): 1998-2002.* March 1999.
[26] Terence White, "Frontier Launching New Non-Stop Service between S.A. and Denver, *San Anonio Business Journal*, April 6, 2005.

decrease in 2002 and 2003 before increasing 7.6% in 2004. Annual enplanements at SAT increased at an average annual rate of 1.5% during the 1995-2004 period.

Table IV-1 also shows that most of the enplaned passengers at SAT are domestic travelers. From 1995 to 2004, scheduled domestic enplanements consistently accounted for at least 94.7% of annual enplanements. Over the same period, there were significant domestic non-scheduled enplanements, which accounted for approximately 1.4% of annual enplanements, on average. International enplanements by foreign air carriers and some domestic air carriers accounted for 2.9%, on average, of annual enplanements during the 1995-2004 period.

TABLE IV-1
ANNUAL ENPLANEMENTS
CY 1995-2004

Calendar	Domestic		Charter [1]		International [2]		Total Enplanements	
Year	Number	% of Total	Number	% of Total	Number	% of Total	Number	% Change
1995	2,931,020	95.8%	56,365	1.8%	71,151	2.3%	3,058,536	
1996	3,411,883	95.6%	58,922	1.7%	97,523	2.7%	3,568,328	16.7%
1997	3,329,969	95.6%	52,251	1.5%	101,921	2.9%	3,484,141	-2.4%
1998	3,321,106	94.7%	60,625	1.7%	123,641	3.5%	3,505,372	0.6%
1999	3,359,407	94.9%	62,750	1.8%	116,086	3.3%	3,538,243	0.9%
2000	3,463,319	95.0%	63,219	1.7%	120,556	3.3%	3,647,094	3.1%
2001	3,290,647	95.5%	46,333	1.3%	107,895	3.1%	3,444,875	-5.5%
2002	3,198,228	95.5%	51,378	1.5%	99,677	3.0%	3,349,283	-2.8%
2003	3,144,854	96.7%	26,000	0.8%	80,057	2.5%	3,250,911	-2.9%
2004	3,396,211	97.1%	4,623	0.1%	97,355	2.8%	3,498,189	7.6%
Average Annual Growth Rate								
1995-2004	1.7%	-	-24.3%	-	3.5%	-	1.5%	-

[1] Charter enplanements include enplanements by primarily charter airlines serving SAT, as well as periodic charter enplanements reported by domestic air carriers serving the Airport.

[2] International enplanements include enplanements by foreign air carriers serving SAT, as well as periodic international enplanements reported by domestic air carriers and charter airlines serving the Airport.

Source: Department of Aviation records.

The relative position of SAT in the U.S. market is shown in **Table IV-2**. SAT's share of total U.S. enplanements (domestic plus international) is consistent with the Airport's classification as a medium hub. During the 1995-2004 period, SAT achieved a share of between 0.50% and 0.58%, which falls within the range for medium hub commercial airports. The average annual growth rate of 1.5% achieved at SAT during the 1995-2004 period compares with the national average annual growth rate of 2.1% reported during the same period.

Figure IV-1 compares the yearly growth rate of enplanements at SAT with the yearly growth rate at the national level. It is noteworthy that between 1995 and 1996, SAT reported an increase of 16.2% in enplanements compared to the national increase of 5.9%. Department management attributes the large increase in 1996 primarily to the promotional fares offered by Southwest Airlines in commemoration of the airline's

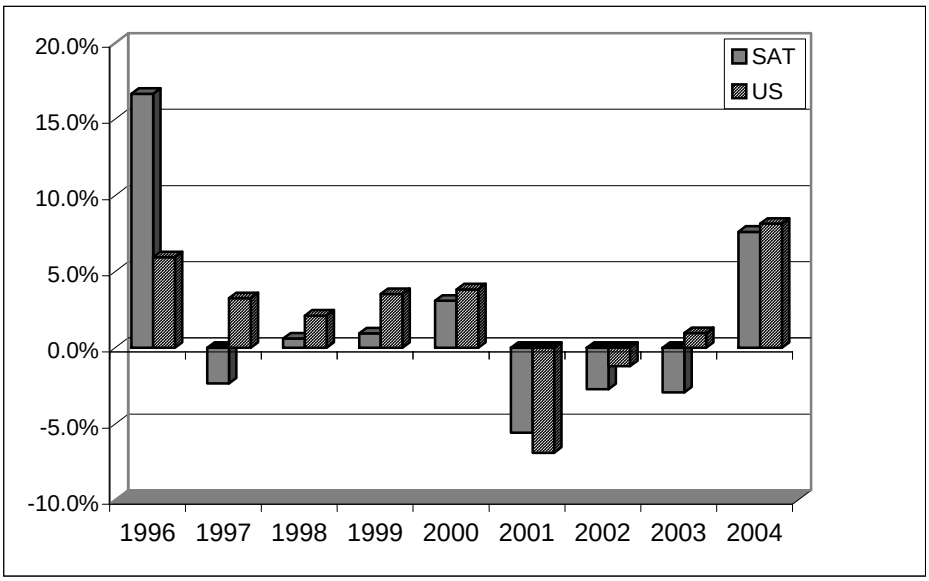
25th anniversary. More recently in 2004, the growth rate of 7.6% achieved in SAT compares well with the growth rate of 8.1% reported at the national level.

TABLE IV-2
SAT SHARE OF US TOTAL ENPLANEMENTS
CY 1995- 2004

Year	SAT Enplanements [1]	US Total Enplanements [2]	SAT's Market Share
1995	3,058,536	581,083,128	0.53%
1996	3,568,328	615,582,256	0.58%
1997	3,484,141	635,595,946	0.55%
1998	3,505,372	648,993,904	0.54%
1999	3,538,243	671,866,678	0.53%
2000	3,647,094	697,587,582	0.52%
2001	3,444,875	649,454,039	0.53%
2002	3,349,283	641,500,000	0.52%
2003	3,250,911	647,700,000	0.50%
2004	3,498,189	700,400,000	0.50%
Average Annual Growth Rate			
1995-2004	1.5%	2.1%	

Sources:
[1] Department of Aviation records.
[2] Federal Aviation Administration. U.S. total enplanements for 2004 is projected.

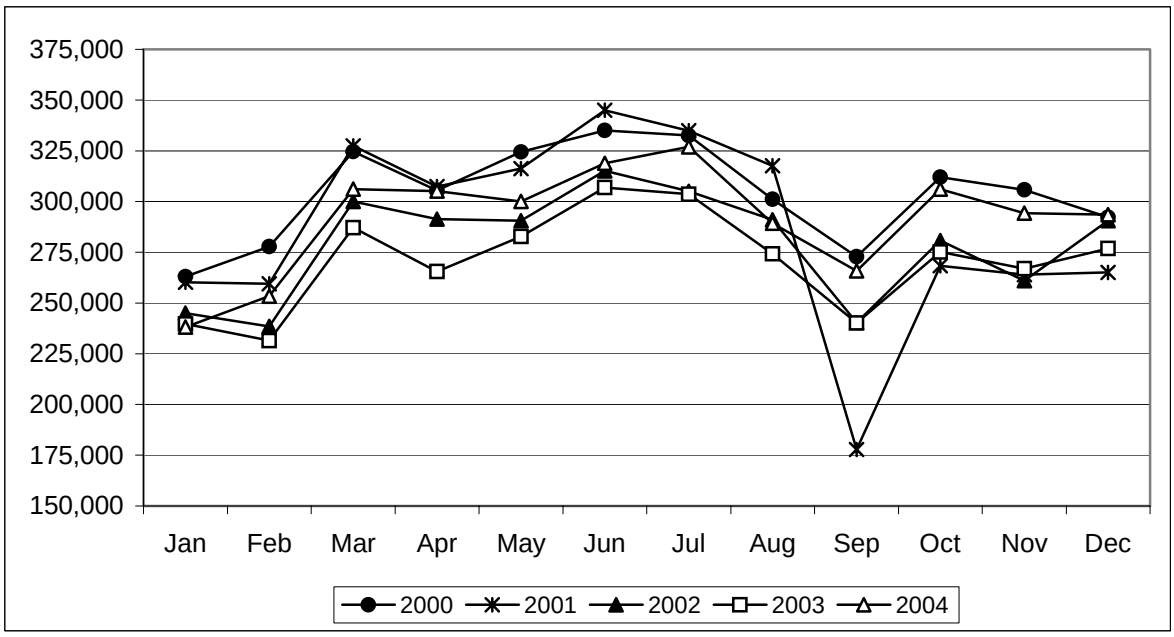
FIGURE IV-1
COMPARISON OF ANNUAL ENPLANEMENT GROWTH RATE
CY 1995-2004



Sources:
1. Aviation Department records for SAT data.
2. Federal Aviation Administration for U.S. data.

Air travel demand tends to be seasonal, with high demand levels occurring during holidays and favorable weather conditions. Although there were no pronounced peaks or dips in traffic flow, the monthly enplanement trends at SAT shown in **Figure IV-2** reflect a seasonal pattern. During the 2000-2004 period, enplanements at SAT were generally higher in the months of May through July, which coincide with the popular spring and summer travel months. Passenger traffic was also high in March, which is the typical students' spring break month. The relatively high passenger traffic in November and December coincides with the holidays. Relatively low enplanements occurred in the winter months of January and February.

FIGURE IV-2
MONTHLY ENPLANEMENT TREND
January 2000 - December 2004



Source: Department of Aviation records.

3. O&D and Connecting Enplanements

Table IV-3 presents a breakdown of enplanements into O&D and connecting segments. Although there were slight fluctuations in the distribution, the breakdown confirms the fact that SAT is primarily an O&D airport. During the 1995-2004 period, O&D enplanements consistently accounted for over 88% of annual enplanements at SAT. A high percentage of O&D traffic at an airport indicates a strong underlying demand for air travel to and from the local area. O&D enplanements at the Airport increased at an average annual rate of 1.1%, from 2.8 million in 1995 to approximately 3.1 million in 2004. Connecting enplanements increased from 247,960 in 1995 to 385,428 in 2004, representing an average annual growth of

5.0%. The growth in connecting traffic is attributable, in part, to Southwest Airlines' presence at SAT.

Overall, the high and stable proportion of O&D traffic attests to the strength of the economic base of the Airport's air service area, exemplified by the characteristics of the local economy presented in **Section III** of this Report.

TABLE IV-3
O&D AND CONNECTING ENPLANEMENTS
CY 1995-2004

	O&D		Connecting		Total
Year	Number	Share	Number	Share	Enplanements
1995	2,810,576	91.9%	247,960	8.1%	3,058,536
1996	3,149,125	88.3%	419,203	11.7%	3,568,328
1997	3,092,992	88.8%	391,149	11.2%	3,484,141
1998	3,160,966	90.2%	344,406	9.8%	3,505,372
1999	3,185,016	90.0%	353,227	10.0%	3,538,243
2000	3,311,713	90.8%	335,381	9.2%	3,647,094
2001	3,132,950	90.9%	311,925	9.1%	3,444,875
2002	3,013,378	90.0%	335,905	10.0%	3,349,283
2003	2,926,567	90.0%	324,344	10.0%	3,250,911
2004E	3,112,761	89.0%	385,428	11.0%	3,498,189
Average Annual Growth Rate					
1995-2004	1.1%	-	5.0%	-	1.5%

Sources:
1) Total enplanements were obtained from the Department of Aviation records. See **Table IV-1**.
2) Scheduled domestic O&D enplanements were obtained from BACK Aviation Solutions, which compiles the statistics from the U.S. DOT OD1A database (10% sample ticket survey). As of the date of this report, O&D data were available through 3rd quarter 2004. Total 2004 O&D enplanements include Unison's estimate for 4th quarter. International and charter enplanements are included in the O&D category.
3) Annual connecting enplanements were derived by subtracting O&D enplanements from total

4. Airline Market Shares

Table IV-4 presents airline market shares at SAT during the 2001-2004 period. Among the categories of service providers, domestic air carriers consistently accounted for over 90% of annual enplanements at SAT. Commuter carriers serving SAT reported a growing market share during the 2001-2004 period. During that period, the number of commuter carriers increased from one in 2001 to four in 2004. Commuter enplanements accounted for 0.6% in 2001, and by 2004 that share had increased to 6.6% of total enplanements at SAT. The expanding role of commuter carriers at SAT is consistent with nationwide trends. According to the FAA, this trend is attributable, in part, to the transfer of routes from the larger domestic air carriers to their regional/commuter partners, particularly in the aftermath of the

September 11, 2001 Events.[27] The activity forecasts developed for this Report incorporate the recent trends in commuter operations at SAT, as well as assumptions about the near-term and long-term growth in commuter operations.

TABLE IV-4
AIRLINE MARKET SHARES
CY 2001-2004

Airline	2001	2002	2003	2004	2001	2002	2003	2004
Domestic Air Carrier								
America West [1]	97,496	103,268	100,043	100,491	2.8%	3.1%	3.1%	2.9%
American	519,526	640,345	613,909	616,664	15.1%	19.1%	18.9%	17.6%
Continental	428,752	382,170	392,193	424,173	12.4%	11.4%	12.1%	12.1%
Delta	523,606	465,539	346,026	287,815	15.2%	13.9%	10.6%	8.2%
Midwest	32,221	30,264	31,557	59,998	0.9%	0.9%	1.0%	1.7%
Northwest	130,064	128,592	166,843	214,801	3.8%	3.8%	5.1%	6.1%
Southwest	1,237,899	1,183,307	1,144,577	1,254,692	35.9%	35.3%	35.2%	35.9%
TWA [2]	146,588	0	0	0	4.3%	0.0%	0.0%	0.0%
United	157,109	178,999	202,498	215,079	4.6%	5.3%	6.2%	6.1%
Subtotal - Domestic Carrier	**3,273,261**	**3,112,484**	**2,997,646**	**3,173,713**	**95.0%**	**92.9%**	**92.2%**	**90.7%**
Commuter								
Atlantic Southeast	22,204	67,356	87,325	137,029	0.6%	2.0%	2.7%	3.9%
Chauauqua	0	0	6,161	47,109	0.0%	0.0%	0.2%	1.3%
Comair	0	18,445	15,012	12,559	0.0%	0.6%	0.5%	0.4%
SkyWest	0	0	38,710	34,522	0.0%	0.0%	1.2%	1.0%
Subtotal - Commuter	**22,204**	**85,801**	**147,208**	**231,219**	**0.6%**	**2.6%**	**4.5%**	**6.6%**
Charter Airlines	**69,115**	**58,743**	**40,195**	**19,978**	**2.0%**	**1.8%**	**1.24%**	**0.57%**
Foreign Air Carrier								
Aerolitoral	14,413	10,682	6,988	8,648	0.4%	0.3%	0.2%	0.2%
Aeromar	458	370	140	1,176	0.01%	0.01%	0.004%	0.034%
Allegro	1,621	20,042	0	0	0.05%	0.60%	0.0%	0.0%
Mexicana	63,803	61,161	58,734	63,455	1.9%	1.8%	1.8%	1.8%
Subtotal - Foreign Carrier	**80,295**	**92,255**	**65,862**	**73,279**	**2.3%**	**2.8%**	**2.0%**	**2.1%**
TOTAL - ALL AIRLINES	**3,444,875**	**3,349,283**	**3,250,911**	**3,498,189**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1. Enplanements by Mesa Airlines & Freedom Airlines are included in America West data.
2. Prior to December 2001, enplanements by TWA were reported separately from American's enplanements at SAT. Effective December 2001, TWA enplanements are reported along with American data.
3. Other includes enplanements reported by the Aviation Department as "unscheduled" and the periodic enplanements by Kalitta Charters.
4. Some U.S. air carriers and charter carriers reported international enplanements. Those numbers are included along with their domestic traffic in this table. Hence, the total enplanements for each category differ from the category totals shown in **Table IV-1**.

Source: Department of Aviation records.

Foreign air carriers serving SAT maintained a relatively stable market share of approximately 2.3% during the 2001-2004 period. Foreign carriers provide service from SAT to destinations in Mexico. There is also significant charter service at SAT. The fluctuation in market share reported by charter operators at SAT is consistent with the typical fluctuations in non-scheduled operations, including intermittent service by some operators and relatively frequent entry and exit of others.

[27] The FAA, *Aerospace Forecasts, FY 2004-2015,* March 2004, page I-9.

Table IV-4 also shows the relative position of the individual carriers serving SAT. During the 2001-2004 period, Southwest Airlines consistently accounted for over 35.0% of annual enplanements, giving the airline the lead position in the SAT market. San Antonio is well positioned to fit into Southwest Airline's focus on dense, short-haul routes. The re-branding of TWA as American Airlines was completed in November 2001, and beginning in December 2001, TWA and American enplanements were combined. Based on the individual airline's enplanements, American was ranked second in the SAT market during the 2002-2004 period, accounting for 18.5% of annual enplanements in during that period.

Continental has regained some of the share it lost temporarily in 2002, returning the airline to third position in terms of enplanement share at the SAT. Continental accounted for 12.1% of enplanements in 2004. Delta Airlines' market share has decreased steadily, from 15.2% in 2001 to 8.2% in 2004. However, it should be noted that Delta has three commuter carrier partners at SAT, namely Atlantic Southeast, Comair, and SkyWest. This means that some of the decrease in Delta's market share represents a shift of operations to its commuter partners, whose collective level of enplanements at SAT has increased significantly over the last three years. Northwest reported a measurable increase in its market share between 2003 and 2004, thereby tying with United for fourth place market share position at SAT in 2004.

Commuter enplanements have accounted for a growing market share since 2001, increasing from 0.6% in 2001 to 6.6% in 2004. Atlantic Southeast Airlines is the largest among the commuter carriers, with a market share of 3.9% in 2004. Chautauqua began service at the Airport in 2003, and its market share increased from 0.2% in 2003 to 1.3% in 2004. Foreign airlines serving SAT collectively accounted for 2.1% of enplanements in 2004. Among the foreign airlines, Mexicana reported the largest market share of 1.8% in 2004.

5. Air Service Markets

Table IV-5 lists the top 50 O&D destinations from the Airport for the twelve month period ended September 30, 2004, which is the most recent information available from the OD1A database as of the date of this Report.

TABLE IV-5
TOP 50 O&D DESTINATIONS
12 Months Ended September 30, 2004

Rank [1]	Destination	Airports	O&D Market Share [2]	Daily Nonstop Departures [3]	Air Miles from San Antonio [4]
1	Dallas, TX	DAL, DFW	12.0%	35	244
2	Houston, TX	HOU, IAH	4.3%	21	190
3	Las Vegas, NV	LAS	4.3%	4	1,067
4	Chicago, IL	ORD, MDW	3.9%	7	1,044
5	Baltimore, MD	BWI	3.4%	2	1,404
6	New York, NJ-NY	EWR, LGA, JFK	3.3%	1	1,576
7	Atlanta, GA	ATL	2.8%	9	872
8	Phoenix, AZ	PHX	2.7%	7	842
9	Los Angeles, CA	LAX	2.6%	1	1,207
10	Washington, DC	DCA, IAD	2.6%	0	1,379
11	El Paso, TX	ELP	2.2%	4	495
12	Orlando, FL	MCO	2.1%	1	1,034
13	Denver, CO	DEN	1.9%	4	794
14	St. Louis, MO	STL	1.8%	4	785
15	San Diego, CA	SAN	1.7%	0	1,126
16	Seattle, WA	SEA	1.6%	0	1,772
17	New Orleans, LA	MSY	1.5%	0	504
18	Detroit, MI	DTW	1.5%	2	1,230
19	Kansas City, MO	MCI	1.5%	2	697
20	Nashville, TN	BNA	1.4%	1	820
21	Minneapolis/St. Paul, MN	MSP	1.4%	2	1,099
22	Tampa, FL	TPA	1.3%	1	969
23	Philadelphia, PA	PHL	1.3%	0	1,493
24	Salt Lake City, UT	SLC	1.2%	1	1,085
25	Harlingen, TX	HRL	1.2%	2	234
26	Albuquerque, NM	ABQ	1.1%	0	608
27	Sacramento, CA	SMF	1.1%	0	1,451
28	Oakland, CA	OAK	1.1%	0	1,472
29	Raleigh/Durham, NC	RDU	1.0%	0	1,221
30	Oklahoma City, OK	OKC	1.0%	0	408
31	Santa Ana/Orange County, CA	SNA	0.9%	0	1,174
32	Boston, MA	BOS	0.9%	0	1,761
33	Ontario, CA	ONT	0.9%	0	1,164
34	Fort Lauderdale, FL	FLL	0.9%	0	1,141
35	Cleveland, OH	CLE	0.9%	0	1,259
36	Tulsa, OK	TUL	0.9%	0	484
37	Portland, OR	PDX	0.8%	0	1,712
38	San Jose, CA	SJC	0.8%	0	1,450
39	Norfolk, VA	ORF	0.8%	0	1,379
40	Indianapolis, IN	IND	0.8%	0	985
41	Little Rock, AR	LIT	0.8%	0	511
42	Hartford, CT	BDL	0.8%	0	1,665
43	Columbus, OH	CMH	0.7%	0	1,138
44	San Francisco, CA	SFO	0.7%	0	1,485
45	Providence, RI	PVD	0.7%	0	1,724
46	Miami, FL	MIA	0.6%	0	1,140
47	Milwaukee, WI	MKE	0.6%	0	1,095
48	Jacksonville, FL	JAX	0.6%	0	1,007
49	Honolulu, HI	HNL	0.6%	0	4,091
50	Birmingham, AL	BHM	0.5%	0	743
	DESTINATIONS LISTED	**-**	**86.0%**	**111**	**-**
	OTHER TOP DESTINATIONS	**-**	**14.0%**	**12**	**-**
	TOTAL	**-**	**100.0%**	**123**	**-**

[1] Ranking is based on share among the top 100 O&D destinations. Only the top 50 destinations are listed.
[2] Data obtained from BACK Aviation Solutions OD1A Database/U.S. DOT 10% Ticket Survey. O&D data were available through 3rd quarter 2004 as of the date of this Report.
[3] Data obtained from BACK Aviation Solutions OAG Database. The number of daily nonstop departures equals the annual nonstop departures divided by 365.
[4] OAG *Flight Guide - North America.*

The data show that the service markets extend across the United States, including large and small metropolitan areas. Dallas was the top destination, accounting for 12% of O&D passengers served by 35 daily non-stop departures from SAT, on average, during the twelve-month period. Houston and Las Vegas were tied for second position, each with an O&D market share of 4.3%. Houston was served by 21 daily non-stop while Las Vegas was served by 4 daily non-stop departures during the twelve-month period. The other destinations in the top ten included Chicago, Baltimore, New York, Atlanta, Phoenix, Los Angeles, and Washington, D.C.

Figure IV-3 shows that the top ten markets, in the twelve months ended September 30, 2004, are located across the United States.

FIGURE IV-3
TOP TEN O&D DESTINATIONS
12 Months Ended September 30, 2004

Table IV-6 compares recent trends in airfares reported in selected airports in Texas. Over the period of January 2002 through June 2004, average one-way fare from SAT to all U.S. destinations was consistently lower than the average fare reported at

Dallas/Fort Worth and Houston/Intercontinental. SAT's average fare of $165.8 in the first half of 2004 was 17.7% lower than the average fare of $195.2 reported at DFW, and 16% lower than the average fare of $192.4 reported at IAH. Average fares at SAT and Austin have tended to be close and reflected identical trends. One explanation for the fare similarities is the strong Southwest presence at both SAT and Austin. In 2004, Southwest Airlines accounted for 35.9% of enplanements at SAT, and for 35.2% of enplanements at Austin. In addition, the overall trend in airfare is attributable to the fact that most of the mainline carriers still employ fare discounting as part of the strategy to stimulate air travel.

TABLE IV-6
COMPARISON OF AVERAGE AIRFARE
2002-2004

	2004	2003		2002	
Airport	**1st Half**	**1st Half**	**2nd Half**	**1st Half**	**2nd Half**
Dallas/Fort Worth (DFW)	$195.2	$203.0	$193.0	$197.6	$189.1
Houston/Intercontinental (IAH)	$192.4	$188.9	$186.0	$193.7	$182.2
San Antonio (SAT)	**$165.8**	**$161.4**	**$163.7**	**$157.2**	**$156.4**
Austin (AUS)	$165.1	$160.9	$163.9	$157.8	$156.4
Houston/Hobby (HOU)	$123.5	$123.4	$123.5	$123.0	$122.5
Dallas-Lovefield (DAL)	$86.4	$89.4	$86.8	$88.3	$88.2
AVERAGE FARE	**$154.7**	**$154.5**	**$152.8**	**$152.9**	**$149.1**

[1] Average airfare includes all fare classes to all U.S. destinations.

Source: BACK Aviation Solutions OD1A Database/U.S. DOT 10% Ticket Survey data obtained on February 22, 2005.

6. Aircraft Operations

Table IV-7 shows the trends in all categories of aircraft operations at SAT during the 1995-2004 period. There were fluctuations in total annual aircraft operations, which resulted in an average annual decrease of 1.1%, from 238,612 operations in 1995 to 216,283 operations in 2004. Annual air carrier operations also fluctuated, reflecting changes in the composition of airlines serving SAT and market conditions during the 1995-2004 period. For example, US Airways ceased operations at SAT in October 1997, and America West, which had temporarily ceased operations in November 1991, resumed service in June 1996. Midwest began service at SAT in 1999. As mentioned in a preceding subsection, TWA became American in 2001, merging and streamlining the previously separate operations of the two carriers. The fluctuations in air carrier operations in the 2001-2003 period may be attributed to the dampened air travel demand in the aftermath of the September 11, 2001 Events and the 2001 U.S. economic recession. However, the data for 2004 indicate a rebound in air carrier operations. Overall, air carrier operations increased at an average annual rate of 1%, from 82,069 in 1995 to 89,616 in 2004.

Annual air taxi operations also fluctuated, from 35,313 in 1995 to 29,565 in 2004, representing an average annual decrease of 2.0%. General Aviation operations cover a broad range of aircraft activity, including recreational flying, flying for corporate business, pilot training, sightseeing, and the movement of large, heavy loads by helicopter. There is a significant volume of general aviation activity at SAT, including operations of the fixed base operators ("FBOs") at the Airport. As of February 28, 2005, a number of FBOs were active at the Airport, including AHR Aviation, Airstar, Cessna Citation Service Center, Cutter Aviation, Hallmark Aero-Tech, Nayak Million Air, Piedmont Hawthorne, and Raytheon Aircraft Services. Piedmont Hawthorne is one of oldest continuously operating general aviation companies in the world. GA operations at the Airport fluctuated, from 110,873 in 1995 to 88,908 in 2004, representing an average annual decrease of 2.4% over that period. Military operations reflect the activity of the U.S. Department of Defense in the vicinity of an airport. Military operations at SAT decreased from 10,537 in 1995 to 8,194 in 2004, representing an average annual decrease of 2.6%.

TABLE IV-7
ANNUAL AIRCRAFT OPERATIONS
CY 1995-2004

Year	Air Carrier	Air Taxi	General Aviation	Military	Total Operations
1995	82,069	35,313	110,873	10,357	238,612
1996	87,464	40,224	124,243	10,497	262,428
1997	84,748	36,395	126,801	9,557	257,501
1998	80,982	39,305	142,063	11,011	273,361
1999	81,795	36,457	125,960	12,020	256,232
2000	80,879	37,212	116,938	11,104	246,133
2001	71,151	41,239	111,987	11,819	236,196
2002	68,536	46,847	99,994	11,474	226,851
2003	63,744	58,769	117,668	14,504	254,685
2004	89,616	29,565	88,908	8,194	216,283
Average Annual Growth Rate					
1995-2004	1.0%	-2.0%	-2.4%	-2.6%	-1.1%

Source: Department of Aviation records based on FAA Airport operations reports.

7. Commercial Aircraft Landed Weight

Table IV-8 shows annual commercial landed weight at SAT in the 2001-2004 period. The trend in total commercial landed weight reflects the trend in commercial operations, particularly operations by the large air carriers and commuter carriers. Overall, annual commercial landed weight decreased at an average annual rate of 0.8%, from approximately 5.5 billion pounds in 2001 to 5.4 billion pounds in 2004.

TABLE IV-8
COMMERCIAL AIRCRAFT LANDED WEIGHT
CY 2001-2004

Airline	Landed Weight (000 lbs) 2001	2002	2003	2004	Avg. Annual Growth Rate 2001-2004
Domestic Air Carrier					
America West	118,004	132,064	135,533	118,937	0.3%
American	701,032	888,804	815,759	731,192	1.4%
Continental	586,344	517,605	516,933	575,226	-0.6%
Delta	781,215	660,873	481,513	368,215	-22.2%
Midwest Express	61,599	65,160	67,588	91,749	14.2%
Northwest	210,297	216,310	285,871	326,505	15.8%
Southwest	1,750,858	1,810,797	1,739,146	1,758,545	0.1%
TWA	208,164	0	0	0	n.a.
United	204,201	228,106	255,266	255,081	7.7%
Subtotal - Domestic Carrier	**4,621,713**	**4,519,718**	**4,297,609**	**4,225,449**	**-2.9%**
% of Total	**83.3%**	**81.3%**	**79.7%**	**78.0%**	
Commuter					
Atlantic Southeast	31,396	81,498	114,037	170,964	75.9%
Chautauqua	0	0	7,505	61,553	n.a
Comair	0	24,393	22,325	16,638	n.a
SkyWest	0	0	47,141	38,034	n.a
Subtotal - Commuter	**31,396**	**105,891**	**191,008**	**287,189**	**109.1%**
% of Total	**0.6%**	**1.9%**	**3.5%**	**5.3%**	
Charter Airlines	**82,465**	**64,644**	**44,800**	**36,765**	**-23.6%**
% of Total	**1.49%**	**1.16%**	**0.83%**	**0.68%**	
Foreign Air Carrier					
Aerolitoral	27,611	22,192	14,140	18,012	-13.3%
Aeromar	2,053	2,053	923	6,708	48.4%
Allegro	3,554	22,248	0	0	n.a.
Mexicana	92,119	100,617	101,683	92,247	0.05%
Subtotal - Foreign Carrier	**125,336**	**147,110**	**116,747**	**116,967**	**-2.3%**
% of Total	**2.3%**	**2.6%**	**2.2%**	**2.2%**	
Air Cargo Carrier					
Airborne	61,782	64,935	80,811	86,354	11.8%
Ameriflight	7,276	4,800	5,227	5,607	-8.3%
Baron Aviation	3,715	3,885	578	0	n.a.
Capital Cargo	32,361	0	0	0	n.a.
Emery Worldwide	9,085	594	0	0	n.a.
Express One International	37,785	0	0	0	n.a.
Federal Express	197,643	341,190	384,251	399,379	26.4%
Kalitta Charter	0	149	229	0	n.a.
Kitty Hawk/Kalitta Charter	17,217	149	310	960	-61.8%
Reliant	519	55	0	0	-100.0%
UPS	317,323	304,050	269,410	259,095	-6.5%
Other	945	1,850	0	0	-100.0%
Subtotal - Air Cargo	**685,651**	**721,655**	**740,816**	**751,394**	**3.1%**
% of Total	**12.4%**	**13.0%**	**13.7%**	**13.9%**	
TOTAL - ALL AIRLINES	**5,546,561**	**5,559,018**	**5,390,981**	**5,417,764**	**-0.8%**

AAGR = Average annual growth rate; n.a. = not applicable.

Source: Department of Aviation records.

A breakdown of landed weight by airline category confirms the implications of the recent trends in commercial aircraft operations. The landed weight reported by domestic air carriers dropped at an average annual rate of 2.9%, from approximately 4.6 billion pounds in 2001 to 4.2 billion pounds in 2004, reflecting the trend toward the use of relatively smaller aircraft by the domestic carriers during that period. For example, average air carrier seats-per-departure decreased from 131.2 seats in 2002, to 127.3 seats in 2003, and to 124.6 seats in 2004. Domestic air carriers accounted for the largest share of commercial landed weight, collectively representing 80.6%, on average, over the 2001-2004 period.

The data on commuter landed weight is consistent with the increase in commuter operations at SAT. Over the 2001-2004 period, commuter landed weight increased, from 31.4 million pounds in 2001 to 287.2 million pounds in 2004, representing a remarkable average annual growth of 109.1%. The corresponding share of commuter landed weight increased from 0.6% in 2001 to 5.3% in 2004. Foreign air carrier landed weight fluctuated over the four-year period, reflecting the change in the number of foreign air carriers serving the Airport. Overall, foreign air carrier landed weight dropped, from approximately 125.3 million pounds in 2001 to approximately 117.0 million pounds in 2004, representing an average annual decrease of 2.3%. Foreign carriers accounted for 2.3%, on average, of annual commercial landed weight at SAT during the 2001-2004 period.

Fluctuations in charter landed weight are not unusual, in part due to the nature of charter operations and changes in the number of charter airlines serving SAT. These two factors distort the trend observed in charter landed weight between 2001 and 2004. Overall, charter landed weight decreased at an average annual rate of 23.6%, from approximately 82.5 million pounds in 2001 to 36.8 million pounds in 2004. Charter landed weight accounted for approximately 1%, on average, of annual commercial landed weight reported during the 2001-2004 period.

All-cargo landed weight increased from approximately 685.6 million pounds in 2001 to 751.4 million pounds in 2004, representing an average annual growth of 3.1%. Both Airborne Express and Federal Express reported significant increases in landed weight over that period. Overall, cargo landed weight accounted for 13.2%, on average, of total commercial landed weight reported at SAT during the 2001-2004 period.

8. Enplaned Cargo

The Airport handles a significant volume of mail and freight cargo annually. **Table IV-9** shows that the volume of enplaned air cargo increased from approximately 75.6 million pounds in 1995 to 114.9 million pounds in 2004, representing an average annual growth rate of 4.8% over that period. Air freight consistently accounted for the bulk of cargo handled at the Airport, representing at least 66% of annual cargo

during the 1995-2004 period. Air freight increased at an average annual rate of 5.7%, from approximately 50.1 million pounds in 1995 to 82.4 million pounds in 2004. Mail cargo increased at an average annual rate of 2.7%, from approximately 25.5 million pounds in 1995 to 32.5 million pounds in 2004.

TABLE IV-9
ENPLANED CARGO
CY 1995- 2004

	Mail (000 lbs)		Air Feight (000 lbs)		TOTAL CARGO
Year	Weight	% of Total	Weight	% of Total	(000 lbs)
1995	25,511	33.7%	50,079	66.3%	75,590
1996	25,209	31.3%	55,259	68.7%	80,468
1997	25,301	22.6%	86,758	77.4%	112,059
1998	31,779	24.4%	98,259	75.6%	130,038
1999	35,819	27.8%	93,009	72.2%	128,828
2000	38,694	29.7%	91,505	70.3%	130,199
2001	25,605	26.7%	70,240	73.3%	95,845
2002	31,809	27.8%	82,447	72.2%	114,256
2003	36,017	31.2%	79,357	68.8%	115,374
2004	32,503	28.3%	82,428	71.7%	114,931
Average Annual Growth Rate					
1995-2004	2.7%	-	5.7%	-	4.8%

Source: Department of Aviation records.

B. FORECASTS OF AVIATION ACTIVITY

1. Overview

Traditional approaches to aviation forecasting include judgmental estimation, trendline fitting, and variants of trend extrapolation. These traditional methods essentially assume that the historical trends observed at an airport will be replicated in the forecast period. Forecasts obtained from such traditional methods may be flawed to the extent that future conditions deviate significantly from the past. More importantly, these traditional approaches fail to isolate the individual determinants of travel demand, and hence are not useful for systematically examining the sensitivity of air travel demand to changes in specific market factors.

Unison's preferred methodology for developing long-term activity forecasts is the multivariate regression approach. Multivariate regression modeling provides a systematic framework for quantifying economic relationships, performing sensitivity analyses, and generating forecasts. The multivariate regression approach is based on sound economic theory, and allows forecasts to be linked to projected trends in relevant market variables, thereby minimizing reliance on subjective inputs.

One of the unfolding characteristics of the aviation industry in the post-September 11, 2001 period is the increasing flexibility with which U.S. mainline carriers are

adapting to current market conditions. For example, the strategy of route transfers from the mainline carriers to their commuter partners has become more prevalent in the industry. The strategy has also resulted in the increasing use of regional jets ("RJs") in previously non-traditional RJ markets because it is cost-efficient to do so given the level of demand. Route transfers allow the mainline carriers to maintain their presence in the existing markets, and the use of RJs help to reduce aircraft operating costs. While it is true that scope clauses may limit the pace and extent of long term route transfers, it is increasingly clear that it will remain a significant part of the market realignment strategy being implemented by U.S. mainline carriers. In terms of forecasting, this strategy means that there will be a strong "supply-side" component to market outcomes in the near-term. Plans by the mainline carriers, as reflected in their published scheduled seats and departures, will play a more prominent role than they did in the in the past when the dominant consideration was the "demand-side" component. In fact, an indication of the airlines' flexibility is reflected in their frequent "fine-tuning" of their schedules to better match their market reality and expectations.

Consequently, in developing the enplanement forecast for SAT, Unison combined a capacity-based approach for the "near term" with the multivariate regression approach for the "long-term". For the purpose of this analysis, the near term is defined as January through December 2005 and the long term is defined as the 2006-2009 period. Near-term projections are based primarily on recent trends at the Airport and the published schedules by the airlines currently serving SAT. Long-term forecasts are based on Unison's multivariate regression model developed for SAT. The model forms that basis for the two scenarios of activity forecasts developed for the 2006-2009 period.

2. Capacity-based Near-term Projection

The projected annual enplanements for 2005 are based on scheduled departures and seats published in the OAG database as of February 28, 2005 by the airlines serving the Airport. The published airline schedules provide a framework for explicitly incorporating the shifts in market shares resulting from planned increases or decreases in scheduled flights by individual airlines. In addition, the schedules allow for inferences to be drawn regarding the capacity plans of the airlines, including route transfers over the period covered by the plan. In developing the enplanements for 2005, it is assumed that the boarding load factors achieved by airlines serving the Airport will improve according to the industry-wide trends projected for each airline category by FAA.

3. Multivariate Regression–based Long-term Forecast

The premise for the long term forecast is that for an airport that serves predominantly O&D passengers, market factors will be the primary determinants of enplanements and related aviation activity. Consequently, enplanements and

activity forecasts for 2006-2009 are based on Unison's multivariate regression model developed for the SAT market. The regression model incorporates the historical trends in enplanements discussed in **Section IV-A** as well as reasonable assumptions about future trends in factors that are relevant to aviation activity at SAT.

Unison's regression model relates enplanements to the following explanatory variables: (1) a measure of the local economic base of SAT. For the purpose of this model, non-agricultural employment for the San Antonio MSA was selected as a comprehensive indicator of the economic activity in SAT's air service area; (2) the price of air travel as measured by real revenue passenger yield.[28] For the purpose of this analysis, real yield at SAT was chosen as the indicator that best captures the airfare competitiveness at the Airport, and (3) a measure of air travelers' income. For the purpose of this model, U.S. real Gross Domestic Product ("GDP") per capita was selected as the appropriate income measure. Appropriate trend variables were also included in the model to account for the correlation between past and present values that is inherent in time series data.[29] Also included were appropriate seasonal variables to account for the seasonality observed in travel demand. The model also includes a shift variable to capture the dampened demand following the September 11, 2001 Events and the 2001 recession. The data used in the model cover the 1981-2009 period. Following is a description of the measurable explanatory variables:

- **SAT's local economic base.** Growth in local economic activity is particularly important to continuing passenger traffic growth at an O&D airport like SAT. The multivariate regression model for SAT includes historical and forecast non-agricultural employment data for the San Antonio MSA, which was obtained from Global Insight, Inc., a third party independent provider of historical and forecast economic data. Local non-agricultural employment increased at an average annual rate of 2.5% during the 1981-2004 period. Global Insight projects continuing growth in non-agricultural employment at an average annual rate of 1.7% over the 2004-2009 period.
- **Price of air travel.** Air travel demand is inversely related to the price of air travel. People tend to travel more frequently when airfares are low, particularly if the trip is for non-business purposes. The trend in airfares is represented in the multivariate regression model by real revenue passenger yield at SAT, which is measured as total airline revenues divided by revenue passenger miles and expressed in real (inflation-adjusted) terms. Historical real passenger yield for SAT was obtained from BACK Aviation Solutions. Over the 1981-2004 period, real yield at SAT decreased at an average annual

[28] Revenue passenger yield is measured as total airline revenues divided by revenue passenger miles. To adjust for the impact of inflation, passenger yield is generally expressed in real terms as real revenue passenger yield or simply as real passenger yield.
[29] The correlation observed in time series data is known as "serial correlation", which can be accounted for, statistically, in the regression model by appropriate auto-regressive factors.

rate of 2.4%. According to the FAA, the decreasing trend in U.S. real passenger yields is attributable to competition among airlines, the presence/entry of low-cost carriers, increased airline productivity, and post-9/11 adjustment strategies adopted by air carriers. According to the FAA, in the long term, the effects of continued competition, productivity increases, and expanding capacity may be expected to help airlines offset some of the rising operating cast, including fuel and security-related costs.[30] The FAA projects a relatively moderate decreases in real domestic passenger yields over the 2005-2009 period. Future trends in real passenger yield at SAT are assumed to track the FAA's projected system-wide trends. Consequently, real passenger yield at SAT is projected to decrease at an average annual rate of 0.4% during the 2004-2009 period.

- **Air travelers' income.** Air travel demand is positively related to consumers' personal income. Since air travelers to the San Antonio area come from all over the United States, the average air traveler's income is represented by the U.S. real GDP per capita. Historical and forecast U.S. real GDP per capita data were obtained from Global Insight, Inc. Real GDP per capita grew at an average annual rate of 2.1% during the 1981-2004 period. Global Insight projects a continued growth in real per capita GDP at an average annual rate of 2.2% during the 2004-2009 period.

The multivariate regression model selected by Unison for this study clearly identifies local non-agricultural employment, the price of air travel, and average traveler's income as strong determinants of the level of enplanements at SAT. This finding is consistent with fact that SAT is primarily an O&D airport, and the strength of the local economy influences, to a large extent, travel demand in the area. The results of analysis show that the multivariate regression model fit the SAT market data well. The adjusted R-squared (the coefficient of multiple determination) obtained from the model estimation indicates that 98.1% of the variation in annual SAT enplanements could be explained by the combined variations in the explanatory variables included in the model. The forecast of enplanements obtained from the multivariate regression model captures the implications of both the historical trends in enplanements at SAT, and the historical and forecast trends in each of the explanatory variables.

One of the advantages of the multivariate regression approach is that it provides a systematic framework for developing alternative scenarios about future trends. For the purpose of this Report, Unison presents two forecast scenarios depicting alternative assumptions about the pace of future growth in traffic at SAT. The base case is a scenario where air traffic will return to the 2000 enplanement level by 2006, and air traffic growth thereafter is moderate, but steady. The alternate case reflects a scenario where the pace of recovery is relatively fast, with air traffic surpassing 2000 enplanement level by 2006, and strong annual growth thereafter.

[30] The FAA *Aerospace Forecasts, FY 2004-2015.* March 2004, page III-24.

4. Alternative Enplanement Forecast Methods

The forecasts of enplanements obtained from Unison's combined capacity-based approach and the multivariate regression model are compared to forecasts of enplanements generated from the trendline projection approach, FAA Terminal Area Forecast (TAF) for SAT, and the market share approach. A brief description of each of the other alternative enplanement forecast approaches is as follows:

Trendline Projection: This method assumes that the historical trend in enplanements at SAT will be replicated during the forecast period. The trendline forecast of enplanements is developed by fitting a line, with time as the only explanatory variable. The choice of the length of the historical period to use for the projection is somewhat arbitrary. To the extent that the past had been stable, and the future closely mirrors the past, trendline projection represents an acceptable approach to forecasting for general planning purposes. However, trendline projection does not identify the specific market factors that influence enplanements, and hence does not provide a useful basis for interpreting the relative importance of the determining factors. For the purpose of the forecast comparison, a trendline was fitted on SAT's historical enplanements for 1981-2004 period. The result projects an average annual growth rate of 3.7% during the 2004-2009 period.

FAA Terminal Area Forecast (TAF): Long-term forecasts of aviation activity covering are developed for FAA-towered airports within the National Plan of Integrated Airport System (NPIAS). TAF is based on FAA national forecast and includes, where possible, the most recent historical data on individual airports. However, due in part to the lag in reporting time, the most recent historical data is frequently one or two years old, which creates an inherent discrepancy between TAF's benchmark and individual airport's actual data. Although the TAF forecast methodology has undergone recent revisions, the premise of the approach is essentially based on unconstrained demand. Nationwide, terminal area forecasts are developed independent of the specific capacity constraints at individual airports. The TAF of enplanements for SAT projects an average annual growth rate of 1.9% over the 2004-2009 period. However, it should be noted that the current TAF (released in March 2005) is based on the FAA's estimated 2004 enplanements for SAT, which were lower than actual 2004 SAT enplanements. The projected growth rate in enplanements under the TAF for 2005 through 2009 is 3.5%.

Market Share Projection: This approach extrapolates a historical trend by assuming that SAT's historical average annual share of U.S. total (domestic and international) enplanements will remain the same over the forecast period. Like trendline projection, the market share projection fails to identify the specific market factors that influence enplanements at SAT, and the choice of which portion of the historical period to use in the projection is somewhat arbitrary. Given the relational basis of the market share projection, the resulting future trend at a particular airport

essentially replicates the trend forecasted for U.S. total enplanements. The forecast of U.S. enplanements was obtained from FAA, and they may change in the upcoming annual FAA forecast publication. For the purpose of comparing the alternative enplanement forecast methods in this Report, the market share projection for SAT assumes a constant annual share of 0.52% of U.S. total enplanements, which was the average share achieved at SAT during the 1998-2004 period. The market share approach results in an average annual enplanement growth rate of 5.2% during the 2004-2009 period.

Table IV-10 presents the results of the alternative enplanement forecast methods. Over the 2004-2009 period, the average annual growth trend projected by the market share method is at the high end, while the average annual growth trend projected by the FAA-TAF is at the low end. However, as noted previously, the FAA-TAF is based on the FAA's estimated 2004 enplanements for SAT, which were lower than the actual 2004 SAT enplanements. The average annual growth rate implied by the FAA-TAF for the 2005-2009 period is 3.5%, which is higher than the 2.4% average annual growth rate projected by Unison's base case forecast, and lower than the forecasts generated by the trendline projection approach, Unison's alternate case forecast, and the market share method.

The market share approach projects an average annual growth rate of 4.8%, with enplanements reaching approximately 4.4 million in 2009. The trendline projection results in an average annual growth rate of 3.7%, and enplanements of almost 4.2 million in 2009. Unison's base case projects an average annual growth rate of 2.4%, with enplanements reaching approximately 3.9 million in 2009. Unison's alternate case, projects an average rate of 4.5%, with enplanements reaching approximately 4.4 million in 2009

It should be noted that all forecasts are subject to uncertainty. One source of uncertainty is the cyclical nature of the economic variables that influence air travel demand. In the aftermath of the September 11, 2001 Events and the recent U.S. economic recession, there is an added uncertainty as to pace of recovery in airline capacity and passenger traffic. As of the date of this Report, most major U.S. airlines are still striving to adapt to the changed aviation industry and develop strategies to return them to less precarious financial positions. The near term projection developed for 2005 based on the airlines' capacity plans, which were current as of February 28, 2005, but subject to change as airlines adjust their plans through the course of the year. The forecasts developed within Unison's multivariate regression model are based on the information available on each of the explanatory variables at the date of this Report. Currently unknown events may occur and some of the underlying assumptions of the capacity-based approach and the regression model may not be realized. Therefore, actual results may vary from the forecasts and the variation may be material.

TABLE IV-10
ALTERNATIVE FORECASTS OF ENPLANEMENTS
CY 2000-2009

Year	Multivariate Regression Model [1]		FAA-TAF [2]	Trendline Projection [3]	Market Share Projection [4]
	Base Case	Alternate Case			
Historical					
2000	3,647,094	3,647,094	-	-	-
2001	3,443,434	3,443,434	-	-	-
2002	3,349,283	3,349,283	-	-	-
2003	3,250,741	3,250,741	-	-	-
2004	3,497,865	3,497,865	3,497,865	3,497,865	3,497,865
Forecast					
2005	3,575,000	3,575,000	3,355,000	3,862,000	3,785,000
2006	3,663,000	3,770,000	3,479,000	3,944,000	3,983,000
2007	3,751,000	3,965,000	3,602,000	4,026,000	4,145,000
2008	3,840,000	4,160,000	3,726,000	4,108,000	4,279,000
2009	3,937,000	4,355,000	3,849,000	4,190,000	4,418,000
Average Annual Growth Rate					
2004-2009	2.4%	4.5%	1.9%	3.7%	4.8%

[1] Unison's multivariate regression model relates enplanements to local economic trends, trends in U.S. real per capita GDP, real passenger yields at SAT, variables that capture the seasonality in enplanements, as well as the impact of the September 11, 2001 Events. The forecast for 2005 is based on capacity plans of airlines serving SAT published in the OAG database as of February 28, 2005. Forecasts for the 2006-2009 period are based on the regression model. The two forecast scenarios represent alternative assumptions about the pace of recovery in the post-September 11, 2001period. The base case reflects a relatively gradual growth through 2009, while the alternate case depicts a faster growth rate.

[2] FAA Terminal Area Forecast (TAF) for SAT. Data obtained on March 22, 2005 at www.apo.data.faa.gov. The TAF is based on the FAA's estimated 2004 enplanements for SAT, which were lower than actual 2004 SAT enplanements. The average annual growth rate projected by the TAF for the 2005-2009 period is 3.5%.

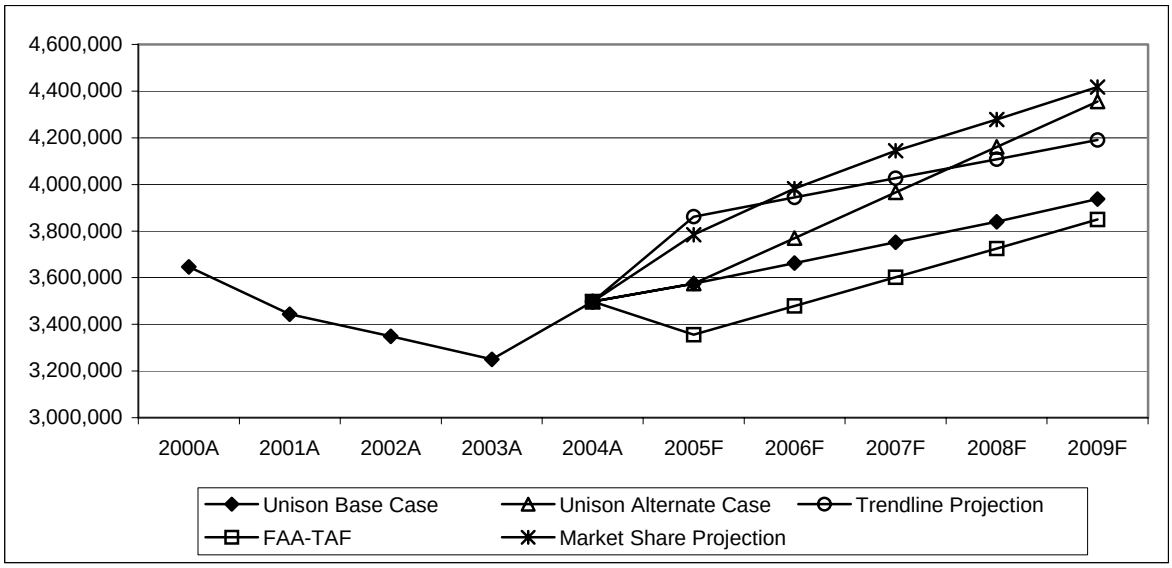
[3] Result from fitting a trendline on SAT's historical enplanements for the CY 1981-2004 period.

[4] The result from projecting a constant market share of U.S. total enplanements of 0.52% per year, which was the average share achieved at SAT during the CY 1998-2004 period. U.S. enplanements were obtained from FAA.

All forecasts are subject to uncertainty. The above regression model forecasts are based on information available at the date of this Report. Unexpected events may occur and some of the underlying assumptions of the analysis may not be realized. Therefore, actual results may vary from the forecasts and the variations may be material.

Figure IV-4 is a graphical illustration of the trends in enplanements projected by the alternative forecast methods.

FIGURE IV-4
HISTORICAL AND FORECAST ENPLANEMENT TRENDS
CY 2000-2009



A = Actual; F = Forecast.

Source: **Table IV-10**.

5. Forecast of O&D and Connecting Enplanements

Table IV-11 presents a breakdown of the forecasts of enplanements into O&D and connecting traffic. A major determinant of the volume of O&D traffic is the strength of the local economy. On the other hand, non-local factors, such as route decisions made by airlines are critical to the volume of connecting traffic. The projected annual O&D enplanements are derived from a multivariate regression model, with O&D enplanements as a function of total enplanements and seasonal variables.

Under the base case, O&D enplanements are projected to grow at an average annual rate of 2.3%, from approximately 33.1 million in 2004 to 3.5 million in 2009. O&D enplanements are projected to account for approximately 88.3% of annual enplanements at SAT over the 2004-2009 period. Under the alternate case, O&D enplanements are projected to grow at an average rate of 4.4%, to approximately 3.9 million in 2009. Under the alternate case, annual O&D enplanements accounts for approximately 88.5% of annual enplanements at SAT over the forecast period.

Annual connecting enplanements are calculated as the difference between total enplanements and O&D enplanements. Under the base case, connecting enplanements are projected to increase at an average annual rate of 3.3%, from approximately 386,000 in 2004 to 453,000 in 2009. Under the alternate case, connecting enplanements are projected to grow at an average annual rate of 5.1%,

to approximately 494,000 in 2009. Connecting traffic accounts for approximately 11.5% of annual enplanements, on average, under both base and alternate cases.

TABLE IV-11
FORECASTS OF O&D AND CONNECTING ENPLANEMENTS
BASE CASE AND ALTERNATE CASE [1]
CY 2004 - 2009

BASE CASE

	O&D Enplanements		Connecting Enplanements		Total
Year	**Number**	**% Share**	**Number**	**% Share**	**Enplanements**
Historical					
2004	3,112,437	89.0%	385,428	11.0%	3,497,865
Forecast					
2005	3,157,000	88.3%	418,000	11.7%	3,575,000
2006	3,237,000	88.4%	426,000	11.6%	3,663,000
2007	3,317,000	88.4%	434,000	11.6%	3,751,000
2008	3,396,000	88.4%	444,000	11.6%	3,840,000
2009	3,484,000	88.5%	453,000	11.5%	3,937,000
Average Annual Growth Rate					
2004-2009	2.3%	-	3.3%	-	2.4%

ALTERNATE CASE

	O&D Enplanements		Connecting Enplanements		Total
Year	**Number**	**% Share**	**Number**	**% Share**	**Enplanements**
Historical					
2004	3,112,437	89.0%	385,428	11.0%	3,497,865
Forecast					
2005	3,157,000	88.3%	418,000	11.7%	3,575,000
2006	3,334,000	88.4%	436,000	11.6%	3,770,000
2007	3,509,000	88.5%	456,000	11.5%	3,965,000
2008	3,685,000	88.6%	475,000	11.4%	4,160,000
2009	3,861,000	88.7%	494,000	11.3%	4,355,000
Average Annual Growth Rate					
2004-2009	4.4%	-	5.1%	-	4.5%

[1] Results from a multivariate regression model, with O&D enplanements as a function of total enplanements and seasonal variables.

All forecasts are subject to uncertainty. The above forecasts are based on the results of Unison's regression model and information available at the date of this Report. Unexpected events may occur, and some of the underlying assumptions of the regression analysis may not be realized. Therefore, actual results may vary from the forecasts and the variation may be material.

6. Projected Enplanements By Type of Service

Table IV-12 presents the projected distribution of SAT enplanements by type of service. The projected distribution of enplanements in 2005 is based on the activity projections based on the airlines' published schedules. The projected distribution for the rest of the forecast period assumes that the estimated distribution of enplanements in 2005 will remain constant through 2009. Domestic air carriers are projected to account for an average share of 90.1% of annual enplanements in 2005, and to maintain that share through 2009. Consistent with recent historical trend and the airlines' schedules for 2005, commuter carriers will account for 7.4% of annual enplanements in 2005, and through 2009. Traffic served by foreign carriers will remain important at SAT, accounting for 1.9% of annual enplanements through 2009. Charter operators will account for the remaining 0.6% of annual enplanements.

Under the base case, enplanements by domestic air carriers are projected to increase at an average annual rate of 2.2%, from approximately 3.2 million in 2004 to approximately 3.5 million in 2009. Commuter enplanements are projected to grow at an average annual rate of 4.7%, from approximately 231,000 in 2004 to 291,000 in 2009. Enplanements by foreign carriers are projected to increase from approximately 73,000 in 2004 to 75,000 in 2009, representing an average annual growth of 0.5%. Charter enplanements are projected to increase at an average annual rate of 4.1%, from approximately 20,000 in 2004 to 24,000 in 2009.

Under the alternate case, enplanements by domestic air carriers are projected to grow at an average annual rate of 4.3%, to approximately 3.9 million in 2009; commuter enplanements are projected to grow at an average annual rate of 6.9%, to approximately 322,000 in 2009; enplanements by foreign carriers are projected to increase at an average annual growth rate of 2.5%, to approximately 83,000 in 2009; and charter enplanements are projected to increase at an average annual growth rate of 5.8%, to approximately 26,000 in 2009.

TABLE IV-12
PROJECTED DISTRIBUTION OF ENPLANEMENTS BY TYPE OF SERVICE
BASE CASE AND ALTERNATE CASE [1]
CY 2004-2009

BASE CASE

	Domestic Airlines									
	Air Carrier		Commuter		Charter		Subtotal	Foreign Airlines		All
Year	EPs	% Share	EPs	% Share	EPs	% Share	Domestic	EPs	% Share	Airlines
Historical										
2004	3,173,713	90.7%	231,219	6.6%	19,978	0.6%	3,424,910	73,279	2.1%	3,498,189
Projected										
2005	3,222,000	90.1%	264,000	7.4%	20,000	0.6%	3,506,000	69,000	1.9%	3,575,000
2006	3,301,000	90.1%	271,000	7.4%	22,000	0.6%	3,594,000	69,000	1.9%	3,663,000
2007	3,380,000	90.1%	278,000	7.4%	23,000	0.6%	3,681,000	70,000	1.9%	3,751,000
2008	3,460,000	90.1%	284,000	7.4%	23,000	0.6%	3,767,000	73,000	1.9%	3,840,000
2009	3,547,000	90.1%	291,000	7.4%	24,000	0.6%	3,862,000	75,000	1.9%	3,937,000
Average Annual Growth Rate										
2004-2009	2.2%	-	4.7%	-	3.7%	-	2.4%	0.5%	-	2.4%

ALTERNATE CASE

	Domestic Airlines									
	Air Carrier		Commuter		Charter		Subtotal	Foreign Airlines		All
Year	EPs	% Share	EPs	% Share	EPs	% Share	Domestic	EPs	% Share	Airlines
Historical										
2004	3,173,713	90.7%	231,219	6.6%	19,978	0.6%	3,424,910	73,279	2.1%	3,498,189
Projected										
2005	3,222,000	90.1%	264,000	7.4%	20,000	0.6%	3,506,000	69,000	1.9%	3,575,000
2006	3,397,000	90.1%	279,000	7.4%	23,000	0.6%	3,699,000	71,000	1.9%	3,770,000
2007	3,573,000	90.1%	293,000	7.4%	24,000	0.6%	3,890,000	75,000	1.9%	3,965,000
2008	3,748,000	90.1%	308,000	7.4%	25,000	0.6%	4,081,000	79,000	1.9%	4,160,000
2009	3,924,000	90.1%	322,000	7.4%	26,000	0.6%	4,272,000	83,000	1.9%	4,355,000
Average Annual Growth Rate										
2004-2009	4.3%	-	6.8%	-	5.4%	-	4.5%	2.5%	-	4.5%

[1] The projected distribution of scheduled domestic enplanements assumes a continuation of the significant increase in commuter service that occurred at SAT in 2003 and 2004. This assumption is consistent with the airlines' published capacity plans through 2005.

7. Forecasts of Commercial Aircraft Landings

The forecasts of enplanements under the two scenarios were translated into forecasts of commercial aircraft landings. The near-term projections through 2005 incorporate the historical trends in each category of operations at SAT as well as the trends implied by the airlines' published schedules for the year. The long-term projections of aircraft operations through 2009 reflect the trends implied by the FAA's national forecasts published in the March 2004 version of the annual *Aerospace Forecasts* publication. The underlying assumption is that airlines serving the SAT market will respond to the level of travel demand by adjusting various components of their service. In particular, airlines may adjust the routes they serve, the number of flights they offer on each route, the average aircraft they use to serve each route, based on their objective to achieve reasonable profitability.

The assumptions underlying the forecasts of operations are summarized in **Table IV-13**. As discussed in **Section IV-7A**, domestic air carriers serving the Airport reduced their average aircraft size in the post-September 11, 2001 period as part of a strategy to better match capacity with demand. As travel demand gradually

returns to pre-2001 levels, it is reasonable to expect that the airlines will respond with additional seats that allow them to meet demand and sustain gains in boarding load factor. Average domestic air carrier aircraft size was 124.6 seats in 2004, with a load factor of 68.9%. Consistent with FAA national projections, domestic air carriers serving SAT are projected to implement gradual increases in average aircraft size to reach 127.6 seats in 2009, with a projected load factor of 70.4%.

TABLE IV-13
FORECAST ASSUMPTIONS - AIRCRAFT OPERATIONS
ENPLANEMENTS-PER-DEPARTURE, AVERAGE AIRCRAFT SIZE & BOARDING LOAD FACTOR [1]
CY 2004-2009

	Domestic Air Carrier			Commuter			Foreign Air Carrier			Foreign Commuter		
Year	EP/DEP	Avg # of Seats	BLF	EP/DEP	Avg # of Seats	BLF	EP/DEP	Avg # of Seats	BLF	EP/DEP	Avg # of Seats	BLF
Historical												
2004	85.9	124.6	68.9%	38.3	49.7	77.1%	87.2	129.0	67.5%	12.8	41.8	30.6%
Projected												
2005	87.1	125.9	69.2%	46.6	59.5	78.4%	87.2	130.0	67.0%	11.6	35.8	32.4%
2006	87.7	126.3	69.4%	47.8	60.8	78.5%	87.2	130.4	66.8%	11.8	36.2	32.7%
2007	88.3	126.7	69.7%	48.7	61.7	78.9%	87.2	130.8	66.7%	12.1	36.6	32.9%
2008	89.1	127.2	70.1%	49.3	62.3	79.1%	87.1	131.2	66.4%	12.3	37.0	33.2%
2009	89.8	127.6	70.4%	50.1	63.0	79.5%	87.3	131.5	66.4%	12.5	37.5	33.5%
Average Annual Growth Rate												
2004-2009	0.9%	0.5%	0.4%	5.5%	4.9%	0.6%	0.0%	0.4%	-0.4%	-0.4%	-2.2%	1.8%

EP/DEP = Enplanements-per-departure; Avg. # of Seats = proxy for average aircraft size; BLF = Boarding load factor.

[1] The aircraft projections incorporate the historical trends in each category of operations at SAT, trends implied by published capacity plans for 2005, and the trends implied by the FAA's national forecasts published in the FAA *Aerospace Forecasts, FY 2004-2015,* March 2004.

Commuter airlines serving SAT have implemented the nationwide trend toward the use of larger regional jets. According to FAA, the majority of increase in regional/commuter fleet in the future will be in the over 40-seat category, projected to account for approximately 70% of regional/commuter fleet by 2015.[31] As more of the commuter carriers participate in route transfer arrangements with their mainline partners, they have been able to increase their average aircraft size without necessarily reporting reductions in load factors. Average commuter aircraft size was 49.7 seats in 2004, with a load factor of 77.1%. Consistent with FAA projections, commuter carriers serving SAT are projected to increase their average aircraft size to reach 63 seats and achieve a load factor of 79.5% in 2009.

Projected trends in foreign air carrier aircraft size and load factor incorporate recent historical trends at SAT and FAA projections for international service to Latin America. Foreign airlines offer service from SAT to destinations in Mexico. Consistent with FAA projections, average aircraft operated by foreign air carriers at the Airport, represented by Mexicana, is projected to increase from 129 seats in 2004 to 131.5 seats in 2009. Foreign air carrier load factor is projected to decrease slightly, from 67.5% in 2004 to 66.4% in 2009. Foreign commuter aircraft size is projected to adjust downward as load factor increases through 2009.

[31] Federal Aviation Administration, *Aerospace Forecasts Fiscal Years 2004-2015*, March 2004, page IV-28.

The resulting base and alternate forecasts of commercial aircraft landings are presented in **Table 1V-14**

TABLE IV-14
FORECASTS OF COMMERCIAL AIRCRAFT LANDINGS
BASE CASE AND ALTERNATE CASE [1]
CY 2004-2009

BASE CASE

Year	Domestic Airlines					Foreign Airlines	Total All Airlines
	Air Carrier	Commuter	Charter	All-Cargo	Subtotal		
Historical							
2004	36,937	6,038	230	3,624	46,829	1,495	48,324
Forecast							
2005	36,980	5,669	226	3,598	46,473	1,458	47,931
2006	37,647	5,675	277	3,651	47,250	1,444	48,693
2007	38,268	5,705	281	3,706	47,960	1,464	49,423
2008	38,826	5,764	285	3,758	48,633	1,485	50,118
2009	39,521	5,815	290	3,820	49,446	1,506	50,952
Average Annual Growth Rate							
2004-2009	1.4%	-0.7%	4.7%	1.1%	1.1%	0.1%	1.1%

ALTERNATE CASE

Year	Domestic Airlines					Foreign Airlines	Total All Airlines
	Air Carrier	Commuter	Charter	All-Cargo	Subtotal		
Historical							
2004	36,937	6,038	230	3,624	46,829	1,495	48,324
Forecast							
2005	36,980	5,669	226	3,598	46,473	1,458	47,931
2006	38,744	5,841	285	3,651	48,521	1,486	50,007
2007	40,447	6,030	297	3,706	50,480	1,547	52,027
2008	42,066	6,245	309	3,758	52,378	1,608	53,987
2009	43,715	6,433	320	3,820	54,288	1,666	55,954
Average Annual Growth Rate							
2004-2009	3.4%	1.3%	6.9%	1.1%	3.0%	2.2%	3.0%

[1] Projected aircraft operations are based on the regression model's enplanement forecasts presented in **Table IV-10**, aircraft operations assumptions summarized in **Table Table IV-13**, and the projected enplanement distributions presented in **Table IV-12**.

All forecasts are subject to uncertainty. The above forecasts are based on the results of Unison's regression model and information available at the date of this Report. Unexpected events may occur, and some of the underlying assumptions of the regression analysis may not be realized. Therefore, actual results may vary from the forecasts and the variation may be material.

Under the base case, annual commercial aircraft landings are projected to increase from 48,324 in 2004 to 50,952 in 2009, representing an average annual growth rate

of 1.1%. Domestic air carrier landings are projected at an average annual growth rate of 1.4%, from 36,937 in 2004 to 39,521 in 2009. Consistent with their expected use of larger aircraft, commuter landings are projected to decrease slightly from 6,038 in 2004 to 5,815 in 2009, representing an average annual decrease of 0.7%. Charter landings are projected to increase at an average annual rate of 4.7%, from 230 in 2004 to 290 in 2009. Aircraft landings reported by foreign carriers are projected to increase from 1,495 in 2004 to 1,506 in 2009, representing an average annual growth of 0.1%. All-cargo operations are projected to reach 3,820 in 2009, representing an average annual increase of 1.1% over the 2004-2009 period.

Under the alternate case, annual commercial aircraft landings are projected to increase to 55,954 in 2009, representing an average annual growth rate of 3.0%. Domestic air carrier landings are projected at an average annual growth rate of 3.4%, from 36,937 in 2004 to 43,715 in 2009. Commuter aircraft landings are projected to increase to reflect the higher level of commuter operations assumed under the alternate case. Consequently, commuter landings are projected to increase from 6,038 in 2004 to 6,433 in 2009, representing an average annual growth of 1.3%. Charter landings are projected to increase at an average annual rate of 6.9%, from 230 in 2004 to 320 in 2009. Aircraft landings operated by foreign carriers are projected to increase at an average annual rate of 2.2%, from 1,495 in 2004 to 1,666 in 2009. All-cargo landings are the same under both base and alternate cases.

8. Forecasts of Commercial Aircraft Landed Weight

The forecasts of aircraft landings have direct implications for commercial aircraft landed weight at SAT. As with the preceding activity indicators, a base forecast and an alternate forecast of landed weight were developed as presented in **Table IV-15**.

Under the base case, total commercial aircraft landed weight at SAT is projected to increase from approximately 5.4 billion pounds in 2004 to almost 6.0 billion pounds in 2009, representing an average annual growth rate of 1.9% over that period. A breakdown of the base forecast by airline category shows that domestic air carriers' landed weight is projected to increase from approximately 4.2 billion pounds in 2004 to 4.6 billion pounds in 2009, representing an average annual growth rate of 1.8%. Commuter landed weight is projected to increase at an average annual rate of 4.1%, from 287 million pounds in 2004 to 351 million pounds in 2009. Projected landed weight for foreign carriers drops slightly in 2005, but is projected to return to the 2004 level of 117 million pounds by 2009. Charter landed weight is projected to increase at an average annual rate of 8.1%, from approximately 37 million pounds in 2004 to 53 million pounds in 2009. All-Cargo landed weight is projected to increase, from 751 million pounds in 2004 to 807 million pounds in 2009, representing an average annual rate of 1.4%.

TABLE IV-15
FORECASTS OF COMMERCIAL AIRCRAFT LANDED WEIGHT (000 LBS)
BASE CASE AND ALTERNATE CASE [1]
CY 2004-2009

BASE CASE

Year	Domestic Airlines					Foreign Airlines	Total All Airlines
	Air Carrier	Commuter	Charter	All-Cargo	Subtotal		
Historical							
2004	4,225,449	287,189	36,765	751,394	5,300,797	116,967	5,417,764
Forecast							
2005	4,274,000	323,000	49,000	745,000	5,391,000	108,000	5,499,000
2006	4,365,000	330,000	50,000	761,000	5,506,000	109,000	5,615,000
2007	4,452,000	337,000	51,000	776,000	5,616,000	111,000	5,727,000
2008	4,532,000	344,000	52,000	790,000	5,718,000	114,000	5,832,000
2009	4,629,000	351,000	53,000	807,000	5,840,000	117,000	5,957,000
Average Annual Growth Rate							
2004-2009	1.8%	4.1%	7.6%	1.4%	2.0%	0.0%	1.9%

ALTERNATE CASE

Year	Domestic Airlines					Foreign Airlines	Total All Airlines
	Air Carrier	Commuter	Charter	All-Cargo	Subtotal		
Historical							
2004	4,225,449	287,189	36,765	751,394	5,300,797	116,967	5,417,764
Forecast							
2005	4,274,000	323,000	49,000	745,000	5,391,000	108,000	5,499,000
2006	4,493,000	340,000	52,000	761,000	5,646,000	112,000	5,758,000
2007	4,706,000	356,000	54,000	776,000	5,892,000	118,000	6,010,000
2008	4,910,000	372,000	57,000	790,000	6,129,000	124,000	6,253,000
2009	5,120,000	388,000	59,000	807,000	6,374,000	129,000	6,503,000
Average Annual Growth Rate							
2004-2009	3.9%	6.2%	9.9%	1.4%	3.8%	2.0%	3.7%

[1] Projections of commercial aircraft landed weight are based on the aircraft operations assumptions summarized in **Table IV-13** and the projected distributions of commercial aircraft operations presented in **Table IV-14**.

All forecasts are subject to uncertainty. The above forecasts are based on the results of Unison's regression model and information available at the date of this Report. Unexpected events may occur, and some of the underlying assumptions of the regression analysis may not be realized. Therefore, actual results may vary from the forecasts and the variation may be material.

Under the alternate case, total commercial aircraft landed weight at SAT is projected to increase at an average annual growth rate of 3.7%, to approximately 6.5 billion pounds in 2009; domestic air carrier landed weight is projected to increase at an average annual growth rate of 3.9%, to approximately 5.1 billion pounds in 2009; and commuter landed weight is projected to increase at an average growth rate of 6.2%, to approximately 388 million pounds in 2009. Projected landed weight for the foreign carriers is estimated to decrease slightly in 2005, but is projected to increase thereafter to reach approximately 129 million pounds in 2009, representing an

average annual growth of 2.0%. Charter landed weight is projected to increase at an average annual rate of 10.5%, to approximately 59 million pounds in 2009. All-Cargo landed weight is projected at the same rate and level as under the base case.

C. OTHER FACTORS AFFECTING AVIATION DEMAND

The forecasts presented in **Section IV-B** focused on the immediate factors that influence air travel demand at SAT. As an integral part of the national aviation system, there are broader, industry-wide factors that have implications for future travel demand at SAT. Among those broader factors are the following:

1. U.S. Airline Performance and Profitability

Nationwide, airlines reported huge losses from the impact of the September 11, 2001 Events. In addition to the usual operating cost items of labor, fuel and aircraft maintenance, airlines have had to incur some security-related costs. Cost management in the face of reduced air travel demand has become the primary focus of the industry in the post-September 11, 2001 period. The financial challenges facing the airlines were ameliorated to some degree by the $15 billion emergency economic assistance package under the provisions of the *Air Transportation Safety and System Stabilization Act*. The Act provided $10 billion in federal loan guarantees and credits, subject to applicable terms and conditions. The bill also provided $5 billion in compensation for direct losses incurred beginning September 11, 2001 as a result of the FAA-mandated nationwide ground stop, and for the resulting losses sustained through fourth quarter 2001.

In addition to the financial assistance from the government, airlines have implemented various measures to sustain viable operations. The reduced air travel demand accelerated the structural changes that had been underway in the pre-September 11, 2001 period. Growing competition from low-cost, low fare carriers had forced many of the network carriers to implement route rationalization, including route transfers to their regional/commuter partners, reduction in service to certain markets, and the elimination of service to markets that were deemed unprofitable. There have also been payroll cuts and deferment of acquisition of new aircraft equipment. In addition, the mainline carriers have shown increasing flexibility in fare adjustment in the face of discount fares offered by low fare carriers.

Nationwide passenger traffic trends indicate a sustained recovery in air travel demand through 2004. For example, system-wide revenue passenger data reported by Air Transport Association ("ATA") member carriers show a 5.7% increase between 2003 and 2004.[32] Revenue aircraft departures reported by the ATA carriers were up 1.8% between 2003 and 2004. In addition, several of the major carriers, including those that operate at the Airport, reported improved earnings positions in

[32] ATA carriers include Alaska, Aloha, American, ATA, America West, Continental, Delta, Hawaiian, JetBlue, Midwest, Northwest, Southwest, United, and US Airways.

2004, compared to 2003. The FAA reports that in Federal Fiscal Year ("FFY") 2004,[33] the U.S. commercial airlines collectively reported an operating profit of $939.2 million, compared to the $4.5 billion loss reported for FFY 2003.[34] Southwest, the air carrier with the largest market share at SAT, reported 2004 operating income of $554 million, which represented a 14.7% increase over its 2003 operating income of $483 million.[35] AMR Corporation, the parent company of American Airlines (the air carrier with the second largest market share at SAT), reported a 2004 operating loss of $421 million, which was an improvement over its 2003 operating loss of $1,129 million.[36] United Airlines reported a 2004 operating loss of $1,166 million compared to its 2003 operating loss of $1,612 million.[37] However, Continental Airlines, Delta Air Lines, and Northwest Airlines (the other air carriers with individual market shares of over 6% at SAT) each reported 2004 operating results that were worse than their 2003 operating results.[38]

for a positive aspect of the SAT market is that Southwest Airlines (with a 2004 market share of 35.9% at SAT) is one of the few U.S. airlines that reported an operating profit in 2004. However, the U.S. airline industry is still struggling financially, and is facing many challenges. Two of the 10 leading US airlines, United and US Airways, are currently operating under Chapter 11 bankruptcy protection. While the airlines have made progress in controlling some of their operating costs, they have recently been facing significant increases in fuel costs, which represent the second largest cost component of airline operations (labor is the largest). The cost of fuel increased to almost $58 per barrel on April 1, 2005.[39] Although recently some U.S. airlines have attempted to recover a portion of the fuel cost increases through air fare increases, it is uncertain whether such fare increases will remain in place.[40] Although passenger levels and average ticket prices nationwide have been increasing recently, the airline industry continued to post significant financial losses in the first quarter of 2005.[41] The ability of the airlines to sustain financial improvements over a reasonably long duration is critical to future growth in industry capacity.

2. National Economic Conditions

As with most consumer goods, air travel demand is affected by prevailing economic conditions. Periods of economic expansion boost consumer confidence and the

[33] FFY 2004 began on October 1, 2003 and ended on September 30, 2004.
[34] Federal Aviation Administration, *FAA Aerospace Forecasts for Fiscal Years 2005-2016*, March 2005.
[35] Southwest Airlines Co., SEC Form 10-K filing for the year ended December 31, 2004.
[36] AMR Corporation, SEC Form 10-K filing for the year ended December 31, 2004.
[37] UAL Corp. SEC Form 10-K filing for the year ended December 31, 2004.
[38] Continental Airlines Inc., Delta Air Lines Inc., and Northwest Airlines Corporation SEC Form 10-K filings for the year ended December 31, 2004.
[39] AIRwise News, *US Airlines Increase Fares Again*, April 5, 2005.
[40] The Business Journal Phoenix, *Airline Ticket Prices Climb as Jet Fuel Prices Rise*, March 14, 2005; AIRwise News, *US Airlines Increase Fares Again*, April 5, 2005.
[41] Mark Skertic, "Southwest Soars on Hedging," *Chicago Tribune*, April 15, 2005.

demand for most consumer goods and services. By contrast, economic downturns create uncertainties and dampen business and consumer demand. Prior to the September 11, 2001 Events, there were indications that the U.S. economy was slowing down following a nine-year period of steady expansion – the second longest period of economic prosperity of the post-World War II era.[42] Officially declared an economic recession in November 2001, the downturn was relatively mild in impact and duration. According to Global Insight (formerly DRI-WEFA) economists, two factors combined to minimize a broader downturn in the U.S., namely the growth in consumer spending and the resilience of the Service sector.[43]

The rebound in economic growth through most of 2003 was dubbed "jobless recovery", which was fuelled primarily by productivity increases, and little or no net job growth. However, the strong performance of the economy in third quarter 2003 and in subsequent months has generated measurable job growth, which provides some basis to expect strong growth in consumer discretionary spending to continue. According to U.S. Bureau of Economic Analysis ("BEA"), U.S. real GDP increased at an annualized rate of 4% in third quarter 2004 and by 3.2% in fourth quarter 2004.[44] According to the BEA, the major contributors to the growth in real GDP in the fourth quarter were personal consumption expenditures, business expenses on equipment and software, private inventory investment, and government spending.

Business cycles are inevitable. However, continued growth in the critical components of consumer and business expenditures will ensure the desired growth trend in overall economic activity, which will in turn support increased travel demand.

3. National Security and Threat of Terrorism

The new reality in the post-September 11, 2001 environment is the potential for terrorists to severely disrupt economic and social activities wherever they strike. The U.S. Department of Homeland Security periodically issues updates of their assessment of intelligence regarding potential threats against the U.S., including threats that may target the national airport system. U.S. involvement in Iraq and in international coalition efforts aimed at dismantling terror networks worldwide will continue to have implications for domestic security. Travel restrictions imposed pursuant to increased airport security may have a dampening effect on travel demand. In addition, periodic diversion of international flights due to security concerns may translate into reduction in service from the U.S. to affected destinations. Overall, it is reasonable to expect that national security concerns and perceived terrorist threats will continue to have adverse impact on air travel demand in the foreseeable period.

[42] The FAA *Aerospace Forecasts, FY 2003-2014.* March 2003
[43] DRI-WEFA, "U.S. and Global Economic Prospects: A Deeper Recession and a Stronger Recovery", at www.dri-wefa.com.
[44] BEA News published at www.bea.doc.gov on January 28, 2005.

D. SUMMARY

Table IV-16 summarizes the historical trends and forecasts of aviation activity at SAT that were discussed in this section. Highlights include the following:

- Enplanements at the Airport increased at an average annual rate of 1.5%, from approximately 3.1 million in 1995 to approximately 3.5 million in 2004.
- Over the 1995-2004 period, domestic travelers consistently accounted for at least 94.7% of annual enplanements at the Airport. Eight domestic air carriers, four commuter carriers, three foreign air carriers, and several charter airlines currently offer service to over 100 destinations across the U.S. and Mexico, from the Airport.
- SAT is primarily an O&D airport. During the 1995-2004 period, O&D traffic consistently accounted for over 88% of annual enplanements at that Airport.
- Unison developed two forecast scenarios for enplanements and related aviation activity for the 2005-2009 period. Labeled “base case” and “alternate case”, the two scenarios depict alternative assumptions about the pace of future growth in traffic at the Airport. The forecast methodology combines a capacity-based approach utilizing the airlines’ published capacity plans for 2005, with a multivariate regression model based on market factors relevant to aviation activity at SAT.
- Under the base case forecast scenario, enplanements are projected to grow at an average annual rate of 2.4% during the 2004-2009 period, with annual enplanements reaching almost 4.0 million in 2009. Under the alternate case, enplanements are projected to reach approximately 4.4 million in 2009, representing an average annual growth rate of 4.5% over the 2004-2009 period.
- Domestic air carriers are expected to continue to serve majority of the travelers at the Airport. Under both base case and alternate case, domestic air carriers are projected to account for approximately 90% of enplanements at the Airport during the 2005-2009 period.
- The Airport is expected to remain primarily an O&D market over the forecast period. Under the two forecast scenarios, O&D enplanements are projected to account for approximately 88% of annual enplanements at SAT
- The base case projects an average annual increase of 1.1% in annual commercial aircraft landings, from 48,324 in 2004 to 50,952 in 2009. The alternate case projects an average annual increase of 3% in commercial aircraft landings, to 55,954 in 2009.
- Under the base case, commercial aircraft landed weight is projected to reach almost 6.0 billion pounds in 2009, representing an average annual growth of 1.9% during the 2004-2009 period. Under the alternate case, commercial

landed weight is projected to increase at an average annual rate of 3.7%, to approximately 6.5 billion pounds in 2009.

TABLE IV-16
SUMMARY OF ACTIVITY FORECASTS [1]
CY 2004 - 2009

Activity	Historical 2004	Forecast 2005	2006	2007	2008	2009	Avg. Annual Growth Rate 2004-2009
A. SUMMARY							
Enplanements							
Base	3,497,865	3,575,000	3,663,000	3,751,000	3,840,000	3,937,000	**2.4%**
Alternate	3,497,865	3,575,000	3,770,000	3,965,000	4,160,000	4,355,000	**4.5%**
Commercial Aircraft Landings							
Base	48,324	47,931	48,693	49,423	50,118	50,952	**1.1%**
Alternate	48,324	47,931	50,007	52,027	53,987	55,954	**3.0%**
Commercial Landed Wt. (000 lbs)							
Base	5,416,888	5,498,000	5,615,000	5,728,000	5,832,000	5,957,000	**1.9%**
Alternate	5,416,888	5,498,000	5,757,000	6,010,000	6,253,000	6,503,000	**3.7%**
B. BREAKDOWN - BASE CASE							
Enplanements							
Domestic Air Carrier	3,173,713	3,222,000	3,301,000	3,380,000	3,460,000	3,547,000	**2.2%**
Commuter	231,219	264,000	271,000	278,000	284,000	291,000	**4.7%**
Domestic Charter	19,654	20,000	22,000	23,000	23,000	24,000	**4.1%**
Foreign Carrier	73,279	68,000	70,000	71,000	73,000	75,000	**0.5%**
Total	**3,497,865**	**3,574,000**	**3,664,000**	**3,752,000**	**3,840,000**	**3,937,000**	**2.4%**
Commercial Aircraft Landings							
Domestic Air Carrier	36,937	36,980	37,647	38,268	38,826	39,521	**1.4%**
Commuter	6,038	5,669	5,675	5,705	5,764	5,815	**-0.7%**
Domestic Charter	230	226	277	281	285	290	**4.7%**
All-Cargo	3,624	3,598	3,651	3,706	3,758	3,820	**1.1%**
Foreign Carrier	1,495	1,458	1,444	1,464	1,485	1,506	**0.1%**
Total	**48,324**	**47,931**	**48,693**	**49,423**	**50,118**	**50,952**	**1.1%**
Commercial Landed Wt. (000 lbs)							
Domestic Air Carrier	4,225,449	4,274,000	4,365,000	4,452,000	4,532,000	4,629,000	**1.8%**
Commuter	287,189	323,000	330,000	337,000	344,000	351,000	**4.1%**
Domestic Charter	35,889	49,000	50,000	51,000	52,000	53,000	**8.1%**
All-Cargo	751,394	745,000	761,000	776,000	790,000	807,000	**1.4%**
Foreign Carrier	116,967	108,000	109,000	111,000	114,000	117,000	**0.0%**
Total	**5,416,888**	**5,499,000**	**5,615,000**	**5,727,000**	**5,832,000**	**5,957,000**	**1.9%**

Source: See **Tables IV-10, IV-12, IV-14, IV-15.**

SECTION V
SUMMARY OF THE AIRLINE USE AGREEMENT

Effective October 1, 2001, the City entered into the current Airline-Airport Use and Lease Agreement ("Airline Agreement") with airlines operating at the Airport (the "Signatory Airlines"). The current Signatory Airlines are the following: Aerolitoral, American, Continental, Delta, Midwest, Mexicana, Northwest, Southwest, and United. The airlines operating at the Airport that are not parties to the Airline Agreement (the "Non-signatory Airlines") operate pursuant to a monthly permit. The monthly permits contain terms and conditions that are very similar to the Airline Agreement, except that the term is monthly, and the Non-signatory Airlines are not eligible to receive any rental credit, which is explained later in this section.

A. TERM

The term of the Airline Agreement began on October 1, 2001 and shall terminate on the earlier of either the Date of Beneficial Occupancy ("DBO") of Concourse B or on September 30, 2006. The financial analysis in Section VI assumes that the airline rates and charges methodology currently in effect will continue after the expiration of the current Airline Agreement, under one of the following possible conditions: (i) the extension of the current Airline Agreement, (ii) a new agreement with substantially similar terms and conditions, or (iii) a City ordinance.

B. USE OF PREMISES

Under the terms of the Airline Agreement, the City agrees to lease to the Signatory Airlines certain exclusive use premises, preferential use premises, and joint use premises, as set forth in an attachment to the Airline Agreement.

C. RENTALS, FEES, AND CHARGES

Pursuant to the Airline Agreement, the Signatory Airlines agree to pay to the City certain rentals, fees, and charges in amounts estimated to be sufficient to produce, together with the rents and fees paid by other airlines and other Airport System tenants, revenues in each fiscal year to satisfy the rate covenant contained in the bond ordinances governing the City's general airport revenue bonds. The rate covenant requires the City to charge and collect rentals, rates, fees, charges, and amounts for the use of Airport System facilities which will produce in each fiscal year total revenues at least sufficient (1) to pay the Operation and Maintenance Expenses ("O&M Expenses") in each fiscal year and also (2) to provide an amount equal to 1.25 times the debt service requirements during each fiscal year on all Parity Obligations outstanding during the fiscal year. On or about July 1st of each year (approximately 90 days prior to the end of the current fiscal year, the City is required to notify the Signatory Airlines of the amount of rates, fees, and charges it intends to establish for the following fiscal year.

The principal types of rates and charges paid by the Signatory Airlines are terminal rents, landing fees, charges for the Federal Inspection Service ("FIS") facilities, and other charges. The airline rates and charges are described briefly in the following paragraphs.

1. Landing Fees

The Signatory Airlines pay landing fees in each fiscal year based on the sum of the following costs attributable to the airfield for that fiscal year:

- Direct and indirect O&M Expenses,
- Debt service requirements,
- Debt service coverage,
- Amortization costs, and
- Any amounts necessary to replenish the balances required to be maintained in the various funds and accounts established pursuant to the Bond Ordinances.

The total annual airfield expenses, known as the "Total Revenue Requirement" amount, is multiplied by 83% to approximate the airlines' share of total annual airfield expenses. The Department then deducts Ramp Fees to arrive at the "Adjusted Airline Requirement," which is divided by total landed weight expressed in thousand-pound units to arrive at the landing fee per thousand-pound unit.

2. Terminal Rent

Airline terminal rents are calculated on a compensatory basis, whereby the Signatory Airlines pay terminal rent for space they lease on an exclusive use, joint use, and preferential use basis. In each fiscal year, the Signatory Airlines pay terminal rent based on the sum of the following costs attributable to the terminal facilities in that fiscal year:

- Direct and indirect O&M expenses,
- Debt service requirements,
- Debt service coverage,
- Amortization costs, and
- Any amounts necessary to replenish the balances required to be maintained in the various funds and accounts established pursuant to the Bond Ordinances.

The sum of the above amounts is divided by total rentable terminal space to arrive at the average terminal rental rate.

The Signatory Airlines may be eligible for terminal rent credits after the end of each fiscal year. Pursuant to the flow of funds established in the bond ordinances, revenues (excluding PFC revenues) in excess of the sum of O&M Expenses, Parity and Subordinate debt service requirements, and reserve fund deposits are available for deposit into the Capital Improvement Fund (the "CIF"). After the completion of an independent audit of the Department's financial statements for each fiscal year, the Signatory Airlines receive a terminal rent credit equal to a portion of the revenues available to be deposited into the CIF.

3. Federal Inspection Service Facilities Charges

Each airline using the Federal Inspection Service ("FIS") facilities is required to pay its proportionate share of the FIS charges based on a deplanement fee, multiplied by the number of international passengers processed through the FIS facilities.

4. Other Charges

The airlines pay other charges, including employee parking charges and other miscellaneous charges. If an airline provides parking for its employees, the airline is required to pay the City charges that are reasonably established by the City for the use of the employee parking areas. Other charges paid by the airlines include charges for miscellaneous items or activities, including badges, extraordinary electrical usage, and personal property storage.

D. CAPITAL IMPROVEMENTS

On or about July 1st (approximately 90 days prior to the end of the fiscal year), the City shall notify the Signatory Airlines in writing of its proposed capital expenditures for the following fiscal year. The City is required to defer a proposed capital expenditure (except for the types of capital expenditures listed below) for 180 days, if a majority of the Signatory Airlines request such a deferral. A majority of the Signatory Airlines is defined as at least 51% in number of Signatory Airlines, representing at least 51% of the Airport's total landed weight for all Signatory Airlines during the most recent complete fiscal year. Not subject to a deferral are capital expenditures that:

- Have a net cost to the City of less than $761,000 adjusted annually in accordance with changes in the U.S. Implicit Price Deflator Index;
- Are required for public safety when directed by the FAA, the National Transportation Safety Board, or similar governmental authority with appropriate jurisdiction;
- Will remedy casualty damage to Airport System property in excess of insurance proceeds;

- Are for special purpose facilities;
- Are for improvements or additions necessary to insure compliance with the requirements of other governmental authorities;
- Are necessary to settle claims, satisfy judgments, or comply with orders against the City;
- Are of an emergency nature which will prevent the closure of an airport in the Airport System within 48 hours;
- Are to accommodate the increased requirements of a Signatory Airline, and that Signatory Airline has agreed in writing to pay the increased rentals, fees, and charges sufficient to pay the debt service (if financed with bonds) or an equivalent amount (if funded from the Capital Improvement Fund); and
- Are for projects that are financially self-supporting.

The provision allowing the airlines to defer capital projects has been included in the airlines' lease agreements at SAT since 1984. To date, there have not been any projects, including the projects being financed with the Series 2005 PFC Bonds, that were deferred by the airlines.

E. USE OF CAPITAL IMPROVEMENT FUNDS

Monies available in the Capital Improvement Fund ("CIF") shall not normally be used to finance exclusive use facilities. If monies from the CIF are used to finance exclusive use facilities, the City shall require the benefiting airline to repay the monies within five years of the date of expenditure, including interest. The cost of projects in the airline cost centers that are paid from monies in the CIF shall be included in the calculation of rentals, fees, and charges paid by the Signatory Airlines, upon completion of those projects.

SECTION VI
FINANCIAL ANALYSIS

This section reviews the framework for the financial operation of the Department, including key provisions of the PFC Ordinances and the bond ordinances that govern the City's general airport revenue bond issues. This section also (i) reviews the recent historical financial performance of the Department, and examines the ability of the Department to generate sufficient Gross Revenues and PFC Revenues in each year of the forecast period (FY 2005 through FY 2009) to meet the obligations of the PFC Ordinances and the bond ordinances, and (ii) discusses the information and assumptions underlying the financial forecasts, which include Gross Revenues, PFC Revenues, O&M Expenses, debt service requirements, and debt service coverage.

A. FINANCIAL FRAMEWORK

The two airports owned by the City (SAT and Stinson) are operated by the Department. For financial statement purposes, the City combines the financial operations of the City's two airports. The City currently has outstanding the following three types of bonds:

- General Airport Revenue Bonds, or "GARBs" (including Revenue Refunding Bonds), which are secured by the Department's Gross Revenues (the revenues generated by the City's two airports, excluding PFCs and subject to certain exclusions described below).
- PFC Bonds, which are special, limited obligations of the City payable from, and secured by a pledge of PFC Revenues and a lien on and pledge of the Net Revenues subordinate to the payment of the Parity Obligations.
- Special Facilities Bonds, which are secured solely by special facility lease payments made by the tenant of the facility to a trustee, and are not secured by the Department's Gross Revenues. The special facility lease payments are not available for the payment of GARB debt service.

Table VI-1 lists the City's currently outstanding GARBs, PFC bonds, and special facilities bonds.

The outstanding GARBs were issued pursuant to the *Master Ordinance Establishing the Airport System Revenue Bond Financing Program With Respect to the Issuance of Obligations by the City of San Antonio, Texas Secured by Gross Revenues of the Airport System* (the "Master GARB Ordinance"), which was adopted by the City Council in April 2001. Each GARB issue was authorized by a supplemental ordinance. The Master GARB Ordinance and the supplemental ordinances are collectively referred to in this Report as the "GARB Ordinances." The Master GARB Ordinance requires the City to "fix, maintain, enforce, charge, and collect rentals,

rates, fees, charges and amounts for the use, occupancy, services, facilities, and operation of the Airport System which will produce in each Fiscal Year Gross Revenues at least sufficient: (A) to pay all Operation and Maintenance Expenses during each Fiscal Year, and also (B) to provide an amount equal to 1.25 times the Annual Debt Service Requirements during each Fiscal Year on all then Outstanding Parity Obligations." This provision is referred to as the Rate Covenant.

TABLE VI-1
CURRENTLY OUTSTANDING BOND ISSUES

Bond Series	Principal As of 3/1/05
Currently Outstanding Airport Revenue Bonds	
Series 1996 Revenue Bonds	$18,325,000
Series 2001 Revenue Bonds	17,795,000
Series 2002 Revenue Bonds	92,470,000
Series 2003 A & B Refunding Bonds	7,465,000
Series 2003 Forward Refunding Bonds	46,360,000
Total Airport Revenue Bonds Currently Outstanding	$182,415,000
Series 2002 PFC Bonds	$35,995,000
Special Facility Bonds [1]	4,200,000
Total Current Outstanding Bond Issues	**$222,610,000**

[1] Special facility bonds secured solely by special facility lease payments made by the tenant to a trustee, and not secured by the Department's Gross Revenues.

The issuance of PFC bonds by the City is governed by the *Master Ordinance Establishing the Airport System Revenue Bond Financing Program with Respect to the Issuance of Obligations by the City of San Antonio, Texas Payable in Whole or in Part from Passenger Facility Charges* (the "Master PFC Ordinance"), which was adopted by the City Council in March 2002. Pursuant to the Master PFC Ordinance and a supplemental ordinance (the "First Supplemental PFC Ordinance"), the City issued the City of San Antonio Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002 (the "Series 2002 PFC Bonds").

It is anticipated that in April 2005, the City Council will adopt the *Second Supplemental Ordinance to the Master Ordinance Relating to the Issuance of Obligations Secured in Whole or in Part with "Passenger Facility Charges" and Seventh Supplemental Ordinance to the Master Ordinance Relating to the Issuance*

of Obligations Secured with Gross Revenues of the City's Airport System (the "Second Supplemental PFC Ordinance"). In this Report, the Master PFC Ordinance, the First Supplemental PFC Ordinance, and the Second Supplemental PFC Ordinance are collectively referred to as the "PFC Ordinances."

Pursuant to the PFC Ordinances, the Series 2005 PFC Bonds are special, limited obligations of the City payable from and secured by a pledge of PFC Revenues and a lien on and pledge of the Net Revenues subordinate to the payment of the Parity Obligations.[45] Under applicable federal laws and regulations, the air carriers serving SAT are required to collect the $3.00 PFC and to remit the proceeds, less a $0.11 collection fee per PFC-eligible enplaned passenger[46], to the City on a monthly basis. The Series 2005 PFC Bonds are further secured by the monies and funds held in certain funds and accounts established pursuant to the PFC Ordinances and the investment earnings thereon, and further secured by a pledge of Net Revenues subordinate to the payment of the Parity Obligations.

The Master PFC Ordinance requires the City to prepare an annual budget each Fiscal Year "which will indicate that the reasonably expected receipt of PFC Revenues during such Fiscal Year (together with any funds reasonably expected to be on deposit during such Fiscal Year in the PFC Revenue Fund or the PFC Capital Improvement Fund from prior Fiscal Years and available for purposes of acquiring and constructing PFC Eligible Airport-Related Projects), after payment of all costs to acquire and construct PFC Eligible Airport-Related Projects with PFC Revenues during such Fiscal Year, will provide an amount equal to 1.25 times the Annual Debt Service Requirements during such Fiscal Year on all then Outstanding Parity PFC Obligations." This provision is referred to as the Covenant to Budget Debt Service Coverage.

The Master PFC Ordinance also requires that in the event any Parity PFC Obligations which are also secured with a lien on and pledge of Subordinate Net Revenues (defined as Net Revenues available after the debt service requirements on all Parity Obligations are satisfied) remain outstanding and the City is for any reason unable to collect, or does not actually collect, PFC Revenues in an amount sufficient to provide PFC Revenues to satisfy the Covenant to Budget PFC Debt Service Coverage, the City will at all times fix, maintain, enforce, charge, and collect rates, fees, charges, and amounts for Airport System facilities and operations which will produce in each Fiscal Year Subordinate Net Revenues at least equal to 1.10 times the annual debt service requirements during each Fiscal Year on all then outstanding Parity PFC Obligations.

Figure VI-1 illustrates the application and priority in the uses of Gross Revenues and PFC Revenues, as specified in the GARB Ordinances and the PFC Ordinances.

[45] Parity Obligations are the currently outstanding GARBs, which are secured by a first lien on Gross Revenues.
[46] The airline collection fee increased from $0.08 to $0.11 effective May 1, 2004.

If it becomes necessary for subordinate Net Revenues to be used to pay all or a portion of the debt service on the Series 2002 PFC Bonds, the Series 2005 PFC Bonds (collectively referred to as the "PFC Bonds"), or any other Subordinated Debt, the Subordinated Debt Fund will be established. This will occur if PFC revenues or other revenues pledged for other Subordinated Debt are not sufficient to pay debt service on the PFC Bonds or other Subordinated Debt. Monies deposited into the Subordinated Debt Fund for the payment of debt service on the PFC Bonds will be transferred to the PFC Bond Fund.

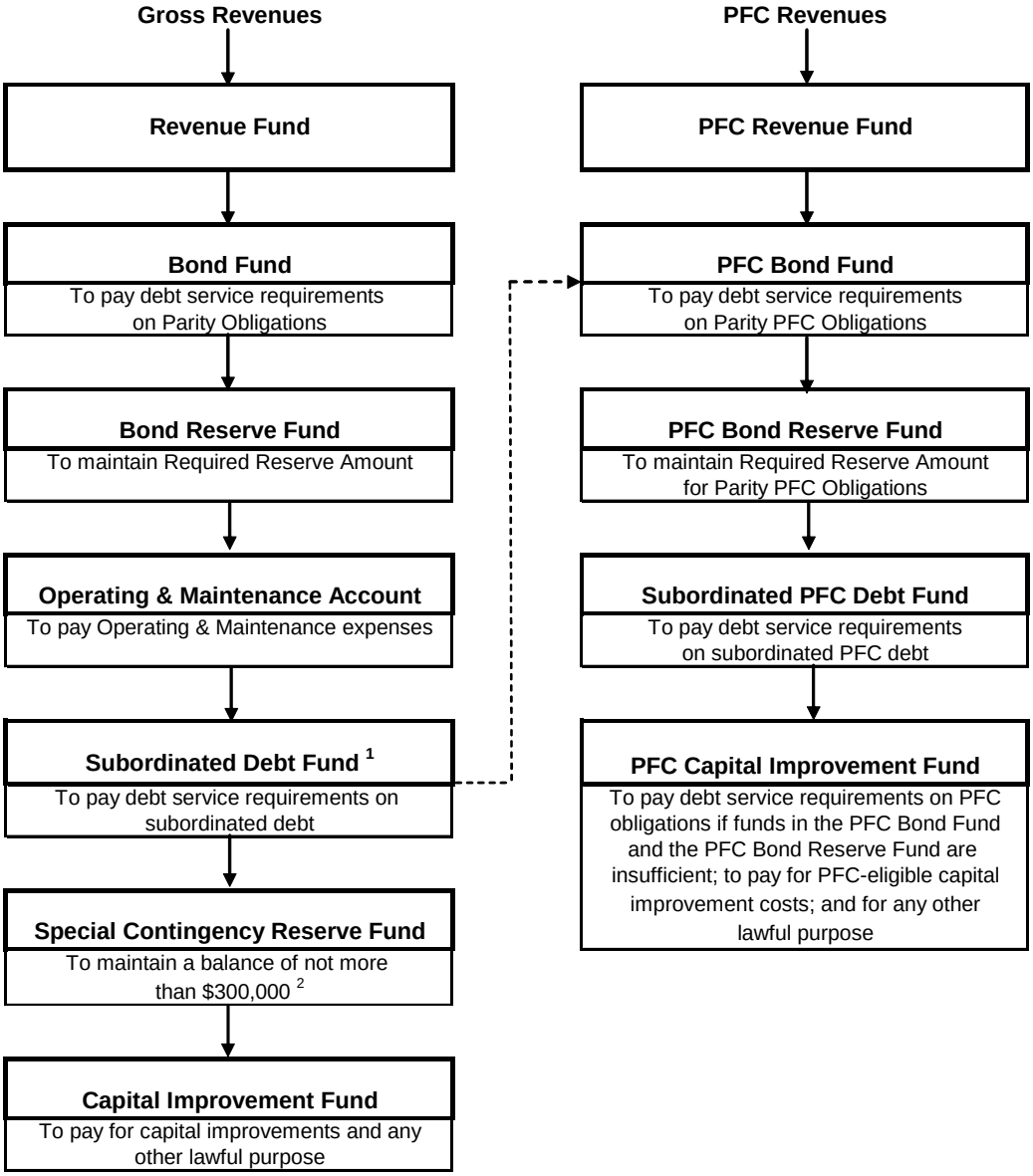
The PFC Ordinances require that PFC revenues be deposited into the PFC Revenue Fund. PFC revenues shall be segregated and kept separate and apart from all other moneys, revenues, funds, and accounts of the City. The monies in the PFC Revenue Fund are to be administered pursuant to the flow of funds described in the Master PFC Ordinance, as depicted on **Figure VI-1** and summarized below:

1. To the PFC Bond Fund for the payment of principal and interest on all parity PFC obligations.
2. To the PFC Bond Reserve Fund, if necessary, until the account balance is equal to the Required Reserve Amount.
3. To the Subordinated PFC Debt Fund for the payment of debt service requirements on subordinated PFC debt.
4. All remaining PFC revenues shall be deposited monthly to the PFC Capital Improvement Fund. Moneys in the PFC Capital Improvement Fund may be used by the City to pay debt service requirements on PFC obligations if the funds in the PFC Bond Fund and the PFC Bond Reserve Fund are insufficient to make such payments; to pay for PFC-eligible capital improvement costs; and for any other lawful purpose.

1. The Airport System Accounting and Financial Reporting

The Airport System is an enterprise fund of the City, and the financial operations of the Airport System are recorded in accordance with generally accepted accounting principles (GAAP) for governmental entities. The financial operations of the Airport System are included in the City's annual audited financial statements, which are prepared based on the City's fiscal year ending September 30. At the end of each fiscal year, independent certified public accountants examine the financial condition of the Airport System (and the other funds and accounts of the City) to determine compliance with GAAP and the requirements of the various state and federal agencies with whom the City has agreements and receives grants-in-aid.

FIGURE VI-1
FLOW OF FUNDS FOR REVENUE BONDS AND PFC BONDS



[1] If it becomes necessary for Net Revenues to be used to pay all or a portion of debt service on the Series 2005 PFC Bonds or any other Subordinated Debt, the Subordinated Debt Fund will be established. This will occur if PFC Revenues or other revenues pledged for other Subordinated Debt are not sufficient to pay debt service on the Series 2005 PFC Bonds or other Subordinated Debt. Monies deposited into the Subordinated Debt Fund for the payment of debt service on the Series 2005 PFC Bonds will be transferred to the PFC Bond Fund.

[2] Pursuant to the Master GARB Ordinance, the Special Contingency Reserve Fund was dissolved and the balance therein was transferred to the Capital Improvement Fund on the First Automatic Amendment Date, which is the date at which the total amount of outstanding Pre-2001 Parity Obligations becomes less than 49% of the total outstanding Parity Obligations. The First Automatic Amendment Date occurred on the date of delivery of the Series 2002 Bonds.

The Department's FY 2004 audited financial statements show that as of September 30, 2004, the Airport System had total assets of approximately $445.4 million, liabilities of approximately $230.2 million, and total net assets of approximately $215.1 million. **Table VI-2** summarizes the operating results of the Airports Fund for FY 1999 through FY 2003 in accordance with GAAP and in accordance with the methodology set forth in the GARB Bond Ordinances, and reconciliation between the two methodologies. The reconciling items include depreciation expense, interest expense on the outstanding bonds, gain/loss on disposal of fixed assets, and other miscellaneous expense items, which are recorded as expenses in accordance with GAAP but are not included in the Department's costs of operation and maintenance pursuant to the Ordinances.

2. Airline Rates and Charges Methodology

The Department collects landing fees, terminal rents, and FIS facilities charges from the airlines operating at SAT to support the operation and maintenance of the facilities used by the airlines. These rents and fees, which accounted for approximately 34.5% of total Gross Revenues FY 2003, are collected from signatory airlines and non-signatory airlines. As explained in Section V, the current Airline Agreement will terminate on the earlier of either the DBO of Concourse B or on September 30, 2006. The financial analysis in this section assumes that the airline rates and charges methodology currently in effect will continue after the expiration of the current Airline Agreement, under one of the following possible conditions: (i) the extension of the current Airline Agreement, (ii) a new agreement with substantially similar terms and conditions, or (iii) a City ordinance. The revenues collected by the City from the airlines operating at SAT are described in the following paragraphs.

a. *Landing Fees*. As discussed in Section V, under the terms of the Airline Agreement, the airlines are responsible for paying landing fees in an amount necessary to recover the airlines' share of annual airfield expenses. Included in the calculation of total airfield expenses are direct and indirect operation and maintenance expenses ("O&M Expenses"), debt service requirements, debt service coverage, and amortization costs. The total annual airfield expenses, known as the "Total Revenue Requirement" amount, is multiplied by 83% to approximate the airlines' share of total annual airfield expenses. The remaining 17% of airfield expenses are recovered through rents and fees charged to the other airfield users, such as general aviation users. The Department then deducts Ramp Fees from the airlines' share of total annual airfield expenses to arrive at the "Adjusted Airline Requirement," which is divided by total landed weight expressed in thousand-pound units to arrive at the landing fee per thousand-pound unit.

TABLE VI-2
HISTORICAL AUDITED FINANCIAL RESULTS
For Fiscal Years Ended September 30

Category	Audited 2000	Audited 2001	Audited 2002	Audited 2003	Preliminary 2004
Statement of Revenues and Expenses (per GAAP)					
Operating Revenues	$38,629,127	$39,815,502	$40,119,000	$43,051,000	$43,701,032
Operating Expenses	(28,066,973)	(28,512,510)	(29,464,000)	(32,616,000)	(36,096,523)
Operating Income	$10,562,154	$11,302,992	$10,655,000	$10,435,000	$7,604,509
Non-Operating Revenues	$4,027,713	$6,904,868	$10,359,000	$11,313,000	$11,712,910
Non-Operating Expenses	(7,686,796)	(11,009,956)	(11,065,000)	(12,123,000)	(12,545,171)
Net Income per GAAP	$6,903,071	$7,197,904	$9,949,000	$9,625,000	$6,772,248
Net Revenues (per Master GARB Ordinance)					
Gross Revenues	$47,698,835	$48,137,830	$46,845,853	$46,543,296	$48,215,522
Operating and Maintenance (O&M) Expenses					
Personal Services	($13,779,825)	($14,664,547)	($15,067,345)	($16,065,174)	($16,859,536)
Contractual Services	(4,880,869)	(4,476,772)	(4,673,258)	(5,795,574)	(4,977,272)
Commodities	(1,183,443)	(1,031,408)	(969,185)	(1,236,625)	(1,187,990)
Other	(1,049,424)	(3,159,680)	(793,400)	(1,641,912)	(1,723,199)
Common Services	(692,266)	(280,227)	(793,511)	(624,321)	(379,537)
Total O&M Expenses	($21,585,827)	($23,612,635)	($22,296,698)	($25,363,607)	($25,127,533)
Net Revenues per Master GARB Ordinance	$26,113,008	$24,525,195	$24,549,155	$21,179,690	$23,087,989
Reconciliation					
Net Income per GAAP	$6,903,071	$7,197,904	$9,949,000	$9,625,000	$6,772,248
Add Back:					
Depreciation	$7,438,934	$7,289,386	$7,376,201	$7,381,027	$7,996,575
Interest Expense	7,425,288	7,218,355	10,783,691	11,709,283	11,981,417
Amortization Expense	261,508	255,433	239,166	408,756	554,971
Airline Credit	6,175,754	5,209,037	4,468,199	2,612,609	3,486,271
Reduction of FAA Audit Finding	0	1,673,399	0	0	0
Defeasance of Bonds	0	711,278	0	0	0
Loss on Disposal of Fixed Assets	(49,609)	(30,952)	0	0	8,783
Decrease in Fair Market Value of Investments	0	0	42,144	4,895	0
Other Non-Operating Expenses	(957,788)	(1,238,020)	0	0	2,978,378
Subtotal	$20,294,087	$21,087,916	$22,909,401	$22,116,570	$27,006,395
Deduct:					
Interest Income	$898,641	$430,109	$889,562	$1,539,538	$803,562
Gain on Disposal of Fixed Assets	0	0	21,684	31,709	0
Other Non-Operating Revenues	185,509	3,330,516	7,398,000	8,990,633	9,887,092
Subtotal	$1,084,150	$3,760,625	$8,309,246	$10,561,880	$10,690,654
Net Revenues per Master GARB Ordinance	$26,113,008	$24,525,195	$24,549,155	$21,179,690	$23,087,989

b. *Terminal Rents*. As discussed in Section V, the Signatory Airlines pay terminal rent based on the sum of the following costs attributable to each terminal building in each fiscal year: Direct and indirect O&M expenses, debt service requirements, debt service coverage, and any other amounts necessary to replenish the balances in the various funds and accounts established pursuant to the bond ordinances. The total of the above amounts, known as the "Total Revenue Requirement," is reduced by the FIS area revenue and a credit for the Fenced Apron to arrive at the "Adjusted Revenue Requirement." That amount (for each terminal) is divided by the total rentable square footage (for each terminal) to determine the "Average Airline Rental Rate" for each terminal. The Signatory Airlines may be eligible for a terminal rent credit based on a portion of the revenues available to be deposited into the CIF, as described in Section V.

c. *FIS Facilities Charges*. The airlines that use the FIS facilities pay FIS facilities charges based on the costs of the FIS facilities. The charge is based on the number of international deplaned passengers.

B. OPERATING AND MAINTENANCE EXPENSES

O&M Expenses are reported in the following categories: Personal Expenses; Contractual Services; Commodities; Other; and Common Services. O&M Expenses do not include depreciation expense, interest expense on bonds, amortization of bond costs, or gain/loss on disposal of fixed assets. For purposes of calculating airline fees and rents at SAT, the Department also classifies O&M Expenses into the following cost centers:

- Direct cost centers
  - Airfield
  - Terminal 1
  - Terminal 2
  - Aviation Service Area (primarily FBO and cargo facilities)
  - Commercial and Industrial
  - Other Buildings and Areas
  - Parking
  - Stinson Airport

- Indirect cost centers
  - Administration
  - Fire and Rescue
  - Access
  - Central Plant
  - Maintenance, Direction, and Control
  - Security
  - Operations

The O&M Expenses for the indirect cost centers are allocated to the direct cost centers based on each direct cost center's proportion of total Personal Services.

Table VI-3 presents historical O&M expenses by category and by cost center for the period FY 2000 through FY 2004 (the historical period). Total O&M expenses increased from approximately $21.6 million in FY 2000 to approximately $25.1 million in FY 2004, representing an average annual increase of 3.9% during the historical period. The fluctuations in each of the expense categories during the historical period are summarized below.

During the forecast period, total O&M expenses are projected to increase to approximately $32.0 million in FY 2009, representing an average annual growth rate of 4.5%, as shown on **Table VI-4**. The projections of O&M Expenses are based on the following data and factors: (1) historical trends, (2) the Department's FY 2005 budget, (3) forecasted annual inflation[47], and (4) the projected effects of capital projects scheduled to be completed during the forecast period. The Department's current CIP includes the scheduled completion of the following major projects during the forecast period: the new parking garage (December 2006) and Concourse B (end of FY 2007).

1. Personal Services

Personal Services is the largest category of O&M expenses, representing approximately 67.1% of total O&M expenses in FY 2004. This category increased from approximately $13.8 million in FY 2000 to approximately $16.9 million in FY 2004, for an average annual increase of 5.2% during that period. In general, the increases in this category were primarily due to cost of living increases, merit increases, and other salary adjustments. In addition, the Department hired Parking Enforcement Officers ("PEOs") in FY 2004 to replace employees of a private security firm (the payments to the security firm had been recorded under Contractual Services).

The FY 2005 budget for Personal Services (approximately $17.8 million) reflects the first full year of the cost of the PEOs hired during FY 2004, plus the salary and benefit costs for new staff members to be hired to perform contract monitoring duties, and anticipated increases in health insurance costs. Department management does not expect significant increases in staffing levels during the remainder of the forecast period. Beginning in FY 2006, a general increase of 4.0% per year is projected for Personal Services to reflect future cost of living increases, merit increases, and other salary adjustments, plus the anticipated effects of the new parking garage and Concourse B. Personal Services expenses are projected to increase to approximately $21.3 million in FY 2009.

[47] General inflation trends were approximated by using the forecast annual inflation rates for the Consumer Price Index ("CPI") prepared by the U.S. Office of Management and Budget, as presented in the *Fiscal Year 2006 Budget of the United States Government*, published on February 7, 2005.

TABLE VI-3
HISTORICAL OPERATION AND MAINTENANCE (O&M) EXPENSES
For Fiscal Years Ended September 30

O&M Expense	Audited 2000	Audited 2001	Audited 2002	Audited 2003	Preliminary 2004	Average Annual Growth
By Expense Category						
Personal Services	$13,779,825	$14,664,547	$15,067,345	$16,065,174	$16,859,536	5.2%
Contractual Services	4,880,869	4,476,772	4,673,258	5,795,574	4,977,272	0.5%
Commodities/Common Services/Other	2,925,133	4,471,315	2,556,095	3,502,858	3,290,725	3.0%
Total O&M Expenses	$21,585,827	$23,612,634	$22,296,698	$25,363,607	$25,127,533	3.9%
By Cost Center						
Airline Cost Centers						
Airfield	$5,343,888	$6,091,015	$5,175,417	$6,217,233	$6,211,276	3.8%
Terminals	10,109,401	11,027,746	10,993,720	12,772,608	13,020,314	6.5%
Non-Airline Cost Centers	6,132,538	6,493,873	6,127,561	6,373,765	5,895,943	-1.0%
Total O&M Expenses	$21,585,827	$23,612,634	$22,296,698	$25,363,607	$25,127,533	3.9%

TABLE VI-4
PROJECTED OPERATION AND MAINTENANCE (O&M) EXPENSES
For Fiscal Years Ended September 30

O&M Expense	Budget 2005	Projected 2006	Projected 2007	Projected 2008	Projected 2009	Average Annual Growth 2006-2009
By Expense Category						
Personal Services	$17,757,000	$18,467,000	$19,757,000	$20,547,000	$21,369,000	5.0%
Contractual Services	6,187,000	6,372,000	6,844,000	6,963,000	7,172,000	4.0%
Commodities/Common Services/Other	3,134,000	3,152,000	3,299,000	3,341,000	3,424,000	2.8%
Total O&M Expenses	$27,078,000	$27,991,000	$29,900,000	$30,851,000	$31,965,000	4.5%
By Cost Center						
Airline Cost Centers						
Airfield	$6,544,000	$6,777,000	$6,935,000	$7,193,000	$7,461,000	3.3%
Terminals	13,315,000	13,760,000	13,909,000	14,284,000	14,799,000	2.5%
Non-Airline Cost Centers	7,219,000	7,455,000	9,054,000	9,374,000	9,706,000	9.2%
Total O&M Expenses	$27,078,000	$27,992,000	$29,898,000	$30,851,000	$31,966,000	4.5%

2. Contractual Services

The Contractual Services category, which represented approximately 19.8% of total O&M expenses in FY 2004, is the second-largest expenditure category. It consists primarily of fees incurred for consulting services and other contracts for services supplied by vendors, such as parking operation services, pest control, and heavy equipment maintenance; and utility costs. Contractual Services decreased from approximately $4.9 million in FY 2000 to $4.5 million in FY 2001, and then increased to almost $5.8 million by FY 2003 before decreasing to approximately $5.0 million in FY 2004. After experiencing significant increases in several contract categories in FY 1999 and FY 2000, the City negotiated renewed contracts at a lower cost in FY 2001. The significant increase in FY 2003 was mainly due to increases in utility costs caused by (a) increases in gas and electricity rates, and (b) the phase-in of a new terminal concession program, which included the replacement of the separate energy meters for individual concessions (whereby the concessionaires paid their own utilities) with common meters (whereby the Department pays all utilities). The decrease in FY 2004 was caused mainly by the Department's decision to hire PEOs to replace the employees of a private security firm (see discussion above under Personal Services).

For FY 2005, Contractual Services are budgeted to increase to approximately $6.2, mainly due to additional Information Technology ("IT") support costs related to the new financial software system and the new parking maintenance system recently implemented by the Department, as well as anticipated increases in utility costs. During the remainder of the forecast period, this category is projected to increase at the forecasted annual inflation rate of 2.4%, plus the projected effects of the completion of the new parking garage and Concourse B. Total Contractual Services are projected to increase to approximately $7.2 million in FY 2009.

3. Commodities, Common Services, and Other

The remaining categories of expenses totaled approximately $3.3 million in FY 2004, which represented approximately 13.1% of total O&M Expenses in that year. Those expense categories consisted of the following:

- Commodities – include office supplies, janitorial supplies, facility repair parts, other supplies, and expenses recognized for the loss on equipment sales.

- Common Services – consist primarily of charges from the City for services rendered to the Department, including the following: (1) administrative services such as accounting, payroll, and internal audit services; (2) the Department's share of the cost of the City's Disadvantaged Business Enterprise ("DBE") outreach program, and (3) health insurance premiums for Department retirees.

- Other expenses – consist primarily of insurance premium costs, including contributions to insurance claim reserve funds.

Commodities, Common Services, and Other expenses increased at a 3.0% average annual rate from FY 2000 to FY 2004. However, an anomaly occurred in this expense category in FY 2001 when the City recorded a one-time expense to reverse a previous revenue transfer from the City to the Airport, and the amount due was covered through in-kind services provided by the City to the Airport.

Department management does not anticipate any unusual expense items during the forecast period. Therefore, these categories of expenses are projected to increase at the average annual inflation rate of 2.4% during the forecast period, plus the projected effects of the completion of the new parking garage and Concourse B. Commodities, Common Services, and Other expenses are projected to increase to approximately $3.4 million in FY 2009.

C. DEBT SERVICE AND AMORTIZATION CHARGES

As discussed in Section II, the Department's CIP includes a number of capital projects at SAT and Stinson during FY 2005 through FY 2009. The CIP projects are expected to be funded with federal AIP grants, PFC Revenues (both on a "Pay-As-You-Go" basis and through the issuance of PFC bonds), monies in the CIF, and GARBs. The financial analysis presented in this section reflects the CIP funding plan presented in Section II. This analysis includes the debt service and amortization assumptions described below.

1. GARB Debt Service

The GARB debt service requirements during the forecast period are summarized on **Table VI-5**. Annual GARB debt service is projected to remain at approximately $17.4 million through FY 2006, and then decrease to $17.0 million in FY 2007, due to scheduled changes in the annual debt service requirements for the Series 1996 Bonds and the Series 2003-A and 2003-B Bonds. Total GARB debt service is projected to increase to approximately $18.0 million in FY 2009, due to a scheduled increase in the annual debt service requirements for the Series 2002 Bonds.

TABLE VI-5
PROJECTED DEBT SERVICE REQUIREMENTS
For Fiscal Years Ended September 30

Bond Series	2005	2006	2007	2008	2009
Existing GARBs					
Series 1996 Revenue Refunding Bonds	$1,397,863	$1,277,913	$2,063,663	$2,078,813	$2,064,688
Series 2001 Revenue Bonds	956,481	956,481	956,481	956,481	956,481
Series 2002 Revenue Bonds	6,077,030	6,082,280	6,084,530	6,083,780	7,021,843
Series 2003 A & B Refunding Bonds	2,196,060	2,325,660	1,106,385	1,162,925	1,169,050
Series 2003 Forward Refunding Bonds	6,783,525	6,794,125	6,786,800	6,790,463	6,788,888
TOTAL GARB DEBT SERVICE	$17,410,959	$17,436,459	$16,997,859	$17,072,461	$18,000,949
Cost Center Allocation					
Airfield	$1,034,573	$1,052,076	$892,032	$900,425	$900,945
Terminals	5,552,528	5,534,651	5,669,781	7,388,446	7,578,034
Parking	2,815,954	2,816,845	6,428,624	6,474,866	7,062,455
Aviation Service Area	579,826	589,834	500,074	504,362	517,045
Commercial and Industrial Area	436,181	436,862	436,391	436,627	436,525
Other	6,991,897	7,006,191	3,070,958	1,367,736	1,505,946
TOTAL GARB DEBT SERVICE	$17,410,959	$17,436,459	$16,997,859	$17,072,461	$18,000,949
PFC Bond Debt Service					
Series 2002 PFC Bonds	$2,733,325	$2,734,525	$2,739,325	$2,737,525	$2,738,131
Series 2005 PFC Bonds [1]	514,990	3,044,959	3,042,158	3,043,054	3,045,779
Proposed Series 2007 PFC Bonds [2]	0	0	1,954,000	3,907,000	3,907,000
TOTAL PFC BOND DEBT SERVICE	$3,248,315	$5,779,484	$7,735,483	$9,687,579	$9,690,910

[1] Projected annual debt service for the Series 2005 PFC Bonds was obtained from the Coastal Securities, the City's financial advisor.
[2] Annual debt service for the proposed Series 2007 PFC Bonds was projected by Unison with an assumed 6.5% annual interest rate.

2. PFC Bond Debt Service

The PFC bond debt service requirements are also summarized on **Table VI-5**. Annual PFC bond debt service is projected to increase from approximately $3.2 million in FY 2005 to $5.8 million in FY 2006, when the first full year of debt service on the Series 2005 PFC Bonds will begin. Annual PFC bond debt service is projected to increase to approximately $7.7 million in FY 2007 and $9.7 million in FY 2008 and FY 2009, due to the projected debt service requirements for PFC bonds anticipated to be issued in FY 2007. Debt service requirements for the future PFC bond issue were estimated using the following financing assumptions: a 6.5% annual bond interest rate; 25-year bond amortization period; no capitalized interest period; funding of the debt service reserve requirement from bond proceeds; and bond issue costs, underwriting discount, and bond insurance premiums totaling approximately 2.4%.

3. Amortization Charges

The Airline Agreement allows the Department to include amortization charges in the airline rates and charges to reimburse the Department for capital project costs paid from the Capital Improvement Fund. The financial analysis assumes that such

amortization charges will be included in the calculation of airline rates and charges during the forecast period. Amortization charges for the Airfield and Terminal cost centers are shown on the tables that present the landing fee and terminal rental calculations later in this section.

D. GROSS REVENUES

Pursuant to the GARB Ordinances, the City has covenanted that all Airport System Gross Revenues (all revenues derived from the operation of the City's two airports, excluding PFC revenues, grant revenues, and revenues pledged to the payment of special facilities airport revenue bonds) will be deposited into the Revenue Fund to be pledged as security for the Parity Obligations.

Table VI-6 presents the historical Gross Revenues for the period FY 2000 through FY 2004, and **Table VI-7** presents projected Gross Revenues through FY 2009. Gross Revenues are projected to increase from approximately $50.6 million in FY 2005 to approximately $63.6 million in FY 2009, based on the projections of the various revenue categories, described below. Revenues net of the airline credits are projected to increase from approximately $46.3 million in FY 2005 to $54.7 million in FY 2009.

1. Airfield Revenues

Airfield revenues consist primarily of landing fees, ramp fees, and other airfield revenues. As discussed in Section V and earlier in this section, the Signatory Airlines are required to pay landing fees in an amount sufficient for the Department to recover approximately 83% of total annual airfield expenses, less a credit for ramp fees. Ramp fees represent charges paid by the airlines for the use of the terminal ramp areas. Other Airfield revenues include: fuel sales, fees and charges based on gross revenues received by the FBOs, and other aviation income.

a. *Landing Fees.* Landing fees totaled approximately $5.5 million in FY 2004, or 12.4% of total Revenues. **Table VI-8** shows the projected landing fee rate. Based on the landed weight forecast presented in Section IV, and the projections of the various costs and credits included in the Adjusted Airline Requirement, the landing fee rate is projected to increase from $1.09 per thousand pounds of landed weight in FY 2005 to $1.14 in FY 2009. Total airline landing fee revenues (shown on **Table VI-7**) are projected to increase from approximately $6.2 million in FY 2005 to $6.7 million in FY 2009.

b. *Ramp Fees and Other Airfield Revenues*. The airlines pay ramp fees based on a per-linear-foot rate. Other airfield revenues include fees received from FBOs, such as percentage fees on fuel sales and services provided by the FBOs. Ramp fees and other airfield revenues increased from approximately $1.1 million in FY 2000 to $1.3 million in FY 2004, and are projected to increase at the rate of inflation, to approximately $1.4 million in FY 2009.

TABLE VI-6
HISTORICAL REVENUES
For Fiscal Years Ended September 30

Revenue Category	Audited 2000	Audited 2001	Audited 2002	Audited 2003	Preliminary 2004	Avg. Annual Growth Rate
Airfield						
Landing Fees	$5,433,788	$5,389,262	$5,375,191	$5,190,254	$5,547,916	0.5%
Ramp Fees and Other Airfield Revenues	1,060,500	1,200,674	938,224	964,843	1,263,194	4.5%
Subtotal - Airfield Revenues	$6,494,288	$6,589,937	$6,313,415	$6,155,096	$6,811,110	1.2%
Terminal						
Airline Terminal Rentals, Net of Airline Credit	$5,454,674	$6,738,338	$7,986,686	$10,012,113	$8,811,587	12.7%
Food and Beverage Concessions	1,573,843	1,290,969	1,227,796	1,559,994	1,592,688	0.3%
News and Gifts Concessions	1,264,685	1,165,960	971,839	1,253,490	1,799,249	9.2%
Car Rental Revenues	6,163,026	6,328,006	6,015,762	6,182,490	6,333,959	0.7%
Other Terminal Revenues	1,632,910	1,613,471	1,787,057	1,619,698	1,679,467	0.7%
Subtotal - Terminal Revenues	$16,089,139	$17,136,744	$17,989,140	$20,627,785	$20,216,950	5.9%
Parking Revenues	10,918,771	10,955,229	10,400,762	10,692,453	11,415,942	1.1%
Aviation Service Area Revenues	3,931,072	3,892,390	4,133,799	4,226,982	3,994,213	0.4%
Commercial/Industrial/Other/Stinson	1,113,498	1,166,462	1,211,558	1,373,309	1,277,502	3.5%
Interest and Other Income	2,976,314	3,188,031	2,328,979	855,062	1,013,535	-23.6%
TOTAL REVENUES NET OF AIRLINE CREDIT	$41,523,081	$42,928,793	$42,377,654	$43,930,687	$44,729,251	1.9%
Add Airline Credit	$6,175,754	$5,209,037	$4,468,199	$2,612,609	$3,486,271	-13.3%
ADJUSTED GROSS REVENUES	$47,698,835	$48,137,830	$46,845,853	$46,543,296	$48,215,522	0.3%

TABLE VI-7
PROJECTED REVENUES
For Fiscal Years Ended September 30

Revenue Category	Budget 2005	Projected 2006	Projected 2007	Projected 2008	Projected 2009	Avg. Annual Growth Rate 2006-2009
Airfield						
Landing Fees	$6,151,000	$6,350,000	$6,305,000	$6,528,000	$6,741,000	2.0%
Ramp Fees and Other Airfield Revenues	1,278,000	1,309,000	1,340,000	1,372,000	1,405,000	2.4%
Subtotal - Airfield Revenues	$7,429,000	$7,659,000	$7,645,000	$7,900,000	$8,146,000	2.1%
Terminal						
Airline Terminal Rentals [1]	$11,972,000	$12,533,000	$12,744,000	$16,240,000	$16,853,000	10.4%
Food and Beverage Concessions	1,716,000	1,778,000	1,818,000	1,900,000	1,950,000	3.1%
News and Gifts Concessions	1,817,000	1,956,000	2,003,000	2,056,000	2,113,000	2.6%
Car Rental Revenues	6,620,000	6,694,000	6,860,000	7,122,000	7,391,000	3.4%
Other Terminal Revenues	1,753,000	1,813,000	1,852,000	1,899,000	1,948,000	2.4%
Subtotal - Terminal Revenues	$23,878,000	$24,774,000	$25,277,000	$29,217,000	$30,255,000	6.9%
Parking Revenues	12,671,000	13,371,000	15,312,000	15,697,000	17,613,000	9.6%
Aviation Service Area Revenues	4,420,000	4,521,000	4,624,000	4,730,000	4,837,000	2.3%
Commercial/Industrial/Other/Stinson	1,325,000	1,448,000	1,479,000	1,512,000	1,545,000	2.2%
Interest and Other Income	883,000	1,184,000	1,085,000	1,100,000	1,196,000	0.3%
TOTAL GROSS REVENUES	$50,606,000	$52,957,000	$55,422,000	$60,156,000	$63,592,000	6.3%
Less: Airline Credit	$4,204,000	$5,026,000	$5,332,000	$7,516,000	$8,881,000	20.9%
REVENUES NET OF AIRLINE CREDIT	$46,402,000	$47,931,000	$50,090,000	$52,640,000	$54,711,000	4.5%
Airline Terminal Rentals, Net of Credit	$7,768,000	$7,507,000	$7,412,000	$8,724,000	$7,972,000	2.0%

[1] Airline Terminal Rentals include FIS space rents.

TABLE VI-8
PROJECTED LANDING FEES
For Fiscal Years Ended September 30

	Budget 2005 [1]	Projected			
		2006	2007	2008	2009
O&M Expenses	$6,644,087	$6,777,000	$6,935,000	$7,193,000	$7,461,000
Debt Service Requirements	$1,067,000	$1,052,000	$892,000	$900,000	$901,000
Debt Service Coverage (25%)	267,000	263,000	223,000	225,000	225,000
Amortization of CIP Projects	$0	$37,000	$37,000	$48,000	$48,000
Total Revenue Requirement	$7,978,087	$8,129,000	$8,087,000	$8,366,000	$8,635,000
Air Carriers' Share (83%)	$6,622,000	$6,747,000	$6,712,000	$6,944,000	$7,167,000
Less: Apron Fees	(388,000)	(397,000)	(407,000)	(416,000)	(426,000)
Adjusted Airline Requirement	$6,234,000	$6,350,000	$6,305,000	$6,528,000	$6,741,000
Total Landed Weight (in 000 lbs.)	5,700,000	5,586,000	5,700,000	5,806,000	5,926,000
LANDING FEE RATE	**$1.09**	**$1.14**	**$1.11**	**$1.12**	**$1.14**

[1] The 2005 budget reflects the amounts used in the Department's airline rates and charges calculations. The landed weight total for 2005 reflects the Department's estimate at the time the airline rates and charges were calculated, and does not match Unison's forecast.

2. Terminal Revenues

Terminal revenues include airline terminal building rents, FIS space and other terminal building rentals, terminal concession revenues, rental car concession revenues, and other terminal revenues. In FY 2004, total terminal revenues represented approximately 45.2% of total Gross Revenues.

a. *Airline Terminal Rentals*. Terminal rents received from the airlines provide the largest source of terminal revenues, having represented 43.5% of total terminal revenues in FY 2004. Airline terminal rentals are projected on **Table VI-9**. Based on the projections of the cost components included in Adjusted Revenue Requirement, airline terminal rentals (including FIS space rent), as shown on **Table VI-7**, are projected to increase from approximately $12.0 million in FY 2005 to approximately $16.9 million in FY 2009. The Adjusted Revenue Requirement includes the projected effects of the planned completion of Concourse B and the demolition of the existing Terminal 2.

As described in Section V, the Signatory Airlines may be eligible for a terminal rent credit based on a portion of the Gross Revenues available net of O&M Expenses and debt service costs. During the forecast period, the Signatory Airlines are projected to receive annual credits ranging from approximately $4.3 million in FY 2005 to $8.9 million in FY 2009 (see **Table VI-7**). Total

airline terminal rents, after deducting the airline credit, are projected to increase from approximately $7.7 million in FY 2005 to $8.0 million in FY 2009.

TABLE VI-9
PROJECTED TERMINAL RENTAL REVENUES
For Fiscal Years Ended September 30

	Budget 2005	Projected 2006	2007	2008	2009
O&M Expenses	$13,315,000	$13,760,000	$13,910,000	$14,284,000	$14,799,000
Debt Service Requirements	$5,635,000	$5,535,000	$5,670,000	$6,604,000	$6,794,000
Debt Service Coverage (25%)	1,409,000	1,384,000	1,417,000	1,651,000	1,699,000
Amortization of CIP Projects	$0	$18,000	$40,000	$595,000	$720,000
Total Revenue Requirement	$20,359,000	$20,697,000	$21,037,000	$23,134,000	$24,012,000
Less: FIS and Fenced Apron Credit	($1,565,000)	($1,582,000)	($1,612,000)	($1,633,000)	($1,676,000)
Adjusted Revenue Requirement	$18,794,000	$19,115,000	$19,425,000	$21,501,000	$22,336,000
Rentable Square Footage	339,059	339,059	339,059	354,986	354,986
Average Rental Rate per Square Foot	$55.43	$56.38	$57.29	$60.57	$62.92
Airline Terminal Space Rentals	$11,458,000	$11,649,000	$11,837,000	$15,310,000	$15,901,000

b. Concession revenues. The Department receives percentage concession fees from food and beverage, news and gift, rental car, and other concessionaires. The Department receives revenue from the concessionaires based on concession fees that are calculated as a percentage of each concessionaire's sales, subject to negotiated minimum annual guarantee amounts. On September 30, 2003, the Department marked the overall completion of a three-year Terminal Renovations and Concession Redevelopment Project (the "Renovation Project"). The Renovation Project involved shifting the majority of the food/beverage and news/gift concessions to post-security locations, which are more convenient for passengers. The Renovation Project also included the introduction of popular local and national brands, "street pricing" (pricing at levels found at non-airport locations), and the improvement of store designs. The Department selected Westfield Concession Management (Westfield) as the concession management firm.

(i) *Food and beverage concession revenues.* The food and beverage concessionaires pay the greater of an annual minimum guarantee or concession fees ranging from 10% to 18% of their gross sales, depending on the category of food and beverage, and their level of sales. Food and beverage concession revenues decreased from approximately $1.6 million in FY 2000 to $1.3 million in FY 2001 and $1.2 million in FY 2002, mainly due to the effects of the September 11, 2001 Events and

the temporary disruptions caused by the Renovation Project. As the renovations were completed and new concession locations were phased in during FY 2003, food and beverage concession revenues increased back to approximately $1.6 million in FY 2003 and FY 2004. Food and beverage concession revenues for the forecast period were projected based on the estimated FY 2005 sales projections developed by Westfield, on a per-enplanement basis, inflated at one-half the forecast annual inflation rate[48], applied to projected enplanements. Food and beverage concession revenues are projected to increase to approximately $2.0 million in FY 2009.

(ii) *News and gifts concession revenues*. The concessionaires that operate news and gifts stores pay the greater of an annual minimum guarantee or percentage concession fees of 14% to 25% of their gross sales, depending on the type of store. News and gifts concession revenues decreased from approximately $1.3 million in FY 2000 to approximately $1.2 million in FY 2001 and $1.0 million in FY 2002, mainly due to the effects of the September 11, 2001 Events and the temporary disruptions caused by the Renovation Project. As the renovations were completed and new concession locations were phased in during FY 2003, news and gifts concession revenues increased to approximately $1.3 million in FY 2003 and $1.8 million in FY 2004. News and gifts concession revenues for the forecast period were projected based on the FY 2005 sales projections developed by Westfield, on a per-enplanement basis, inflated at one-half the forecasted annual inflation rate, and applied to projected enplanements. News and gifts concession revenues are projected to increase to approximately $2.1 million in FY 2009.

[48] To be conservative, this analysis assumes that concession revenues per enplanement will increase at a rate less than the forecasted annual inflation rate.

(iii) *Rental car concession revenue.* The rental car companies that operate at SAT pay a concession fee of 10% of their gross revenues. Rental car concession revenue increased from approximately $6.2 million in FY 2000 to approximately $6.3 million in FY 2001 before decreasing to $6.0 million in FY 2002, mainly due to the drop in air traffic resulting from the September 11, 2001 Events. Concession revenue increased to approximately $6.2 million in FY 2003 and $6.3 million in FY 2004, and is estimated to total $6.6 million in FY 2005. For the remainder of the forecast period, rental car concession revenue was projected by applying the FY 2005 estimated revenue per originating enplanement, inflated at one-half the projected annual inflation rate, applied to the annual originating enplanements. Rental car concession revenue is projected to increase to approximately $7.4 million in FY 2009.

c. *Other terminal revenues*. This category includes rents and fees collected from the operators of flight kitchen catering, advertising displays in the terminal buildings, pay telephones in the terminal buildings, ground transportation, and other terminal building rentals. Total revenue for this category increased at a modest 1.2% average annual rate from FY 2000 to FY 2004, having totaled approximately $1.7 million in FY 2004. Other terminal revenues, excluding advertising display revenue and building rentals, were projected based on FY 2005 revenues per enplanement, increased at one-half the forecasted annual inflation rate, applied to projected enplanements. Revenues from advertising displays and building rentals were projected based on periodic rent adjustments tied to the forecasted inflation rate. Total revenues for this category are projected to increase from approximately $1.8 million in FY 2005 to approximately $1.9 million in FY 2009.

3. Parking Revenues

The Department receives revenues from the public parking lots at SAT, as well as parking revenues from employees of the airlines and other tenants at the SAT. Parking revenues decreased from approximately $10.9 million in FY 2000 and $11.0 million in FY 2001 to approximately $10.4 million in FY 2002, mainly due to the decrease in air traffic resulting from the September 11, 2001 Events. Parking revenue has recovered since FY 2002, having increased to approximately $10.7 million in FY 2003 and $11.4 million in FY 2004. The increase of 6.5% in FY 2004 was mainly due to increased parking demand resulting from increased enplanements, and an increase in the parking rates. Parking revenue projections for the forecast period are based on the FY 2004 ratios of parking customers per O&D enplanements, distribution of parking customers by category (hourly, daily, and remote), and the average revenue per category. The projections also reflect the parking rate increase implemented in 2005, anticipated increases in the parking rates in FY 2007 and FY 2009, and the potential re-distribution of parking customers

during construction of the new parking garage, which management anticipates will open near the beginning of FY 2007. Parking revenues are projected to increase from approximately $12.7 million in FY 2005 to $17.6 million in FY 2009.

4. Aviation Services Area Revenues

Aviation Services Area revenues represent the building rentals and ground rentals received from the FBOs and cargo operators, and rentals received for the cargo apron area. Aviation Services Area revenues decreased from slightly more than $3.9 million in FY 2000 to slightly less than $3.9 million in FY 2001, when a portion of the West Cargo building was demolished to make room for a new taxiway, resulting in a decrease in cargo building rentals. Aviation Services Area revenues then increased in FY 2002 and FY 2003, to approximately $4.2 million in FY 2003, mainly due to increases in cargo building rental rates. This revenue category then decreased to approximately $4.0 million in FY 2004, due to past due rents not recognized by the Department until FY 2005.

Aviation Services Area revenues are budgeted to increase to $4.4 million in FY 2005, due to lease provisions that allow the Department to implement rent increases every five years. For the remainder of the forecast period, building and land rentals are projected to increase with inflation to reflect the lease clauses that provide for annual rent adjustments tied to economic indicators, and the anticipation that certain leases will be renewed every five years at higher rental rates. Based on the above assumptions, Aviation Services Area revenues are projected to increase to approximately $4.8 million in FY 2009.

5. Commercial/Industrial/Other/Stinson Airport

This category includes building and ground rentals received from tenants that operate aircraft assembly, aircraft maintenance, and related commercial/industrial activities at SAT, and revenue from Stinson Airport. Revenues from Stinson consist primarily of rentals, fees, and charges assessed to the FBOs operating at Stinson. Total revenue in this category increased from approximately $1.1 million in FY 2000 to slightly less than $1.4 million in FY 2003, before decreasing to slightly less than $1.3 million in FY 2004. The increases in FY 2001 through FY 2003 were mainly due to additional ground rent received from several of the FBOs that expanded their areas at SAT. The decrease in FY 2004 was mainly due to rent credits given to an FBO in exchange for the value of capital improvements made by the FBO at Stinson Airport.

This revenue category is projected to remain flat in FY 2005 (at approximately $1.3 million) due to the continuation of FBO rent credits initiated in FY 2004. In FY 2006, this revenue category is projected to return to the FY 2003 level (approximately $1.4 million), and after FY 2006, revenue is projected to increase at the annual rate of inflation, based on the lease clauses that allow rent increases tied to certain

economic indicators. Revenue in this category is projected to increase to approximately $1.5 million in FY 2009.

6. Interest and Other Revenue

The Department earns interest on its cash balances, including balances in the various accounts established pursuant to the Bond Ordinances. Also included in this category are other revenues, such as gains realized on increases in the fair market value of investments, proceeds from the sale of fixed assets, accrued interest on bond issues sold, badge processing fees, cargo building utility reimbursements, cellular tower lease revenues, and other miscellaneous revenue sources. Overall, this revenue category fluctuated during the historical period, and decreased significantly, to approximately $1.0 million in FY 2003 and FY 2004. The fluctuations were mainly due to one-time revenue items, such as gains realized on increases in the fair market value of investments, proceeds from the sale of fixed assets, and accrued interest on bond issues sold. To be conservative, this revenue category was projected based on the lower level of revenue recognized in FY 2003 and FY 2004, which excluded the unusual items recorded in prior years. Interest revenue during the forecast period was projected by applying a 3.0% average annual rate to the Department's projected cash balances. Interest and other revenue is projected to range between approximately $0.9 million in FY 2005 and approximately $1.2 million in FY 2009. The fluctuations are mainly due to projected fluctuations in the Capital Improvement Fund, as moneys are used to pay capital project costs.

E. PFC REVENUES AND COVENANTS

Table VI-10 presents projected PFC revenues during the forecast period, based on the estimated PFC-eligible enplanements multiplied by the PFC rate (net of the $0.11 airline collection fee) of $2.89 per enplanement[49]. PFC revenues are projected to increase from approximately $9.4 million in FY 2005 to $10.4 million in FY 2009.

The City's ability to satisfy the Covenant to Budget Debt Service Coverage contained in the Master PFC Ordinance is evidenced by the projected PFC debt service coverage calculated based on PFC funds available (**Table VI-11)**. The Master PFC Ordinance requires the City to prepare an annual budget each Fiscal Year which will indicate that the following will equal at least 1.25 times the Annual Debt Service Requirements during the current Fiscal Year on all Outstanding Parity PFC Obligations:

[49] Ineligible PFC enplanements, which are those enplanements for which PFCs are not collected, include passengers on exempt carriers (any class of carrier that enplanes less than 1% of total annual enplanements at SAT), frequent flyer passengers, and passengers on the third segment of a trip. For this analysis, 8% of total enplanements are assumed to be ineligible, which is consistent with data at other airports with a high level of O&D traffic.

Unused PFC revenues from prior years,
Plus PFC Revenues during the current Fiscal Year,
Minus PFC "Pay-As-You-Go" costs during the current Fiscal Year,

This calculation is projected to decrease from 7.91 in FY 2005 to 4.92 in FY 2006, 3.81 in FY 2007, 2.53 in FY 2008, and 2.32 in FY 2009, primarily due to the additional debt service for the Series 2005 PFC Bonds and the assumed Series 2007 PFC Bonds. Therefore, based on the assumptions and financial projections presented in this section, it is anticipated that during the forecast period, the City will be able to satisfy the Covenant to Budget Debt Service Coverage.

TABLE VI-10
PROJECTED PFC REVENUES
For Fiscal Years Ended September 30

	Fiscal Years				
	2005	**2006**	**2007**	**2008**	**2009**
Total Projected Enplanements [1] [A]	3,534,000	3,678,000	3,723,000	3,817,000	3,913,000
% of PFC Enplaned Passengers [2] [B]	92.0%	92.0%	92.0%	92.0%	92.0%
PFC Enplaned Passengers [C = A x B]	3,251,000	3,384,000	3,425,000	3,512,000	3,600,000
PFC Rate [3] [D]	$2.89	$2.89	$2.89	$2.89	$2.89
PFC Revenues [C x D]	$9,395,000	$9,780,000	$9,898,000	$10,150,000	$10,404,000

[1] From the base case enplanement forecast presented in Section IV. This table is on a fiscal year basis, whereas the tables in Section IV are on a calendar year basis.
[2] Ineligible traffic includes passengers on exempt carriers (which is any class of carrier that constitutes less than 1% of annually enplaned passengers, frequent flyer passengers, and passengers on the third segment of a trip, and is estimated to be approximately 8.0%.
[3] San Antonio International Airport collects a PFC of $3.00 per enplaned passenger, less an airline collection fee of $0.11 per enplaned passenger.

The PFC debt service coverage calculated based on total Pledged Revenues available to pay PFC debt service is also shown on **Table VI-11**. Total Pledged Revenues available to pay PFC debt service is calculated as Net Revenues minus GARB debt service, plus PFC revenues. PFC debt service coverage is projected to decrease from 4.78 in FY 2005 to 3.00 in FY 2006, the first full year of debt service for the Series 2005 PFC Bonds. This ratio is projected to decrease to 2.38 in FY 2007 and 2.31 in FY 2008, with the start of debt service for an assumed future PFC bond issue, before increasing to 2.48 in FY 2009. **Table VI-11** also shows the projected annual debt service for the anticipated PFC bonds as a percentage of projected PFC revenues. This ratio is projected to remain at 95.4% or below during the forecast period.

There can be no assurance that either the projections of passenger enplanements or PFC revenues will be met. If there were to be a shortfall in enplanements, the

Covenant to Budget PFC Debt Service Coverage essentially would cause the Department to revise the CIP funding plan to delay certain planned future PFC-eligible project costs in order to ensure that sufficient PFC revenues would be available to pay off the PFC Bonds. Also, the City's authority to continue to impose and collect the approved PFC is subject to termination by the FAA if the City violates any of the PFC assurances agreed to pursuant to the PFC approval document, and does not mitigate such violations.

TABLE VI-11
COVENANT TO BUDGET PFC BOND DEBT SERVICE COVERAGE
For Fiscal Years Ended September 30

	Fiscal Years				
	2005	**2006**	**2007**	**2008**	**2009**
Net PFC Revenue [A]	$9,395,000	$9,780,000	$9,898,000	$10,150,000	$10,404,000
Unused PFCs from Prior Year	$18,916,721	$22,430,812	$22,655,867	$21,736,270	$14,842,561
Interest Revenue on the PFC Fund	413,475	450,867	443,921	365,788	276,631
Cumulative Available PFC Funds [B]	$28,725,196	$32,661,679	$32,997,788	$32,252,059	$25,523,192
PFC Pay-As-You-Go ("PAYGO") [C]	3,046,070	4,226,328	3,526,035	7,721,919	3,011,759
PFC Funds Net of PAYGO [D = B - C]	$25,679,126	$28,435,351	$29,471,753	$24,530,140	$22,511,433
PFC Bond Debt Service:					
Series 2002 PFC Bonds	$2,733,325	$2,734,525	$2,739,325	$2,737,525	$2,738,131
Series 2005 PFC Bonds	514,990	3,044,959	3,042,158	3,043,054	3,045,779
Series 2007 PFC Bonds	0	0	1,954,000	3,907,000	3,907,000
Subtotal - PFC Bond Debt Service [E]	$3,248,315	$5,779,484	$7,735,483	$9,687,579	$9,690,910
Unused PFCs - Current Year [F = D - E]	$22,430,812	$22,655,867	$21,736,270	$14,842,561	$12,820,523
Covenant to Budget PFCs [G = D / E]	7.91	4.92	3.81	2.53	2.32
Net Revenues Available to Pay for PFC Debt Service [H]	$6,117,000	$7,530,000	$8,524,000	$12,233,000	$13,626,000
Total Pledged Revenues Available to Pay PFC Debt Service [I = A + H]	$15,512,000	$17,310,000	$18,422,000	$22,383,000	$24,030,000
PFC Debt Service Coverage [J = I / E]	4.78	3.00	2.38	2.31	2.48
PFC Bond Debt Service as a % of Net PFC Revenues [K = E / A]	34.6%	59.1%	78.2%	95.4%	93.1%

F. KEY FINANCIAL INDICATORS RELATED TO GARB ISSUES

This sub-section discusses the projections of the following key financial indicators: (1) the application of Gross Revenues pursuant to the provisions of the Master GARB Ordinance, (2) the City's ability to satisfy the Rate Covenant contained in the Master GARB Ordinance; and (3) the airline cost per enplaned passenger.

1. Application of Gross Revenues

Table VI-12 shows the forecast application of Gross Revenues pursuant to the provisions of the GARB Ordinances, during the forecast period. Gross Revenues are applied in the order shown on **Figure VI-1**. Based on the financial projections contained in this section, it is projected that the annual deposit to the Capital Improvement Fund will increase from approximately $1.5 million in FY 2005 to $4.5 million in FY 2009.

TABLE VI-12
APPLICATION OF GROSS REVENUES
For Fiscal Years Ended September 30

	Fiscal Years				
	2005	**2006**	**2007**	**2008**	**2009**
Gross Revenues	$50,606,000	$52,957,000	$55,422,000	$60,156,000	$63,592,000
Application of Gross Revenues					
Bond Fund	$17,411,000	$17,436,000	$16,998,000	$17,072,000	$18,001,000
Bond Reserve Fund	0	0	0	0	0
O&M Expense Account [1]	27,565,617	28,219,000	30,377,000	31,089,000	32,244,000
Special Contingency Reserve Fund	0	0	0	0	0
Airline Credit	4,205,000	5,026,000	5,332,000	7,516,000	8,881,000
Capital Improvement Fund	1,424,383	2,276,000	2,715,000	4,479,000	4,466,000
Total Gross Revenues Applied	$50,606,000	$52,957,000	$55,422,000	$60,156,000	$63,592,000

[1] Includes reserve equal to 25% of the estimated increase in O&M expenses.

2. GARB Rate Covenant

The City's ability to satisfy the Rate Covenant contained in the Master GARB Ordinance is evidenced by the projected GARB debt service coverage, as shown on **Table VI-13**. The Rate Covenant is based on Gross Revenues. As mentioned earlier, the Master GARB Ordinance requires the City to generate Gross Revenues from the Airport System in each Fiscal Year that are at least sufficient: (A) to pay all O&M Expenses during each Fiscal Year, and also (B) to provide an amount equal to 1.25 times the Annual Debt Service Requirements during each Fiscal Year on all outstanding Parity Obligations. Because the airline credit is calculated after all Parity and Subordinate debt service requirements and O&M Expenses are satisfied, Gross Revenue GARB debt service coverage was calculated before the application of the airline credit, based on the financial projections presented previously in this section. Gross Revenue GARB debt service coverage is projected to increase from 2.91 in FY 2005 to 3.53 in FY 2009. Therefore, based on the assumptions and

financial projections presented in this section, it is anticipated that during the forecast period, the City will be able to satisfy the Rate Covenant contained in the Master GARB Ordinance.

TABLE VI-13
PROJECTED GARB DEBT SERVICE COVERAGE
For Fiscal Years Ended September 30

	Fiscal Years				
	2005	**2006**	**2007**	**2008**	**2009**
Gross Revenues [A]	$50,606,000	$52,957,000	$55,422,000	$60,156,000	$63,592,000
Less: O&M Expenses [B]	27,078,000	27,991,000	29,900,000	30,851,000	31,965,000
Net Revenues [C = A - B]	$23,528,000	$24,966,000	$25,522,000	$29,305,000	$31,627,000
Less: GARB Debt Service [D]	17,411,000	17,436,000	16,998,000	17,072,000	18,001,000
Net Revenues Available to Pay PFC Debt Service [E = C - D]	$6,117,000	$7,530,000	$8,524,000	$12,233,000	$13,626,000
GARB Debt Service Coverage:					
Based on Gross Revenues [A / D]	2.91	3.04	3.26	3.52	3.53
Based on Net Revenues [C / D]	1.35	1.43	1.50	1.72	1.76

The Net Revenue GARB debt service coverage calculation is also presented on **Table VI-13**. Although the GARB Rate Covenant is based on Gross Revenues, the Department has historically presented the Net Revenue GARB debt service coverage calculation in order to demonstrate that Net Revenues (Gross Revenues minus O&M Expenses) will also exceed projected GARB debt service requirements. Net Revenue GARB debt service coverage, calculated before the application of the airline credit, is projected to increase from 1.35 in FY 2005 to 1.76 in FY 2009.

3. Airline Cost per Enplaned Passenger

An important component of the financial feasibility report is an assessment of how the planned capital improvements and the related financings will affect airline rates and charges. Based on the projections of O&M Expenses, GARB debt service, and Gross Revenues discussed above, the airline cost per enplaned passenger, presented on **Table VI-14,** is projected to increase from $4.03 in FY 2005 to $4.10 in FY 2008 before decreasing to $3.87 in FY 2009.

According to the 2002-2003 American Association of Airport Executives ("AAAE") Survey of Airport Rates and Charges, which is the most recent survey information available, the 2002-2003 airline cost per enplanement for airports with a similar

number of enplanements as SAT ranged between $3.05 and $9.59.[50] It should be noted that these historical amounts do not include the potential effect of future capital improvements at those airports. In addition, this comparison is being made to SAT's projected costs in FY 2009 (five years in the future). Therefore, the Airport's projected airline cost per enplanement, which includes the effect of planned future capital improvements, appears fairly low when compared to other medium hub airports.

TABLE VI-14
PROJECTED AIRLINE COST PER ENPLANED PASSENGER
For Fiscal Years Ended September 30

	Fiscal Years				
	2005	**2006**	**2007**	**2008**	**2009**
Landing Fees	$6,151,000	$6,350,000	$6,305,000	$6,528,000	$6,741,000
Airline Terminal Rentals	11,972,000	12,533,000	12,744,000	16,240,000	16,853,000
Ramp Fees	388,000	397,000	407,000	416,000	426,000
Credit to Airlines	(4,278,000)	(5,026,000)	(5,332,000)	(7,516,000)	(8,881,000)
Airline Revenues, Net of Credit	$14,233,000	$14,254,000	$14,124,000	$15,668,000	$15,139,000
Total Enplaned Passengers [1]	3,534,000	3,678,000	3,723,000	3,817,000	3,913,000
Cost per Enplaned Passenger	$4.03	$3.88	$3.79	$4.10	$3.87

[1] Because this table is presented on a fiscal year basis, the enplaned passengers shown above differ from the annual totals shown on the tables in Section IV, which are presented on a calendar year basis.

G. SENSITIVITY ANALYSIS

As presented on **Table 15**, GARB debt service coverage under the alternate air traffic forecast presented in Section IV is projected to increase to the following levels by the end of the forecast period (FY 2009):

- Based on Gross Revenues: 3.69
- Based on Net Revenues: 1.92

PFC debt service coverage, based on total Pledged Revenues available for PFC debt service (including subordinate GARB Net Revenues), is projected to remain at 2.54 or above during the forecast period under the alternate air traffic forecast scenario. The airline cost per enplanement is projected to decrease to $3.11 in FY 2009 under the alternate air traffic forecast.

[50] Based on data for the following 12 airports with 2002 enplanements ranging from approximately 1.7 million to approximately 5.0 million: Austin-Bergstrom, General Mitchell (Milwaukee), Indianapolis, John Wayne (Orange County, California), Kansas City, New Orleans, Manchester, Nashville, Norfolk, Palm Beach, Southwest Florida, and Tucson.

H. SUMMARY

The following points highlight the significant findings of the financial analysis contained in this section:

- Debt service coverage for the PFC bonds, based only on projected PFC resources (pursuant to the Covenant to Budget Debt Service Coverage contained in the Master PFC Ordinance), is projected to decrease during the forecast period as debt service starts for the Series 2005 PFC Bonds and a future anticipated PFC bond issue – but will remain at or above 2.32. Therefore, it is anticipated that during the forecast period, the City will be able to satisfy the Covenant to Budget PFC Debt Service Coverage contained in the Master PFC Ordinance (1.25 required coverage).

- PFC debt service coverage based on total Pledged Revenues available for PFC debt service (including Net Revenues after the payment of GARB debt service) is projected to decrease as new debt service requirements start, from 4.78 in FY 2005 to 2.48 in FY 2009.

- GARB debt service coverage, based on Gross Revenues, is projected to increase from 2.91 in FY 2005 to 3.53 in FY 2009. GARB debt service coverage, based on Net Revenues, is projected to increase from 1.35 in FY 2005 to 1.76 in FY 2009.

- The airline cost per enplaned passenger is projected to remain reasonable during the forecast period, compared to the airline cost per enplanement amounts for airports with a similar number of enplanements as SAT. SAT's airline cost per enplanement is projected to increase from $4.03 in FY 2005 to $4.10 in FY 2008 before decreasing to $3.87 in FY 2009.

- *Under the alternative air traffic forecast*: PFC debt service coverage based on total Pledged Revenues available for PFC debt service is projected to remain at or above 2.54 during the forecast period.

TABLE VI-15
SENSITIVITY ANALYSIS (ALTERNATE SCENARIO)
For Fiscal Years Ended September 30

Alternate Scenario	Fiscal Years				
	2005	2006	2007	2008	2009
Revenue Projections					
Gross Revenues	$50,607,000	$53,487,000	$56,812,000	$61,984,000	$66,481,000
Net Revenues	$23,529,000	$26,035,000	$27,201,000	$31,512,000	$34,530,000
Parity GARB Debt Service Coverage					
Based on Gross Revenues	2.91	3.07	3.34	3.63	3.69
Based on Net Revenues	1.35	1.49	1.60	1.85	1.92
PFC Debt Service Coverage	5.10	3.18	2.54	2.55	2.88
Cost per Enplaned Passenger	$4.03	$3.56	$3.37	$3.42	$3.11

APPENDIX G

FORM OF OPINION OF BOND COUNSEL

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DRAFT DATE: MAY 6, 2005

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May, __, 2005

CITY OF SAN ANTONIO, TEXAS
PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN
AIRPORT SYSTEM REVENUE IMPROVEMENT BONDS, SERIES 2005
DATED APRIL 15, 2005
IN THE AGGREGATE PRINCIPAL AMOUNT OF $38,085,000

AS BOND COUNSEL FOR THE CITY OF SAN ANTONIO, TEXAS (the "City"), the issuer of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from April 15, 2005, until maturity or redemption, at the rates stated in the text of the Bonds, and maturing on July 1 in each of the years 2006 through 2025, inclusive, and in the year 2030, with the Bonds maturing on and after July 1, 2016 being subject to optional redemption on July 1, 2015, or any date thereafter, and with the Bonds maturing in the year 2030 being subject to mandatory sinking fund redemption, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City relating to the issuance of the Bonds, including (i) three ordinances (collectively, the "Ordinance") of the City (i.e., (A) the *"Master PFC Ordinance,"* adopted by the City Council of the City on March 7, 2002, which established the City's Airport System revenue bond financing program with respect to the issuance of obligations by the City payable in whole or in part from "Passenger Facility Charges," (B) the *"Second Supplement to the Master PFC Ordinance,"* adopted by the City Council of the City on May 5, 2005, which authorized the issuance of the Bonds, and (C) the *"Master Ordinance Establishing the Airport System Revenue Bond Financing Program,"* adopted by the City Council of the City on April 19, 2001, which established the City's Airport System revenue bond financing program with respect to the issuance of obligations secured with a lien on and pledge of the "Gross Revenues" of the Airport System), and (ii) other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

BASED ON SAID EXAMINATION, ***IT IS OUR OPINION*** that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding special revenue obligations of the City in accordance with their terms (except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally); and that the Bonds, together with the "Outstanding PFC Bonds" and any "Additional Parity PFC Obligations" (as such terms are defined in the Ordinance) are equally and ratably secured by and payable from (i) a first lien on and pledge of the revenues received by the City from the imposition of passenger facility fees or charges on each paying passenger of an air carrier or foreign air carrier boarding an aircraft at the San Antonio International Airport in accordance with the provisions of 49 USC §40117, as may be amended from time to time, or other applicable federal law (defined

and referred to in the Master PFC Ordinance as the "PFC Revenues"), and (ii) a lien on and pledge of the "Subordinate Net Revenues" of the City's Airport System, all as further described and provided in the Ordinance.

THE CITY HAS RESERVED THE RIGHT, subject to the requirements stated in the Ordinance, to issue Additional Parity PFC Obligations which also may be secured by and made payable from a first lien on and pledge of the aforesaid PFC Revenues on a parity with the Bonds and all other Parity PFC Obligations then outstanding.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. The exceptions are as follows:

(1) interest on the Bonds will be includable in the gross income of the holder during any period that such Bonds are held by either a "substantial user" of the facilities financed or refinanced with the proceeds of the Bonds or a "related person" of such user, as provided in section 147(a) of the Internal Revenue Code of 1986 (the "Code");

interest on the Bonds will be included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code;

(2) interest on the Bonds will be included as an item of tax preference in determining the alternative minimum taxable income of the owner under section 57(a)(5) of the Code;

(3) interest on the Bonds will be subject to the branch profits tax imposed on foreign corporations by section 884 of the Code; and

(4) interest on the Bonds will be included in passive investment income of certain S corporations that may be subject to the tax imposed by section 1375 of the Code on S corporations with accumulated earnings and profits and excess passive investment income.

IN EXPRESSING THE AFOREMENTIONED OPINIONS as to the exclusion of interest from federal income taxes, we have relied on certain representations, the accuracy of which we have not independently verified, and we have assumed compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed or refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds, and we have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the historical and projected PFC Revenues and Subordinate Net Revenues of the City's Airport System. 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.

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 a result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

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APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -R

Effective Date:

Premium: $

Termination Date:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the **[Bond Document] [Insurance Agreement]**.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to

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interest on a Bond, payable on the stated date for payment of interest. "Insurance Agreement" means the Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed $. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be cancelled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 501 NY (6/90)

SPECIMEN