OFFICIAL STATEMENT
Dated December 4, 2008

NEW ISSUE – BOOK-ENTRY-ONLY **RATINGS: (See "RATINGS" herein.)**

In the opinion of Co-Bond Counsel (named below), under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, interest on the 2008 Obligations (defined below) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the 2008 Obligations will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, REMIC, or FASIT) for purposes of computing its alternative minimum tax liability. See "TAX MATTERS" herein.

$160,065,000
CITY OF SAN ANTONIO, TEXAS
2008 OBLIGATIONS

Consisting of

$75,060,000 General Improvement Bonds, Series 2008	and	$85,005,000 Combination Tax and Revenue Certificates of Obligation, Series 2008

Date: December 1, 2008 **Due: August 1, as shown herein**

The $75,060,000 "City of San Antonio, Texas General Improvement Bonds, Series 2008" (the "2008 Bonds") are being issued by the City of San Antonio, Texas (the "City") pursuant to the Constitution and general laws of the State of Texas, particularly Chapters 1251 and 1331, Texas Government Code, as amended; an election held within the City on May 12, 2007; the Home Rule Charter of the City (the "City Charter"); and an ordinance adopted by the City Council of the City (the "City Council") on December 4, 2008. (See "THE 2008 OBLIGATIONS - Authority for Issuance of the 2008 Bonds" herein.)

The $85,005,000 "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2008" (the "2008 Certificates") are being issued by the City pursuant to the Constitution and general laws of the State of Texas, particularly the Certificate of Obligation Act of 1971, Chapter 271, Subchapter C, Texas Local Government Code, as amended; Chapter 1502, Texas Government Code, as amended; the City Charter; and an ordinance adopted by the City Council on December 4, 2008. (See "THE 2008 OBLIGATIONS - Authority for Issuance of the 2008 Certificates" herein.) The 2008 Bonds and 2008 Certificates are collectively referred to herein as the "2008 OBLIGATIONS."

Interest on the 2008 Obligations will accrue from December 1, 2008 and will be payable on February 1 and August 1 of each year, commencing August 1, 2009, until stated maturity or prior redemption thereof, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The 2008 Obligations 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 2008 Obligations will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the 2008 Obligations (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the 2008 Obligations. So long as the Securities Depository is the registered owner of the 2008 Obligations, the principal of and interest on the 2008 Obligations will be payable by The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners. (See "THE 2008 OBLIGATIONS - Book-Entry-Only System" herein).

The 2008 Obligations are payable from ad valorem taxes levied annually against all taxable property located within the City, within the limitations prescribed by law, including the constitutional tax limit of $2.50 per $100 of assessed valuation. The 2008 Certificates are additionally secured by a lien on and pledge of certain Pledged Revenues (defined herein) of the City's municipal parks system, not to exceed $1,000 during the entire period the 2008 Certificates or interest thereon remain outstanding, solely to permit the 2008 Certificates to be sold for cash. (See "THE 2008 OBLIGATIONS – Security" herein.)

Concurrently with the sale of the 2008 Obligations, the City sold its "City of San Antonio, Texas Tax Notes, Series 2008" in the principal amount of $15,320,000 (the "2008 Notes"). Although the 2008 Notes are payable from ad valorem taxes, this Official Statement describes only the 2008 Obligations.

SEE INSIDE COVER PAGE FOR MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE 2008 OBLIGATIONS

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*The 2008 Obligations are offered for delivery, when, as, and if issued and received by the initial purchasers named below (the "Underwriters"), and subject to the approving opinion of the Attorney General of the State of Texas and the opinions of Winstead PC and West & Associates, L.L.P.,both of San Antonio, Texas, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their co-counsel Andrews Kurth LLP, and Shelton & Valadez, P.C., and for the City by the City Attorney. (See "*LEGAL MATTERS*" herein.) It is expected that the 2008 Obligations will be available for initial delivery through the services of DTC on or about December 17, 2008.*

Siebert Brandford Shank & Co., LLC

Citi **J. P. Morgan**

SAMCO Capital Markets, Inc. **Southwestern Capital Markets, Inc.**

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS
(Due August 1)

$75,060,000
GENERAL IMPROVEMENT BONDS, SERIES 2008
(CUSIP No. [1] Prefix: 796237)

Stated Maturity	Principal Amount	Interest Rate (%)	Initial Yield (%)	CUSIP No.[1] Suffix:	Stated Maturity	Principal Amount	Interest Rate (%)	Initial Yield (%)	CUSIP No. [1] Suffix:
2011	$2,705,000	4.00	2.55	RU1	2020	$4,115,000	5.00	4.79 [2]	SD8
2012	2,810,000	4.00	2.91	RV9	2021	4,320,000	5.00	4.95 [2]	SE6
2013	2,925,000	5.00	3.13	RW7	2022	4,535,000	5.00	5.05	SF3
2014	3,070,000	5.00	3.36	RX5	2023	4,765,000	5.50	5.12 [2]	SG1
2015	3,225,000	5.00	3.58	RY3	2024	5,025,000	5.50	5.20 [2]	SH9
2016	3,385,000	5.00	3.84	RZ0	2025	5,300,000	5.50	5.29 [2]	SJ5
2017	3,555,000	5.00	4.09	SA4	2026	5,595,000	5.25	5.44	SK2
2018	3,730,000	5.00	4.30	SB2	2027	5,885,000	5.25	5.50	SL0
2019	3,920,000	5.00	4.55 [2]	SC0	2028	6,195,000	5.25	5.55	SM8

$85,005,000
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2008
(CUSIP No.[1] Prefix: 796237)

Stated Maturity	Principal Amount	Interest Rate (%)	Initial Yield (%)	CUSIP No. [1] Suffix:	Stated Maturity	Principal Amount	Interest Rate (%)	Initial Yield (%)	CUSIP No. [1] Suffix:
2009	$2,835,000	4.00	1.15	SN6	2019	2,925,000	5.00	4.55 [2]	TA3
2010	2,875,000	4.00	2.29	SP1	2020	1,725,000	4.75	4.79	TB1
2011	325,000	3.50	2.55	SQ9	2020	2,575,000	5.00	4.79 [2]	TC9
2011	2,670,000	4.00	2.55	SR7	2021	4,515,000	5.00	4.95 [2]	TD7
2012	3,110,000	3.50	2.91	SS5	2022	4,740,000	5.00	5.05	TE5
2013	3,220,000	3.50	3.13	ST3	2023	4,975,000	5.50	5.12 [2]	TF2
2014	3,330,000	4.00	3.36	SU0	2024	5,250,000	5.50	5.20 [2]	TG0
2015	3,465,000	4.00	3.58	SV8	2025	5,540,000	5.50	5.29 [2]	TH8
2016	3,605,000	4.25	3.84	SW6	2026	5,845,000	5.25	5.44	TJ4
2017	3,755,000	4.50	4.09	SX4	2027	6,150,000	5.25	5.50	TK1
2018	3,925,000	4.50	4.30	SY2	2028	6,470,000	5.25	5.55	TL9
2019	1,180,000	4.50	4.55	SZ9					

Optional Redemption: The 2008 Obligations having stated maturities on and after August 1, 2019, are subject to optional redemption in whole or in any part thereof, in the principal amounts of $5,000 or any integral multiple thereof on August 1, 2018, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. (See "THE 2008 OBLIGATIONS – Redemption Provisions" herein.)

[1] CUSIP numbers were assigned to the 2008 Obligations 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 2008 Obligations. Neither the City, the Underwriters, nor the Co-Financial Advisors shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

[2] Yield calculated based on the assumption that 2008 Obligations discounted and sold at a premium will be redeemed on August 1, 2018, the first optional call date, at a redemption price of par plus accrued interest to the redemption date.

CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL:

Name	Years on City Council	Term Expires	Occupation
Phil Hardberger, Mayor	3 Years, 6 Months	May 31, 2009	Retired, Appellate Court Judge
Mary Alice P. Cisneros, District 1	1 Year, 6 Months	May 31, 2009	Small Business Owner
Sheila D. McNeil, District 2	3 Years, 6 Months	May 31, 2009	Self Employed
Jennifer V. Ramos, District 3	11 Months	May 31, 2009	Self Employed
Philip A. Cortez, District 4	1 Year, 6 Months	May 31, 2009	Community Liaison
Lourdes Galvan, District 5	1 Year, 5 Months	May 31, 2009	Manager of Small Business
Delicia Herrera, District 6	3 Years, 6 Months	May 31, 2009	Self Employed
Justin Rodriguez, District 7	1 Year, 6 Months	May 31, 2009	Attorney
Diane G. Cibrian, District 8	1 Year, 5 Months	May 31, 2009	Small Business Owner
Louis E. Rowe, District 9	11 Months	May 31, 2009	President and CEO, Engineering Firm
John G. Clamp, District 10	1 Year, 6 Months	May 31, 2009	Small Business Owner

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Years in Current Position
Sheryl L. Sculley	City Manager	3 Years, 1 Month	3 Years, 1 Month
Pat DiGiovanni	Deputy City Manager	2 Years, 9 Months	2 Years, 9 Months
A.J. Rodriguez	Deputy City Manager	5 Months	5 Months
Frances A. Gonzalez	Assistant City Manager	24 Years, 2 Months	5 Years, 1 Month
Erik J. Walsh	Assistant City Manager	14 Years, 6 Months	2 Years, 10 Months
Penny Postoak Ferguson	Assistant City Manager	2 Years, 3 Months	2 Years, 3 Months
T.C. Broadnax	Assistant City Manager	2 Years	2 Years
Sharon De La Garza	Assistant City Manager	4 Years, 7 Months	8 Months
Richard Varn	Chief Information Officer	1 Year, 6 Months	1 Year
Michael D. Bernard	City Attorney	3 Years, 2 Months	3 Years, 2 Months
Leticia M. Vacek	City Clerk	4 Years, 6 Months	4 Years, 6 Months
Ben Gorzell, Jr.	Director of Finance	18 Years, 1 Month	2 Years, 6 Months
Peter Zanoni	Director of Management and Budget	11 Years, 8 Months	4 Years, 11 Months

CONSULTANTS AND ADVISORS:

Co-Bond Counsel	Winstead PC, San Antonio, Texas and West & Associates, L.L.P., San Antonio, Texas
Certified Public Accountant	Grant Thornton, LLP, Dallas, Texas*
Co-Financial Advisors	Coastal Securities, Inc., San Antonio, Texas and Estrada Hinojosa & Company, Inc., San Antonio, Texas

* Grant Thornton, LLP, the City's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Grant Thornton, L.L.P. also has not performed any procedures relating to this Official Statement.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

This Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall 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 any 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 2008 Obligations, 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 by the Co-Financial Advisors or the Underwriters and is not to be construed as a promise or guarantee of 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 shall under any circumstances create any implication that there has been no change in the information or opinions set forth hereinafter the date of this Official Statement.

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

THE AGREEMENTS OF THE CITY AND OTHERS RELATED TO THE 2008 OBLIGATIONS ARE CONTAINED SOLELY IN THE CONTRACTS DESCRIBED HEREIN. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER STATEMENT MADE IN CONNECTION WITH THE OFFER OR SALE OF THE 2008 OBLIGATIONS IS TO BE CONSTRUED AS CONSTITUTING AN AGREEMENT WITH THE PURCHASERS OF THE 2008 OBLIGATIONS. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE 2008 OBLIGATIONS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE 2008 OBLIGATIONS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE 2008 OBLIGATIONS 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 Underwriters, nor the Co-Financial Advisors make any representation or warranty with respect to the information contained in this Official Statement regarding DTC or its Book-Entry-Only System.

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Appendix C – Selected Portions of the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2007

The cover page, subsequent pages hereof, and appendices attached hereto, are part of this Official Statement.

OFFICIAL STATEMENT
Relating to the
$160,065,000
CITY OF SAN ANTONIO, TEXAS
2008 OBLIGATIONS
Consisting of

$75,060,000		**$85,005,000**
General Improvement Bonds,	**and**	**Combination Tax and Revenue**
Series 2008		**Certificates of Obligation, Series 2008**

INTRODUCTION

This Official Statement of the City of San Antonio, Texas (the "City") is provided to furnish information in connection with the sale of the "City of San Antonio, Texas General Improvement Bonds, Series 2008," in the principal amount of $75,060,000 (the "2008 Bonds") and the "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2008," in the principal amount of $85,005,000 (the "2008 Certificates"). The 2008 Bonds and the 2008 Certificates are collectively referred to herein as the "2008 OBLIGATIONS."

This Official Statement contains descriptions of the 2008 Obligations, the 2008 Bond Ordinance (defined herein), and the 2008 Certificate Ordinance (defined herein) (the 2008 Bond Ordinance and the 2008 Certificate Ordinance, collectively herein, the "2008 Ordinances"); and certain other information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City Finance Department, 111 Soledad, 5th Floor, San Antonio, Texas 78205; or from the City's Co-Financial Advisors, Coastal Securities, Inc., 600 Navarro, Suite 350, San Antonio, Texas 78205 and Estrada Hinojosa & Company, Inc., 100 West Houston Street, Suite 1400, San Antonio, Texas, 78205, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

PURPOSES AND PLAN OF FINANCING

Purpose of the 2008 Bonds

The 2008 Bonds are being issued to provide funds to: (1) finance the construction of general improvements to the City, including (a) streets, bridges and sidewalks; (b) drainage improvements; (c) parks, recreation, open space and athletics; (d) library improvements; and (e) public health facilities; and (2) pay the costs of issuance of the 2008 Bonds.

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

Sources and Uses of the 2008 Bonds

The following table summarizes the application of the proceeds resulting from the sale of the 2008 Bonds and the sources and uses of funds.

Sources of Funds	
Principal Amount of the 2008 Bonds	$75,060,000.00
Net Original Issue Premium	1,669,676.90
Accrued Interest	169,666.11
Total Sources of Funds	$76,899,343.01
Uses of Funds	
Construction Fund Deposit	$76,095,472.00
Interest and Sinking Fund Deposit	169,666.11
Costs of Issuance	191,165.27
Underwriters' Discount	443,039.63
Total Uses of Funds	$76,899,343.01

Purpose of the 2008 Certificates

The 2008 Certificates will be used for the purpose of providing for making permanent public improvements and for other public purposes, to-wit: (1) constructing, renovating, and improving the San Antonio River Channel to create a linear park from Hildebrand Avenue to Lexington Avenue and Alamo Street to Mission Espada including hiking and biking trails, landscaping, and lighting; (2) constructing a hike and bike trail along Salado Creek from Comanche Park to Willow Springs Golf Course and from Willow Springs Golf Course to Binz-Engelman Road; (3) construction of the pedestrian walkway along the San Antonio River Channel from Alamo Street to Guenther Street; (4) acquiring, constructing, and improving public safety facilities, including a fire station, satellite police substations, public safety headquarters, and other police and fire station facilities; (5) acquiring, constructing, and improving libraries; (6) constructing and improving the Briscoe Art Museum; (7) improving and weatherization of the Central Library; (8) demolition, constructing, and improving animal care facility and parking facilities; (9) constructing and improving City Service Centers; (10) demolition of the City Hall Annex and constructing parking facilities; (11) constructing and improving parking facilities at the Spanish Governor's Palace; (12) constructing, improving, and renovating health facilities; (13) constructing and improving community family resource learning centers; (14) constructing and improving municipal facilities; (15) demolition, constructing, and improving walkways, landings, and amenities along the Riverwalk; (16) constructing, improving, and renovating municipal golf courses; (17) constructing and improving parks, including Hemisfair Park; (18) constructing and improving Market Square; (19) acquiring, constructing, and improving land for Voelcker Park, including land in the area located between Blanco Road and N.W. Military Highway at Wurzbach Parkway; (20) constructing and improving parking facilities at the Witte Museum and Brackenridge Park; (21) constructing, improving, and renovating West End and Frank Garrett parks; (22) constructing, improving, and converting Hayes Street Bridge to a pedestrian and biking bridge; (23) constructing, improving, and renovating La Villita and Maverick Plaza; (24) replacing the flood control communication system; (25) constructing street improvements and drainage incidental thereto, including 36th Street from US 90 to Kelly USA Base (Port of San Antonio) entrance, Callaghan Road from Bandera Road to Ingram Road, Jones Maltsberger Road from US Hwy. 281 to Basse Road, streets within the Medical Center, Mission Road from Mitchell Road to Roosevelt Avenue, Roosevelt Avenue from Mission Road to St. Mary's Street, Alamo Street from Durango Boulevard to Alamo Plaza, Prue Road to Huebner Road, South New Braunfels Avenue from Southeast Military Drive to Loop 410 through Brooks City Base; (26) constructing and improving a bicycle trail along Avenue B from Lions Field to Millrace Road and Millrace Road to Josephine Street; (27) constructing and improving signage and delineation features from Alamo to Mission Espada; (28) constructing street improvements and drainage incidental thereto, in the Verano development necessary for access to the Texas A&M University campus; (29) purchasing material supplies, equipment, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, flood control, streets, libraries, utility infrastructure, and public works purposes; and (30) the payment of professional services related to the construction and financing of the aforementioned projects (to wit: architectural, engineering, financial advisory, and legal).

Sources and Uses of the 2008 Certificates

The following table summarizes the application of the proceeds resulting from the sale of the 2008 Certificates and the sources and uses of funds.

Sources of Funds	
Principal Amount of the 2008 Certificates	$85,005,000.00
Net Original Issue Premium/(Discount)	744,912.50
Accrued Interest	179,911.67
Total Sources of Funds	$85,929,824.17
Uses of Funds	
Project Fund Deposit	$85,052,000.00
Interest and Sinking Fund Deposit	179,911.67
Costs of Issuance	213,921.55
Underwriters' Discount	483,990.95
Total Uses of Funds	$85,929,824.17

Concurrent Issuance

Concurrently with its issuance of the 2008 Obligations, the City is also issuing, as a separate and distinct transaction, the City of San Antonio, Texas Tax Notes, Series 2008 (the "2008 Notes"). This Official Statement describes only the 2008 Obligations. The 2008 Obligations and the 2008 Notes, however, are considered the same issue for federal income tax purposes.

THE 2008 OBLIGATIONS

General Description

Interest on the 2008 Obligations accrues from December 1, 2008 and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The principal of and interest on the 2008 Obligations are payable in the manner described herein under "THE 2008 OBLIGATIONS - Book-Entry-Only System." In the event the Book-Entry-Only System is discontinued, the interest on the 2008 Obligations will be payable to the registered owner as shown on the security register (the "Register") maintained by The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, as the initial Paying Agent/Registrar, as of the fifteenth (15th) day of the month next preceding such interest payment date by check, mailed first-class, postage prepaid, to the address of such person on the Register, or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the 2008 Obligations will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the 2008 Obligations is a Saturday, 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 United States 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.

Authority for Issuance of the 2008 Bonds

The 2008 Bonds are issued pursuant to the Home Rule Charter of the City (the "City Charter"); the general laws of the State, particularly Chapters 1251 and 1331, Texas Government Code, as amended; an election held in the City on May 12, 2007; and the ordinance adopted by the City Council of the City (the "City Council") on December 4, 2008, authorizing the issuance of the 2008 Bonds (the "2008 Bond Ordinance").

Authority for Issuance of the 2008 Certificates

The 2008 Certificates are issued pursuant to the City Charter; the general laws of the State, including the Certificate of Obligation Act of 1971, as amended, Chapter 271, Subchapter C, Texas Local Government Code, and Chapter 1502, Texas Government Code, as amended; and the ordinance adopted by the City Council on December 4, 2008, authorizing the issuance of the 2008 Certificates (the "2008 Certificate Ordinance").

Security

Ad Valorem Tax Pledge

In the 2008 Ordinances, the City covenants that it will levy and collect an annual ad valorem tax within the limitations prescribed by law against all taxable property located within the City sufficient to meet the debt service requirements on the 2008 Obligations. The City had outstanding, as of September 30, 2008, $1,049,225,000 in principal amount of tax-supported obligations prior to the issuance of the 2008 Obligations. After effectuating delivery of the 2008 Obligations and 2008 Notes on or about December 17, 2008, the City's outstanding principal amount of indebtedness payable from ad valorem taxes will be $1,224,610,000, assuming no other obligations are issued prior to such date.

Tax Rate Limitations

The Texas Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed $2.50 for each $100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the $2.50 rate for interest and sinking fund purposes; however, the Texas Attorney General, who must approve the issuance of the 2008 Obligations, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% collections. In addition, the City Charter prohibits the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of any indebtedness secured in whole or in part by special assessments, exclusive of the debt of any improvement district, and exclusive of any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2008 Obligations does not result in the City's violation of these provisions.

Limited Net Revenue Pledge for the 2008 Certificates

Solely to comply with Texas law allowing the 2008 Certificates to be sold for cash, the 2008 Certificates are additionally secured by a lien on and pledge of a portion of the net revenues the City receives from its ownership and operation of its municipal parks system (the "System") in an amount not to exceed $1,000 (the "Pledged Revenues") during the entire period the 2008 Certificates or interest thereon remain outstanding. (Defined terms used in this paragraph are described and defined in the 2008 Certificate Ordinance.) Such lien on and pledge of Pledged Revenues, however, is subordinate and inferior to the lien on and pledge of the net revenues of the System securing any Revenue Obligations hereafter issued by the City, but prior and superior to the lien on and pledge of the Surplus Revenues, which are pledged to the payment of the City's currently outstanding Inferior Lien Obligations or any Additional Inferior Lien Obligations hereafter issued by the City. Additionally, the City previously authorized the issuance of the Limited Pledge Obligations that are payable from and secured by a lien on and pledge of a limited amount of the net revenues of the System in accordance with the ordinances authorizing the issuance of the Limited Pledge Obligations. The City has reserved the right to issue Revenue Obligations, Additional Limited Pledge Obligations, and Additional Inferior Lien Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

Even though the City has pledged the Pledged Revenues of the System to further secure the 2008 Certificates, the City does not expect that any net revenues from the System will actually be utilized to pay debt service requirements on the 2008 Certificates.

Perfection of Security

Chapter 1208, Texas Government Code, applies to the issuance of the 2008 Obligations and the pledge of the ad valorem taxes and revenues (as applicable) thereto, and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the 2008 Obligations are outstanding and unpaid, the result of such amendment being that the pledge of the ad valorem taxes and revenues (as applicable) is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the 2008 Obligations a security interest in such pledge, the City agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Redemption Provisions

Optional Redemption

The City reserves the right, at its sole option, to redeem 2008 Obligations stated to mature on or after August 1, 2019, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof on August 1, 2018, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The City will determine the maturity or maturities and the principal amount of the 2008 Obligations within each maturity to be redeemed. If less than all of the 2008 Obligations within a stated maturity are to be redeemed, the particular 2008 Obligations 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 2008 Obligations, or portions thereof, prior to stated maturity, the City must cause written notice of such redemption to be sent by United States mail, first-class, postage prepaid, to the registered owner of each of the 2008 Obligations or a portion thereof to be redeemed at its address as it appeared on the 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 2008 Obligations 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 2008 Obligations 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

The 2008 Obligations of a denomination larger than $5,000 may be redeemed in part ($5,000 or any integral multiple thereof). Any of the 2008 Obligations to be partially redeemed may be surrendered in exchange for one or more new 2008 Obligations 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 a Book-Entry-Only System is used for the 2008 Obligations, will send any notice of redemption, notice of proposed amendment to the 2008 Ordinances, or other notices with respect to the 2008 Obligations only to DTC (defined herein). Any failure by DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, will not affect the validity of the redemption of the 2008 Obligations called for redemption or any other action premised on any such notice. Redemption of portions of the 2008 Obligations by the City will reduce the outstanding principal amount of such 2008 Obligations held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such 2008 Obligations held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants may implement a redemption of such 2008 Obligations from the Beneficial Owners. Any such selection of 2008 Obligations to be redeemed will not be governed by the 2008 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 DTC Participants, Indirect Participants, or the persons for whom DTC Participants act as nominees, with respect to the payments on the 2008 Obligations or the providing of notice to DTC Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the 2008 Obligations for redemption. (See "THE 2008 OBLIGATIONS - Book-Entry-Only System" herein.)

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association, Dallas, Texas. In the 2008 Ordinances, 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 2008 Obligations are duly paid. In the 2008 Ordinances, 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 2008 Obligations. Upon a change in the Paying Agent/Registrar for the 2008 Obligations, the City will promptly cause written notice thereof to be sent to each registered owner of the 2008 Obligations by United States mail, first-class, postage prepaid.

Transfer, Exchange, and Registration

In the event the 2008 Obligations are not in the Book-Entry-Only System, the 2008 Obligations may be registered, transferred, assigned, and exchanged on the Register 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 2008 Obligation may be assigned by the execution of an assignment form on the 2008 Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new 2008 Obligation will be delivered by the Paying Agent/Registrar in lieu of the 2008 Obligations being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New 2008 Obligations issued in an exchange or transfer of 2008 Obligations 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 2008 Obligations 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 2008 Obligations 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 2008 Obligations surrendered for exchange or transfer. (See "THE 2008 OBLIGATIONS - Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the 2008 Obligations.)

Mutilated, Destroyed, Lost, or Stolen 2008 Obligations

The City has agreed to replace damaged, mutilated, destroyed, lost, or stolen 2008 Obligations upon surrender of the damaged or mutilated 2008 Obligations 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 2008 Obligations (1) during the period commencing at the close of business on the Record Date (as hereinafter defined) and ending at the opening of business on the next interest payment date and (2) with respect to the 2008 Obligations selected for redemption in whole or in part, within 45 days of the date fixed for redemption; provided, however, that this limitation

is not applicable to the transfer or exchange of the unredeemed balance of the 2008 Obligations called for redemption in part.

Defaults and Remedies

If the City defaults in the payment of principal, interest, or redemption price on the 2008 Obligations when due, or if it fails to make payments into any fund or funds created in the 2008 Ordinances, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the 2008 Ordinances, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the 2008 Obligations if there is no other available remedy at law to compel performance of the 2008 Obligations or 2008 Ordinances and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the 2008 Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The 2008 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 2008 Ordinances, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3rd 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the City for breach of the 2008 Obligations or the 2008 Ordinances. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the 2008 Obligations. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the 2008 Ordinances and the 2008 Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

Record Date for Interest Payment

The record date for determining the person to whom the interest is payable on any interest payment date (the "Record Date") is the fifteenth (15th) day of the month next preceding such interest payment date, as specified in the 2008 Ordinances. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new Record Date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a 2008 Obligation appearing on the Register at the close of business on the day next preceding the date of mailing of such notice.

Amendments

The City may, without the consent of or notice to any holders, from time to time and at any time, amend either of the 2008 Ordinances in any manner not detrimental to the interests of the holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of

holders holding a majority in aggregate principal amount of the Obligations then outstanding affected thereby, amend, add to, or rescind any of the provisions of the 2008 Ordinances; provided, however, that, without the consent of all holders of outstanding 2008 Obligations, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of and interest on the 2008 Obligations, reduce the principal amount thereof, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the 2008 Obligations, (2) give any preference to any 2008 Obligation over any other 2008 Obligation, or (3) reduce the aggregate principal amount of 2008 Obligations required for consent to any such amendment, addition, or rescission.

Defeasance

The 2008 Ordinances provide for the defeasance of the 2008 Obligations when the payment of the principal of the respective 2008 Obligations, 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) Government Securities, certified by an independent public accounting firm of national reputation to 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 payment. The 2008 Ordinances provide that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by 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 (ii) 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. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the City money in excess of the amount required for such defeasance.

Upon such deposit as described above, such 2008 Obligations will no longer be regarded as being outstanding or unpaid and no longer entitled to the rights and benefits afforded under the 2008 Ordinances; provided, however, that the City may reserve the option, to be exercised at the time of the defeasance of the 2008 Obligations, to call for redemption, at an earlier date, those 2008 Obligations which have been defeased to their maturity date, if the City (1) in the proceedings for the firm banking and financial arrangements, expressly reserves the right to call the 2008 Obligations for redemption; (2) gives notice of the reservation of that right to the owners of the 2008 Obligations immediately following the making of the firm banking and financial arrangements; and (3) directs that notice of the reservation be included in any redemption notices that it authorizes.

Payment Record

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

Book-Entry-Only System

This section describes how ownership of the 2008 Obligations is to be transferred and how the principal of and interest on the 2008 Obligations are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the 2008 Obligations are registered in its nominee name. 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, the Co-Financial Advisors and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the 2008 Obligations, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 2008 Obligations), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United

States 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 2008 Obligations. The 2008 Obligations will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for the 2008 Obligations in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for about 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 2008 Obligations under the DTC system must be made by or through Direct Participants, who will receive a credit for the 2008 Obligations on DTC's records. The ownership interest of each actual purchaser of the 2008 Obligations ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the 2008 Obligations 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 the 2008 Obligations, except in the event that use of the book-entry system for the 2008 Obligations is discontinued.

To facilitate subsequent transfers, all 2008 Obligations 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 2008 Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008 Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008 Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2008 Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2008 Obligations, such as: redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 2008 Obligations may wish to ascertain that the nominee holding the 2008 Obligations for their benefit has agreed to obtain and transmit notices to

Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices are provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2008 Obligations within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2008 Obligations unless authorized by a Direct Participant in accordance with DTC's MMI 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 2008 Obligations are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the 2008 Obligations 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 detailed information from the City or the Paying Agent/Registrar on the 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, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2008 Obligations purchased or tendered, through its Participant, to the Paying Agent/Registrar, and shall effect delivery of such 2008 Obligations by causing the Direct Participant to transfer the Participant's interest in the 2008 Obligations, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of 2008 Obligations in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2008 Obligations are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2008 Obligations to the Paying Agent/Registrar's DTC account.

DTC may discontinue providing its services as securities depository with respect to the 2008 Obligations at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, 2008 Obligations are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2008 Obligations will be printed and delivered to DTC.

So long as Cede & Co. is the registered owner of the 2008 Obligations, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or to the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the 2008 Obligations 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 2008 Obligations, 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 2008 Ordinances will be given only to DTC.

The following Tables 1A – 6 contain information on assessed valuation, debt payable from ad valorem taxes, estimated debt payable from ad valorem taxes, tax adequacy, indicated interest and sinking fund, ad valorem tax debt principal repayment schedule, and debt obligations – capital leases payable.

DEBT STATEMENT:
ASSESSED VALUATION, OUTSTANDING DEBT PAYABLE FROM AD VALOREM TAXES, AND DEBT RATIOS

Assessed Valuation [1] **Table 1A**

Tax Year 2008 Actual Market Value of Taxable Property			$83,909,309,357
Less:	Residence Homestead Exemptions - Optional 65 or Older	$ 4,307,883,346	
	Residence Homestead Exemptions - Disabled	125,061,885	
	Disabled/Deceased Veterans' Exemptions	193,111,133	
	Historical Property Exemptions	56,852,542	
	Freeport Goods Exemptions	549,400,457	
	Tax Abatement/Phase-In Exemptions	658,359,163	
	Residence Homestead Appraised Value 10% Limitations	579,086,313	
	Agricultural Productivity Loss	561,434,064	
	Pollution Control Exemptions	73,402,289	
	Low Income Housing Exemptions	33,376,657	
	Energy Exemptions	13,259,344	
	Absolute Exemptions	3,847,975,271	
	Pro-Rated Exemptions	18,289,630	
Total Exemptions		$11,017,492,094	
Tax Year 2008 Net Taxable Assessed Valuation (100% of Actual Market)[2]			$72,891,817,263

[1] See "AD VALOREM TAXATION" herein for a description of the City's taxation procedures. Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

[2] The City anticipates that the taxable assessed value of real property subject to the 65 years of age or older and disabled homeowners tax freeze (see "AD VALOREM TAXATION – Residential Homestead Exemptions") totals approximately $1,126,296,505, resulting in a fiscal year 2009 loss in ad valorem tax revenue of approximately $6,387,678.

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Debt Payable from Ad Valorem Taxes **Table 1B**

The Outstanding Ad Valorem Tax Debt (at 11/15/08)	
General Obligation Bonds	$ 726,770,000
Combination Tax and Revenue Certificates of Obligation	294,185,000
Taxable Combination Tax and Revenue Certificates of Obligation	225,000
Tax Notes	17,925,000
Taxable General Improvement Refunding Bonds[1]	10,120,000
Total Gross Outstanding Ad Valorem Tax Debt (at 11/15/08)	$ 1,049,225,000
The 2008 Tax Notes	$ 15,320,000
The 2008 Obligations	$ 160,065,000
Total Gross Outstanding Ad Valorem Tax Debt	$ 1,224,610,000
Less: Self-Supporting Debt [2]	64,005,000
Total Net Debt Payable from Ad Valorem Taxes	$ 1,160,605,000
Interest and Sinking Fund Balance at 9/30/07	$ 76,098,095
Ratio of Gross Debt to Actual Market Value [3]	1.46%
Ratio of Gross Debt to Net Taxable Assessed Value [3]	1.68%
Ratio of Net Debt to Actual Market Value [3]	1.38%
Ratio of Net Debt to Net Taxable Assessed Value [3]	1.59%
Tax Year 2008 Actual Market Value of Taxable Property [3]	$83,909,309,357
Tax Year 2008 Net Taxable Assessed Valuation (100% of Actual Market)[3]	$72,891,817,263
Per Capita 2008 Net Taxable Assessed Valuation [3, 4]	$ 54,632
Per Capita Gross Debt [4]	$ 918
Per Capita Net Debt [4]	$ 870

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[1] The "City of San Antonio, Texas Taxable General Improvement Refunding Bonds, Series 2008" (the "2008 Refunding Bonds") were issued on November 13, 2008 to discharge and refund all outstanding parking system revenue debt.

[2] To maintain this debt as self-supporting, payments will be made from Parking System Revenue, Solid Waste Management Fees, Advanced Transportation District Sales Tax Revenue, Police Confiscated Property Funds, Houston Street Tax Increment Financing Revenue, Brooks City-Base Tax Increment Financing Revenue, and proposed Mid-Town Tax Increment Financing Revenue. Includes the 2008 Refunding Bonds and the 2008 Certificates.

[3] Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008. See "AD VALOREM TAXATION" for a description of the City's taxation procedures, including determination of net assessed valuation.

[4] Based on the City's Department of Planning and Community Development estimated population of 1,334,244 as of September 1, 2008.

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Principal and Interest Requirements

Table 2

Fiscal Year	Existing Debt Service	The 2008 Notes Principal	The 2008 Notes Interest	The 2008 Notes Annual Debt Service	The 2008 Bonds Principal	The 2008 Bonds Interest	The 2008 Bonds Annual Debt Service	The 2008 Certificates Principal	The 2008 Certificates Interest	The 2008 Certificates Annual Debt Service	Total Debt Service Requirement
2009	$ 141,496,128	$ 2,415,000	$ 429,717	$ 2,844,717		$ 2,544,992	$ 2,544,992	$ 2,835,000	$ 2,698,675	$ 5,533,675	$ 152,419,512
2010	140,161,143	3,035,000	547,975	3,582,975		3,817,488	3,817,488	2,875,000	3,934,613	6,809,613	154,371,219
2011	140,599,475	3,160,000	426,575	3,586,575	$ 2,705,000	3,817,488	6,522,488	2,995,000	3,819,613	6,814,613	157,523,151
2012	118,674,050	3,295,000	291,075	3,586,075	2,810,000	3,709,288	6,519,288	3,110,000	3,701,438	6,811,438	135,590,851
2013	115,129,343	3,415,000	170,750	3,585,750	2,925,000	3,596,888	6,521,888	3,220,000	3,592,588	6,812,588	132,049,569
2014	98,658,960				3,070,000	3,450,638	6,520,638	3,330,000	3,479,888	6,809,888	111,989,486
2015	84,798,861				3,225,000	3,297,138	6,522,138	3,465,000	3,346,688	6,811,688	98,132,687
2016	69,171,405				3,385,000	3,135,888	6,520,888	3,605,000	3,208,088	6,813,088	82,505,381
2017	65,527,247				3,555,000	2,966,638	6,521,638	3,755,000	3,054,875	6,809,875	78,858,760
2018	65,514,026				3,730,000	2,788,888	6,518,888	3,925,000	2,885,900	6,810,900	78,843,814
2019	63,660,139				3,920,000	2,602,388	6,522,388	4,105,000	2,709,275	6,814,275	76,996,802
2020	60,333,420				4,115,000	2,406,388	6,521,388	4,300,000	2,509,925	6,809,925	73,664,733
2021	55,346,218				4,320,000	2,200,638	6,520,638	4,515,000	2,299,238	6,814,238	68,681,094
2022	53,032,338				4,535,000	1,984,638	6,519,638	4,740,000	2,073,488	6,813,488	66,365,464
2023	41,697,709				4,765,000	1,757,888	6,522,888	4,975,000	1,836,488	6,811,488	55,032,085
2024	34,396,844				5,025,000	1,495,813	6,520,813	5,250,000	1,562,863	6,812,863	47,730,520
2025	28,520,994				5,300,000	1,219,438	6,519,438	5,540,000	1,274,113	6,814,113	41,854,545
2026	24,391,575				5,595,000	927,938	6,522,938	5,845,000	969,413	6,814,413	37,728,926
2027	13,407,825				5,885,000	634,200	6,519,200	6,150,000	662,550	6,812,550	26,739,575
2028	13,410,075				6,195,000	325,238	6,520,238	6,470,000	339,675	6,809,675	26,739,988
	$1,427,927,775	$15,320,000	$1,866,092	$17,186,092	$75,060,000	$48,679,901	$123,739,901	$85,005,000	$49,959,394	$134,964,394	$1,703,818,162

Tax Adequacy	**Table 3**
2008 Net Taxable Assessed Valuation [1]	$72,891,817,263
Maximum Annual Debt Service Requirements, Fiscal Year Ended 2011	$157,523,150
Indicated Interest and Sinking Fund Tax Rate	$0.2216
Indicated Interest and Sinking Fund Tax Levy at 97.5% Collections	$157,490,060

[1] Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.
Note: See "TAX DATA" herein.

Interest and Sinking Fund Management Index	**Table 4**
Interest and Sinking Fund Balance, Fiscal Year Ended 2007	$ 76,098,095
2008 Actual Interest and Sinking Fund Rate	0.2115
2008 Interest and Sinking Fund Tax Levy at 97.5% Collections Produces [1]	150,312,039
Total Available for Debt Service	$226,410,134
Less: Ad Valorem Debt Service Requirements, Fiscal Year Ended 2009	152,419,511
Estimated Surplus at Fiscal Year Ended 2009	$ 73,990,623

[1] Does not include revenues derived from self-supporting debt operations, delinquent tax collections, penalties and interest on delinquent tax collections, or investment earnings.

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Ad Valorem Tax Debt Principal Repayment Schedule **Table 5**

Fiscal Year	Currently Outstanding Obligations	2008 Notes	2008 Bonds	2008 Certificates	Combined Principal	Obligations Remaining Outstanding End of Year	Percent of Principal Retired
2009	$ 91,885,000	$ 2,415,000		$ 2,835,000	$ 97,135,000	$1,127,475,000	7.93%
2010	94,435,000	3,035,000		2,875,000	100,345,000	1,027,130,000	16.12%
2011	99,375,000	3,160,000	$ 2,705,000	2,995,000	108,235,000	918,895,000	24.96%
2012	82,365,000	3,295,000	2,810,000	3,110,000	91,580,000	827,315,000	32.44%
2013	82,985,000	3,415,000	2,925,000	3,220,000	92,545,000	734,770,000	40.00%
2014	70,455,000		3,070,000	3,330,000	76,855,000	657,915,000	46.27%
2015	60,020,000		3,225,000	3,465,000	66,710,000	591,205,000	51.72%
2016	47,335,000		3,385,000	3,605,000	54,325,000	536,880,000	56.16%
2017	46,030,000		3,555,000	3,755,000	53,340,000	483,540,000	60.51%
2018	48,335,000		3,730,000	3,925,000	55,990,000	427,550,000	65.08%
2019	48,880,000		3,920,000	4,105,000	56,905,000	370,645,000	69.73%
2020	47,935,000		4,115,000	4,300,000	56,350,000	314,295,000	74.33%
2021	45,260,000		4,320,000	4,515,000	54,095,000	260,200,000	78.75%
2022	45,170,000		4,535,000	4,740,000	54,445,000	205,755,000	83.19%
2023	35,820,000		4,765,000	4,975,000	45,560,000	160,195,000	86.91%
2024	30,080,000		5,025,000	5,250,000	40,355,000	119,840,000	90.21%
2025	25,495,000		5,300,000	5,540,000	36,335,000	83,505,000	93.18%
2026	22,395,000		5,595,000	5,845,000	33,835,000	49,670,000	95.94%
2027	12,180,000		5,885,000	6,150,000	24,215,000	25,455,000	97.92%
2028	12,790,000		6,195,000	6,470,000	25,455,000	0	100.00%
	$1,049,225,000	$15,320,000	$75,060,000	$85,005,000	$1,224,610,000		

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Debt Obligations – Capital Leases Payable **Table 6**

The City has entered into various lease purchase agreements for the acquisition of various fire trucks, golf cars, printers, an inventory theft detection system, self-contained breathing apparatus, hybrid vehicles, a mainframe computer, electrocardiograms, refuse collection containers, refuse collection trucks, brush grappler trucks, and brush tractor/trailer combinations. Shown below is the gross value of the assets at September 30, 2008. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. The following is a schedule of the projected remaining future minimum lease payments under these capital leases together with the net minimum lease payments as of September 30, 2008.

Description	Lease Termination Date	Minimum Lease Payment	Amount Representing Interest	Total Minimum Lease Payments
Heidelberg Printer	11/1/2008	$ 18,917	$ 161	$ 19,078
Garbage Containers	5/1/2009	50,280	673	50,953
Refuse Collection Containers	11/1/2009	845,372	22,034	867,406
Self-Contained Breathing Apparatus	5/1/2010	422,772	13,250	436,022
Mainframe Computer System and Software	5/1/2010	535,740	16,791	552,531
One Platform Truck	8/1/2010	264,079	9,777	273,856
Electric Golf Cars	11/1/2010	1,010,363	49,633	1,059,996
One Pumper Truck, Four Aerial Trucks, and One Partial Aerial Truck	2/1/2011	1,725,488	101,687	1,827,175
Five Aerial Trucks	2/1/2011	1,657,159	97,290	1,754,449
13 Electrocardiograms	5/1/2011	90,449	5,461	95,910
154,587 Refuse Containers	8/1/2011	7,693,158	380,178	8,073,336
19 Pumper Trucks	11/1/2011	4,781,115	303,929	5,085,044
Library Theft Detection System Phase I	8/1/2012	813,884	63,797	877,681
Library Theft Detection System Phase II	2/1/2013	763,809	69,442	833,251
Hybrid Vehicles	5/1/2013	600,615	49,984	650,599
Automated Sideload and Manual Rearload Refuse Collection Trucks	11/1/2013	913,060	94,946	1,008,006
17 Refuse Collection Trucks, 5 Brush Grappler Trucks, and 10 Brush Tractor/Trailers	11/1/2015	5,443,291	827,984	6,271,275
Total		$27,629,551	$2,107,017	$29,736,568

The adopted budget for fiscal year 2009 includes appropriations for lease purchase arrangements to acquire refuse collection trucks (diesel and compressed natural gas), personal protective equipment, additional components of an inventory theft detection system for the City's Library Department, and printers and related components for the City's Purchasing Department. The funding for these lease purchase arrangements is anticipated to occur in fiscal year 2009.

On May 15, 2001, the City became obligated to pay $14,465,000 in lease revenue bonds issued through the City of San Antonio, Texas Municipal Facilities Corporation (the "Corporation") to provide funds for the construction of the "One Stop Development Services Center," a municipal office facility. The City and the Corporation entered into a lease whereby the Corporation agreed to cause such facility to be built and leased by the City, and the City agreed to annually appropriate funds to pay lease payments sufficient to pay principal and interest on the bonds when due. The lease commenced on May 15, 2001 and the City has budgeted $1.182 million for principal and interest payments during fiscal year 2009.

The table below shows the debt service schedule for the aforementioned bonds. In addition to the debt service on these bonds, the lease payments include other expenses related to the operation and maintenance of the facility.

Fiscal Year Ended 09/30	Principal	Interest	Annual Debt Service
2009	$ 670,000	$ 512,930.00	$ 1,182,930.00
2010	695,000	483,785.00	1,178,785.00
2011	725,000	452,857.50	1,177,857.50
2012	760,000	420,232.50	1,180,232.50
2013	800,000	384,892.50	1,184,892.50
2014	835,000	346,492.50	1,181,492.50
2015	875,000	305,577.50	1,180,577.50
2016	920,000	261,827.50	1,181,827.50
2017	965,000	215,367.50	1,180,367.50
2018	1,015,000	166,152.50	1,181,152.50
2019	1,065,000	113,880.00	1,178,880.00
2020	1,125,000	58,500.00	1,183,500.00
	$10,450,000	$3,722,495.00	$14,172,495.00

AD VALOREM TAXATION

Authority to Levy Ad Valorem Taxes; Tax Rate Limitations

The City is authorized to levy an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City in an amount sufficient to pay the principal of and interest on debt payable therefrom. The City is also authorized to levy an annual ad valorem tax for operations and maintenance purposes. The maximum rate that may be levied by the City for all City purposes is $2.50 per $100 assessed valuation as provided in Article XI, Section 5 of the Texas Constitution and as provided in the City Charter, which adopts this constitutional limitation. No direct funded debt limitation is imposed on the City under current Texas law; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of general obligation debt payable from ad valorem taxes by a municipality, such as the City, if the issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% of collections. In addition, the City Charter provides that the total debt payable from ad valorem taxes of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2008 Obligations does not violate these limitations. (See “DEBT AND TAX RATE LIMITATIONS” herein.)

Texas Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code, located at Title 1, Texas Tax Code, as amended (the “Property Tax Code”), specifies the taxing procedures of all political subdivisions of the State, including the City. The provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Bexar Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units within Bexar County. Two and one half (2½) acres of the City’s taxable property lie in Comal County. The Comal Appraisal District has the responsibility for appraising property for all taxing units within Comal County. Such appraisal values are subject to review and change by the Bexar Appraisal Review Board and the Comal Appraisal Review Board.

Once an appraisal roll is prepared and approved by the Bexar Appraisal Review Board, it is used by the City in calculating its tax rates and preparing a tax roll. Assessments under the Property Tax Code are based on 100% of appraised value. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan shall provide for reappraisal of all real property at least once every three years.

The City, by resolution adopted by its governing body, may require the Appraisal District to appraise all property within the City or to identify and appraise newly annexed territory and new improvements in the City as of a date specified in the resolution. The City must pay the Appraisal District for the cost of making such an appraisal. While such a current estimate of appraised value may serve to indicate the growth of taxable values within the City, it may not be used by the City as the basis for the imposition of property taxes.

Under certain circumstances, taxpayers and taxing units (such as the City) may appeal the orders of the Bexar Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Property Subject to Taxation by the City

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible property with a tax status in the City is subject to taxation by the City. Principal categories of exempt property include, but are not limited to, property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; implements of husbandry that are used in the production of ranch and farm products; family supplies for home or farm use; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, certain community housing development organizations' property, and qualified schools; designated historical sites; and tangible personal property not held for the production of income (unless the City elects to tax such tangible personal property).

Residential Homestead Exemptions

The Property Tax Code authorizes the governing body of each political subdivision in the State, at its option, to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. The City may be required to offer such an exemption if a majority of voters approve it at an election. The City would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of this additional residence homestead exemption may be considered each year, but must be adopted by July 1. Additionally, the City may grant an exemption to an individual who is disabled or is 65 years of age or older in a fixed amount of no less than $3,000 of assessed value. The City currently grants a $65,000 residential homestead exemption to persons 65 years of age or older effective immediately upon their 65th birthday and a $12,500 residential homestead exemption to persons who meet the Social Security Administration definition for disabled.

Disabled/Deceased Veterans' Exemptions

The Property Tax Code mandates that a disabled veteran or certain surviving dependents are entitled to an exemption from taxation of a portion of the assessed value of a property they own. The amount of this exemption ranges from $5,000 to $12,000 and the exemption amount is based on the disability rating of the veteran as certified by the Veterans' Administration.

Historical Property Exemptions

The City has granted an exemption to historically significant sites in need of tax relief to encourage preservation. Commercial buildings that meet definitions of historical sites and that have been substantially rehabilitated or restored will be exempt from taxation by the City for five tax years, and thereafter, will be taxed by the City at 50% of current assessed value for an additional five years. For the purposes of levying taxes, residential buildings meeting the definition of historical sites and having been substantially rehabilitated or restored will for a period of ten years retain the property value assessed prior to such rehabilitation or restoration.

Historical Preservation Area Exemptions

The City offers a 20% tax exemption for owner-occupied residences located within new local historic districts. The exemption is effective on the first day of historic district designation and extends for a maximum of 15 years (ten years plus a five-year extension). The purpose of the exemption is to offset any potential property tax increases and to limit gentrification in the district, a term which refers to the effect of forcing lower-income residents in a neighborhood to move, which often includes a higher proportion of elderly residents, because of higher property taxes. Property taxes may or may not increase as a result of historic designation. The Bexar County Appraisal District does not automatically increase the assessed valuations of designated properties. Appraisals are based upon real estate market factors that affect consumer demand in an area, of which historic designation is one.

Freeport Goods Exemptions

"Freeport goods" are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and other petroleum products, which have been acquired or brought into the State for assembling, storing, manufacturing, repair, maintenance, processing, or fabricating, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the State within 175 days. The City has elected to allow the exemption of Freeport goods from taxation.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit," defined by a new provision to the Property Tax Code, effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. The Property Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the first year in which goods-in-transit are proposed to be taxed, and after holding a public hearing, to take official action to tax goods-in-transit during the following tax year and to continue to tax those goods until the action authorizing such taxation is rescinded or repealed. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

The City currently taxes certain tangible personal property that does not qualify for the freeport exemption, but would qualify for the goods-in-transit exemption. As such, the City adopted an ordinance on December 6, 2007 that provides for the continued taxation of this tangible personal property for the 2008 tax year and beyond.

Tax Phase-In Agreements

The City may designate areas within the City as a reinvestment zone. Thereafter, the City may enter into a tax phase-in agreement with owners of property within the zone. Before entering into a tax phase-in agreement, each entity must adopt guidelines and criteria for establishing tax phase-ins in the zone, which each entity with taxing authority over the designated property will follow in granting tax phase-ins. The tax phase-in agreement may exempt from ad valorem taxation all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed. The property is exempt on the condition that the property owner makes specified improvements or repairs to the property in conformity with the terms of the tax phase-in agreement. The agreement may include each of the applicable taxing jurisdictions, including the City, for a period of up to 10 years. The respective City and Bexar County tax phase-in agreements are

not required to be substantially the same, with the exception of projects located in a State-designated enterprise zone. Since 1989, the City has entered into 79 tax phase-in agreements; 42 are active and 37 have expired or are inactive. The City anticipates that the taxable assessed value of real property subject to Tax Abatement/Phase-In Exemptions totals approximately $658,359,163, resulting in a Fiscal Year 2009 loss in ad valorem tax revenue of approximately $3,733,818.

The following table depicts, as of June 30, 2008, 42 active tax phase-in agreements:

Active Tax Phase-In Agreements

Company	Phase-In Period	Phase-In Term (Years)	Percent of Phase-In (Type of Property)
Capital Group/American Funds	1999-2008	10	Real & Personal @ 100%
Boeing Aerospace	1999-2008	10	Personal @ 90%
LCWW Partners (Westin La Cantera Resort Hotel)	1999-2008	10	Personal @ 100%
HEB (Meat Packing)	2004-2009	6	Real @ 100%
S.A. Aerospace	2001-2010	10	Real @ 100%
Chase Bank Credit Card Services – Phase 1	2001-2010	10	Personal @ 100%
Chase Bank Credit Card Services – Phase 2	2002-2011	10	Real & Personal @ 100%
Chase Bank Credit Card Services – Phase 3	2002-2011	10	Real & Personal @ 100%
Chase Bank Credit Card Services – Phase 4	2002-2011	10	Personal @ 100%
H.B. Zachry	2002-2011	10	Real @ 100%
First Health	2006-2011	6	Real @ 100%
CEDRA Clinical Research, LLC	2006-2011	6	Real @ 100%
MedLine	2003-2012	10	Real @ 100%
Texas Machining Enterprises II, L.L.P.	2003-2012	10	Real & Personal @ 100%
Karta Technologies, Inc.	2007-2012	6	Real @ 100%
Maxim Integrated Products	2005-2014	10	Real & Personal @ 100%
DPT	2006-2015	10	Real & Personal @ 100%
Washington Mutual Bank	2006-2015	10	Personal @ 100%
Ark, Inc.	2007-2016	10	RPIS* @ 80%
Avanzar Interior Technologies, Ltd.	2007-2016	10	RPIS* @ 100%
Curtis-Maruyasu America, Inc.	2007-2016	10	RPIS* @ 100%
Futaba Industrial Texas Corp.	2007-2016	10	RPIS* @ 80%
Green Metals, Inc.	2007-2016	10	RPIS* @ 80%
HERO Assemblers, LP	2007-2016	10	RPIS* @100%
HERO Logistics, LP	2007-2016	10	RPIS* @ 80%
Kautex, Inc.	2007-2016	10	RPIS* @ 100%
Metakote Corporation	2007-2016	10	RPIS* @ 80%
Metalsa Light Truck, Inc.	2007-2016	10	RPIS* @ 80%
Millennium Steel of Texas, LP	2007-2016	10	RPIS* @ 100%
Reyes Automotive Group, LLC	2007-2016	10	RPIS* @ 80%
Reyes-Amtex Automotive, LLC	2007-2016	10	RPIS* @ 80%
Takumi Stamping Texas, Inc.	2007-2016	10	RPIS* @ 80%
Tenneco Automotive Services Texas, Inc.	2007-2016	10	RPIS* @ 80%
Toyoda Gosei Texas, LLC	2007-2016	10	RPIS* @ 80%
Toyotetsu Texas, Inc.	2007-2016	10	RPIS* @ 80%
Vutex, Inc.	2007-2016	10	RPIS* @ 80%
Lowe's Home Centers, Inc	2008-2017	10	Real & Personal @ 100%
Sino Swearingen	2008-2017	10	Real & Personal @ 100%

(Table continues on next page.)

Company	Phase-In Period	Phase-In Term (Years)	Percent of Phase-In (Type of Property)
Vistana, Ltd	2008-2017	10	Real @ 100%
Higuchi Manufacturing Company, Ltd	2008-2017	10	Real @ 100%
Microsoft Corporation	2008-2017	10	Real & Personal @ 100%
Tindall Corporation [1]	2009-2018	10	Real @ 100% & Personal @ 50%

*RPIS: Real and Personal Property Improvements, Inventory and Supplies.

[1] The Tindall Corporation contract is a 10-year term beginning January 1 following substantial completion of property improvements. The Base Year Value of the contract was effective as of January 1, 2008.

Residence Homestead Appraised Value 10% Limitations

All real and personal property of the City within Bexar County must be appraised by the Appraisal District at market value as of January 1 of each year. State law, however, provides for limitations on appraised value of residential homesteads. The appraised value of a residential homestead may not exceed the lesser of:

1. the market value of the property or
2. the sum of:
   a. 10% of the appraised value of the property for the last year in which the property was appraised times the number of years since the property was last appraised;
   b. the appraised value of the property for the last year in which the property was appraised; and
   c. the market value of all new improvements to the property.

Agricultural Productivity Loss

The Property Tax Code also provides special appraisal of open-space land devoted to farm, ranch, or wildlife management purposes on the basis of its productive capacity rather than its market value. If the open space designation is lost by changing the use of the property, the City can impose taxes on the land equal to the difference between the taxes imposed on the land for each of the five years preceding the year in which the change of use occurs and the tax that would have been imposed had the land been taxed on the basis of market value.

Pollution Control Exemptions

Real or personal property used wholly or partly as a facility, device, or method for the control of air, water, or land pollution is exempt from ad valorem taxation. Property used for residential purposes is ineligible for this exemption.

Low Income Housing Exemptions

An organization is exempt from ad valorem taxation of improved or unimproved real property if the organization owns the property for the purpose of building or repairing housing on the property to sell without profit to a low/moderate income individual/family or to rent without profit to such an individual/family.

Energy Exemptions

A person is entitled to an exemption from taxation of the amount of appraised value of his property that arises from the installation or construction of a solar or wind-powered energy device that is primarily for production and distribution of energy for on-site use.

Absolute Exemptions

Property owned by the following organizations is exempt from ad valorem taxation:

1. Property exempt from taxation by federal law.

2. Property owned by the State or political subdivisions of the State (municipalities, counties, etc.) if the property is used for public purposes.
3. Property owned by a school, operated primarily for the purpose of engaging in educational functions and organized as a nonprofit corporation.
4. Property held for non-profit entity and used exclusively for human burial (cemeteries).
5. Property owned by an organization that qualifies as a religious organization.
6. Property owned by organizations engaged primarily in performing charitable functions.

Pro-Rated Exemptions

If the federal government, the State, or a political subdivision of the State acquires title to taxable property, the amount of the tax due on the property is calculated by multiplying the amount of taxes imposed on the property for the entire year by a fraction, the denominator of which is 365 and the numerator of which is the number of days that elapsed prior to the date of the conveyance.

Effective Tax Rate and Rollback Tax Rates

The City must annually calculate and publicize its "effective tax rate" and "rollback tax rate." The City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City, by submission of a valid petition, may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (adjusted) divided by the anticipated tax collection rate.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Taxpayer Remedies

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda, which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

By the later of September 30 or 60 days after the certified appraisal roll is delivered to the City, the rate of taxation is adopted by the City Council based upon the taxable valuation of property within the City as of the preceding January 1. The City has 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 taxes are due and payable on October 1 and considered delinquent if not paid by the following January 31. A delinquent tax incurs a penalty of 6% for the first calendar month it is delinquent, plus 1% for each of the following four months, and 2% for the sixth month it is delinquent, for a total of 12%. A delinquent tax also incurs interest at the rate of 1% per month until paid in full. If a tax is not paid before July 1 of the year in which it becomes delinquent, the tax incurs an additional fee of up to 20% to offset the costs of collection.

The City does not allow for discounts for early payment, but does allow for split payment of property taxes (one-half before December 1, and the remaining one-half without penalty and interest before July 1 of the following year). The City also allows for installment payments for homeowners who are disabled or at least 65 years of age and who qualify for the residential homestead exemption (one-fourth before January 31, one-fourth before April 1, one-fourth before June 1, and the remaining one-fourth before August 1).

City's Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. The City's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem a residence homestead property within two years after the purchaser's deed is filed for record) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Tax Increment Reinvestment Zone Financing

The City has approved a "TIF Manual" for the utilization of Tax Increment Financing ("TIF") and the creation of Tax Increment Reinvestment Zones ("TIRZ") pursuant to Chapter 311 of the Texas Tax Code, as amended. Since 1998, the City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs for public infrastructure related to economic development, commercial, and residential projects. As of September 30, 2008, there are 22 existing TIRZ with a total taxable captured value of $840,122,063. For Fiscal Year 2008, this total taxable captured value produced $4.5 million in tax increment revenues for use by the City to pay for the capital costs of certain public infrastructure improvements in the TIRZ. The existing TIRZ have terms ranging from 10 years to 30 years which are anticipated to expire starting in Fiscal Year 2009 through Fiscal Year 2032. It is estimated that the City will contribute approximately $400 million in tax increment revenues over the 30 years for these TIRZ projects. The existing TIRZ are referred to as the Rosedale, Highland Heights, New Horizons, Mission Del Lago, Brookside, Houston Street, Stablewood Farms, Inner City, Plaza Fortuna, Lackland Hills, Sky Harbor, North East Crossing, Brooks City Base, Mission Creek, Hallie Heights, Heathers Cove, Ridge Stone, Palo Alto Trails, Hunters Pond, Rosillo Ranch, River North, and Verano Projects.

DEBT AND TAX RATE LIMITATIONS

No direct debt limitation is imposed on the City under current Texas law; however, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. In addition, Article XI, Section 5 of the State Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes.

The City Charter adopts this constitutional provision. The Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% collection. The issuance of the 2008 Obligations will not exceed the above described limits or violate the Texas Attorney General's administrative policy.

The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt may be issued to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding bonds, certificates of obligation, tax anticipation notes, and public property finance contractual obligations.
- Certificates of obligation may be issued for the purpose of paying contractual obligations incurred in the construction of public works or the purchase of land, materials, and other supplies or services for the City's needs and for professional services without an election except under certain circumstances. The certificates of obligation may be refunded by ad valorem tax-supported bonds without an election. In addition, the City may issue certificates of obligation with a pledge of both tax and revenues derived from the operation of the facility to be acquired, or from any other lawful source, provided that the City otherwise has the right to pledge the revenues involved. Authority for the issuance of certificates of obligation is subject to notice by publication and right of referendum by the voters.
- Contractual obligations, generally to finance personal property, and tax anticipation notes payable from ad valorem taxes; may be issued for capital improvements. The contractual obligations and tax anticipation notes may be refunded by ad valorem tax-supported bonds without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Tax anticipation notes are limited to seven years amortization or less.
- Revenue bonds may be issued for certain purposes which include the financing of the water, municipal drainage and sanitary sewer systems, electric and gas systems, convention centers, airports and parking systems, and other economic development projects. The revenue bond indebtedness is not considered in determining the legal debt margin on ad valorem tax-supported obligations. Revenue bond indebtedness, in certain cases, can be refunded by ad valorem tax-supported bonds without an election.

Tax Data **Table 7**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation [1]	Tax Rate	Tax Levy	Percent Collections Current	Percent Collected Total
1999	2000	$33,315,478,862	$0.57979	$193,159,815	98.14%	99.84%
2000	2001	36,033,321,329	0.57979	208,917,594	97.89	99.30
2001	2002	39,587,584,280	0.57854	229,030,010	97.78	99.25
2002	2003	41,535,547,008	0.57854	240,299,754	97.78	99.23
2003	2004	44,583,138,927	0.57854	257,931,292	97.96	99.58
2004	2005	46,481,974,620	0.57854	268,916,816	98.32	100.27
2005	2006	49,868,955,425	0.57854	288,511,855	98.43	100.29
2006	2007	56,767,701,702	0.57854	326,326,395	98.43	99.67
2007	2008	65,954,866,793	0.57230	372,822,531	98.41	99.75
2008	2009	72,891,817,263 [2]	0.56714	407,010,974	In Process of Collection	

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
[2] Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

Tax Rate Distribution — Table 8

Tax Rate	Fiscal Year Ended September 30				
	2009 [1]	2008	2007	2006	2005
General Fund	$0.35564	$0.36080	$0.36704	$0.36704	$0.36704
Interest and Sinking Fund	0.21150	0.21150	0.21150	0.21150	0.21150
Total Tax Rate	$0.56714	$0.57230	$0.57854	$0.57854	$0.57854

[1] FY 2009 General Fund tax rate was reduced by $0.00516 to offset a transfer of the San Antonio Metropolitan Health Department health clinics to University Health System.

Principal Taxpayers — Table 9

Name	Type of Property	FY 2008 Taxable Assessed Valuation	Percent of FY 2008 Taxable Assessed Valuation
H.E. Butt Grocery Company	Retail/Grocery	$ 793,539,174	1.09%
Toyota Motor Manufacturing Texas	Automobile Manufacturer	551,362,277	0.76
VHS San Antonio Partners LP	Hospital/Healthcare	404,849,190	0.56
AT&T	Telecommunications	374,235,968	0.51
Hyatt Regency Hotels	Hotel Chain	355,942,616	0.49
United Services Automobile Association	Insurance/Banking	349,107,830	0.48
Wal-Mart Stores, Inc.	Retail/Grocery	343,968,939	0.47
Marriott Corporation	Hotel Chain	334,768,492	0.46
La Cantera Retail LTD Partnership	Shopping Center	170,770,750	0.23
Alamo Stonecrest Holdings	Shopping Center	145,171,245	0.20
Total		$3,823,716,481	5.25%

Net Taxable Assessed Valuation for Tax Years 1999-2008 — Table 10

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation [1]	Change From Preceding Year	
			Amount	Percent
1999	2000	$33,315,478,862	---	---
2000	2001	36,033,321,329	$2,717,842,467	8.16%
2001	2002	39,587,584,280	3,554,262,951	9.86
2002	2003	41,535,547,008	1,947,962,728	4.92
2003	2004	44,583,138,927	3,047,591,919	7.34
2004	2005	46,481,974,620	1,898,835,693	4.26
2005	2006	49,868,955,425	3,386,980,805	7.29
2006	2007	56,767,701,702	6,898,746,277	13.83
2007	2008	65,954,866,793	9,187,165,091	16.20
2008	2009	72,891,817,263 [2]	6,936,950,470	10.52

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
[2] Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

Net Taxable Assessed Valuation and Ad Valorem Tax Debt **Table 11**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation [1]	Ad Valorem Gross Debt	Debt Ratios Percent
1999	2000	$33,315,478,862	$ 780,378,108	2.34%
2000	2001	36,033,321,329	768,693,108	2.13
2001	2002	39,587,584,280	838,428,108	2.12
2002	2003	41,535,547,008	881,038,108	2.12
2003	2004	44,583,138,927	821,843,108	1.84
2004	2005	46,481,974,620	872,090,124	1.88
2005	2006	49,868,955,425	850,300,000	1.71
2006	2007	56,767,701,702	945,755,000	1.67
2007	2008	65,954,866,793	1,039,105,000	1.58
2008	2009	72,891,817,263 [2]	1,127,475,000	1.55

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
[2] Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

Authorized but Unissued Ad Valorem Tax Debt **Table 12**

Date of Authorization	Improvements	Amount Authorized	Debt Issued To Date[1]	2008 Bonds	Debt Authorized But Unissued
5/12/2007	Streets, Bridges, and Sidewalks	$306,997,413	$ 27,641,000	$44,605,413	$234,751,000
5/12/2007	Drainage	152,051,818	16,692,528	19,118,290	116,241,000
5/12/2007	Parks, Recreation, Open Space, and Athletics	79,125,293	59,251,000	8,936,293	10,938,000
5/12/2007	Library	11,025,476	5,088,000	3,310,476	2,627,000
5/12/2007	Public Health Facilities	800,000	675,000	125,000	-0-
		$550,000,000	$109,347,528	$76,095,472 [2]	$364,557,000

[1] $43.5 million were issued as "City of San Antonio, Texas, Tax Notes, Series 2007," which the City counted against its voted general obligation authorization.
[2] Includes $1,035,472 in net reoffering premium allocated against voted authorization.

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Classification of Assessed Valuation

Table 13

	Fiscal Year 2009 [1]	% of Total	Fiscal Year 2008	% of Total	Fiscal Year 2007	% of Total	Fiscal Year 2006	% of Total	Fiscal Year 2005	% of Total
Real, Residential, Single-Family	$42,423,851,754	50.56	$40,006,543,413	52.32	$34,474,233,006	53.01	$30,761,632,234	54.21	$28,522,603,105	55.04
Real, Residential, Multi-Family	6,374,028,444	7.60	5,360,265,494	7.01	4,315,228,900	6.64	3,795,667,205	6.69	3,111,991,529	6.00
Real, Vacant Lots/Tracts	2,184,595,879	2.60	1,766,364,236	2.31	1,201,167,255	1.85	896,748,745	1.58	1,148,225,953	2.22
Real, Acreage (Land Only)	1,962,814,786	2.34	1,636,372,062	2.14	810,546,430	1.24	606,403,394	1.07	617,964,288	1.19
Real, Farm and Ranch Improvements	28,192,817	0.03	30,586,394	0.04	22,546,014	0.03	18,599,326	0.03	13,675,489	0.02
Real, Commercial	19,005,708,274	22.65	16,203,142,056	21.19	13,667,670,211	21.02	11,764,992,536	20.73	10,851,533,970	20.94
Real, Industrial	795,642,107	0.95	749,366,645	0.98	365,995,100	0.56	354,663,906	0.63	309,271,374	0.60
Real, Minerals Oil and Gas	-0-	0.00	459,910	0.00	280,560	0.00	166,660	0.00	39,040	0.00
Real and Tangible Personal Utilities	496,330,696	0.59	542,908,488	0.71	511,600,850	0.79	528,221,546	0.93	550,530,280	1.06
Tangible Personal, Commercial	6,916,437,114	8.24	6,354,323,289	8.31	5,710,337,902	8.78	5,176,198,004	9.12	5,067,130,053	9.78
Tangible Personal, Industrial	2,050,249,546	2.44	2,003,408,408	2.62	1,470,270,661	2.26	1,299,607,879	2.29	1,200,010,400	2.32
Tangible Personal, Mobile Homes	89,893,062	0.11	99,405,779	0.13	96,111,850	0.15	96,339,510	0.17	98,392,969	0.19
Real Property, Inventory	234,548,180	0.28	237,044,551	0.31	195,850,078	0.30	198,819,688	0.35	191,479,359	0.37
Special Inventory Tax	346,448,620	0.41	321,157,134	0.42	280,856,850	0.43	252,524,270	0.44	22,990	0.00
Exempt Property	1,000,568,078	1.19	1,154,636,362	1.51	1,910,930,577	2.94	1,000,322,338	1.76	141,337,410	0.27
Total Assessed Value	$83,909,309,357	100.00	$76,465,984,221	100.00	$65,033,626,244	100.00	$56,750,907,241	100.00	$51,824,208,209	100.00
Less:										
Residence Homestead Exemptions - Optional 65 or Older	$4,307,883,346		$4,286,851,708		$4,110,067,258		$3,912,184,972		$3,817,600,447	
Residence Homestead Exemptions - Disabled	125,061,885		132,210,116		126,244,040		119,597,187		-0-	
Disabled /Deceased Veterans' Exemptions	193,111,133		194,436,796		189,172,020		180,072,214		174,102,776	
Historical Property Exemptions	56,852,542		37,116,096		49,916,153		29,673,115		33,822,228	
Historical Preservation Area[2]	-0-		0		-0-		-0-		2,905,902	
Freeport Goods Exemptions	549,400,457		519,912,323		385,837,970		332,875,270		270,308,370	
Tax Abatement/Phase-In Exemptions	658,359,163		507,946,373		411,961,519		418,909,527		448,091,914	
Residence Homestead Appraised Value 10% Limitations	579,086,313		943,041,459		609,240,240		193,890,523		131,060,193	
Agricultural Productivity Loss	561,434,064		538,812,169		346,926,222		268,148,584		278,168,180	
Pollution Control Exemptions	73,402,289		62,760,278		9,903,790		5,675,890		-0-	
Low Income Housing Exemptions	33,376,657		61,899,641		42,779,850		45,248,643		689,895	
Energy Exemptions	13,259,344		11,864,658		32,610,802		-0-		-0-	
Absolute Exemptions	3,847,975,271		3,176,216,960		1,924,485,214		1,345,024,320		150,616,496	
Pro-Rated Exemptions	18,289,630		38,048,851		26,779,464		30,651,571		34,867,188	
Less: Total Exemptions	$11,017,492,094		$10,511,117,428		$ 8,265,924,542		$ 6,881,951,816		$ 5,342,233,589	
Net Taxable Assessed Valuation[3]	$72,891,817,263		$65,954,866,793		$56,767,701,702		$49,868,955,425		$46,481,974,620	

[1] Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.
[2] Beginning in FY 2006, Historical Preservation Area Exemptions are combined with Historical Property Exemptions.
[3] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

Assessed Valuation and Tax Rate of Overlapping Issuers **Table 14**

Governmental Subdivision	FY 2008 Gross Assessed Valuation [1]	FY 2008 Net Taxable Valuation [1]	FY 2008 Tax Rate
Alamo Community College District	$97,215,177,555	$90,051,064,661	$0.134550
Alamo Heights Independent School District	4,994,325,420	4,787,568,725	1.156600
Bexar County	97,226,101,485	86,877,145,499	0.295104
Bexar County Flood Control	97,226,114,405	91,094,300,960	0.031762
Bexar County Hospital District d.b.a. University Health System	97,215,177,555	92,060,858,177	0.237408
East Central Independent School District	1,922,624,625	1,679,475,950	1.190000
Edgewood Independent School District	1,353,839,572	945,631,967	1.405000
Harlandale Independent School District	1,606,143,451	1,312,407,807	1.349000
Judson Independent School District	6,082,328,754	5,391,013,090	1.410000
North East Independent School District	28,745,627,217	26,110,701,779	1.402900
Northside Independent School District	31,149,926,007	27,940,428,838	1.262500
San Antonio Independent School District	13,819,252,799	11,332,453,808	1.249700
San Antonio River Authority	97,215,177,555	90,158,477,545	0.015951
Somerset Independent School District	387,471,471	329,145,515	1.195000
South San Antonio Independent School District	1,388,465,246	1,138,640,831	1.445000
Southside Independent School District	598,010,398	482,276,650	1.360000
Southwest Independent School District	2,246,565,666	2,002,969,131	1.195000

[1] Assessed and taxable valuation data provided by Bexar County Tax Assessor-Collector's Office and Bexar Appraisal District.

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Direct and Overlapping Debt Data and Information — Table 15

The following table indicates the indebtedness, defined as outstanding obligations payable from ad valorem taxes ("Tax Debt"), of governmental entities overlapping the City, and the estimated percentages and amounts of such Tax Debt attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the City. These political taxing bodies are independent of the City and may incur Tax Debt without any control of the City. The following statements of direct and estimated overlapping Tax Debt were developed from information obtained from each taxing entity. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional Tax Debt since the date stated below, and such entities may have programs requiring the authorization and/or issuance of additional Tax Debt, the amount of which cannot be determined.

Taxing Entity [1]	As of	Amount of Tax Debt Outstanding [2]	Percent Overlapping[3]	Amount of Tax Debt Overlapping
Alamo Community College District	9/30/07	$ 546,087,830	77.64%	$ 423,982,591
Alamo Heights Ind. School District	9/30/07	77,959,333	47.85	37,303,541
Bexar County	9/30/07	244,143,901	76.40	186,525,940
Bexar County Hospital District d.b.a. University Health System	9/30/07			
East Central Independent School District	9/30/07	44,463,377	45.56	20,257,515
Edgewood Independent School District	9/30/07	107,956,720	100.00	107,956,720
Harlandale Independent School District	9/30/07	193,565,940	100.00	193,565,940
Judson Independent School District	9/30/07	350,279,980	34.26	120,005,921
North East Independent School District	9/30/07	814,121,723	86.37	703,156,932
Northside Independent School District	9/30/07	1,163,588,259	80.45	936,106,754
San Antonio Independent School District	9/30/07	470,173,632	99.32	466,976,451
San Antonio River Authority	9/30/07	46,485,918	96.50	44,858,911
Somerset Independent School District	9/30/07	25,976,250	1.69	438,999
South San Antonio Ind. School District	9/30/07	146,716,253	100.00	146,716,253
Southside Independent School District	9/30/07	67,864,671	32.53	22,076,377
Southwest Independent School District	9/30/07	111,497,156	36.08	40,228,174
Total Overlapping Tax Debt		$4,410,880,943		$3,450,157,019
City of San Antonio	9/30/07	$ 945,755,000		$ 945,755.000
Total Direct and Overlapping Tax Debt		$5,356,635,943		$4,395,912,019

Tax Year 2008 Actual Market Value of Taxable Property	$83,909,309,357
Tax Year 2008 Net Taxable Assessed Valuation (100% of Actual Market)	$72,891,817,263
Ratio of Direct and Overlapping Tax Debt to Actual Market Value	5.24%
Ratio of Direct and Overlapping Tax Debt to Net Taxable Assessed Value	6.03%
Per Capita Direct and Overlapping Tax Debt [4]	$3,295

Note: The City's total net Tax Debt is $847,821,905[5] as of September 30, 2007. Calculations on the basis of total net Tax Debt would change the above figures as follows:

Total Net Direct and Overlapping Tax Debt	$4,297,978,924
Ratio of Net Direct and Overlapping Tax Debt to Actual Market Value	5.13%
Ratio of Net Direct and Overlapping Tax Debt to Net Taxable Assessed Value	5.90%
Per Capita Net Direct and Overlapping Tax Debt [4]	$3,221

[1] Certain bonds issued by Texas independent school districts are eligible for payment from the State "Instructional Facilities Allotments" and from "Existing Debt Allotments." These bonds, while obligations of each district, are payable in part from direct allocations of State funds. Such funding varies between districts and from year to year depending upon the State's contribution, which is based on a district's property taxable wealth per student in average daily attendance.

[2] The amount of Tax Debt outstanding was obtained from each taxing entity.

[3] For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

[4] Based on the City's Planning Department estimated population of 1,334,244 as of September 1, 2008 for the City of San Antonio (figure includes those individuals residing within areas annexed by the City by such date).

[5] The audited interest and sinking fund balance for fiscal year ended September 30, 2007 was used to calculate this number.

REVENUE SOURCES AND EXPENDITURES

Sources of Revenues

The City's General Fund revenue sources include ad valorem taxes, sales taxes, franchise taxes, contributions from City-owned utilities, fines, penalties, licenses and permits, various service charges, and miscellaneous sources.

General Fund Comparative Statement of Revenues and Expenditures and Analysis of Changes in Fund Balances — Table 16

The following statements set forth in condensed form reflect the historical operations of the City. The City has prepared such summary for inclusion herein based upon information obtained from the City's Comprehensive Annual Financial Report and financial records. Reference is made to such statements for further and complete information. For additional information relating to the General Fund balance re-estimates by the City for Fiscal Year 2008, see the section captioned "General Fund Update" on the following page.

	Fiscal Year Ended September 30				
	2007	2006	2005	2004	2003
Fund Balance - Beginning of Year	$ 161,476,026	$ 118,413,742	$ 98,510,654	$ 81,642,072	$ 62,452,494
Revenues					
Taxes	$ 430,451,032	$ 399,359,902	$ 367,030,243	$ 343,707,952	$ 320,518,083
Licenses and Permits	6,926,703	19,764,737	20,715,743	17,026,379	13,912,258
Intergovernmental	4,035,641	3,445,582	3,055,128	2,695,842	2,878,131
Revenues from Utilities	257,687,224	256,367,822	221,774,673	196,405,099	210,466,156
Charges for Services	25,220,809	35,276,831	33,622,089	30,029,118	27,283,429
Fines and Forfeits	15,114,609	10,947,472	12,025,344	11,713,073	11,282,396
Miscellaneous	14,306,653	13,830,931	14,286,093	10,758,387	9,810,913
Total Revenues	$ 753,742,671	$ 738,993,277	$ 672,509,313	$ 612,335,850	$ 596,151,366
Expenditures [1]					
General Government	$ 79,705,071	$ 71,139,682	$ 66,746,538	$ 54,214,920	$ 53,416,465
Public Safety	437,206,950	429,051,592	404,491,342	376,925,001	361,835,168
Streets and Roadways	10,759,958	10,769,261	10,477,765	10,656,685	11,920,629
Health Services	13,109,799	12,412,664	14,378,887	13,409,924	13,814,613
Sanitation	3,007,740	2,864,299	2,582,840	2,380,287	2,515,192
Welfare	42,124,122	23,504,261	21,578,358	16,480,979	16,317,480
Culture and Recreation	69,728,940	71,938,565	63,478,741	57,918,951	59,119,473
Economic Dev. and Opportunity	3,505,293	4,067,281	4,552,704	8,043,283	5,537,792
Total Expenditures	$ 659,147,873	$ 625,747,605	$ 588,287,175	$ 540,030,030	$ 524,476,812
Excess of Revenues Over Expenditures	$ 94,594,798	$ 113,245,672	$ 84,222,138	$ 72,305,820	$ 71,674,554
Other Financing Sources (Uses)					
Operating Transfers In	$ 15,972,026	$ 11,466,466	$ 14,121,847	$ 15,348,182	$ 13,120,941
Operating Transfers Out	(126,065,404)	(90,280,712)	(86,649,587)	(76,440,760)	(70,377,939)
Total Other Financing Sources (Uses)	$(110,093,378)	$ (78,814,246)	$ (72,527,740)	$(61,092,578)	$ (57,256,998)
Add Encumbrances [1]	13,713,122	8,630,858	8,208,690	5,655,340	4,772,022
Fund Balance - End of Year	$ 159,690,568	$ 161,476,026	$ 118,413,742	$ 98,510,654	$ 81,642,072

[1] Expenditures are reported on a budgetary basis with encumbrances added back to arrive at a "Generally Accepted Accounting Principles" fund balance.

General Fund Update

As part of its annual budget process, the City re-estimates revenues and expenditures for the current fiscal year. During the most recent budget process, the General Fund undesignated fund balance for FY 2008 was projected at $86.3 million with budgeted financial reserves of $68.2 million. This compares to an FY 2007 undesignated fund balance of $80.3 million and budgeted financial reserves of $48.1 million.

Sales Taxation

Authority to Levy Sales Taxes

Chapter 321 of the Texas Tax Code, as amended, authorizes the City to levy and collect a municipal sales and use tax on the receipts from the sale of taxable items within the City at a rate of 1%.

The Texas Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional sales tax on retail sales or taxable items to reduce the property tax levy. The City is disqualified from adopting this additional sales and use tax because the City is included within the boundaries of a rapid transit authority created under Chapter 451, Transportation Code.

Special Entities

Advanced Transportation District. A proposition was passed at the November 2, 2004 election which allows VIA Metropolitan Transit to create an Advanced Transportation District ("District") within the City and impose an additional 1/4 of 1% sales and use tax (the "ATD Tax"). The ATD Tax is allocated as follows: 50% for advanced transit services, operations, passenger amenities, equipment and other advanced transportation purposes; 25% to construct, improve and maintain streets and sidewalks and related infrastructure to improve mobility and other advance transportation purposes in the District; and 25% as the local share to obtain state and federal grants for highways, transportation infrastructure designed to improve mobility and other advanced transportation purposes in the District.

Alamo Regional Mobility Authority. The Alamo Regional Mobility Authority (the "Alamo RMA") created pursuant to Chapter 370, as amended, Texas Transportation Code provides the San Antonio area with the ability to construct, maintain, and operate certain transportation projects and establish a local governmental entity to make mobility decisions for this area. There is no sales tax associated with projects undertaken by the Alamo RMA.

The Alamo RMA is authorized to develop toll projects, issue revenue bonds to fund transportation projects, and utilize surplus revenues from local toll roads and State and federal assistance for transportation projects.

The Alamo RMA has been established to work in conjunction with the Texas Department of Transportation, the San Antonio-Bexar County Metropolitan Planning Organization, and other agencies to formulate a strategy to implement a toll network that will generate and direct revenue to other infrastructure projects that will improve the overall transportation system for the San Antonio metropolitan area.

Venue Projects. The City Council has designated an Edwards Aquifer Protection Venue Project ("Edwards Venue Project") under Chapter 334 of the Texas Local Government Code ("Venue Code").

An election held on May 7, 2005 authorized the implementation of the Edwards Venue Project under the Venue Code and the imposition of a 1/8 of 1% sales and use tax. The Edwards Venue Project was approved and provides for the protection of water quality in the Edwards Aquifer by establishing a watershed protection and preservation project to acquire and preserve land or interests in land in the Edwards Aquifer recharge and contributing zones both inside and outside Bexar County.

The City Council has also designated a Parks Development and Expansion Venue Project ("Parks Venue Project") under the Venue Code.

The May 7, 2005 election also authorized the implementation of the Parks Venue Project under the Venue Code and the imposition of a 1/8 of 1% sales and use tax. The Parks Venue Project was approved and provides for the planning, acquisition, establishment, development, construction or renovation of the Parks Venue Project which includes the acquisition of open space and linear parks along Leon Creek, Salado Creek, Medina River, and San Antonio River, and for improvements and additions to the Municipal Parks and Recreation System.

The two Venue Projects share in the use of the 1/8 of 1% sales and use tax, and have a $90 million and $45 million ceiling, respectively. This sales and use tax took effect October 1, 2005, contributing to the City's current sales and use tax rate of 8.125%.

Crime Control and Prevention District. Pursuant to Texas Local Government Code, Chapter 363, entitled the "Crime Control and Prevention District Act" (the "Act") the City proposed the creation of a crime control and prevention district ("CCPD") and the imposition of a sales and use tax for the financing of the CCPD.

At an election held on November 8, 2005, the CCPD Proposition failed. As a result, the sales and use tax rate for the City of San Antonio remains at 8.125%. The Act provides that if a CCPD has not been created before the fifth anniversary of the date the district was proposed by the City, the Temporary Board is dissolved and a CCPD may not be created.

Collections and Equivalent Rates

Net sales tax collections and the equivalent ad valorem tax rates on a fiscal year basis are as follows:

Municipal Sales Taxes **Table 17**

Fiscal Year Ended 9/30	Sales Tax Collected [1]	Ad Valorem Tax Levy [1, 2]	Percent of Ad Valorem Tax Levy	Net Taxable Assessed Valuation [3]	Equivalent Tax Rate
1998	$ 118,991,708	$ 170,587,464	69.75%	$29,422,284,674	$0.4044
1999	126,472,730	181,204,963	69.80	31,253,551,025	0.4047
2000	135,130,522	193,159,815	69.96	33,315,478,862	0.4056
2001	136,810,787	208,917,594	65.49	36,033,321,329	0.3797
2002	157,593,310	229,030,010	68.81	39,587,584,280	0.3981
2003	156,322,600	240,299,754	65.05	41,535,547,008	0.3764
2004	162,383,500	257,931,292	62.96	44,583,138,927	0.3642
2005	167,331,757	268,916,816	62.22	46,481,974,620	0.3600
2006	210,141,500	288,511,855	72.84	49,868,955,425	0.4214
2007	224,479,807	326,326,395	68.79	56,767,701,702	0.3954

[1] Includes the City's General Fund component of sales tax. Beginning in fiscal year 2001, includes a 1/8 of 1% cent sales and use tax authorized by voters in a May 6, 2000 election, to fund various venue projects including $45 million for park land acquisition and improvements over the Edwards Aquifer and $20 million for linear parks along the Salado and Leon Creeks, for which collections reached their ceiling in fiscal year 2004. Beginning in fiscal year 2005, includes the Advanced Transportation District sales tax and the venue projects sales tax (see "SALES TAXATION - Special Entities" herein).
[2] Total Ad Valorem Tax Levy for debt service and maintenance and operations.
[3] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

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Comparison of Selected Sources of Revenues — Table 18

Fiscal Year Ended 9/30	Taxes [1]	Charges for Services	Miscellaneous	Fines and Forfeits	Licenses and Permits	Inter-Governmental	CPS Energy	San Antonio Water System (SAWS)	Total
1998	$245,430,127	$21,676,353	$10,862,192	$11,525,034	$11,159,736	$2,354,189	$146,145,982	$4,687,162	$453,840,775
1999	261,392,418	21,726,181	12,705,684	11,838,121	12,164,099	2,526,778	145,170,683	4,785,430	472,309,394
2000	277,833,729	23,010,824	13,017,615	11,593,504	12,257,775	2,669,780	167,138,876	5,161,798	512,683,901
2001	291,378,953	23,211,576	14,249,362	11,116,047	12,683,156	2,865,885	182,411,012	5,528,890	543,444,881
2002	310,912,963	24,631,495	12,054,469	10,828,974	13,302,392	2,888,626	165,118,018	6,116,065	545,853,002
2003	320,518,083	27,283,429	9,810,913	11,282,396	13,912,258	2,878,131	204,016,870	6,449,286	596,151,366
2004	343,707,952	30,029,118	10,758,387	11,713,073	17,026,379	2,695,842	189,505,855	6,899,244	612,335,850
2005	367,030,243	33,622,089	14,286,093	12,025,344	20,715,743	3,055,128	213,384,307	8,390,366	672,509,313
2006	399,359,902	35,276,831	13,830,931	10,947,472	19,764,737	3,445,582	246,084,171 [2]	10,283,651	738,993,277
2007	430,451,032	25,220,809	14,306,653	15,114,609	6,926,703 [3]	4,035,641	248,539,890 [4]	9,147,334	753,742,671

[1] Comprised of property, sales, alcoholic beverage, business taxes, penalties, and interest and judgments; excludes hotel/motel occupancy tax.
[2] Includes an additional transfer of $8,438,363.
[3] Beginning in fiscal year 2007, Planning and Development Services revenues are no longer included in the general fund and are now a special revenue fund.
[4] Includes an additional transfer of $8,294,548.

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Expenditures for Selected Functions [1]

Table 19

Fiscal Year Ended 9/30	General Government	Public Safety	Streets and Roadways	Health Services	Sanitation	Welfare	Culture and Recreation	Economic Development & Opportunity	Total
1998	$44,617,078	$267,566,794	$9,162,860	$10,753,132	$2,780,539	$10,232,506	$42,809,012	$4,783,117	$392,705,038
1999	49,438,915	289,777,427	9,467,167	11,277,893	2,399,358	11,407,269	48,025,859	5,189,929	426,983,817
2000	55,180,174	305,859,236	9,909,813	12,299,792	2,600,995	12,857,131	52,938,397	5,864,158	457,509,696
2001	68,364,225	326,227,746	9,804,123	13,401,383	2,754,077	16,464,593	58,137,342	6,394,692	501,548,181
2002	56,154,675	350,755,902	10,179,816	13,933,748	2,653,746	16,991,511	59,454,085	7,330,135	517,453,618
2003	52,283,057	361,305,240	11,855,629	13,689,587	2,513,841	15,763,551	58,917,420	5,368,634	521,696,959
2004	53,456,752	375,315,914	10,656,685	13,383,921	2,380,287	15,920,832	57,072,648	7,687,550	535,874,589
2005	64,019,958	402,544,348	10,477,732	13,994,642	2,576,616	19,757,168	63,010,213	4,391,706	580,772,383
2006	66,956,066	427,598,173	10,769,231	12,032,617	2,857,185	21,738,552	71,495,663	3,973,352	617,420,839
2007	74,049,275	436,295,038	10,759,928	12,927,741	2,823,782	38,673,480	68,900,503	3,449,979	647,879,726

[1] Expenditures for selected functions do not include encumbrances.

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THE CITY

Governmental Structure

The City is a Home Rule Municipality that operates pursuant to the Charter of the City of San Antonio (the "City Charter"), which was adopted on October 2, 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 11 members, with ten members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two-year terms, and each member is limited to a maximum of two full terms. (See "THE CITY – City Charter.") The office of Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2009. 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.

City Charter

The City may only hold an election to amend its City Charter every two years. Since its adoption, the City Charter has been amended on seven separate occasions: November 1974; January 1977; May 1991; May 1997; November 2001; May 2004; and November 2008. Significant amendments to the City Charter include the amendment passed in May of 1991, which limited the service by the Mayor and 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 charged with conducting a comprehensive review of the City Charter, resulted in the passage of five propositions, each containing numerous amendments to the City Charter in May 1997.

The amendments to the City Charter that were adopted in 2001 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 confirmation.

At the May 2004 City Charter election, voters considered four propositions seeking to amend the City Charter as follows: Proposition 1 was to amend the provisions of the City Charter applicable to the term of office and term limits of members of the City Council; Proposition 2 was to amend the provisions of the City Charter applicable to compensation for members of the City Council and the Mayor; Proposition 3 was to amend the City Charter by establishing an independent Ethics Review Board; and Proposition 4 was to amend the City Charter to permit an individual member of the City Council to hire staff who serve at the will of the Councilmember. Of these four propositions, only Proposition 3 establishing an independent Ethics Review Board was approved by the voters.

At the November 4, 2008 election, an amendment to the City Charter passed, which revised the terms of office for the Mayor or a member of the City Council to four full two-year terms of office, from two full two-year terms, but prohibit the current or former Mayor or current or former member of the City Council from being elected to more than two full two-year terms.

Services

The full range of services provided to its constituents by the City 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 use, and hotel occupancy tax receipts; 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, and environmental services.

Electric and gas services to the San Antonio area are provided by CPS Energy ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 19 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 ended September 30, 2007 were $248,539,890. (See "CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY" herein and "SAN ANTONIO ELECTRIC AND GAS SYSTEM" in Appendix A attached hereto.)

Water services are provided by the San Antonio Water System ("SAWS"), San Antonio's municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 16th year of operation as a separate, consolidated entity. SAWS operating 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, 2007 were $9,147,334. (See "CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY" herein and "SAN ANTONIO WATER SYSTEM" in Appendix A attached hereto.)

Please refer to Table 18 for historical transfers from CPS and SAWS to the City's General Fund.

Economic Overview

The City's economic strength is enhanced by a favorable business environment and economic diversification. San Antonio's economic base is comprised of various industries including domestic and international trade, convention and tourism, medical and health care, government employment, manufacturing, information security, financial services, telemarketing, telecommunications, finance and insurance, and oil and gas refining. The City's cultural and geographic proximity to Mexico provides favorable conditions for international business relations therewith. In addition to the favorable economic climate, excellent weather conditions year round help to encourage and enhance the operation of many of San Antonio's most important industries. (See "Economic Factors" in Appendix A attached hereto.)

While many local economies are struggling as a result of the difficulties in the financial markets, the decline in the housing market, and other national economic issues, San Antonio's economy remains stable. With continued employment growth, the area's unemployment rate is 5.1% as of October 2008, as compared to the State's unemployment rate of 5.4% and the United States unemployment rate of 6.1%. While home sales are declining and housing starts are down, San Antonio has not experienced the decline as significantly as other regions. Furthermore, home prices continue to remain steady in the area. Also, in contrast to other regions with a large tourism industry that are seeing a slowing in their tourist business, San Antonio's tourist business is having a record year due to an increase in travelers who live in close proximity to the City.

As a result of the Base Realignment and Closure Commission, the City will see a net increase of military employment of about 9,700 and an estimated increase in investment of about $2.5 billion by 2011. While many of the military missions are being relocated from Brooks City-Base, private development is increasing with the continued expansion of Port San Antonio, the expansions of DPT Laboratories, and the recent announcement by Southeast Baptist Hospital System of plans to build a hospital at Brooks City-Base.

In June 2008, AT&T announced that by the end of 2008 its corporate headquarters would be moved to Dallas, Texas. This move will relocate 700 positions and these positions account for approximately 0.08% of total employment in San Antonio. AT&T has 310,070 employees worldwide as of August 2008 and will still have 5,300 employees in San Antonio, which will continue to be home to the company's Telecom Operations Group. The San Antonio economy is large enough and diversified enough with many strong industries that this move is expected to have only a minimal effect on the local economy.

In July 2008, Toyota announced that the San Antonio plant would shut down production for 90 days. During this temporary cessation of the Toyota Tundra production, all 2,000 permanent employees remained at the plant with a focus on training and non-manufacturing duties. The 21 Toyota suppliers at the site, providing another 2,000 jobs,

also remained and retained the majority of their workforce. Toyota resumed production of the Tundra on November 10, 2008, and is currently running one of its two production lines. By spring 2009, Toyota expects to resume full production, contingent upon positive sales and market conditions. When full production resumes, all Toyota Tundra production in the United States will be in San Antonio. In December 2008, Toyota will also begin shipping Tundras produced in San Antonio to Latin America.

In September 2008, the federal Office of Thrift Supervision closed Washington Mutual ("WAMU"), and the Federal Deposit Insurance Corporation ("FDIC") then became the receiver of WAMU. FDIC then sold the assets and most of WAMU's liabilities to JP Morgan Chase Bank ("Chase"). Both Chase and WAMU have major customer service centers in the City along with retail banking operations, each employing about 2,000 people. Each of these customer service centers serves a different set of customers. While there may be some closure and consolidation of WAMU banking operations, the City does not expect WAMU's customer service center to close, nor does the City expect to lose a significant number of WAMU jobs in the community.

On October 3, 2008, Wells Fargo announced its acquisition of Wachovia, which operates a major customer service center in San Antonio. Based on available information, it does not appear this back office operation will be affected by this acquisition and integration of the two major financial institutions**.** Wachovia currently has a major presence in the City, employing approximately 3,300 people.

Employee Pension Plan and Benefits

The City's employees participate in a variety of defined pension plans. These plans and contributions made to such plans are further described in Note 8 in the City's Comprehensive Annual Financial Report, attached hereto as Appendix C for the fiscal year ended September 30, 2007. (See "CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES" herein.)

Employees

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

	Fiscal Year Ended September 30									
	2008		2007		2006		2005		2004	
Employees	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized
Police	2,092	2,185	2,040	2,105	1,913	2,044	1,925	2,037	1,984	2,033
Police Grant Funded	17	17	17	18	17	18	16	17	0	30
Total Police	2,109	2,202	2,057	2,123	1,930	2,062	1,941	2,054	1,984	2,063
Fire	1,485	1,564	1,487	1,529	1,455	1,490	1,436	1,439	1,097	1,441
Fire Grant Funded	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	335	-0-
Total Fire	1,485	1,564	1,487	1,529	1,455	1,490	1,436	1,439	1,432	1,441
Total Police & Fire	3,594	3,766	3,544	3,652	3,385	3,552	3,377	3,493	3,416	3,504
Civilian	7,481	9,710	7,112	9,687	7,124	9,631	7,354	9,375	6,749	9,580
Civilian Grant Funded	522	752	567	745	575	900	607	928	1,540	980
Total Civilian	8,003	10,462	7,679	10,432	7,699	10,531	7,961	10,303	8,289	10,560
Total	11,597	14,228	11,223	14,804	11,084	14,083	11,338	13,796	11,705	14,064

Note: The adopted budget for fiscal year 2009 added a total of 261 positions, 101 were civilian positions and 160 were uniformed positions. Additionally, the adopted budget for fiscal year 2009 eliminated 155 civilian positions, including 126 vacant positions and 29 filled positions.

Financial Accounting and Financial Policies

Basic 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 nonfiduciary activities of the primary government and its component units. The 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 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 activities. 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 duplication of assets and liabilities within the governmental and business-type activities. Component units are also reported in the statement of net assets.

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.

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, enterprise 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 are as follows: the total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10.0% of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise funds), and the same element that met the 10.0% criterion above in the individual governmental or proprietary fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

Governmental Funds

General Fund is the primary operating fund for the City, which accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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 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 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 are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry.

Proprietary Funds

Enterprise Funds 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 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.

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 these funds.

Fiduciary 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 and Retiree Health Care Trust, which account for resources for pension fund and health care benefits for the City's firefighters and police officers. The Private Purpose Trust Funds include an assistance fund and a scholarship fund for City employees, as well as reporting on funds restricted for the City's literacy programs. The Agency Funds account for the City's sales tax to be remitted to the state, various fees for other governmental entities, unclaimed property, and holds various deposits. 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.

Fiscal Year 2006 Restatement

In connection with the audit of the basic financial statements of the City as of and for the year ended September 30, 2007, it became known that the City's accounting for certain capital assets in the Prior Financial Statements (September 30, 2006) were in error. The errors primarily relate to the improper capitalization of expenses as capital assets and the understatement of depreciation expense during these periods. Accordingly, the governmental

activities, business-type activities, airport system fund, and aggregate remaining fund opinion units of the Prior Financial Statements were restated as a result of the aforementioned misstatements, which have been explained in Note 17 of the City's Comprehensive Annual Financial Report ("CAFR") for its fiscal year ended September 30, 2007 (selected provisions of the CAFR are attached hereto as Appendix C).

Fiscal Year 2007 Management Letter

New accounting standards effective beginning in fiscal year 2007 reduced the threshold level and classification of findings reported in the Letter on Internal Control and Accounting Procedures (the "Management Letter"). The FY 2007 Management Letter includes three material weakness comments, four significant deficiency comments, two control deficiency comments, and five management advisory (general) comments.

The material weakness comments concern the City's (1) capitalization, transfer and depreciation of construction in progress ("CIP"), (2) generally accepted accounting principles ("GAAP") application of debt issuance discount or premium amortization, and (3) airport operations concerning tracking and maintaining lease agreements where the City is the lessor.

The material weakness comment regarding the City's CIP was based on the City's lack of effective top-level controls for ensuring projects were transferred out of CIP and into service, being depreciated timely, and that projects in CIP met the definition of a City-owned capital asset. As a result of an extensive review and validation effort of CIP projects:

- $37.9 million of Airport System Fund CIP was reclassed to depreciable capital assets for assets that were placed into service from FY 2001-FY 2006; depreciation expense of $2.4 million, related to those assets, was recognized; $21.6 million in projects not meeting the definition of capital assets was removed from CIP; and an additional $0.5 million in project clean-up was recognized.
- $157.8 million of Governmental Type Activities CIP was reclassed to depreciable capital assets for assets that were placed into service from FY 1990-FY 2006; depreciation expense of $18.9 million, related to those assets, was recognized: and an additional $4.6 million in project clean-up was recognized.
- $1.3 million of Parking System Fund CIP was reclassed to depreciable capital assets for assets that were placed into service and $0.2 million in depreciation expense was recognized.
- It was noted that there were project costs that were not properly settled into CIP but were shown as expenses. These unsettled costs resulted in an increase of $11.2 million in Governmental Activities net assets and a decrease of $1.6 million in Business Type Activities net assets.

Furthermore, as a result of depreciation testing, it was determined that a portion of depreciable assets had not been properly depreciated resulting in an (under)/overstatement of accumulated depreciation in the Governmental, Business Type, Airport System, and Aggregate Remaining Funds of $8.1 million, $0.4 million, $0.2 million, and $0.2 million, respectively. All of the expenses and changes to net assets recognized above were applied toward the beginning net asset balance of the funds, resulting in the funds restatement. These adjustments had no impact on the City's budget.

The material weakness comment regarding the City's GAAP application of debt issuance discount or premium amortization was a result of the City having elected to utilize the "straight-line" method as opposed to the "effective interest" method (required by GAAP) even though the difference between the two methods was deemed material to the financial statements. It is important to note that over the life of debt the two methods produce identical results, the primary difference is the timing of the amount recognized in each fiscal year related to the amortization of the discount or premium.

The material weakness comment regarding the City's airport operations was based on the difficulty experienced by the auditors to reconcile airport lease revenue per the trial balance to supporting documentation and footnote disclosure. It was noted that there was incomplete and inconsistent information between airport accounting and contract management that maintains the agreements. It was further noted that a significant majority of airport leases were not captured in the City's accounting system, SAP, but were maintained in a separate system. The City's

footnote disclosure was compiled based on the information accumulated via spreadsheets generated by Airport staff, who currently do not have a reliable method for tracking and maintaining lease agreements, resulting in the disclosure possibly not reflecting all of the City's airport lease revenue commitments.

The four significant deficiencies include: (1) accounting errors in the calculation of the annual bonus accrual; (2) difficulty surrounding the year-end accounts payable cut-off and recording of City obligations for goods and services performed in one fiscal year but invoiced in the next; (3) accounting errors and policy documentation regarding the accrual and recording of tax revenues; and (4) security administration policies and review.

The two control deficiencies include: (1) the timely preparation and review of postclosure care liability estimates based on currently known factors; and (2) access/security policies and procedures.

While certain challenges were identified in the FY 2007 Management Letter, the City received an "unqualified opinion" on its CAFR. City Management has taken a number of steps to significantly improve fiscal accountability, including the development of a corrective action plan to specifically address the issues noted in the FY 2007 Management Letter. The following is a brief summary of the steps taken:

- Finance Department – A number of substantial improvements have been implemented in an effort to attract and retain qualified financial staff and provide quality financial services. A substantial reorganization of the Finance Department has been completed which focused on the realignment and redirection of resources based on functional areas of specialization, key business processes, and the City's new financial system, SAP. Under this reorganization, highly specialized resources are dedicated to each of the major functional areas and significant emphasis was placed on addressing staff turnover and the development and retention of key institutional knowledge. The Finance Department also relocated to new professional office space in order to more efficiently deliver financial services under the new organizational design as well as promote a professional environment. As of September 11, 2008, the Department had minimal vacancies out of its total FY 2008 personnel complement of authorized positions.

- Capital Assets – Over the course of the past two years, the Finance Department in coordination with other City Departments has been validating/reconciling the City's capital projects. That process is now complete and the City believes this issue has been resolved for FY 2008.

- GAAP Application – The City implemented the effective interest method in FY 2007's financial statements and the City believes this issue has been resolved.

- Airport Operations – A comprehensive reconciliation of Airport leases will be completed by September 30, 2009. The Aviation Department is currently in the process of migrating the accounting for its leases to SAP and this effort is anticipated to be completed by the second quarter of FY 2009.

- Accounting Errors – Accounting for Accounts Payable; Revenue Recognition; Landfill Liability all relate to the fiscal year end closing processes and the development of the City's financial statements. These comments will be resolved as part of the year-end closing process for FY 2008.

- Policies and Procedures related to Information Technology ("IT") Services – The City is currently developing the necessary policies and procedures to address the issues noted surrounding user network access, physical security of IT assets, review of unauthorized network access attempts, anti virus protection, and change management process for development/configuration changes to SAP. These policies are anticipated to be completed by September 30, 2009.

Information Regarding GASB Statements for Pension/Retirement Program

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 and were implemented by the City in FY 2007.

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 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. The City's first fiscal year after the effective date is FY 2008, in which the City will implement this statement.

GASB Statement No. 47, *Accounting for Termination Benefits*, requires employers to disclose termination benefit arrangements, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. Termination benefits that are provided through an existing defined benefit OPEB plan should be implemented for the fiscal period beginning after December 15, 2006 (simultaneously with GASB Statement No. 45). For all other termination benefits, the provisions of this statement are effective for periods beginning after June 15, 2005. The City implemented this statement in phases as it related to the associated implementations of GASB No. 43 and GASB No. 45. The City is implementing the final phase of this statement in FY 2008.

The City has included additional footnotes in its FY 2007 financial statements for GASB Statement No. 43. The City has not fully determined the financial impact that implementation of the other statements will have on the City's financial statements.

Debt Management

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

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

Utilization of comprehensive financial analysis and computer modeling in the debt management plan incorporates numerous variables such as sensitivity to interest rates, changes in assessed values, annexations, current ad valorem tax collection rates, self-supporting debt, and fund balances. The analytical modeling and effective debt management has enabled the City to maximize efficiencies through refundings and debt structuring. Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time achieving and maintaining its strong ratings. The City is rated "AAA", "Aa1", and "AA+" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("S&P"), Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings ("Fitch"), respectively. The positive trend in the City's credit strength is evidenced by the S&P

upgrade in October 2008 from "AA+" to its current "AAA," as well as the Moody's rating upgrade in November 2007 from the "Aa2" to its current "Aa1."

Debt Authorization

General Obligation Bonds

The City is authorized to issue bonds payable from ad valorem taxes pursuant to the City Charter, the general laws of the State, and ordinances adopted by the City Council. Such bonds must be authorized by the voters of the City at elections held within the City. The City currently has $550,000,000 ad valorem tax-supported debt approved by its voters on May 12, 2007 and $440,652,472 remains unissued. For the fiscal year ended September 30, 2008, the City had $726,770,000 in total general obligation bonds outstanding.

On October 22, 2008, the City sold $10,120,000 "City of San Antonio, Texas Taxable General Improvement Refunding Bonds, Series 2008" (the "2008 Refunding Bonds"). The 2008 Refunding Bonds were issued to: (1) discharge and refund all outstanding parking system revenue debt of the City and (2) pay costs of issuance of the 2008 Refunding Bonds. After the issuance of the 2008 Refunding Bonds, no outstanding obligations of the City remain, secured in whole or in part, with a pledge of revenues of the City's parking system or facilities. The City does, however, intend to use parking revenues to pay the 2008 Refunding Bonds to the extent possible.

On November 29, 2007, the City sold $121,220,000 "City of San Antonio, Texas General Improvement and Refunding Bonds, Series 2007," (the "2007 Bonds"). The 2007 Bonds were issued to provide funds (1) to finance the construction of general improvements to the City, including (a) streets, bridges and sidewalks; (b) drainage improvements; (c) parks, recreation, open space and athletics; (d) library improvements; and (e) public health facilities; (2) to refund the City's Tax Notes, Series 2007 in the principal amount of $60,000,000; and (3) to pay the costs of issuance of the 2007 Bonds. The 2007 Bonds represented the first installment of the $550,000,000 bonds approved at an election held in the City on May 12, 2007.

Concurrently with the issuance of the 2008 Obligations, the City issued $15,320,000 City of San Antonio, Texas Tax Notes, Series 2008.

Tax Notes

The City is authorized to issue short term tax notes, having a maturity not exceeding seven years, pursuant to the general laws of the State and ordinances authorized by the City Council and are payable from ad valorem taxes. For the fiscal year ended September 30, 2008, the City had $17,925,000 tax notes outstanding.

On November 29, 2007, the City sold $21,270,000 "City of San Antonio, Texas Tax Notes, Series 2007A" (the "2007A Notes"). The 2007A Notes were issued to provide funds to (1) finance the costs of technology improvements to various City-owned systems (including, but not limited to, timekeeping administration, communications, business reporting, fiber optics, emergency citizen notification and response, procurement, recruiting, information, and data storage) and improvements to the City's sanitary sewage system; and (2) pay the costs of issuance.

Certificates of Obligation

The City is authorized to issue certificates of obligation pursuant to the City Charter, applicable State laws, and ordinances adopted by the City Council. Certificates of Obligation are issued for various purposes to include financing revenue producing capital improvements and for infrastructure support and development. For the fiscal year ended September 30, 2008, the City had $294,410,000 certificates of obligation outstanding, which comprises 28.33% of the total outstanding ad valorem tax-supported debt.

On November 29, 2007, the City sold $106,755,000 "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2007," (the "2007 Certificates"). The 2007 Certificates were issued 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 as follows: (1) constructing, renovating, and improving municipal facilities including the animal care facility and community family resource learning centers; (2) constructing the new Haven for Hope Homeless Campus; (3) acquiring, constructing, improving, and renovating park facilities, including the West End Park/Frank Garrett Park, La Villita historic buildings and Maverick Park, the Spanish Governor's Palace, Southside Lions Park, Voelcker Park, West Side YMCA, and Lockwood Park; (4) acquiring Mission Drive- In Theatre land for open space; (5) constructing and renovating Environmental Services facilities including a compressed natural gas fueling facility at the Northeast Service Center and the Pearsall Landfill; (6) acquiring, constructing, and renovating library facilities including converting the Hertzberg Library building into a western art museum; (7) constructing improvements for flood control including dams and bridge improvements, communications equipment, landscaping, accessible walkways and landings, and amenities along the San Antonio River; (8) constructing and improving municipal golf courses including a learning center for the "First Tee" program at Brackenridge Park polo field; (9) constructing parking facilities at the Witte Museum and the Zoo area; (10) acquiring, constructing, and improving public safety facilities, including a public safety headquarters, other police and fire station facilities, and software for automated field police reporting and integrated report management system; (11) constructing street improvements and drainage incidental thereto, including Bulverde Road from Evans to Marshall, 36th Street (US 90 to Port San Antonio entrance), Jones Maltsberger from US 281 to Basse Road, streets within the Medical Center, Prue Road extension to Huebner, Stahl Road at O'Connor and Judson, and infrastructure in connection with the Texas A&M University campus; (12) purchasing material, supplies, equipment, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, flood control, streets, libraries, utility infrastructure, and public works purposes; and (13) the payment of professional services related to the construction and financing of the aforementioned projects.

Revenue Bonds

The City is authorized to issue revenue bonds under the provisions of the City Charter, applicable state laws, and ordinances adopted by City Council. For fiscal year ended September 30, 2008, the City's outstanding revenue bonds were: Airport System Revenue Bonds in the aggregate principal amount of $232,930,000; Passenger Facility Charge and Subordinate Lien Airport System Revenue Bonds in the aggregate principal amount of $140,650,000; Municipal Drainage Utility System (Stormwater System) Bonds in the aggregate principal amount of $95,615,000; and Henry B. Gonzalez Convention Center Expansion Project Revenue Bonds aggregating to $222,465,000.

The airport, drainage, and convention center revenue bonds are not secured by ad valorem taxes and are limited obligations of the City, payable solely from the revenues of the airport system, municipal drainage utility system, and hotel occupancy tax collections, respectively. The Passenger Facility Bonds are not secured by ad valorem taxes and are payable solely from the revenues generated by the City's collection of a passenger facility charge, which was approved by the Federal Aviation Administration and the City Council, with collection beginning on November 21, 2001.

On July 9, 2008, the City sold $135,000,000 "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Variable Rate Demand Revenue Refunding Bonds, Series 2008" (the "Series 2008 HOT Bonds"). The Series 2008 HOT Bonds were sold for the purpose of (i) refunding its outstanding "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B;" (ii) constructing renovations and making improvements to the Lila Cockrell Theatre, as well as other expansion related improvements; and (iii) paying costs of issuance of the Series 2008 HOT Bonds.

On November 29, 2007, the City sold $82,400,000 "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2007" (Alternative Minimum Tax Bonds) (the "GAR Bonds"). The GAR Bonds were sold for the purpose of paying costs related to constructing, improving, renovating, enlarging and equipping the Airport including: (i) construction of renovations and improvements to existing terminals and airport maintenance facilities; (ii) construction of two new terminals (Concourse B and Concourse C), parking structures, cargo facilities, holding aprons, and an elevated terminal roadway; (iii) construction of drainage improvements; (iv) construction of infrastructure, roadway and utility improvements related to the redevelopment of the former Northside Service Center site located near the west entrance of the Airport; (v) acquisition and installation of equipment related to such projects; (vi) acquisition and installation of terminal road signage; (vii) engineering,

architectural and other professional services related to such projects; (viii) funding capitalized interest and a debt service reserve fund; and (ix) costs of issuance of the GAR Bonds.

On November 29, 2007, the City sold $74,860,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007" (Alternative Minimum Tax Bonds) (the "PFC Bonds"). The PFC Bonds were sold for the purpose of paying costs related to constructing, improving, renovating, enlarging and equipping the Airport, which improvements and projects qualify, and have been approved by the Secretary of the U.S. Department of Transportation, as "eligible airport-related projects" under 49 USC §40117, including (i) construction of renovations and improvements to existing terminals, (ii) construction of two new terminals (Concourse B and Concourse C), and (iii) construction of an elevated terminal roadway, upgrades to the central plant, apron replacement, and new utilities. Proceeds of the PFC Bonds also will be used to fund a debt service reserve fund and pay costs of issuance of the PFC Bonds.

Refundings

The City routinely reviews the possibility of refunding certain of its outstanding debt to effectuate interest cost savings.

Commercial Paper Program

On May 7, 2005, the voters of the City approved a 1/8 cent sales and use tax for the purpose of collecting an aggregate of $90,000,000 to be used to acquire property for a conservation easement or open-space preservation program intended to protect water in the Edwards Aquifer which took effect October 1, 2005. Passage of the Aquifer Protection Proposition will enable the City to help protect the Edwards Aquifer water supply from pollution by acquiring land over the Edwards Aquifer Recharge Zone. It is expected that the land acquisition over the Edwards Aquifer will occur over a 60-month period. An accelerated land acquisition program will be financed through the implementation and issuance of Sales Tax Revenue Commercial Paper Notes. The commercial paper program was authorized by the City Council on May 10, 2007, for $50,000,000 in Sales Tax Revenue Commercial Paper Notes (the "Notes"). Funds collected in accordance with the Aquifer Protection Proposition, in addition to being available to pay the Notes, will be used to pay costs and expenses incurred in relation to eligible projects, including, without limitation, acquisition costs of land, interests in land, rights-of-way and easements, engineering and legal costs, and real estate sales commissions and closing costs. For the fiscal year ended September 30, 2008, the City had $10,500,000 commercial paper notes outstanding.

Debt Limitations

The amount of ad valorem tax-supported 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 ten percent of the total assessed valuation.

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.

Long-Term Debt Planning

The City employs a comprehensive multi-year, long-term capital improvement planning program that is updated annually. Debt management is a major component of the financial planning model which incorporates projected financing needs for infrastructure development that is consistent with the City's growth while at the same time measuring and assessing the cost and timing of each debt issuance.

The assumptions utilized in the FY 2008-2009 Debt Plan include: (i) assessed valuation actual growth at 10.49% in fiscal year 2009, decreasing to a projected growth rate of 5.00% in fiscal year 2010, decreasing to 3.00% in fiscal years 2011 through fiscal year 2013, decreasing 0.50% per year beginning in fiscal year 2014 and continuing until fiscal year 2016, when a growth rate of 1.50% is reached and held constant through fiscal year 2021; (ii) tax collections at 97.5%; (iii) tax freeze for the elderly and disabled (proposition 3); (iv) the adopted debt service tax rate which remains constant at 21.15 cents in fiscal years 2009 through 2024 and decreases annually from fiscal years 2025 through 2041; and (v) $550,000,000 General Improvement Bonds authorized by the voters in the May 12, 2007 election of which $109,347,528 has been previously issued, with issuances anticipated to be sold as follows: $76,060,000 in FY 2009, $115,827,000 in FY 2010, $168,042,000 in FY 2011, and $80,688,000 in FY 2012. Based on these assumptions and the projected maximum debt service tax rate of 21.15 cents, additional estimated bond authorizations in the Fall of 2012 and the Fall of 2017 are approximately $596,000,000 and $550,000,000, respectively. In addition, the FY 2008-2009 Debt Plan includes the issuance of Certificates of Obligation, which are scheduled to be sold as follows: approximately $222,555,000 for fiscal years 2009 through 2012, approximately $57,575,000 for fiscal years 2013 through 2017, and approximately $45,000,000 for fiscal years 2018 through 2022 for: fire station improvements, Metropolitan Planning Organization ("MPO") streets and other street projects, drainage projects, land acquisition, parks and recreation projects, municipal facility improvements, environmental services improvements, economic development, library improvements, health, public safety improvements, and San Antonio River improvements. Additionally, the FY 2008-2009 Debt Plan includes the issuance of approximately $9,655,000 self-supporting Certificates of Obligation to be sold in FY 2009 and $30,800,000 in short-term Tax Notes to be sold from FY 2009 through 2011.

New Money Issues

Ongoing capital improvement needs have required the City to sell certificates of obligation and general obligation bonds to fund capital improvements for various streets, drainage and flood control projects; acquisition, construction and improvements related to park facilities, public safety, municipal facilities, and parking structures; environmental clean-up and land acquisition.

The FY 2008-2009 debt plan includes the sale of $76,060,000 of the 2007 voter authorized bonds. The bonds will be sold to finance improvements to streets, bridges and sidewalks, drainage, libraries, parks, recreation, open space and athletics, and public health facilities. The FY 2008-2009 debt plan also includes the sale of approximately $85,005,000 of certificates of obligation and $15,320,000 in short-term Tax Notes. The certificates of obligation and Tax Notes will be sold to fund fire station improvements, MPO streets and other street projects, environmental services improvements, municipal facilities, parks and recreation improvements, economic development, library improvements, drainage projects, and health, and information technology improvements.

Debt Service Tax Rate

The combination of successful refundings and low interest rates for bonds and certificates of obligation sales has resulted in a decrease in the projected maximum debt service tax rate of $0.3049 per $100 valuation prior to 1992, 1993, 1996, 1998, 2001, 2002, 2003, 2004, 2005, 2006, 2007, and 2008 refundings to a projected maximum debt service tax rate of $0.2115 per $100 through FY 2024.

The Budget Process

Fiscal Year 2009 Budget

The FY 2009 Budget Process included several budgetary steps and input practices which allowed for more community and employee input. Each phase of the FY 2009 Budget Process is explained below.

Five-Year Financial Forecast. The Budget Process is guided with the development and presentation of the Five-Year Financial Forecast (the "Forecast"). The Forecast is a financial and budgetary planning tool that provides a current and long-range assessment of financial conditions and costs for City service delivery plans including the identification of service delivery policy issues that will be encountered in the next five years and that will have a

fiscal impact upon the City's program of services. The Forecast also examines the local and national economic conditions that have an impact on the City's economy and ultimately, its budget.

The Forecast also serves as a foundation for development of the proposed budget by projecting revenues and anticipated expenditures under a defined set of assumptions. The Forecast enables the City Council and staff to identify financial issues in sufficient time to develop a proactive strategy in order to address emerging strategic issues. Although the FY 2009 Forecast focused primarily on the City's General Fund, the Environmental Services Fund, the Development and Planning Services Fund, and Hotel Occupancy Tax Related Funds were also included. On April 30, 2008, the Forecast was presented to the City Council.

Public Input. Beginning in March 2008, the Budget Input Box gave citizens and employees the opportunity to offer their suggestions on how the City could increase efficiencies, generate revenues, and make effective changes to service delivery. The dropboxes were placed at 170 sites within the City including public libraries, the City's office lobbies, Chamber of Commerce, and other venues. Information and access for this budget initiative was provided to citizens and City employees in English and Spanish. Budget Input Box resources were also available on the City's internet website. In addition, the FY 2009 Budget process continued with the City's Frontline Focus Initiative for the third year. This initiative is designed to engage employees from specific departments to identify process improvements that could be considered during the development of the FY 2009 Proposed Budget.

City Council Goal Setting Work Session. The Goal Setting Work Session for the annual budget is a formal mechanism for the City Council as a body to provide City staff with budget policy direction. This year's work session was held on May 13, 2008, and utilized a facilitator to guide City Council in their goals and priorities. Prior to the work session, the City Council was provided with a ballot that included 54 service issues, four revenue topics, and three fiscal policies to be rated.

The 54 City service issues were separated into nine major categories:

- Police Protection/Public Safety
- Infrastructure Management
- Fire Protection/Emergency Management Services ("EMS")
- Business and Economic Development
- Parks & Recreation
- Fiscal Policies
- Quality of Life (Health & Human Development)
- Library Services
- Housing and Neighborhood Services

The results of this rating process were discussed with City Council in order to provide City staff with a clear set of priorities to be included in the FY 2009 Budget.

Proposed Budget Preparation. Prior to the Proposed Budget Presentation, each department's base budget was reviewed by the Office of Management and Budget, along with the department's respective Management Team member. Costs such as fuel, electricity, and other similar maintenance and operational expenses were adjusted to meet current market demands. Concurrent to these reviews, the Management Team and Budget Staff also reviewed preliminary fund schedules in order to determine the financial situation for each department. Other items discussed in these Management Team meetings included performance measures, capital and grant programs, policy issues, revenue changes, and potential reductions. Departments were asked to look for efficiency and operational proposals that would address priority-rated City Council policy goals.

FY 2009 Proposed Budget. After obtaining the priorities of the City Council, as well as conducting reviews of each City department, the City Manager presented the FY 2009 Proposed Budget to City Council on August 14, 2008. The Proposed Budget represented City staff's professional recommendation on how to utilize revenues and expenditures in order to achieve a balanced budget, while optimizing City service deliveries.

Major enhancements in the FY 2009 Proposed Budget included a two-year balanced budget, increased financial reserves, street and sidewalk, pavement markings and traffic signal enhancements, enhanced funding for additional staffing for police, fire and EMS, funding to address neighborhood issues such as code compliance, graffiti enforcement and animal care, as well as provided funding for expanded youth employment services and parks improvements.

Public Input on Budget Priorities. After the FY 2009 Budget was proposed on August 14, 2008, the City held District Community Budget Hearings in all 10 City Districts between August 19 and August 28, 2008. In each community hearing, an explanatory video regarding the FY 2009 Proposed Budget was shown and citizens were given the opportunity to direct questions to their City Council Representative and City Officials. These District Community Budget Hearings were attended by over 750 individuals and over 200 community comments were heard. The City also held a Budget Public Hearing in which citizens/groups provided input. Additionally, two Tax Rate Public Hearings and eight Work Sessions for City Council were held. The Public Hearings and Work Sessions resulted in the City Council being aware of issues important to citizens and community groups, while the District Community Budget Hearings allowed City Council to hear feedback from the citizens on the FY 2009 Proposed Budget.

Included in the FY 2009 Proposed Budget, were adjustments to the financial reserves. The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management. The FY 2009 Proposed Budget included an additional $15.5 million in Budgeted Financial Reserves allowing for a 9% Reserve. The City Council policy direction is to obtain a 10% reserve goal by FY 2010.

Fiscal Year 2009 Adopted Budget. After receipt of the Proposed Budget, the City Council held eight work sessions to review the proposed service program details and discuss potential City Council budget amendments. The budget work sessions provided a forum for public discourse on significant policy issues as well as an opportunity to review departmental service plans highlighting proposed program enhancements, reductions, efficiencies, redirections, and revenue adjustments. After considering all the recommendations and receiving input from citizens at a public hearing on September 3, 2008; the budget was adopted on September 11, 2008, including amendments added by the City Council. Highlights of the FY 2009 Adopted Budget include $15.5 million added to the General Fund's financial reserves for a total of $83.7 million; a $28.3 Reserve for a two-year balanced plan, 10% increase in the Street Maintenance Program for a total of $67 million in FY 2009; 100 new police officers added, making three-year total more than in the past decade; 60 new firefighters added to improve firefighting and emergency medical services; increased graffiti abatement resources for volunteer initiative by nearly $350,000; added five new graffiti abatement positions; added $750,000 more in resources for free/low-cost spay/neuter surgeries with a mobile unit, added two new animal care officer positions; and doubled the number of youth in summer employment programs (500 in FY 2009).

Annexation

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 467 square miles (both full purpose and limited purpose annexations), and having a tax year 2008 total taxable value of $72.892 billion. The City expects to continue to utilize the practice of annexation as a growth and development management tool, as well as an opportunity to enhance the City's fiscal position.

Previous statistics have shown the city limits, through annexation, to be as high as 519 square miles. This included areas fully annexed into the City, as well as areas under "Limited Purpose Annexation." Between 2003 and 2005, approximately 70 square miles were taken into Limited Purpose Annexation. In 2007 and 2008, approximately 49 square miles were released from Limited Purpose Annexation, and the remaining 21 square miles were annexed for full purposes. City regulations are extended, but City taxes are not assessed or collected within areas under Limited Purpose Annexation.

Three-Year Annexation Plan Process

By City Charter, City Council has the power to annex territory by passage of an ordinance. As of January 1999, State law mandates that municipalities prepare an annexation plan specifically identifying annexations that may

occur beginning on the third anniversary of the date such plan was adopted. The City is required to maintain the annexation plan on the City's web site and notify property owners and public entities.

Since February 2008, the City has been engaged in a growth management study to estimate and analyze population growth, locate high growth areas, and identify areas adjacent to the City, and within its extraterritorial jurisdiction, that would be best served through annexation. These areas will be placed in a new City three-year annexation plan. At the present time, the City does not have a three-year annexation plan in place, but plans to bring one forward in 2009.

Public Improvement District

Pursuant to the Public Improvement District Assessment Act, Chapter 372, Texas Local Government Code, as amended, on April 29, 1999, the City Council created a Public Improvement District ("PID") in the central business district. The purpose of the PID is to provide public improvement services to properties within the boundaries of the PID to include: (1) sidewalk sweeping and washing; (2) graffiti abatement; (3) landscaping/streetscaping services; (4) a marketing and promotional program; and (5) a public service representative program. On July 1, 1999, the City Council authorized the City to execute a contract with Centro San Antonio Management Corporation, a non-profit Texas corporation, to manage the PID programs. A 15-member Board of Directors of the PID meets at least quarterly to assure performance of Centro San Antonio Management Corporation. The supplemental services and improvements to be provided are detailed in the annual Service and Assessment Plan, which must be approved by the City Council. The FY 2009 plan reflects a total budget of $2,555,000 based on an assessment rate of $0.11 per $100 valuation. In addition to assessment revenues from private property, which are expected to yield approximately $1,985,628 in FY 2009 estimated additional funds are to be received from annual contributions from the City and CPS combined of $85,208, from VIA Metropolitan Transit and Bexar County combined of $90,000, from other revenue sources combined of $26,328, and from interest on deposits and delinquent payments of $55,000. The PID will operate on these collected revenues and will not issue bonds. The PID is authorized for a term of five years through the end of FY 2009.

Investments

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Investment Act"), and in accordance with an Investment Policy approved by the City Council. The Investment Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City established a written investment policy adopted September 30, 2008. The City's investments are managed by the City's Department of Finance, who, in accordance with the Investment Policy, report investment activity to the City Council.

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of the State 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 and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State 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) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office 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 their respective successors, or are secured as to principal by obligations described in clauses (1) through (5) and clause (13) or in any other manner and amount provided by law for City deposits, and in addition (b) the City is authorized, subject to certain conditions, to invest in certificates of deposit with a depository institution that has its main office or branch office in the State of Texas and that participates in the Certificate of Deposit Account Registry Service® network (CDARS®) and as further provided by Texas law; (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described

in clause (1), requires the securities being purchased by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State; (8) bankers' acceptances with the remaining term of 270 days or less, which will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank, 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; (9) commercial paper with a stated maturity of 270 days or less and is rated at least "A-1" or "P-1" or the equivalent by either (i) two nationally recognized credit rating agencies or (ii) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (10) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission 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 provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934 or the Investment Act of 1940; (11) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and conforms to the requirements for eligible investment pools; (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or "AAA-m" or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; (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 prohibited obligations described in the next succeeding paragraph, with a defined termination date, and pledged to the City and deposited with the City or a third party selected and approved by the City.

Entities such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (5) and clause (13) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (5) and clause (13) above, clause (9) above and clauses (10) and (11) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City or a third party selected and approved by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pool is rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the City is required to invest its funds in accordance with written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; that includes a list of authorized investments for City funds,

maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pool fund groups, and the methods to monitor the market price of investments acquired with public funds and the requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. 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.

Texas law requires that 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 must submit to the City Council 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, the fully accrued interest, 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.

The City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said ordinance or resolution, (3) 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; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) 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; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Current Investments

At September 30, 2008, investable City funds, in the approximate amount of $1,311,176,398 were 93.86% invested in obligations of the United States, or its agencies and instrumentalities, 6.08% invested in a money market mutual fund, and 0.06% in a collateralized repurchase agreement, with the weighted average maturity of the portfolio being less than one year. The investments and maturity terms are consistent with State law, and the City's Investment Policy objectives to satisfy cash flow requirements, preservation and safety of principal, liquidity and diversification, minimize risk, maximize yield, and proactive portfolio management.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 99.94% 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.

Certain Significant Issues Affecting the City

Water Supply

The primary source of water for the City is the Edwards Aquifer. The Edwards Aquifer is also the primary source of water for the agricultural economy in the two counties west of San Antonio and is the source of water for Comal and San Marcos Springs in New Braunfels and San Marcos, respectively, which depend upon springflow for their tourist-based economy. Edwards Aquifer water from these springs provides the habitat for species listed as endangered by the U.S. Fish & Wildlife Service under the federal Endangered Species Act and provides base flow for the Guadalupe River. Water levels in the Edwards Aquifer are affected by rainfall or lack thereof, water usage region-wide, and discharge from the aforementioned springs. One unique aspect of the Edwards Aquifer is its prolific rechargeability and the historical balance between recharge and discharge in the form of well withdrawals and spring discharges.

During the 1980s, increasing demand on the Edwards Aquifer threatened to exceed average historical recharge, generating concerns by the areas dependent upon springflow for water and the local economy. Also, the fluctuations in Edwards Aquifer levels threatened to jeopardize flow from Comal and San Marcos Springs. Since groundwater, including the Edwards Aquifer, is subject to the rule of capture in Texas, meaningful management could not be accomplished in the absence of new State legislation.

Regional planning efforts to address these issues were undertaken in the mid-1980s, resulting in recommendations for new State legislation for management of the Edwards Aquifer. Failure to adopt this legislation in the 1989 Texas Legislative Session resulted in the initiation of various lawsuits and regulatory efforts by regional interests dependent upon springflow to force limitations on overall usage from the Edwards Aquifer. In addition to the litigation discussed below, litigation was initiated in State District Court to have the Edwards Aquifer declared an underground river under State law, and therefore owned by the State. This litigation was unsuccessful. In addition, efforts were undertaken to have the Texas Water Commission (now the Texas Commission on Environmental Quality) regulate the Edwards Aquifer. In April 1992, the Texas Water Commission adopted emergency rules declaring the Edwards Aquifer to be an underground stream, and therefore State water subject to regulation by the State. After final adoption of permanent rules, litigation was initiated in State court challenging the Texas Water Commission's determination. The Texas Water Commission's permanent rules and the Commission's determination that the Edwards Aquifer was an underground stream, and, therefore, subject to regulation by the State, were declared invalid by the State courts.

The various litigations and regulatory efforts to manage withdrawals from the Edwards Aquifer resulted in passage of the Edwards Aquifer Authority Act in 1993 and its amendment in 1995 to allow its implementation. The Edwards Aquifer Authority began operation on July 1, 1996, with a goal of implementing State regulatory legislation aimed at the elimination of uncertainties concerning access to and use of Edwards Aquifer water by the City and all other Aquifer users.

The Board of the Edwards Aquifer Authority has adopted rules for: (1) drought management and (2) withdrawal permits governing the use of water from the Edwards Aquifer. Drought management rules mandate staged reductions in water supplies withdrawn from the Edwards Aquifer. The City currently has a series of accompanying demand restrictions targeting discretionary water use, such as use of decorative water features and landscape irrigation. Drought demand rules do not materially adversely affect revenues or SAWS ability to supply water to its customers for primary needs.

In 2007, the Texas Legislature passed Senate Bill 3 on the final day of the 80th legislative session, establishing a cap on annual pumping from the Edwards Aquifer of 572,000 acre-feet and placing restrictions on supply availability during drought periods into State statute. SAWS currently has access to 40% of this figure. Senate Bill 3 incorporates restrictions on supply availability during drought periods into state statute, thus making these restrictions State law. In addition, to support ongoing efforts to identify and evaluate methods to protect threatened

and endangered species, the Texas Legislature prescribed in detail a Recovery Implementation Plan ("RIP") for the Edwards Aquifer region. The RIP, is being undertaken in coordination with U.S. Fish and Wildlife Service, is intended to help the region meet the needs of endangered species, while respecting and protecting the legal rights of water users.

Implementation of the legislation and management of the Edwards Aquifer will benefit the City. The legislation should provide a basis for resolving disputes concerning the application of the Endangered Species Act to the Edwards Aquifer and will prevent further diminution of usage by existing users, such as the City, caused by new users and additional demand. The legislation creates permitted rights and hence a market in the limited resource and an incentive to implement conservation measures region-wide. The City believes that implementation of the legislation will also ultimately result in the elimination of litigation threats to existing water usage from the Edwards Aquifer. Usage of water from the Edwards Aquifer, including usage by the City, has steadily decreased since the Edwards Aquifer Authority commenced its regulatory activities.

Water Reuse Program

SAWS supplies reuse water to CPS. The revenues derived from such agreement have been restricted in use to only reuse activities and are excluded from the calculation of SAWS Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this agreement are approximately $2 million each year.

SAWS has constructed a direct reuse, or recycled water, system that provides non-potable water to various customers now using Edwards Aquifer water. The Reuse Program serves golf courses, grass farms, a university, a military base, a city landfill, a city baseball stadium, and others. Revenue from recycled water sales are recorded as normal revenue of SAWS and do not have the restrictions of the reuse agreement with CPS.

Please refer to Table 18 herein for historical transfers from SAWS to the City's General Fund.

Electric and Gas Supply

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this service area has been approved by the Public Utility Commission of Texas ("PUCT"). Effective January 1, 1997, the transmission grid in Texas was opened to wholesale competition by virtue of PUCT regulations implementing 1995 Texas legislation. Wholesale customers include cities and towns buying power for resale and as a result of the new regulations, the transmission grid is available on an open access basis to any power provider to supply these loads. CPS sells electricity at wholesale prices to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. Renewal contracts have been entered into with these long-term wholesale customers in recent years. CPS will seek additional opportunities to enter into long-term wholesale electric power agreements in the future. The requirements under the existing and any new wholesale agreements would be firm energy obligations of CPS.

The City Council exercises original electric and gas rate regulatory jurisdiction over the CPS retail service areas, with appellate jurisdiction in the PUCT and Texas Railroad Commission for electric and gas rates, respectively, for areas outside the City. Pursuant to amendments made by the Texas Legislature in 1995 to the Texas Public Utility Regulatory Act ("PURA"), municipally-owned utilities, including CPS, became subject to the regulatory and rate jurisdiction of the PUCT relating to transmission of wholesale energy. The PURA amendments require 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. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Service Area and Rates" in Appendix A attached hereto.)

The CPS electric system, like other municipal electric systems in the State, is adapting to changes in electric regulation brought about by the enactment of Senate Bill 7 ("SB 7") by the Texas Legislature in 1999. SB 7 provides for open competition in the provision of retail electric service in the State, which commenced on January 1, 2002. Municipal utilities, such as CPS, are not required to participate in the competitive retail market, although they

may "opt-in" to retail electric competition. On April 26, 2001, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002. SB 7 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 Energy Board of San Antonio, Texas ("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 the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Electric Utility Restructuring in Texas; Senate Bill 7" in Appendix A attached hereto.)

The United States Congress may also continue to consider legislation that would affect retail competition in the furnishing of electric energy. The ultimate effects of these and other developments in the restructuring of the electric industry, including possible state or national legislation, cannot be predicted. CPS, however, continues to implement organizational and systems changes to prepare for the possibility of participating in retail electric competition in Texas and will periodically advise the City regarding developments in the competitive market and the advisability of CPS' participation.

Please refer to Table 18 herein for historical transfers from CPS to the City's General Fund.

Air Quality

During the ozone seasons for years 2000 and 2002, local air quality monitors in the San Antonio region recorded ozone levels above the concentrations allowed by the clean air eight-hour ozone standard. The United States Environmental Protection Agency ("EPA") clean air ruling states that the San Antonio Metropolitan Statistical Area ("MSA") is to be considered the boundary to develop future air quality plans. The MSA (since June 2003) consisting of Atascosa, Bandera, Bexar, Comal, Guadalupe, Kendall, Medina, and Wilson Counties are considered within the San Antonio air quality region. Expecting that this area may be designated as non-compliant or "non-attainment", the Alamo Area Council of Governments and the counties and cities within the air quality region submitted in 2002 an Early Action Compact to the Texas Commission on Environmental Quality and the EPA. Under this agreement, the EPA agreed to designate the area "non-attainment deferred" and not require any of the traditional "non-attainment mandates". More importantly, the area was given an opportunity to implement strategies to clean up the air faster. As of October 2008, the San Antonio region has demonstrated attainment with the eight-hour ozone standard of December 31, 2007 based on air quality data from years 2005, 2006, and 2007. On March 12, 2008, the EPA revised the air quality standard. The new eight-hour standard has been lowered to 0.075 parts per million ("ppm"). The objective of the new standard is to increase the protection of public health. Based on the air quality data from years 2004 through 2006, the MSA violates the new air quality standard of 0.075 ppm. As a result, the City may likely be designated non-attainment in March 2010. If the City is designated non-attainment, the EPA may impose a moratorium on the rewarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of hydrocarbon emissions for which construction has not already commenced.

LITIGATION

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits is capped under the Texas Tort Claims Act; therefore, as of fiscal year ended September 30, 2007, the amount of $19.2 million is included as a component of the reserve for claims liability. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the City's Insurance Reserve Fund. The status of such

litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits, including the pursuit of 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 outcome of such lawsuits.

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

Information regarding various lawsuits against the City is included at Note 11, entitled "Commitments and Contingencies" of the CAFR for the year ended September 30, 2007 attached hereto as Appendix C. In addition, the City provides the following updated information related to the lawsuits not contained in Appendix C:

Charles and Tracy Pollock, individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This case involves allegations that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in the child'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 the judgment by $6 million. On appeal, the Fourth Court of Appeals sided 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 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 case was argued to the Texas Supreme Court on October 18, 2006.

Brooks Hardee, et al. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; En Seguido, Ltd. v. City of San Antonio; VWC Ltd. v. City of San Antonio, et al.; Lakeside Joint Venture, et al. v. City of San Antonio. These are similar cases brought by the same developer/landowner under different entities. These cases all raise complex issues of fact and law and collectively challenge the City's authority to regulate land development, including but not limited to challenging the City's vested rights determinations for the landowner's projects. There are approximately six related cases. 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 the San Antonio Water System.

Ricardo Arizpe, Jr. d/b/a Astro Affordable Auto Services, Rufino & Marcela Bombin d/b/a Rumar Manufacturing Co/Resco, Jose & Amelia Castillo, Irene Duque, Adelaida Garcia, Gloria Garcia, Abel Canales Garza, Victor Gil, William & Sixta Hernandez, Zenaida Leos, George & Shannon Molleda, Henry & Maricela Terrazas v. City of San Antonio. This case concerns flooding of a number of properties during November 2001. There was a very heavy localized rain event that produced flooding in a concentrated area. Plaintiffs claim "alteration of a nearby property by Defendant." It appears at this stage that the City did not cause flooding but the damage claims aggregate well over $100,000. Discovery is ongoing and the City has brought in a third party Defendant.

Samantha Rivera v. et al. v. City of San Antonio and SAPD Officers Reynaldo Montes & Rachel Barnes. This is a case involving use of deadly force. Plaintiff claims that Defendant officers entered her home forcibly and with deadly force killed Plaintiff's decedent husband in violation of his civil rights. Plaintiff alleges federal constitutional violations as well as battery under state law. The claims against the City have been dismissed, only claims pending are against the police officers. Damages could range from $250,000 to $500,000. The case is set for trial on February 17, 2009.

Argonaut Southwest Insurance Company v. City of San Antonio. Plaintiff insurance company sued the City alleging breach of an insurance contract related to the Convention Center Expansion Project and failure to pay premiums. Plaintiff claims damages in excess of $500,000. This case is in preliminary stages.

John Foddrill v. City of San Antonio. Plaintiff was employed as a Telecommunications Manager in the City's Information and Technology Services Department. Plaintiff was terminated in April, 2006 for job performance. Plaintiff had previously filed complaints with the City's Municipal Integrity Unit alleging misuse of funds, which were unfounded. He filed suit against the City under the Texas Whistleblower Act and seeks damages in excess of

$500,000. Potential liability could be in a range of $100,000 to $500,000. This case is set for trial on February 2, 2009.

Ila Faye Miller, et al. v. City of San Antonio. Plaintiffs own property south of San Antonio which was included in a limited purpose annexation that was enacted in 2003 as part of the Southside Initiative. Plaintiffs contend that the annexation and rezoning of their property constituted a takings under the Texas Constitution for which they are entitled to compensation. Liability could range from $300,000 to $500,000. This matter is not currently set for trial.

Christine Esteinon, et al. v. City of San Antonio, et al. Plaintiffs were patrons of a bar known for drug activities. SAPD officers entered bar for inspection. Plaintiffs allege that they were detained and improperly searched in violation of their constitutional rights. Damages could range from $300,000 to $500,000. This case is set for trial on February 23, 2009.

Diana Borjas, et al. v. City of San Antonio et al. Plaintiff's husband, the decedent, was riding in a vehicle involved in a single car accident, leading to his death. Plaintiffs assert that the road was an unsafe condition due to its design. Damages are capped at $250,000. This case is set for trial on February 9, 2009.

Kopplow Development, Inc. v. City of San Antonio. Plaintiff contends that certain public work drainage and detention improvements resulted in an easement across its property and effectively constituted a taking of property. This matter was tried in July 2008 and a verdict of $1.5 million was entered against the City. The City's Motion for New Trial was granted and the case will be retried in 2009.

Vanessa Samudio v. City of San Antonio. Plaintiff was involved in a motor vehicle accident with a San Antonio Police Officer whom it is alleged was traveling at an excessive speed. Plaintiff suffered severe injuries, including brain damage. Liability could reach the damage cap of $250,000. This case is not currently set for trial.

Peter Adolfson, et al. v. Rosin, et al. Plaintiffs are 22 individual homeowners who purchased homes in the Lackland Heights subdivision, a housing area developed near Lackland Air Force Base. In June 2007, the City experienced severe rainfall which resulted in flooding of the Plaintiffs' homes. Plaintiffs contend that the drainage infrastructure in the subdivision was inadequate and have sued the developers, engineers and the City. Plaintiffs contend that the City was negligent in approving the inadequate drainage plans and in failing to warn them of a "special defect." Collectively, Plaintiffs' claims could exceed $250,000.

Erin McCutcheon v. Sheryl Sculley, et al. Plaintiff was arrested by an SAPD officer for a public disturbance at a nightclub. Plaintiff, a minor, was intoxicated, and exhibited violent behavior. After being placed in the police cruiser, and in route to the detention facility, Plaintiff kicked out one of the windows in the car. The officer pulled over the car and another officer arrived on the scene to assist. Plaintiff tried to exit the vehicle and the officers attempted to restrain her in the car. The Plaintiff continued to act violently, kicking the officers, and they eventually used force to place her back in the vehicle. Plaintiff has filed suit against the officers, the City, and the nightclub, alleging use of excessive force by the officers. The City has been dismissed from the suit. Damages could exceed $250,000.

Dora Arnold v. City of San Antonio, et al. Plaintiff alleges that she was raped by a San Antonio Police Officer. The officer was subsequently convicted for the rape. Plaintiff filed suit against the officer and the City. Plaintiff alleges that the City knew or should have known of the officer's previous inappropriate behavior and that had the City taken steps to remove him from the Department, she would not have been raped.

Mark DeLeon v. City of San Antonio, et al. Plaintiff alleges that while standing in the street outside a friend's house, an unmarked vehicle pulled up and two people identifying themselves as police got out of the vehicle with weapons drawn. Plaintiff alleges that he initially placed his hands on a truck as instructed, but then decided to make a run for the house. When he ran, one of the officers discharged his weapon, hitting Plaintiff in the arm. Plaintiff filed suit against the City and the police officers. Damages could be in excess of $250,000.

CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES

City Pension Benefit Plans

An actuarial valuation is conducted annually on each of the City's pension benefit plans (collectively, the "City Pension Benefits Plans"), which include the Texas Municipal Retirement System ("TMRS") and the Fire and Police Pension Fund. Such actuarial valuations, conducted in accordance with generally accepted actuarial principles and practices, summarize the funding status of each of such plans as of the respective ending dates of the prior two fiscal years, as well as projects funding contribution requirements for the immediately succeeding fiscal year. The respective actuarial values of each plan's assets represents an adjusted value, as determined by the actuary in accordance with industry standards, and will not, therefore, equal the amounts shown in the City's statement of net assets.

As a part of its valuation of the City Pension Benefits Plans, the actuary calculates and reports any "unfunded actuarial accrued liability" ("UAAL") relating to any of such plans. The UAAL is calculated on a present value basis and includes assumptions such as (among others) rates of mortality, retirement, and disability, respectively; the estimated number of participants expected to withdraw from the subject plan; expected base salary increases; overtime rates; and investment returns. The UAAL includes liabilities for current retirees, active employees that are fully eligible, and for active employees that are not fully eligible.

Based on actuarial valuations, the City's current fire and police pension plan is funded in accordance with Texas law, and the UAAL as of October 1, 2007 was $183.0 million with an amortization period for the UAAL of 8.7 years. The Texas Municipal Retirement System's UAAL as of December 31, 2007 was $317.7 million. See the following for additional information on these two plans.

Fire and Police Pension Plan

The Board of the Fire and Police Pension Fund has historically recommended changes to benefits provided by the governing statute controlling the Fund that are actuarially prudent, keeping in mind the goal of reducing the unfunded liability of the Fire and Police Pension Fund over time. The Legislative Program has worked by soliciting the input of all affected interest groups and the advice of external professionals to reach agreement on a package of benefits that is actuarially prudent.

The Board reaffirms this commitment to a program of prudent legislative changes that result in greater retirement security for its members while at the same time moving towards full funding from an actuarial perspective. To evidence this policy, the Board adopted several guidelines for determining whether to recommend legislative amendments in the future. Two highlights of these guidelines include utilizing external actuarial analysis to determine the years to full funding based on reports as of October 1 every two years, commencing with the 2005 Actuarial Valuation Report, adjusted to include the 2007 Legislative Package. The actuarial cost of benefits enhancements recommended by the Board will not exceed 50.0% of any actuarial improvements, as measured by the years to full funding in any two year cycle. Any improvements in years to full funding not used for legislative benefit changes in any two year cycle may be banked for future benefits in subsequent two year cycles.

Another guideline adopted by the Board is that any decrease in the years to full funding resulting from modifications of actuarial assumptions may form the basis for recommending legislative benefits enhancements, except for any modification of the Inflation Rate Assumption regarding the amount of the rate that would reduce such rate below 4.3%.

This policy reflects the current statement of Board policy and may be changed at any time by the current Board or any future Board.

On October 1, 2007, legislation became effective that modified the description for the pension plan. The major changes enacted during the 2007 legislative session are (i) the creation of a catastrophic injury disability annuity (87.5% of average total salary) to be granted to members who suffer irreparable physical bodily injury during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level, (ii) a revision of the spousal death benefit

to provide that a spouse who married a retiree after retirement, and at least five years prior to the date of the retiree's death, is treated in the same manner as a spouse who married a member prior to retirement, (iii) a modification of the retirement pension computation, (iv) the implementation of a $200 per month increase in all pensions awarded prior to October 1, 1989, (v) the establishment of a $1,850 minimum monthly pension (vi) the expansion of the "BackDROP" lump-sum payment option from three to four years, (vii) the elimination of the requirement that a member serve at least five years before becoming entitled to a refund of contributions upon termination of employment, and (viii) the establishment of the Mayor's ability to appoint a representative to serve as a Trustee in place of the Mayor.

The Fire and Police Pension Fund's annual required contribution for fiscal year 2008 is determined by Pension Law. The Fire and Police Pension Fund's October 1, 2007 actuarial valuation used the entry-age normal cost method. Significant assumptions included (a) 8.0% investment rate of return and (b) projected annual salary increase of 4.3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability is amortized as a level percentage of projected payrolls on an open basis.

Texas Municipal Retirement System

At its December 8, 2007 meeting, the Texas Municipal Retirement System Board of Trustees (the "TMRS Board") adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report.

Since its inception, TMRS has used the traditional Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date but does not project the potential future liability of provisions adopted by a participating government. Two-thirds of the governments participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. These provisions are considered to be "committed" benefits (or likely to be guaranteed); as such, for the December 31, 2007 valuation, the TMRS Board has adopted the Projected Unit Credit (PUC) actuarial funding method, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis.

In addition, the TMRS Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period may be increased up to 30 years, unless a participating government requests that the period remain at 25 years. For governments with repeating features, these changes will likely result initially in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the TMRS Board also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). The actuarial valuation for year ended December 31, 2007 resulted in a $317.7 million unfunded actuarial accrued liability utilizing the adopted actuarial assumption and changed funding method. The projected calendar year 2009 contribution rate under a 30-year amortization period for the City was estimated by TMRS to be 16.6%. However, under the phase in option the rate for 2009 would be 13.0% for calendar year 2009 from the current rate of 12.5%.

The City created a work plan to review and address the changes made by TMRS. The City was successful in obtaining a voting seat on the TMRS Board. City staff also conducted six focus groups with employees and retirees during the spring of 2008. City employees, as well as retirees, were mailed a survey in April 2008 asking input on their TMRS benefits and priorities. The survey results will provide valuable input as the City continues to evaluate its options.

The City has also contracted with a legal firm to provide legal advice and assistance on TMRS and other pension related issues. The legal firm has engaged an actuarial firm to evaluate the assumptions and results of TMRS' report, to provide a historical performance analysis of the funds within TMRS, and will assist in exploring viable pension alternatives. A task force of current employees and retirees will be formed to provide input regarding the work to be completed by this actuarial firm.

Finally, City staff is being proactive in preparing for increased future costs. The City has included in its financial forecast the additional costs to include a phased in approach in order to increase contributions gradually to the full rate if necessary. Throughout this process, the City will work with TMRS, current employees and retirees to determine the best course of action.

Other City Postemployment Retirement Benefits

In addition to the Pension Benefits, the City provides all retired employees with certain health benefits under two postemployment retirement benefit programs. Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 45, the City will be required to account for and disclose its other postemployment liability for these programs. GASB Statement No. 45 became applicable to the City in Fiscal Year 2008 and the City continues to actively review each of these plans and has had actuarial valuations performed for these programs. In addition to the disclosure provided in Note 9 of the CAFR, the following information is provided for each of the City's other postemployment retirement benefit programs.

The first program provides benefits for all non-uniformed City retirees, and for all pre-October 1, 1989, uniformed (fire and police) retirees. This program is funded on a pay-as-you-go basis with a sharing of required costs based on the following targets: 67% by the City and 33% by the retiree. Employees become eligible to participate in this Program based on eligibility for participation in the TMRS Pension Plan. Under the TMRS Pension Plan, employees may retire at age 60 and above with five or more years of service or with 20 years of service regardless of age.

During FY 2006, the City engaged an actuarial consultant to perform an actuarial valuation of this program and assist in a review of the retirement health plan. Based on the actuarial valuation as of January 1, 2006, the UAAL was projected at $581.3 million. Based on a review, certain changes were made to the retirement health plan and were approved on September 7, 2006, as a component of the City's FY 2007 Adopted Budget. These changes resulted in a reduction of the UAAL from $581.3 million to approximately $400 million.

With the adoption of the FY 2008 Budget, additional changes were made to this retirement health plan. For all non-uniformed employees beginning employment on or after October 1, 2007, a revised schedule for sharing of the costs on a pay-as-you-go basis is effective. The revised schedule is as follows: (1) Employees who separate from the City with less than five years of service are not eligible to participate in the Program; (2) Employees who separate with at least five years of service but less than 10 years of service are eligible to participate in the Program but without City subsidy; and (3) Employees who separate from employment with 10 years of service or more will pay for 50% of the pay-as-you-go contributions to the Program and the City will contribute 50%. The ability to participate in the Program remains based on eligibility for the TMRS Pension Plan.

The second program provides retirement healthcare benefits to the City's fire fighters and police officers who retired on or after October 1, 1989. The benefits of this plan are financed on a prefunded basis. Contribution and benefit levels are established pursuant to the collective bargaining agreements between the City and Fire and Police Associations, respectively. The program is administered as a separate and distinct statutory trust governed by a nine-member Board of Trustees.

Historically, actuarial valuations of this program have been performed to determine the actuarial position of the program. The Fund engaged an actuarial consultant to conduct a study of the program as of October 1, 2006. This actuarial study indicated that the UAAL was $540.1 million based on GASB No. 43 and that current contribution rates were not sufficient to fund the current level of retirement benefits and retire the UAAL. However, the program does not have a short-term financing problem. As of September 30, 2007, the plan had net assets available for postemployment health benefits of $198 million while benefits payments for FY 2007 were $15 million.

During the 2007 State legislative session, the City, Board of Trustees of the Fund, Fire Association, and Police Association actively pursued amendments to the Fund's governing legislation, which amendments were enacted. These amendments were done in order to address the long-term actuarial position of the Fund. The changes primarily include: (a) making certain changes to the benefits plans; (b) providing the Board of Trustees of the Fund the authority to make additional changes to the health benefits plans in the future; (c) maintaining the City's contribution to the health plan at

9.4% of payroll over the next 10 years; (d) phase-in over five years of employee contributions from 2.0% of covered payroll to 4.7%; and (e) other administrative changes. Additionally, if after 10 years, the UAAL of the Fund cannot be amortized over a period of 30 years or less, the Board shall increase the City and employee contributions, and deductibles and out of pocket maximums for retirees by a percentage not to exceed 10 % each year until the UAAL can be amortized over a period of 30 years or less.

The Fire and Police Health Care Fund's actuarial study with a valuation date of October 1, 2007 indicates that the UAAL, calculated in compliance with GASB regulations, was reduced from $540.1 million to $325.3 million. The study further indicates that after a 10-year period maintaining the City's contribution at 9.4%, with an additional 10.0% increase in fiscal year 2018 and a 2.6% increase in fiscal year 2019, the Health Care Fund's amortization period for the UAAL is projected to be 30 years.

Use of Assumptions and Estimates

As set forth herein, as well as in Notes 8 and 9, respectively, of the City's CAFR for its fiscal year ended September 30, 2007, selected provisions of which are attached hereto as Appendix C, the disclosure relating to the City Pension and Retiree Health Benefits Plans are based upon certain actuarial assumptions and estimates, reasonably made based upon information available at such time, that are subject to variance. To the extent these assumptions and estimates do not materialize or are inaccurate, the financial information disclosed herein and in Notes 8 and 9, respectively, of the CAFR, including the estimated-as-compared-to-actual values of the assets and liabilities for each of the City Pension and Retiree Health Benefits Plans, could change substantially and in a materially adverse manner.

CAFR Discussion

In the CAFR, the City's existing pension and other OPEB plans are described (see, for example, "FINANCIAL INFORMATION - Fiscal Management and Administrative Topics" included in the CAFR, as well as Notes 8 and 9 thereof discussed above). In addition, the pension schedules included in the CAFR under the heading "REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS LAST THREE FISCAL YEARS" disclose certain pension plan funding liabilities, including the UAAL. Investors should carefully review this information and the information contained herein prior to investing in the 2008 Obligations.

TAX MATTERS

Legal Opinion

In the opinion of Winstead PC and West & Associates, L.L.P, Co-Bond Counsel, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, discussed below, interest on the 2008 Obligations is excludable from gross income for federal income tax purposes and is not subject to the alternative minimum tax on individuals and corporations; however, interest on the 2008 Obligations will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, Real Estate Investment Trust, Real Estate Mortgage Investment Conduit, or Financial Asset Securitization Investment Trust) for purposes of computing its alternative minimum tax liability. Corporate purchasers of the 2008 Obligations should consult their tax advisors regarding the computation of alternative minimum tax. See APPENDIX B - Form of Opinions of Co-Bond Counsel.

Section 103 of the Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be met at and subsequent to the issuance of the 2008 Obligations in order for interest on the 2008 Obligations to be and remain excludable from federal gross income. Included among these continuing requirements are certain restrictions and prohibitions on the use of proceeds, restrictions on the investment of proceeds and other amounts, and rebate to the United States of certain earnings from investments. Failure to comply with these continuing requirements may cause interest on the 2008 Obligations to become includable in gross income for federal income tax purposes retroactively to the date of their issuance. The City has covenanted to comply with certain procedures, and has made certain representations and certifications, designed to assure compliance with these Code requirements (the "Tax Covenants"). In rendering its opinion, Co-Bond Counsel will rely on the Tax Covenants, and on representations and certifications of the City relating to matters solely within its knowledge (which Co-Bond Counsel has not independently verified), and will assume continuing compliance by the City.

Prospective purchasers of the 2008 Obligations should be aware that ownership of, accrual or receipt of interest on, or disposition of the 2008 Obligations may have collateral federal income tax consequences for certain taxpayers, including financial institutions, certain subchapter S corporations, United States branches of foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers eligible for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers of the 2008 Obligations should consult their tax advisors regarding any potential collateral tax consequences. Co-Bond Counsel expresses no opinion regarding any such collateral tax consequences.

The statutes, regulations, published rulings, and court decisions on which Co-Bond Counsel has based its opinion are subject to change by Congress, as well as to subsequent judicial and administrative interpretation by courts and the Internal Revenue Service (the "Service"). No assurance can be given that such law or its interpretation will not change in a manner that would adversely affect the tax treatment of receipt or accrual of interest on, or the acquisition, ownership, market value, or disposition of, the 2008 Obligations. No ruling concerning the tax treatment of the 2008 Obligations has been sought from the Service, and the opinion of Co-Bond Counsel is not binding on the Service. The Service has an ongoing audit program of tax-exempt obligations to determine whether, in the Service's view, interest on such tax-exempt obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the 2008 Obligations. If such an audit were to be commenced, under current procedures, the Service would treat the City as the taxpayer, and owners of the 2008 Obligations would have no right to participate in the audit process. In this regard, in responding to or defending an audit with respect to the 2008 Obligations, the City might have different or conflicting interests from those of the owners of the 2008 Obligations.

The opinions set forth above are based on existing law and Co-Bond Counsel's knowledge of relevant facts on the date of issuance of the 2008 Obligations. Such opinions are an expression of professional judgment and are not a guarantee of result. Except as stated above, Co-Bond Counsel expresses no opinion regarding any other federal, state, or local tax consequences under current law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of, the 2008 Obligations. Further, Co-Bond Counsel assumes no obligation to update or supplement its opinions to reflect any facts or circumstances that may come to its attention, or any changes in law that may occur after the issuance date of the 2008 Obligations. In addition, Co-Bond Counsel has not undertaken to advise in the future whether any events occurring after the issuance date of the 2008 Obligations may affect the tax-exempt status of interest on the 2008 Obligations.

Original Issue Discount

Certain of the 2008 Obligations (the "Discount Obligations") may be offered and sold to the public at an "original issue discount" ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of such 2008 Obligations. The issue price of Discount Obligations is the initial offering price to the public (other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) at which a substantial amount of Discount Obligations of the same maturity are sold pursuant to that offering.

For federal income tax purposes, OID accrues to the owner of a Discount Obligation over such Discount Obligation's period to maturity based on the constant interest rate method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). Co-Bond Counsel is of the opinion that the portion of OID that accrues during the ownership period of a Discount Obligation (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as is other interest on the 2008 Obligations, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, sale, or other disposition of that Discount Obligation. OID may be treated as continuing to accrue even if payment of the Discount Obligation becomes doubtful in the event that the City encounters financial difficulties, and it is treated as interest earned by cash-basis owners (with possible tax consequences under the corporate alternative minimum tax as discussed above), even though no cash corresponding to the accrual is received in the year of accrual. A purchaser of a Discount Obligation at its issue

price in the initial public offering who holds that Discount Obligation to maturity will realize no gain or loss upon the retirement of such Discount Obligation.

The federal income tax consequences of the acquisition, ownership, redemption, sale, or other disposition of Discount Obligation not purchased in the initial offering at the initial offering price may be determined according to rules different from those described above. Owners of such Discount Obligation should consult their tax advisors regarding the federal, state, and local income tax treatment and consequences of acquisition, ownership, redemption, sale, or other disposition of such Discount Obligation.

Original Issue Premium

Certain maturities of the 2008 Obligations (the "Premium Obligations") may be offered and sold to the public at prices greater than their stated redemption prices (the principal amount) payable at maturity ("Premium"), which, for federal income tax purposes, is amortized over the period to maturity of the Premium Obligation based on the yield to maturity of that Premium Obligation (or, in the case of a Premium Obligation callable prior to its stated maturity, an amortization period and yield determined on the basis of the earliest call date resulting in the lowest yield on that Premium Obligation), compounded semiannually. No portion of that Premium is deductible by the Premium Obligation owner.

For purposes of determining a Premium Obligation owner's gain or loss on sale, redemption (including redemption at maturity), or other disposition of a Premium Obligation, the owner's tax basis in the Premium Obligation is reduced by the amount of Premium that accrues during the ownership period. As a result, an owner of a Premium Obligation may realize taxable gain for federal income tax purposes upon the sale or other disposition of such Premium Obligation for an amount equal to or less than the amount paid by the owner for that Premium Obligation. A purchaser of a Premium Obligation at its issue price in the initial offering who holds that Premium Obligation to maturity (or, in the case of a callable Premium Obligation, to the earliest call date resulting in the lowest yield on that Premium Obligation) will realize no gain or loss upon retirement of that Premium Obligation. Owners of Premium Obligations should consult their tax advisors with respect to the determination for federal income tax purposes of the amount of Premium properly accruable in any tax year (or portion thereof), and with respect to other federal, state, and local tax consequences of owning and disposing of Premium Obligations.

REGISTRATION AND QUALIFICATION OF 2008 OBLIGATIONS FOR SALE

The sale of the 2008 Obligations 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 2008 Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the 2008 Obligations been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the 2008 Obligations under the securities laws of any jurisdiction in which the 2008 Obligations may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the 2008 Obligations 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, as amended), provides that the 2008 Obligations 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. With respect to investment in the 2008 Obligations by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) requires that the 2008 Obligations be assigned a rating of at least "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 2008 Obligations are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The 2008 Obligations 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.

Section 271.051, as amended, of the Certificate of Obligation Act provides that the 2008 Certificates are legal and authorized investments for banks, savings banks, trust companies, savings and loan associations, insurance companies, fiduciaries, and trustees, and for the sinking funds of cities, school districts, and other political subdivisions or public agencies of the State. Texas law further provides that obligations such as the 2008 Certificates are eligible to secure deposits of the state, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their face value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Investment Act the 2008 Certificates may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See "RATINGS" herein.)

The 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 2008 Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the 2008 Obligations for such purposes. The City has made no review of laws in other states to determine whether the 2008 Obligations are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the 2008 Obligations, including the unqualified approving legal opinions of the Attorney General of the State to the effect that the 2008 Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the legal opinions of Co-Bond Counsel to the effect that the 2008 Obligations are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the 2008 Obligations is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Co-Bond Counsel have been retained by and only represent the City. 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 2008 Obligations, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the 2008 Obligations will also be furnished. In their capacity as Co-Bond Counsel, Winstead PC and West & Associates, L.L.P., San Antonio, Texas have reviewed the information appearing in this Official Statement under the captions "THE 2008 OBLIGATIONS," (except for the information under the captions "Payment Record," and "Book-Entry-Only System," as to which no opinion is expressed) "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF 2008 OBLIGATIONS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except under the caption "Compliance with Prior Undertakings," as to which no opinion is expressed) to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Co-Bond Counsel have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Co-Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the 2008 Obligations are contingent on issuance and delivery of the 2008 Obligations. The legal opinions of Co-Bond Counsel will accompany the obligations deposited with DTC or will be printed on the definitive obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Andrews Kurth LLP, Houston, Texas, and Shelton & Valadez, P.C., San Antonio, Texas, and for the City by the City Attorney.

Winstead PC and West & Associates, L.L.P. represent the Underwriters from time to time in matters not related to the 2008 Obligations.

The various legal opinions to be delivered concurrently with the delivery of the 2008 Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

RATINGS

The 2008 Obligations and the City's unenhanced general obligation debt are rated "AAA," "Aa1," and "AA+," by S&P, Moody's, and Fitch, respectively. The "AAA" rating from S&P represents an upgrade from "AA+" in October 2008. The City has filed a material event notice regarding this upgrade. (See "CONTINUING DISCLOSURE OF INFORMATION – Compliance with Prior Undertakings" herein.)

An explanation of the significance of such ratings may be obtained from Fitch, Moody's, and S&P. The respective ratings of the 2008 Obligations by Fitch, Moody's, and S&P reflect 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 Fitch, Moody's, or S&P 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 2008 Obligations.

CONTINUING DISCLOSURE OF INFORMATION

In the 2008 Ordinances, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the 2008 Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the 2008 Obligations. 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, as amended, 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 Open Records Act, Texas Government Code, Chapter 552, as amended. 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 reasonable copying, handling, and delivery charges 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 1A-14 and 16-19, and in the CAFR, substantially in the manner set forth in Appendix C to this Official Statement. The City will update and provide this information within six months after the end of its 2008 fiscal year and each fiscal year thereafter. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any State Information Depository ("SID").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the

accounting principles described in the CAFR, substantially in the manner set forth in Appendix C to this Official Statement, or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's fiscal year ends September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the 2008 Obligations, if such event is material to a decision to purchase or sell 2008 Obligations: (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 2008 Obligations; (7) modification to rights of holders of the 2008 Obligations; (8) 2008 Obligation calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the 2008 Obligations; and (11) rating changes. (Neither the 2008 Obligations nor the 2008 Ordinances make any provision for debt service reserves, credit enhancement, or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of the 2008 Obligations 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 (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, Post Office Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476-6947. The MAC has also received SEC approval to operate, and operates 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 2008 Obligations.

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 2008 Obligations 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 2008 Obligations 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 2008 Obligations 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 (i) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision

of the 2008 Ordinances that authorize such an amendment) of the outstanding 2008 Obligations consent to such amendment or (ii) 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 2008 Obligations. 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 2008 Obligations in the primary offering of the 2008 Obligations.

Compliance with Prior Undertakings

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

On October 15, 2008, S&P upgraded the City's unenhanced ad valorem tax debt rating from "AA+" to "AAA." On October 21, 2008, the City filed a material event notice with NRMSIRs and SID through DisclosureUSA.org describing this event. (See "RATINGS" herein.)

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, 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.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2008 Bonds from the City at a purchase price of $76,286,637.27 (representing the principal amount of the 2008 Bonds, plus net original issue premium on the 2008 Bonds of $1,669,676.90, and less Underwriters' discount on the 2008 Bonds of $443,039.63) plus accrued interest from dated date to date of initial delivery. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the 2008 Bonds if any 2008 Bonds are purchased. The 2008 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.

The Underwriters have agreed, subject to certain conditions, to purchase the 2008 Certificates from the City at a purchase price of $85,265,921.55 (representing the principal amount of the 2008 Certificates, plus net original issue premium on the 2008 Certificates in the amount of $744,912.50, and less Underwriters' discount on the 2008 Certificates of $483,990.95) plus accrued interest from dated date to date of initial delivery. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the 2008 Certificates if any 2008 Certificates are purchased. The 2008 Certificates 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.

Effective as of September 30, 2008 MSRB rules require underwriter participation with the DTCC's New Issue Information Dissemination System ("NIIDS"). The rule change consists of an amendment of Rule G-8, Books and Records, Rule G-9, Preservation of Records, and Rule G-34, CUSIP Numbers and New Issue Requirements. The rule change is designed to improve new issue trade reporting by accelerating the timing for CUSIP number assignment and, with the exception of new issues of short-term instruments with less than nine months in effective maturity, requiring underwriters to: (1) submit certain information about a new issue of municipal securities to NIIDS within set timeframes and (2) set and disseminate a "Time of First Execution" that allows time for market participants to access necessary information in preparation for trade reporting prior to beginning trade executions in the issue.

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

CO-FINANCIAL ADVISORS

Coastal Securities, Inc. and Estrada Hinojosa & Company, Inc. (the "Co-Financial Advisors") are employed by the City in connection with the issuance of the 2008 Obligations 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 2008 Obligations is contingent upon the issuance and delivery of the 2008 Obligations.

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 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.

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

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the 2008 Obligations, 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 (1) the descriptions and statements of or pertaining to the City contained in this Official Statement, and any addenda, supplement, or amendment thereto, for the 2008 Obligations, on the date of sale of the 2008 Obligations and on the date of the initial delivery of the 2008 Obligations, were and are true and correct in all material respects; (2) 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; (3) 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 (4) 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 disclosed in Appendix C hereto.

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 2008 Obligations 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 2008 Obligations, 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/ Phil Hardberger
Mayor, City of San Antonio, Texas

ATTEST:

/s/ Leticia M. Vacek
City Clerk, City of San Antonio, Texas

* * *

APPENDIX A

City of San Antonio, Texas
General Demographic and Economic Information

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APPENDIX A

CITY OF SAN ANTONIO
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

Population and Location

The Census 2000, prepared by the United States Census Bureau ("U.S. Census Bureau"), found a City population of 1,144,646. The City's Department of Planning and Community Development estimated the City's population to be 1,334,244 at September 1, 2008. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the seventh largest in the United States.

The City is the county seat of Bexar County, which had a population of 1,392,931 according to the Census 2000. The City's Department of Planning and Development Services estimated Bexar County's population to be 1,638,710 at September, 1, 2008. 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 United States ("U.S.") / Mexico border cities of Del Rio, Eagle Pass, and Laredo, respectively.

The following table provides the population of the City, Bexar County, and the San Antonio Metropolitan Statistical Area ("MSA")[1] as of April 1 for the years shown:

Year	City of San Antonio	Bexar County	San Antonio MSA
1920	161,379	202,096	238,639
1930	231,543	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	830,460	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	1,711,703[1]

[1] As of June 2003, the U.S. Office of Management and Budget redefined the San Antonio MSA by increasing the number of counties from four to eight: Atascosa, Bandera, Kendall, and Medina Counties were added to its mainstays of Bexar, Comal, Guadalupe, and Wilson Counties. (The 2000 figure reflects the new 2003 redefined eight-county area.)

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

Area and Topography

The area of the City has increased through numerous annexations, and now contains approximately 467 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 467 square miles (both full purpose and limited purpose annexations), and having a tax year 2008

total taxable value of $72.892 billion. The City expects to continue to utilize the practice of annexation as a growth and development management tool, as well as an opportunity to enhance the City's fiscal position.

Previous statistics have shown the city limits, through annexation, to be as high as 519 square miles. This included areas fully annexed into the City, as well as areas under "Limited Purpose Annexation." Between 2003 and 2005, approximately 70 square miles were taken into Limited Purpose Annexation. In 2007 and 2008, approximately 49 square miles were released from Limited Purpose Annexation, and the remaining 21 square miles annexed for full purposes. City regulations are extended, but City taxes are not assessed or collected within areas under Limited Purpose Annexation.

Three-Year Annexation Plan Process

By City Charter, City Council has the power to annex territory by passage of an ordinance. As of January 1999, state law mandates that municipalities prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted. The City is required to maintain the annexation plan on the City's web site and notify property owners and public entities.

As of February 2008, the City has been engaged in a growth management study to estimate and analyze population growth, locate high growth areas, and identify areas adjacent to the City, and within our extraterritorial jurisdiction, that would be best served through annexation. These areas will be placed in a new City three-year annexation plan. At the present time, the City does not have a three-year annexation plan in place, but plans to draft a plan in 2009.

Governmental Structure

The City is a Home Rule Municipality that operates pursuant to the Charter of the City of San Antonio (the "City Charter"), which was adopted on October 2, 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 11 members, with ten members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two-year terms, and each member is limited to a maximum of two full terms. The office of Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2009. 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.

City Charter

The City may only hold an election to amend its City Charter every two years. Since its adoption, the City Charter has been amended on seven separate occasions; November 1974; January 1977; May 1991; May 1997; November 2001; May 2004; and November 2008. Significant amendments to the City Charter include the amendment passed in May of 1991, which limited the service by the Mayor and 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 charged with conducting a comprehensive review of the City Charter, resulted in the passage of five propositions, each containing numerous amendments to the City Charter in May 1997.

The amendments to the City Charter that were adopted in 2001 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 confirmation.

At the May 2004 City Charter election, voters considered four propositions seeking to amend the City Charter as follows: Proposition 1 was to amend the provisions of the City Charter applicable to the term of office and term limits of members of the City Council; Proposition 2 was to amend the provisions of the City Charter applicable to compensation for members of the City Council and the Mayor; Proposition 3 was to amend the City Charter by establishing an independent Ethics Review Board; and Proposition 4 was to amend the City Charter to permit an

individual member of the City Council to hire staff who serve at the will of the Councilmember. Of these four propositions, only Proposition 3 establishing an independent Ethics Review Board was approved by the voters.

At the November 4, 2008 election, an amendment to the City Charter passed, which revised the terms of office for the Mayor or a member of the City Council to four full two-year terms of office, from two full two-year terms, but prohibit the current or former Mayors or current or former members of the City Council from being elected to more than two full two-year terms.

Services

The full range of services provided to its constituents by the City 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 use, and hotel occupancy tax receipts; 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, and solid waste management.

Electric and gas services to the San Antonio area are provided by CPS Energy ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 19 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, 2007 were $248,539,890. (See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS" herein.)

Water services are provided by the San Antonio Water System ("SAWS"), San Antonio's municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 16th year of operation as a separate, consolidated entity. SAWS operating 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 ending September 30, 2007 were $9,147,334. (See "SAN ANTONIO WATER SYSTEM" herein.)

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, manufacturing, information security, financial services, telecommunications, telemarketing, insurance, and oil and gas refining. Support for these economic activities is demonstrated by the City's commitment to its ongoing infrastructure improvements and development and its dedicated work force. Total employment in the San Antonio MSA for October 2008 was 953,000, which is 24,400 or 2.63% more jobs than that of the October 2007 total of 928,600. Trade, government, and education & health services represent the largest employment sectors in the San Antonio MSA. Finance (including insurance), healthcare and bioscience, tourism, and the military represent the largest industries in San Antonio.

Finance Industry

According to a study conducted by the Finance San Antonio Ad Hoc Committee, the finance industry is San Antonio's largest economic generator with an annual economic impact of $20.5 billion in 2004. The industry employs 50,469 people to whom it pays an average annual wage of $52,612. Total wages paid in the industry amounted to $2.66 billion in 2004. As a percent of total employment, the finance industry in San Antonio is the largest of any major metropolitan area in Texas. Compared to the growth in wages and employment in San Antonio overall, the finance industry experienced higher levels of average annual growth in these areas since 2001. Average annual growth in total wages paid by the finance industry for years 2001 through 2004 was 4.5%, compared to 4% for all industries. Average annual growth in employment in the finance industry over this same time period was 2.18%, compared to 0.36% for all other industries.

The largest sector in this industry is insurance. While this sector is led by USAA, San Antonio is home to other insurance headquarters such as Catholic Life and GPM Life, as well as being the home to many regional operations centers for many health care insurers. Insurers with substantial regional operations centers in San Antonio include Caremark, United Health, and Pacificare.

The second largest sector in this industry is banking. Like insurance, San Antonio is also the home of many banking headquarters and regional operation centers such as Frost Bank, Broadway Bank, and USAA Bank. Companies with large regional operations centers in San Antonio include Wachovia, JPMorgan, Citigroup, and Washington Mutual.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains one of the largest industries 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 Antonio's Health Care 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 $16.3 billion in 2007. The industry provided 116,417 jobs, or approximately 14.2% of the City's total employment. The healthcare and bioscience industry's annual payroll in 2007 approached $4.8 billion. The 2007 average annual wage of San Antonio workers was $38,251, compared to $40,784 for healthcare and bioscience employees. These 2007 economic impact figures represent growth of 6.5% over the previous year, or approximately $1 billion.

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 $3.1 billion as of January 2008. Approximately 27,987 Medical Center employees provided care for over 4.8 million outpatients and over 104,671 inpatients. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represents approximately $2.1 billion. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects planned for the years 2008 through 2012 total approximately $547 million.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the "UTHSC") with its five professional schools awarding more than 63 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UTHSC has over two million square feet of education, research, treatment, and administrative facilities with a faculty and staff of approximately 5,000. The UTHSC oversees the federally-funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. Another UTHSC South Texas campus is located in Laredo.

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 currently has two major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center ("BAMC") conducts treatment and research in a 1.5

million square foot facility at Fort Sam Houston Army Base, providing health care to nearly 640,000 military personnel and their families annually. BAMC is a Level I trauma center (the only one in the 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 I 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.

The San Antonio Military Medical Center ("SAMMC") will be established as a result of the Base Realignment and Closure ("BRAC 2005") and will combine key elements of Wilford Hall and BAMC. Wilford Hall will be renamed SAMMC-South and BAMC was renamed SAMMC-North. SAMMC-North will double its Level I trauma facility and will incorporate the Level I trauma missions from SAMMC-South. SAMMC-South will become an outpatient facility and will receive outpatient missions from SAMMC-North.

BRAC 2005 actions will have a major positive impact on military medicine in San Antonio resulting in $2.5 billion in construction and the net gain of over 9,700 personnel in San Antonio by 2011. Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston Army Base. As a result of BRAC 2005, all military combat medic training, Army, Air Force, Navy, Marines and Coast Guard will be undertaken at the new Medical Education and Training Campus at Fort Sam Houston Army Base.

San Antonio will receive new medical research missions. BRAC 2005 created a Joint Center of Excellence for Battlefield Health and Trauma Research, which will be located at Fort Sam Houston Army Base at the U.S. Army Institute of Surgical Research on the SAMMC-North campus. The new mission will continue its cutting edge research in the areas of robotics, prosthetics, and regenerative medicine.

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 Frank Tejeda Veterans Administration 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.

Biomedical Research and Development. Research and development are important areas that strengthen San Antonio's position as an innovator in the biomedical 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 ("CTRC"), and CTRC's 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 $140 million invested in its facilities. The Park is owned and operated by the Texas Research and Technology Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation. The Park is also one of five sites throughout the country being considered by the U.S. Department of Homeland Security for the National Bio-Agro Defense Facility. If it is selected as the site, this will result in the construction of a 520,000 square-foot facility containing Biosafety Level ("BLS") 3 and 4 laboratories. It is estimated the construction of the facility will cost approximately $450 million. The operations of the facility will result in the creation of 350 jobs with an average annual salary of $75,000.

The Southwest Foundation for Biomedical Research (the "Foundation"), which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the U.S. and is internationally renowned. The Foundation has a full time staff of 85 doctoral level

employees, a technical staff of 125, and an administrative and supporting staff of approximately 200 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 BLS-4 labs in the country, and its Genomics Computing is the world's largest computer cluster devoted to statistical genetic analysis.

The UTHSC 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 UTHSC, along with the CTRC, form the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

The University of Texas at San Antonio ("UTSA") houses the Cajal Neuroscience Research Center, which is funded by $6.3 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 a partner in Morris K. Udall Centers of Excellence for Parkinson's disease Research which provides research for the causes and treatments of Parkinson's disease and other neurodegenerative disorders.

A number of highly successful private corporations, such as Mission Pharmacal, DPT Laboratories, Ltd., and Genzyme 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 Genzyme Oncology, Inc., which has developed eight of the last 11 cancer drugs approved for general use by the U.S. Federal Drug Administration.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. A study by the Greater San Antonio Chamber of Commerce found that in 2006 the hospitality industry had an economic impact of nearly $10.5 billion. The estimated annual payroll for the industry in 2006 was $1.88 billion, and the industry employed an estimated 100,294.

In 2007, the City's overall performance for hotel occupancy decreased by 3.1%. However, this is considering room supply increased by 3.5%. Total room nights sold in the destination increased by 0.3%. Average daily room rate increased 4.6%, revenue per available room increased by 1.4%, and overall revenue increased 4.9%.

Tourism. During 2006, San Antonio attracted 26 million visitors. Of these, 11 million were overnight leisure visitors, placing San Antonio as one of the top U.S. destinations in Texas. 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.

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Conventions. San Antonio is one of the top convention cities in the country. 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]	Revenue per Available Room (RevPAR) [1]	Room Nights Sold [1]	Convention Attendance [2]	Convention Room Nights [2]	Convention Delegate Expenditures ($ Millions) [2, 3]
1998	64.9%	$53.01	6,064,659	445,151	724,882	$401.0
1999	64.2%	52.91	6,225,808	406,539	678,014	366.2
2000	64.7%	55.34	6,549,812	389,448	696,215	350.8
2001	62.7%	54.10	6,486,944	419,970	712,189	378.3
2002	63.9%	55.42	6,741,011	483,452	693,921	435.5
2003	63.8%	53.26	6,903,131	429,539	613,747	387.0
2004	64.6%	55.11	7,022,152	491,287	621,640	510.5
2005	69.1%	62.36	7,569,655	503,601	699,932	523.3
2006	69.2%	68.38	7,699,411	467,426	736,659	485.8
2007	67.4%	75.15	7,635,949	455,256	647,386	473.1

[1] Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code reports dated March 2007 and January 2008.
[2] Reflects only those conventions booked by the San Antonio Convention and Visitors Bureau.
[3] Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 DMAI 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 years 2004 and 2005 are based on an average expenditure of $1,039.20 per convention and trade show delegate, according to a Veris Consulting, LLC study for the DMAI.
Source: City of San Antonio, Convention and Visitors Bureau.

Military Industry

The military represents a principal component of the City's economy providing an annual economic impact for the City of over $5 billion. Three major military installations are currently located in Bexar County, including Lackland Air Force Base ("Lackland AFB"), Fort Sam Houston 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 U.S. Air Force to the City-created Brooks Development Authority ("BDA") in 2002, as part of the Brooks City-Base Project ("Brooks City-Base"). Furthermore, the military is still leasing over two million square feet of space at Port San Antonio, which is the former Kelly Air Force Base that was closed in 2001.

Port San Antonio. 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 business park is now known as Port San Antonio ("the Port"). The Port has developed a rail port for direct international rail operations, including inland port distribution with the Port of Corpus Christi, and continues to work on establishing international air cargo operations and the expansion and addition of new tenants.

With a stable tenant base of over 65 companies and seven remaining Air Force agencies, the Port has over 8,500 workers which generate a payroll of over $520 million a year. Two new announcements at the Port include the Boeing Company's decision to bring their 787 Dreamliner to the Port for final assembly and completion. This new investment will create another 440 aerospace jobs. A decision in 2008 by BRAC 2005 will consolidate 2,800 personnel at the Port, half of these workers will relocate to San Antonio, bringing the tenant employee base to 11,740 people by the spring of 2010. Major commercial employers at the Port include Boeing, Lockheed Martin, General Dynamics, Standard Aero, Pratt & Whitney, Chromalloy, Gore Design Completions, and EG&G.

In September 2007, Boeing was awarded a ten-year, $1.1 billion contract with the U.S. Air Force to continue providing programmed depot maintenance for the country's fleet of KC-135 Stratotanker aircraft. Much of this work will be done in Boeing's facility at the Port resulting in the company hiring an additional 200 employees in San Antonio.

With over 8.8 million square feet of commercial space, the Port is the largest commercial property leasing firm in the San Antonio. In April 2007, the East Kelly Railport opened with a 360,000 square foot speculative building offered by a private developer that today is 100% occupied. Already proving to be a busy passageway, the East Kelly Railport has seen 2,040 railcars pass through between January and August 2008, with revenues totaling $149,600 during this eight-month period. The developer, Santa Barbara Development, had recently begun construction on a second 265,000 square foot speculative building.

Brooks City-Base. Brooks City-Base continues to draw private business investment; however, the military missions will be relocated over the next three to five years as a result of the BRAC 2005 recommendations. Despite the BRAC 2005 decision, Brooks City-Base is continuing its goal of sustainability by creating a Tax Increment Reinvestment Zone ("TIRZ"). The TIRZ has been established and the City is planning to utilize the tax increments generated to assist in the New Braunfels Infrastructure Project Phases I through V.

Currently, there are several projects underway or recently completed at Brooks City-Base. Some of these project highlights are included below.

Dermatological Products of Texas Laboratories completed its facility at Brooks City-Base. The new site is a combination research and development warehouse and production facility of nearly 250,000 square feet. The project involves two new buildings and a capital investment of $26 million.

In July 2008, Vanguard Health Systems, Inc. and its affiliate Baptist Health System ("BHS") purchased 28 acres at Brooks City-Base and have an option for another 20 acres under contract. BHS plans to relocate Southeast Baptist Hospital to Brooks City-Base. The new hospital will initially be sized for 175 beds, but ultimately the hospital could grow to more than 400 beds. The new hospital will bring 700 to 800 jobs to the South side of San Antonio and represents a significant economic investment in the community. Ultimately, the hospital will be part of a medical campus with one medical office building being constructed concurrently with the hospital and six additional buildings constructed under a phased timeline.

A $24.5 million Emergency Operations Center (the "EOC") began operations at Brooks City-Base in October 2007 and full completion of the facility was completed in December 2007. The EOC was financed through City and Bexar County proposed bond funds and will be a campus of City, County, Regional, State, and Federal departments and/or personnel.

The San Antonio Metropolitan Health District ("SAMHD") has completed renovation of a Brooks City-Base facility to establish a BSL 3 Laboratory. SAMHD has instituted additional public health capabilities at Brooks City-Base and is investigating plans for additional expansions to the BSL 3 Laboratory at Brooks City-Base.

The Brooks Academy of Science and Engineering moved onto Brooks City-Base in March 2007. The school's curriculum will focus on science and engineering by providing students with a unique opportunity to learn and participate in the cutting-edge Air Force programs found at Brooks City-Base and throughout San Antonio.

The BDA Board recently approved a construction contract to build one-half mile of the New Braunfels extension onto Brooks City-Base, which is expected to be complete in late 2008.

Brooks City-Base has leased 25 acres to the City for expansions of the existing sports fields and construction has recently begun on this project.

Fort Sam and Lackland AFB. Fort Sam is engaged in military-community partnership initiatives to help reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the U.S. Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center and two other

buildings at Fort Sam. 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 newly renovated historic facilities in the summer of 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.

San Antonio also received funding for two large projects that serve all of the military branches. On September 11, 2007, it was announced that the Veterans Administration will build a new $67 million Level I Polytrauma Center at the Audie L. Murphy Veterans Administration hospital campus. The expansion will begin in early 2009 and it is estimated to be completed in April 2011. These hospitals are designed to be the most advanced in the world and are capable of providing state-of-the art medical care to veterans with multiple serious injuries.

San Antonio is also home to the National Trauma Institute ("NTI"), a collaborative military-civilian trauma institute involving SAMMC-North, SAMMC-South, University Hospital, the UTHSC, and the U.S. Army Institute of Surgical Research. The NTI coordinates resources from the institutions to most effectively treat the trauma victims and their families. The NTI received $3.8 million in grants in FY 2008.

Congressional legislation for FY 2009 has been passed by the U.S. House of Representatives and by the U.S. Senate and provides $610 million for Fort Sam. On October 6, 2008, the bill was presented to President Bush.

The San Antonio community has put in place organizations and mechanisms to assist the community and the military with BRAC 2005 and other military-related issues. The Military Transformation Task Force ("MTTF") is a City, Bexar County, and Greater San Antonio Chamber of Commerce organization that provides a single integrated voice from the community to the military. The MTTF has five committees: Transportation and Infrastructure, Healthcare Delivery and Medical Partnerships, Economic Development, Neighborhood Revitalization and Local Community Impacts, and Public Affairs, each dedicated to working with the community and military on BRAC 2005 actions. In addition, the MTTF, through the Community Advisory Council, has a seat on the Executive Integration and Oversight Board ("EIOB") which is the military entity charged with BRAC 2005 implementation in San Antonio. At EIOB meetings, the community can provide input to the military on BRAC 2005.

In January 2007, the City established the Office of Military Affairs ("OMA"). The mission of OMA is to prepare the community for the challenges and opportunities associated with BRAC-related growth, work with the military to sustain and enhance mission readiness, and develop and institutionalize relationships between the community and the military on issues of common concern. The OMA is the staff support to the MTTF and works closely with each MTTF committee to develop a Growth Management Plan for the community in order to adequately prepare for BRAC 2005 growth in San Antonio. OMA is also working with the local military bases to address incompatible land-use issues in order to enhance mission readiness as well as other issues of common concern to the community and military. Finally, the City and the military have established the Community-Military Advisory Council. This Council will provide a mechanism for local government, business, and military leaders to address issues of common concern.

Other Major Industries

Aerospace. The aerospace industry's annual economic impact to the City is about $3.3 billion. This industry provides approximately 9,535 jobs, with employees earning total annual wages of over $406 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, Port San Antonio, 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 Airlines, Continental Airlines, FedEx, UPS, and others. The industry in San Antonio is diversified with continued growth in air passenger service, air cargo, maintenance, repair, overhaul, and general aviation.

Applied Research & Development. The Southwest Research Institute is one of the original and largest independent, nonprofit, applied engineering and physical sciences research and development organizations in the U.S., serving industries and governments around the world in the engineering and physical sciences field. 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 3,100 scientists, engineers, and support personnel.

Telecommunications Industry. In June 2008, AT&T announced that its corporate headquarters would be moved to Dallas, Texas and it is expected to be completed by the end of 2008. AT&T is relocating 700 positions as they move their corporate headquarters to Dallas, Texas and these positions account for approximately 0.08% of total employment in San Antonio. AT&T has 310,070 employees worldwide as of August 2008 and will still have 5,300 employees in San Antonio and will continue to be the home to the company's Telecom Operations Group. The San Antonio economy is large enough and diversified enough with many strong industries that this move is expected to have only a minimal effect on the local economy.

Information Technology. A study conducted in 2005, indicates that the Information Technology ("IT") industry in San Antonio registered an overall economic impact of approximately $5.3 billion and employs about 11,283 people with a total annual payroll of approximately $632 million. These numbers only include the impact of IT-specific companies. There are also a substantial number of people employed in IT jobs in non-IT companies. For example, the study also found that there are approximately 6,000 IT workers employed in the 13 largest non-IT companies in San Antonio. The IT industry is particularly strong in the areas of information security and government contracting. The Center for Infrastructure Assurance and Security at the UTSA is one of the leading research and education institutions in the area of information security in the country. In 2005, the U.S. National Security Agency re-designated the UTSA as a National Center of Excellence in Information Assurance for three academic years. Our Lady of the Lake University also received this designation over the past year. San Antonio is also home to the Air Intelligence Agency, which is the premier IT agency for the U.S. Air Force and the U.S. Department of Defense.

Manufacturing Industry. The manufacturing industry in San Antonio employed 52,786 people in 2006, according to a recent economic impact study. These people earned an average annual wage of $41,496, and the industry registered an economic impact of $14.4 billion.

Creative Industry. The creative industry in San Antonio registers a $1.84 billion economic impact, employs 15,839 people, and pays annual wages of over $650 million as of 2006. Recognizing the overall impact of this industry, *The Cultural Collaborative: A Plan for San Antonio's Creative Economy*, was created and a strategic plan was developed to provide focus and initiative for the future of this industry. Seventy-eight percent of these strategies have either been fully implemented or are in the process of being implemented.

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
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
2005	638,344	310,699
2006	662,029	314,409
2007	681,312	319,122

Source: CPS.

San Antonio Water System Average Customers per Fiscal Year

Fiscal Year Ended May 31 [1, 2]	Water Customers [3]
1998	270,897
1999	279,210
2000	285,887
2001	293,299
2002	298,215
2003	303,917
2004	311,556
2005	320,661
2006	331,476
2007	341,220

[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.

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Construction Activity

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

Calendar	Residential Single Family		Residential Multi-Family[1]		Other[2]	
Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
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
2005	8,207	943,804,795	347	5,221,672	20,126	1,772,959,286
2006	7,301	890,864,655	560	13,028,440	19,447	1,985,686,296
2007	4,053	617,592,057	29	4,715,380	13,268	2,343,382,743

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

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

	Calendar Year				
	2007	2006	2005	2004	2003
Arlington	80,701,278	77,179,657	61,983,154	49,344,578	46,483,314
Austin	147,310,525	133,503,393	118,853,520	112,515,478	105,044,871
Corpus Christi	58,502,801	55,663,395	51,046,479	47,647,095	43,498,880
Dallas	223,708,825	217,223,165	199,585,955	192,972,586	184,263,151
El Paso	64,508,591	60,737,389	54,217,823	51,461,838	48,949,656
Fort Worth	98,863,541	92,739,620	83,754,760	76,202,528	72,772,964
Garland	21,661,679	20,990,296	18,204,516	17,163,038	16,902,258
Houston	471,684,021	440,687,609	380,871,932	355,616,488	325,284,697
Plano	63,267,699	62,015,005	53,036,662	49,453,998	46,876,867
SAN ANTONIO	209,599,573	195,966,662	161,951,337	157,284,972	152,360,840

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 292,479 encompassing 54 high schools, 95 middle/junior high schools, and 268 elementary schools as of October 2007. There are an additional 25 charter school districts with 61 open enrollment charter schools at all grade levels. In addition, Bexar County has 127 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect.

The six largest accredited and degree-granting universities, which include a medical school, a dental school, a law school, and five public community colleges, had combined enrollments of 94,190 for Fall 2007.

Source: Texas Education Agency.

Employment Statistics

The following table shows current nonagricultural employment estimates by industry in the San Antonio MSA for the period of October 2008, as compared to the prior periods of September 2008 and October 2007.

Employment by Industry

San Antonio MSA[1]	October 2008	September 2008	October 2007
Mining	3,700	3,700	3,600
Construction	52,600	52,800	50,900
Manufacturing	48,100	48,300	49,100
Trade, Transportation, and Utilities	152,600	151,700	151,000
Information	21,600	21,600	21,500
Financial Activities	65,500	65,600	64,900
Professional and Business Services	107,000	107,500	105,200
Educational and Health Services	120,000	119,600	115,900
Leisure and Hospitality	98,900	100,800	96,500
Other Services	30,100	30,300	28,800
Government	156,900	154,900	151,700
Total Nonagricultural	857,000	856,800	839,100

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 October 2008, as compared to the prior periods of September 2008 and October 2007.

Unemployment Information *(all estimates are in thousands)*

San Antonio MSA[1]	October 2008	September 2008	October 2007
Civilian Labor Force	953.0	951.4	928.6
Number of Employed	904.2	903.8	893.3
Number of Unemployed	48.8	47.6	35.3
Unemployment Rate %	5.1	5.0	3.8

Texas (Actual)[1]	October 2008	September 2008	October 2007
Civilian Labor Force	11,831.1	11,797.3	11,533.3
Number of Employed	11,194.3	11,181.2	11,067.8
Number of Unemployed	636.8	616.1	465.6
Unemployment Rate %	5.4	5.2	4.0

United States (Actual)[1]	October 2008	September 2008	October 2007
Civilian Labor Force	155,012.0	154,509.0	153,516.0
Number of Employed	145,543.0	145,310.0	146,743.0
Number of Unemployed	9,469.0	9,199.0	6,773.0
Unemployment Rate %	6.1	6.0	4.4

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

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:			
CCC Group, Inc.	Industrial Contractor	Urban Concrete Contractors, Ltd.	Exterior Concrete Contractor
Design Electric	Electrical Contractor	Zachry Group	Industrial General Contracting
Finance, Insurance, & Real Estate:			
American Funds	Mutual Funds & Investments	San Antonio Federal Credit Union	Credit Union/Financial Services
Argonaut Group	Insurance	Security Service Federal Credit Union	Credit Union/Financial Services
Bank of America - San Antonio	Commercial & Individual Banking	The Hartford	Personal Insurance
Frost National Bank	Financial Services & Insurance	The Lynd Company	Real Estate Brokerage
Humana	Medical Insurance Plans	USAA	Insurance/Financial Services
JP Morgan Chase Bank	Commercial & Individual Banking	Washington Mutual Bank	Banking, Financial Services
Pacificare	Medical Insurance Plans	Wells Fargo Bank	Banking, Financial Services
Randolph-Brooks FCU	Credit Union/ Financial Services	Wachovia	Banking, Financial Services
SWBC	Insurance, Residential Mortgages		
Government:			
Bexar County	County Government	Randolph Air Force Base	Military Installation
Brooks City-Base	Military Installation	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	Texas Department of Transportation	Highway Construction/Maint.
Education Service Center Region 20	State Education Service Agency	Texas Dept. of Family & Child Protective Services	State Social Services
Fort Sam Houston-US Army Base	Military Installation	Texas Dept. of Health & Human Services	State Social Services
Guadalupe County	County Government	VIA Metropolitan Transit	Urban Public Transportation
Lackland Air Force Base	Military Installation		
Manufacturing:			
Alamo Concrete Products	Concrete Products	Miller Curtain Company	Curtains, Draperies, & Bedspreads
Cardell Cabinetry	Cabinetry	Motorola	Electronics
Clarke American	Check Printing	SAS Shoemakers	Shoes
Coca-Cola Bottling Co. of the SW	Soft Drinks, Beverages	SMI-Texas	Steel
DPT Laboratories,Ltd.	Pharmaceuticals	San Antonio Aerospace	Aircraft Modification/Maint.
Friedrich Air Conditioning Co.	HVAC Systems	San Antonio Express-News	Daily Newspaper
Frito-Lay, Inc.	Snack Foods	Sino-Swearingen Aircraft Co.	Aircraft Design, Marketing/Sales
Kinetic Concepts, Inc.	Specialty Medical Products	Tesoro Corporation	Refining/Sales of Petroleum Prod.
L & H Packing Company	Meat Packing	The Scooter Store, Inc.	Medical & Dental Equipment
Lancer Corporation	Beverage Dispensing Equipment	Valero Energy Corporation	Refining/Sales of Petroleum Prod.
Martin Marietta Materials SW, Inc.	Concrete, Limestone, & Asphalt	Vulcan Materials	Materials, Cement, & Concrete
Medical:			
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	General Acute Care Hospitals
Allied Primary Home Care Svcs.	Home Health Care Services	Methodist Specialty & Transplant Hosp.	Specialty Care Hospital
Baptist Health System	General Acute Care Hospitals	Metropolitan Methodist Hospital	General Acute Care Hospital
Brooke Army Medical Center	Military Hospital	Nix Health Care System	Hospital/Health Care Services
Caremark Prescription Service	Mail Order Pharmacy	Outreach Health Services	Home Health Care
Center for Health Care Services	Mental Health/Mental Retardation	San Antonio State Hospital	Mental Health/Mental Retardation
Christus Santa Rosa Health Care	General Acute Care Hospitals	San Antonio State School	Residential Care Facility
Girling Health Care, Inc.	Home Health Care Services	South Texas Blood & Tissue Center	Collect/Distribute Blood & Tissue
Guadalupe Valley Hospital	Hospital/Health Care Services	South Texas Veterans Health Care Sys.	Hospital/Health Care Services
Home Nursing & Therapy Svcs.	Home Health Care	Southwest General Hospital	Hospital/Health Care Services
Interim Healthcare San Antonio	Nurses' Registry	University of Texas Health Science Center at San Antonio	Medical School
McKenna Memorial Hospital	Hospital/Health Care Services	University Health System	Public Hospital/Clinics
Medical Team, Inc.	Home Health Care		
Methodist Children's Hospital	Children's Hospital		
Retail:			
Aaron Rents and Sells Furniture	Office & Residential Furniture	H-E-B Grocery Company	Groceries & Distribution
Ancira Enterprises	Automotive Sales & Service	HOLT CAT	Caterpillar Heavy Equipment
Brylane	Mail Order & Catalog Shopping	QVC San Antonio Inc.	Electronic Retail Sales
CVS/Pharmacy	Pharmacy Stores	R & L Foods, Inc.	Fast Foods
Dillard's Department Stores	Department Stores	Sun Harvest Farms, Inc.	Natural Food Grocery Stores
Eye Care Centers of America, Inc.	Eyewear	Target Stores	Discount Retail Stores
Macy's	Department Stores	Twigland Fashions Ltd.	Women's Apparel
Gunn Automotive Group	Auto Dealerships		

[1] January 2006, 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)[1]

Firm	Product/Service	Firm	Product/Service
Services:			
AT&T Center	Sports/Events Arena	New Braunfels I.S.D.	Public School District
Able Body Labor	Temporary Staffing	Northside I.S.D.	Public School District
Administaff, Inc.	Professional Staffing	Our Lady of The Lake University	Higher Education, Private
Advance'd Temporaries, Inc.	Temporary Staffing	Palo Alto College	Junior/Community College
Advantage Rent-A-Car	Vehicle Rental	Parent/Child Inc.	Early Childhood Development
Air Force Village Foundation	Military Retirement Communities	Pioneer Drilling Company	Oil & Gas Drilling
Alamo Community College District	Public College District	RK Group	Catering
Alamo Heights I.S.D.	Public School District	Regal Cinemas	Movie Theaters
Alamodome	Domed Stadium	San Antonio College	Junior/Community College
Allen Tharp & Associates	Catering	San Antonio I.S.D.	Public School District
American Building Maintenance	Janitorial Contractor	Sanitors, Inc.	Commercial Janitorial
Archdiocese of San Antonio	Catholic Archdiocese	Schertz-Cibolo-Universal City I.S.D.	Public School District
Avance Inc.	Family Support & Education	Schlitterbahn Waterpark & Resort	Resort & Waterpark
Bill Miller Bar-B-Q Ent., Ltd	Restaurants & Catering	SeaWorld San Antonio	Entertainment/Amusement Park
Boeing Aerospace Support Center	Aerospace Support Center	Sears Customer Service Center	Customer Service Center
Cadbeck Staffing	Temporary Staffing	Securitas Security Services USA	Guard/Security Service
Calling Solutions, Inc.	Telemarketing	Seguin I.S.D.	Public School District
Citicorp – U.S. Service Center	Service Center	Six Flags Fiesta Texas	Entertainment/Amusement Park
Comal I.S.D.	Public School District	Somerset I.S.D.	Public School District
East Central I.S.D.	Public School District	South San Antonio I.S.D.	Public School District
Edgewood I.S.D.	Public School District	Southside I.S.D.	Public School District
Employers Resource Management	Temporary Staffing	Southwest I.S.D.	Public School District
Enterprise/Rent-A-Car Company	Vehicle Rental	Southwest Research Institute	Research & Development
Floresville I.S.D.	Public School District	Spectrum Health Club	Health Clubs
Frontier Enterprises	Restaurant Headquarters	St. Mary's University	Higher Education, Private
Goodwill Industries of S.A.	Vocational Training	St. Philip's College	Junior/Community College
Harcourt Assessment, Inc.	Test Publishers	Standard Aero, Inc.	Repair Aircraft Engines
Harlandale I.S.D.	Public School District	Taco Cabana, Inc.	Fast Food Restaurants
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Talent Tree, Inc.	Temporary Staffing
Hyatt Hill Country Resort and Spa	Hotel Resort & Spa	Tanseco Inc./Div. of Radio Shack	Alarms & Monitoring
Infonxx	Information Retrieval Services	Treco Services, Inc.	Janitorial, Window Cleaning
Judson I.S.D.	Public Education	Trinity University	Higher Education, Private
Little Caesar's of San Antonio, Inc.	Pizza Take Out Stores	University of Texas at San Antonio	Higher Education, Public
Lockheed Martin Kelly Aviation	Aviation Consultants	University of The Incarnate Word	Higher Education, Private
Luby's Cafeterias, Inc.	Cafeterias	VIP Temporaries	Temporary Staffing
MTC, Inc.	Full Service Restaurants	Waste Management Inc.	Refuse Systems
Marriott Rivercenter/Riverwalk Hotels	Hotels	Wendy's of San Antonio Inc.	Fast Food Restaurants
McDonald's-Haljohn, Inc.	Fast Food Restaurants	Westaff	Temporary Staffing
Mi Tierra Cafe & Bakery, Inc.	Restaurant & Bakery	Whataburger of Alice	Fast Food Restaurants
Morningside Ministries	Retirement & Nursing Homes	YMCA of Greater of San Antonio	Health & Wellness
Transportation, Communications, & Utilities:			
AT&T, Inc.	Voice, Data, Telecommunications	Time Warner	Voice, Data, Telecommunications
CPS Energy	Natural Gas & Electric Service	U.S. Postal Service	Postal Delivery
San Antonio Water System	Water Services	United Parcel Service	Parcel Delivery
Southwest Airlines	Air Transportation		
Wholesale:			
Advantage Sales & Marketing	Sales & Marketing	SYGMA Network, Inc.	Distributor - Groceries
CARQUEST Auto Parts	Automotive Replacement Parts	San Antonio Auto Auction	Auto Auction
Color Spot Nurseries/SW Division	Plant Nurseries	Tyson Foods, Inc.	Poultry Slaughtering & Packing

[1] January 2006, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

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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 "CPS 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-appointment at the expiration of their first five-year term of office to one additional term. In 1997, the City Council ordained that CPS Board membership should be representative of the 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 policies adopted relating 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 with CPS. 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 CPS' service area, the CAC encompasses a broad range of customer groups in order to identify their concerns and understand their issues.

City of San Antonio City Council members nominate ten of the 15 members, one representing each district. The other five members are at-large candidates interviewed and nominated by the CPS Citizens Advisory Committee from those submitting applications and resumes. The CPS Board of Trustees appoints all members to the committee. Members can serve up to three two-year terms.

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 provide retail electric energy services in its service area. On April 26, 2001, after a thorough feasibility study was conducted and reviewed, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002, the date Texas Electric Choice became effective. Senate Bill 7 ("SB 7"), adopted by the Texas Legislature in 1999, provides that electric opt-in decisions are to be made by the governing body or the 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 electric 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 service areas open to retail competition in the Electric Reliability Council of Texas ("ERCOT"). ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas. (See "Electric Utility Restructuring In Texas; Senate Bill 7."). CPS has the option of acting in the role of the "Provider of Last Resort" for its service area in the event it and the City choose to opt-in.

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, and the City of Castroville. These three wholesale supply agreements have remaining terms ranging from less than one to ten years until expiration, although all of the agreements provide for extensions. Discussions are ongoing with all three entities to renew their respective long-term wholesale power agreements. Additionally, CPS has recently entered into several one-year to three-year wholesale supply agreements with other various municipalities and cooperatives. CPS will seek additional opportunities to enter into long-term wholesale electric power agreements in the future. 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 natural gas service areas. As a result, CPS competes against other gas supplying entities on the periphery of its service area. Pursuant to the authority provided by Section 181.026, Texas Utilities Code, among other applicable laws, the City has executed a license agreement ("License Agreement") with the City of Grey Forest, Texas ("Licensee"), dated as July 28, 2003, for a term through May 31, 2028. Pursuant to this License Agreement, the City permits the Licensee to provide, construct, operate and maintain certain natural gas lines within the boundaries of the City which it originally established in 1967 and to provide extensions and other improvements thereto upon compliance with the provisions of the License Agreement and upon the payment to the City of a quarterly license fee of 3.0% of the gross revenues received by the Licensee from the sale of natural gas within the Licensed Area (as defined in the License Agreement). Thus, in the Licensed Area, CPS is in direct competition with Grey Forest Utilities as a supplier of natural gas.

CPS also has 20-year franchise agreements with 28 incorporated communities ("Suburban Cities") in the San Antonio area. These franchise agreements permit CPS to operate its facilities in the cities' streets and public ways in exchange for a franchise fee of 3% on electric and natural gas revenues earned within their respective municipal boundaries. Of these 28 agreements, 24 expire in 2010; the others expire in 2011, 2017, 2023, and 2024, respectively.

Retail Service Rates

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility. Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over electric investor-owned utility ("IOU") companies primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities ("Municipal Utilities"), such as CPS, from PUCT jurisdiction, although 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 such as CPS has exclusive jurisdiction to set rates applicable to all services provided by

the Municipal Utility with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and CPS Board choose to opt-in to electric 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 such appeal to PUCT of CPS retail electric rates has ever been filed. CPS is not subject to the annual PUCT gross receipts fee payable by electric 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 natural gas utilities in the State. Municipal Utilities such as CPS are generally excluded from regulation by the TRC, except in matters related to natural gas safety. CPS retail gas service rates applicable to rate payers outside San Antonio 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 such appeal to the TRC 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. A Municipal Utility is also required to sell gas to and transport State-owned gas for "public retail customers," including State agencies, State institutes of higher education, public school districts, U.S. military installations, and U.S. Veterans Affairs facilities, at rates provided by written contract between the Municipal Utility and the buyer entity. If agreement to such a contract cannot be reached, a rate would be set by the legal and relevant regulatory body.

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, including all other payments prescribed in the bond ordinances.

Base rate changes over the past 17 years have consisted of; a 4.0% combined electric and gas base rate increase effective January 31, 1991; a 3.5% electric base rate adjustment; effective May 19, 2005 that was more than offset by a reduction in fuel costs, resulting from the purchase of an increased interest in STP 1 & 2; a 12.1% gas base rate adjustment effective June 26, 2006; and a 3.5% system average electric and gas base rate increase became effective September 1, 2008. The City Council approved this latest 3.5% base rate increase on May 15, 2008. CPS had initially requested a 5% system average electric and gas base rate increase. The City Staff reviewed CPS Energy's rate case for several months and the City Staff recommended to City Council that Council approve a 5% increase for gas and electric rates that would be implemented on June 1, 2008. City Council unanimously approved a 3.5% rate increase to take effect on September 1, 2008. CPS staff is evaluating with its Board the impacts that the lower and delayed rate increase will have on its business planning and budgeting process and CPS will make adjustments in its near-term plans to budget within the rate increases that have been approved. CPS expects to continue to periodically seek similar electric and gas base rate increases during the next five to seven years.

The 2005 electric rate adjustment was intended to offset the incremental costs to be incurred due to acquiring an additional 12% share in the South Texas Project. This acquisition was completed in May 2005. CPS projects that the net effect of the base rate adjustment and fuel cost savings from additional nuclear-fueled generation will result in lower overall 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 May 2000. The rate for Rider E15 was reduced to its current level effective on 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 megawatts ("MW"). Under certain conditions, the discount may be extended an additional three years. Customers that choose Economic Incentive Rider E16 must also meet City employment targets and targets for purchases of goods or services from local businesses in order to qualify. CPS also has rates that permit recovery of certain miscellaneous customer charges and for extending lines to provide gas and electric service to its customers. In May 2005, the CPS Board adopted a change to its policies for both miscellaneous customer charges and line extensions, which became effective January 1, 2006, to increase charges that had not been raised since 1986. On December 15, 2005, the City Council adopted Ordinance Nos. 101819 and 101820 approving certain of the price changes in the CPS Board-approved policy; however, the City ordinance prevented recovery of increased line extension charges from developers of affordable housing and the City delayed implementation of certain miscellaneous customer charges until April 1, 2006 (fees for disconnection, reconnection, and field notification).

In June of 2007, the City of San Antonio passed an ordinance authorizing the creation of a five-year pilot program to develop electric and gas value-added premium based optional services. The initial optional services are limited to a specified number of qualified customers and include a: (1) Fixed Bill Program, (2) Flat Rate Program, (3) Windtricity Rider, and (4) Load Factor Rate Program.

Each of CPS' retail and wholesale rates contains an electric fuel adjustment or gas cost adjustment clause, which provides for current recovery of fuel costs. The fuel cost recovery adjustments are set at the beginning of each CPS billing cycle 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 which sets the price for transmission at the system average for ERCOT. 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, consistent with provisions in PURA §35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. Pursuant to P.U.C. Docket No. 31540, "Proceeding to Consider Protocols to Implement a Nodal Market in the Electric Reliability Council of Texas Pursuant SUBST. R. 25.501", the PUCT has made substantial progress in evaluating the shift from postage stamp pricing to nodal pricing for transmission transactions. Until the PUCT takes final action on nodal pricing, it will not be possible to predict the effects on CPS' transmission costs or its ability to recover costs from other participants in ERCOT. Additional information on recovery of ERCOT transmission fees is discussed in "CUSTOMER RATES – Governmentally Imposed Fees, Taxes or Payments" and with respect to the transition to the nodal market is discussed in "Post Senate Bill 7 Wholesale Market Design Developments" herein.

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. This began on January 1, 2002. SB 7 continues Texas electric transmission wholesale open access, which came into effect in 1997 and requires all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. SB 7 also fundamentally redefines and restructures the Texas electric industry. The following discussion of SB 7 applies primarily to ERCOT.

SB 7 includes provisions that apply directly to Municipal Utilities such as the CPS, as well as other provisions that govern 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 suppliers. SB 7 also allows retail customers of those Municipal Utilities and Electric Co-ops that elect, on or after that date, to choose their electric energy suppliers. 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 CPS and the City 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. If so, these new entities may be owned by a common holding company, but each must operate largely independent of the others. The services offered by such separate entities must be available to other parties on non-discriminatory bases. Municipal Utilities and Electric Co-ops which open their service territories ("opt-in") to retail electric competition are not required to, but may, unbundle their electric system components. See "SAN ANTONIO ELECTRIC AND GAS

SYSTEMS – Service Area" herein.

Additional Impacts of Senate Bill 7. Municipal Utilities and Electric Co-ops are largely exempt from the requirements of SB 7 that apply to IOUs. While IOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of Municipal Utilities and Electric Co-ops have the sole discretion to determine whether and when to opt-in to retail competition. However, if a Municipal Utility or Electric Co-op has not voted to opt-in, it will not be able to compete for retail energy customers at unregulated rates outside its traditional electric service area or territory.

SB 7 preserves the PUCT's regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for an independent transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 (as amended by the Texas Legislature after 1999) directs the PUCT to determine electric wholesale transmission open access rates on a 100% "postage stamp" pricing methodology.

The greatest potential impact on CPS' electric system from SB 7 could result from a decision by the City Council and the Board to participate in a fully competitive market, particularly in light of the fact that CPS is among the lowest cost producers of electric energy in Texas. On April 26, 2001, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002. However, CPS currently believes that it is taking all steps necessary to prepare for possible competition in the unregulated energy market, should the City Council and the Board make a decision to opt-in, or future legislation forces Municipal Utilities and Electric Co-ops into retail competition.

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

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

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

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities and that nothing in that act may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants or other exemption of interest or tax-exempt status. The bill also improves the competitive position of Municipal Utilities by allowing local governing bodies, whether or not

they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of Municipal Utilities are made exempt from disclosure under the open meetings and open records acts and the right of municipal utilities to enter into risk management and hedging contracts for fuel and energy is clarified.

During its 79th Legislative Session in 2005, the Texas Legislature reviewed the mission and performance of the PUCT, as required by the Texas Sunset Act. This act provides that the Sunset Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed, and what improvements are needed to ensure that tax dollars are appropriately utilized. Based on recommendations of the Sunset Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future.

The 79th Legislature in its review of the PUCT reauthorized the agency until 2011. Reforms were enacted to increase the accountability of ERCOT, including added regulatory scrutiny and governance changes that add independence while preserving input from industry experts. An "independent market monitor" selected by and reporting to the PUCT, was institutionalized to help guard against manipulation in the Texas wholesale electric market. No significant, direct impact on CPS is anticipated as a result of this legislation.

Post SB 7 Wholesale Market Design Developments. In the summer of 2003, the PUCT adopted rules requiring that ERCOT transition from a zonal to a nodal wholesale market by October 1, 2006, and requiring that new protocols to accomplish this transition be submitted to the PUCT for review. Implementation of the nodal market will include, among other elements: direct assignment of the costs of local transmission congestion to market participants that cause the congestion; implementation of an integrated, financially binding day-ahead market; and nodal energy prices for resources and zonal energy prices for loads. Consistent with the rule, ERCOT and industry stakeholders have developed and submitted to the PUCT protocols and proposed energy load zones to implement these market design elements, together with an independent cost-benefit analysis. The PUCT in 2005 reaffirmed its intent to implement the nodal market in ERCOT, but modified the implementation date to January 1, 2009. In December 2005, the PUCT conducted a hearing on the nodal protocols submitted by ERCOT, and in April 2006, it issued an order approving the implementation of the nodal market. In response to the PUCT implementation date, ERCOT established an earlier implementation date of December 1, 2008. ERCOT has completed its process of design specification and is currently early in the implementation phase of its nodal systems. Market participants, including CPS, are also in the implementation phase for the upgrade of their systems necessary to operate in the nodal market. On May 20, 2008, ERCOT issued a press release stating that it would not meet its targeted initiation date of December 1, 2008 due to delayed software deliveries. A new implementation date has not been determined. In its press release, ERCOT stated that it would meet with the PUCT, market participants and vendors over the next few weeks to arrive at an updated project schedule. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Transmission Access and Rate Regulation" herein.

The 81st Texas Legislative Regular Session will commence on January 13, 2009.

Environmental Restrictions of Senate Bill 7 and Other Related Regulations. 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") permitting program by virtue of "grandfathered" status. Under SB 7, annual emissions of nitrogen oxides ("NO_x") from such units were reduced by 50% from 1997 levels, beginning May 1, 2003. These emissions have been reported on a yearly basis and CPS has met the requirements of its NO_x cap for the applicable units for the past three compliance years. CPS has final Electric Generating Facility ("EGF") State permits from the TCEQ for its four older electric generating plant sites, comprising 11 gas-fired units. 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, Chapter 117, is directed at all units in the state, including CPS' coal plants. These regulations required a 50% reduction in NO_x emissions statewide beginning May 1, 2005 and system-wide on an annual basis. The first reporting period for CPS' power plants subject to the Chapter 117 cap was for the compliance period of May 1, 2005 to April 2006. CPS has met the Chapter 117 cap for each compliance period. As a result of the J.K. 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. The final Clean Air Interstate Rule ("CAIR") has imposed even more NO_x restrictions on CPS power plants. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission limits while initially finalized by the Environmental Protection Agency ("EPA"), are now subject to additional EPA review and which may require new controls at the coal plants in the near future. 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.

SB 7 established the State's goal for renewable energy in 1999 but made no special provisions for transmission to interconnect renewable resources. The rapid development of wind power in west Texas since 2001 has shown that wind farms can be built more quickly than traditional transmission facilities; This timing difference poses a dilemma for planning as it is difficult to know whether a new line will be needed if the generation facilities do not yet exist. A wind farm is difficult to finance if there is no certainty that sufficient transmission will be available to deliver generated electricity. Senate Bill 20, enacted by the Texas Legislature in 2005 ("SB 20"), authorized the PUCT to regulate in this area, and specifically authorized the PUCT to identify an area with sufficient renewable energy potential, known as competitive renewable energy zones ("CREZs") and pre-designate the need for transmission facilities serving the area even if no specific renewable generation projects exist or are under construction. The designation of CREZs in regions with developable renewable resources would be partially based on financial commitments of wind project developers desirous of building in the CREZ. In July 2008 the PUCT voted to create five CREZs in west Texas and the Panhandle.

Wind-powered resources account for 90% of the 6,301 MW of installed renewable capacity. About 2.1% of the electricity generated in Texas during 2006 came from renewable energy resources, up from 1.5% for all of 2005. Within the ERCOT power region, renewable resources provided 2.1% of peak-period generation during 2006 (up from 1.5% in 2005), and 3.2% of off-peak generation (up from 2.2% in 2005). Significant amounts of wind energy have created challenges for those who manage the ERCOT system. On February 26, 2008, ERCOT implemented the second stage of its emergency grid procedures (out of 4 stages) following a sudden drop in the system frequency. The drop in system frequency was attributed to a combination of events including a drop in wind energy production at the same time the evening electricity load was increasing, accompanied by multiple power providers, other than CPS, falling below their scheduled energy production. The loss of wind energy also resulted in congestion in certain parts of the ERCOT transmission system. Implementing the stage two emergency procedures stabilized ERCOT system frequency. Other than interruptible loads, no other customers in the ERCOT region lost power due to the event. Because of the challenges associated with scheduling wind energy, ERCOT has chosen to count only 8.6% of nameplate wind capacity toward ERCOT's reserve margin requirements.

The Legislature increased the State's renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUCT is directed to establish a target of 10,000 MW by January 1, 2025. The legislation includes a target of 500 MW from renewable resources other than wind power. In addition, SB 20 requires the PUCT to designate CREZs to expedite transmission planning. In addition, on April 2, 2008, ERCOT filed a report with the PUCT concerning wind power and the transmission facilities that may be necessary to transfer the electric power across the State.

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 its various customer groups and the City. On August 22, 2005, the Board approved a new strategic plan, developed by a cross-functional team. The plan built on the CPS mission, vision, and core values as well as long-term goals adopted in 2004 as part of the Vision 2020 process. The strategic plan has evolved to formulate plans for its wholesale, retail, transmission and distribution, gas, and shared services business units. Each plan will be the responsibility of the business unit and will focus on market tactics, organizational development, business information, process improvement, legal/regulatory issues, and financial accomplishment. The senior executive for each business unit has accountability for development and delivery of the plan. The CPS Board reviewed and approved business unit plans, consistent with the corporate strategy, during the

2007 review cycle. An update to the plans will be presented to the Board for approval during the 2008 Strategic and Financial Plan presentation.

Major initiatives and key action plans necessary to accomplish the objectives and meet or exceed the targets are also included in each plan. Status reports on strategies, risks and market changes are provided to the Board and senior management on a regular basis. An oversight team, appointed by senior management, ensures consistency with the corporate vision and directs the resolution of cross-business unit issues.

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. An important part of the Debt Management Program is debt restructuring through the prudent employment of variable rate debt and possible interest rate swap contracts. 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. CPS has a Debt Management Policy ("Policy"), providing guidelines under which financing and debt transactions are managed. The Policy focuses on financial options intended to lower debt service costs on outstanding debt; facilitate alternative financing methods to capitalize on the present market conditions and optimize capital structure; and maintain favorable financial ratios. The Policy limits CPS' gross variable rate exposure to 25% of total outstanding debt.

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. With the acquisition of an additional 300 MW purchased from AEP Texas Central Company on May 19, 2005, CPS has a 40.0% interest in STP's two nuclear generating units. The nuclear units supplied 33.5% of the electric system load for the 12 months ended July 31, 2008.

New Generation / Conservation. One of CPS' strongest aspects of operational and financial effectiveness has been the benefit it has derived from its diverse and low-cost generation portfolio, which is currently comprised of coal; nuclear; gas; various renewables such as wind, methane and a modest portion of solar; as well as purchased power. Continued diversification is a primary objective of the CPS management team. Accordingly, this team periodically assesses future generation options that would be viable for future decades. This extensive assessment of various options involves projections of customer growth and demand; technological viability; upfront financial investment requirements; annual asset operation and maintenance costs; and environmental impacts.

While more work is needed to complete this year's evaluation, it initially appears that the costs of all physically constructed infrastructures are increasing. Material and labor costs for all types of generation continue to rise. Additionally, regulatory charges may also raise the costs of operating plants, such as those that have been proposed for units that use carbon-based fuels.

To mitigate the pressure on new generation construction requirements, CPS management is expanding its efforts towards expanding community-wide energy efficiency and conservation. These mitigation efforts are increasingly referred to as the "5th Fuel" and are very important to CPS' strategic energy plans and specifically to its new generation needs. Additionally, CPS management intends to explore opportunities with San Antonio City Council for potential changes in ordinances, codes and administrative regulations focused on encouraging commercial and residential utility customers, builders, contractors and other market participants to implement energy conservation measures.

CPS expects that it will complete its current assessment of various generation construction options by the summer or early fall of 2008. Before a commitment would be made to fully construct the next layer of new generation facilities, CPS management will pursue several objectives. These objectives include the pursuit of additional public input; expanded community education about the long-term energy and conservation needs of the San Antonio community; continued option analyses and evaluations, including CPS' own formalized cost estimates; additional Board approval to move forward; and expanded presentations to the San Antonio City Council, which governs the related rate increases and bond issuances required to support any generation construction project.

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

Ownership
Effective February 2, 2006

Participants	%	MW
NRG Energy	44.0	1,188
CPS	40.0	1,080
City of Austin-Austin Energy	16.0	432
	100.0	2,700

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 four-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.

STP Units 1 and 2 each have a 40-year NRC license that expires in 2027 and 2028, respectively. In August 2006, the Strategic Teaming and Resource Sharing ("STARS") alliance notified the NRC that one of their members intended to submit a license renewal application in the fourth quarter of 2010. On June 18, 2008 STP Nuclear Operating Company sent a letter to the NRC naming STP as the STARS member who intended to submit an application in the fourth quarter of 2010.

During the twelve months ended July 31, 2008, the STP Units 1 and 2 operated at approximately 98.1% and 107.4% of net capacities, respectively. Unit 1 and Unit 2 completed normal refueling outages in the spring of 2006 and in the spring of 2007, respectively. The replacement of low pressure turbines and other plant upgrades during these outages improved plant efficiency and yielded an average increase in electrical output of approximately 68 MW in each unit.

Used Nuclear Fuel Management. Under the Nuclear Waste Policy Act, 42 U.S.C. 10101, et seq. ("NWPA"), the DOE has an obligation to provide for the permanent disposal of high-level radioactive waste, which includes used nuclear fuel at U.S. commercial nuclear power plants such as STP. To fund that obligation, all owners or operators of commercial nuclear power plants have entered into a standard contract under which the owner(s) pay a fee to DOE of 1.0 mill per kilowatt hour (1M/kWh) electricity generated and sold from the power plant along with additional assessments. In exchange for collecting this fee and the assessments, DOE undertook the obligation to develop a high-level waste repository for safe long-term storage of the fuel and, no later than January 31, 1998, to, transport, and dispose of the used fuel. That date came and went and no high-level waste repository has been licensed to accept used fuel.

According to the filings in one recent suit brought against DOE, at least sixty-six cases have been filed in the Court of Federal Claims against DOE related to its failure to meets its obligations under the NWPA by the existing owners or operators of nuclear facilities seeking damages related to ongoing used nuclear fuel storage costs. On August 31, 2000, in *Maine Yankee Atomic Power Company, et. al. v. US*, the United States Court of Appeals for the Federal Circuit affirmed that DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while DOE continues to develop a permanent high-level waste repository. STP is concurrently participating in litigation to cover its long-term storage costs and negotiating to obtain a reasonable settlement that would provide for those costs.

Until DOE is able to fulfill its responsibilities under the NWPA, the NWPA has provisions directing the NRC to create procedures to provide for interim storage of used nuclear fuel at the site of a commercial nuclear reactor. Currently, STP has adequate space in its on-site spent fuel storage pools to provide for storage of all of its used fuel. If DOE is unable to take the used fuel from STP, sometime late in the next decade STP management

expects to start the process of planning, licensing, and building an on-site independent spent fuel storage facility ("ISFSI). That ISFSI is expected to have sufficient capacity to provide safe interim storage for used nuclear fuel from the current and future reactors at the STP site.

Additional Nuclear Generation Opportunities. This section describes some of the initial CPS management investigation, study, analysis, and work product that has been undertaken to explore one type of possible generation infrastructure, additional nuclear capacity. CPS has received Board of Trustee approval to participate in the early development phase of two nuclear projects, both with third-party partners. In providing this preliminary approval, a spending cap of $216 million, covering an approximate two-year period, was established. The relevant spending period is expected to extend through January 31, 2009.

The first possible nuclear project has been scoped as the development of two additional reactors at the current STP site. These new units are referred to preliminarily as STP Units 3 and 4. The second possible nuclear project would be a new two-unit facility tentatively located in Victoria County, which is also located in south Texas. Either or both projects, if fully developed by CPS, would deliver a portion of its power for use by San Antonio customers in the ERCOT market.

At this time, CPS' Board of Trustees has not committed to complete the development of either project and has capped nuclear development spending at $216 million. In addition, the City Council has not yet received CPS management's formal assessments and evaluations of these options compared to other possible new generation types. As noted previously, the completion of that information is expected by the late summer or early fall of 2008.

In the interim, the preliminary phases of the nuclear projects continue under their current scopes and general status information is available as follows:

- In June 2007, STP Nuclear Operating Company had signed a technical services agreement with Toshiba Corporation, a major Japanese manufacturer of heavy electrical equipment and developer of ABWRs in Japan. Under this agreement, Toshiba agreed to perform early engineering and procurement work for STP Units 3 and 4. STPNOC, NRG, and CPS are engaged in continuing negotiations with Toshiba, its potential consortium members, and with other vendors about a definitive engineering, procurement and construction agreement. Concurrently, STP Nuclear Operating Company is in the process of reserving the major, long-lead components for STP Units 3 and 4. STP Nuclear Operating Company has already made a reservation for the Unit 3 reactor pressure vessel forgings. Rights and obligations in the agreements with GE-H, Toshiba and other vendors for long-lead equipment and services are now shared with CPS under the terms of the NRG-CPS Supplemental Agreement.

- Regarding the first project, on September 24, 2007, NRG and CPS signed the South Texas Project Supplemental Agreement ("Supplemental Agreement") under which CPS elected to participate in the preliminary development of two new nuclear units at the STP nuclear power station site, STP Units 3 and 4, pursuant to the terms of the current participation agreement among the STP owners. CPS could own up to 50% of STP Units 3 and 4. The Supplemental Agreement provides for CPS to reimburse NRG for its pro rata share, based on its ownership percentage, of initial project costs incurred and to pay its pro rata share of future development costs. The Supplemental Agreement also provides CPS and NRG with preferred rights of first refusal in the event of certain types of transfers of either NRG's or CPS' interests in STP.

- Also on September 24, 2007, CPS, subsidiaries of NRG, and the STP Nuclear Operating Company filed a combined construction and operating license application ("COLA") with the NRC to build and operate STP Units 3 and 4. The COLA for STP Units 3 and 4 was the first complete application for new commercial reactors to be filed with the NRC in nearly thirty years. In the COLA, the owners propose to use advanced boiling water reactor ("ABWR") technology, which has been proven in four operating units in Japan. The total projected rated capacity of STP Units 3 and 4 is expected to equal or exceed 2,700 MW. On November 29, 2007, the NRC announced that it had accepted the COLA for review.

  In order to develop the COLA and to provide on-going licensing support, STP Nuclear Operating Company had entered into an interim services agreement with General Electric Company ("GE"). Subsequent to

entering into that agreement, GE entered into a joint venture in which it transferred its nuclear business to a company called GE-Hitachi Nuclear Company ("GE-H"). GE assigned its responsibilities under the interim services agreement to GE-H. Despite its obligations in the interim services agreement, GE-H suspended licensing support for the COLA soon after it was filed with the NRC. CPS and NRG are continuing to hold discussions with vendors, including GE-H, to develop STP Units 3 and 4. Until these vendor issues are resolved, STP Nuclear Operating Company asked the NRC to limit its review of the COLA to environmental and other generic issues and the NRC has suspended closure of the public intervention period.

- Turning to the second project, in December 2007, CPS and Exelon Generation Company LLC ("Exelon") signed an agreement granting CPS an option to participate in a possible joint investment in a nuclear-powered electric generation facility in southeast Texas ("Exelon Project"). Preliminary plans indicate that the Exelon Project would be located in Victoria County and would involve the development of two Economic Simplified Boiling Water Reactors, nominally rated at 1,550 megawatts each. Under this agreement, CPS has the option to acquire between a 25% and a 40% ownership in the Exelon Project. Exelon is continuing its due diligence and development of a COLA for the Exelon Project. Exelon is expected to make its decision on whether to build the Exelon Project sometime in late 2009.

Qualified Scheduling Entity. CPS operates as an ERCOT Level 4 Qualified Scheduling Entity ("QSE") representing all of CPS' assets and load. The communication with ERCOT and the CPS power plants is monitored and dispatched 24 hours per day/365 days a year. Functions are provided from the Energy Market Center housed within the main office. Backup facilities have also been created. QSE functions include load forecasting, day ahead and real time scheduling of load, generation and bilateral transactions, generator unit commitment and dispatch, communications, invoicing and settlement.

The QSE will update systems and prepare personnel to accommodate the newly designed ERCOT "Nodal" Market design. See "Post Senate Bill 7 Wholesale Market Design Developments". The new market design will vastly change the procedures to dispatch generation and schedule bilateral transactions. CPS is currently designing new processes and systems to continue to operate as a QSE in the new market.

Transmission System. CPS maintains a transmission network for the movement of large amounts of electric power from generating stations to various parts of the service area and to or from neighboring utilities and for wholesale energy transactions as required. This network is composed of 138 and 345 kilovolts ("kV") lines with autotransformers to provide the necessary flexibility in the movement of bulk power.

Distribution System. The distribution system is supplied by 73 substations strategically located on the high voltage 138 kV transmission system. The central business district of the City is served by nine underground networks, each consisting of four primary feeders operated at 13.8 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt secondary spot system. This system is well designed for both service and reliability.

Approximately 7,580 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 348 miles of three-phase equivalent distribution lines, 83 miles of three-phase Downtown Network distribution lines, and 4,323 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems. At July 31, 2008, the number of street lights in service was 76,988. 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 pounds per square inch gauge ("psig") and 274 psig, and supplies gas to 266 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 4,841 miles (including the supply pressure system). The system consists of 2 to 16-inch steel mains and 1-1/4 to 8-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

For the fiscal year ended January 31, 2008, CPS implemented:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement establishes additional guidance for financial reporting for other postemployment benefit plans ("OPEB"). It provides standards for the measurement, recognition, and display of OPEB expense and the related balance sheet items. Disclosure requirements have been incorporated into Note 9 – Other Postemployment Benefits.

  Prior to Fiscal Year ("FY") 2008, the City Public Service Disability Income Plan, Group Life Insurance Plan, and Group Health Plans ("Employee Benefit Plans") were reported as component units of CPS, and their financial results were blended with those of CPS. In order to properly implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, the Employee Benefit Plans have been removed as component units from the CPS financial statements for FY 2008. Additionally, the FY 2007 financial statements have been restated with the removal of these component units for ease of comparability to current-year results. The financial statements of the Employee Benefit Plans are separately audited and reported.

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* The statement provides guidance on how to account for sales and pledges of receivables. As of January 31, 2008, CPS had not engaged in this type of activity.

- GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. The statement establishes more extensive disclosure requirements for pension plans similar to the OPEB disclosure requirements in GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, implemented in FY 2007 by the Employee Benefit Plans. Disclosure requirements for the employer have been incorporated into Note 8 – Employee Pension Plan.

Other than the aforementioned changes, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ending January 31, 2008. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2008.

Recent Financial Transactions

On December 1, 2007, CPS redeemed $5,000,000 and remarketed for a three-year term rate, $152,000,000 of obligations designated as City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2004.

On May 29, 2008, City Council authorized CPS to issue approximately $300,000,000 in tax-exempt revenue bonds. The bond proceeds were received June 26, 2008, and will be utilized for general system improvements.

CPS Historical Net Revenues and Coverage

	Fiscal Years Ended January 31, (Dollars in Thousands)				
	2004	2005	2006	2007	2008
Gross Revenues[1]	$ 1,526,904	$1,473,254	$1,754,927	$1,822,230	$1,943,313
Maintenance & Operating Expenses	942,471	882,508	1,057,035	1,104,037[2]	1,177,337
Available For Debt Service	$ 584,433	$ 590,746	$ 697,892	$ 718,193	$ 765,976
Actual Principal and Interest Requirements:					
Senior Lien Obligations[3]	$ 230,250	$ 245,984	$ 256,442	$ 271,931	$ 290,954
Junior Lien Obligations[4]	$ 2,111	$ 4,386	$ 10,964	$ 15,006	$ 15,179
Actual Coverage-Senior Lien	2.54x	2.40x	2.72x	2.64x	2.63x
Actual-Senior and Junior Lien	2.52x	2.36x	2.61x	2.50x	2.50x

[1] Calculated in accordance with the ordinances.
[2] FY 2007 restated for ease of comparability to FY 2008 due to the implementation of GASB 45.
[3] Net of accrued interest where applicable.
[4] Series 2003 Junior Lien Obligations were issued May 15, 2003. Series 2004 Junior Lien Obligations were issued November 18, 2004. Actual interest payments.

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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") into 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.

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 by City Council.

With the exception of fixing rates and charges for services rendered by SAWS, condemnation proceedings, and the issuance of debt, the SAWS Board has absolute and complete authority to control, manage, and operate SAWS, including the expenditure and application of gross revenues, the authority to make rules and regulations governing furnishing services 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 1.6 million residents. SAWS employs approximately 1,600 personnel and maintains over 9,500 miles of water and sewer mains. The tables that follow show historical water consumption and water consumption by class for the fiscal years indicated.

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Historical Water Consumption (Million Gallons) [1]

Fiscal Year	Gallons of Water Production	Gallons of Water Usage	Gallons of Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated	Total Direct Rate: Water Base Rate [b]	Total Direct Rate: Water Usage Rate [c]	Total Direct Rate: Sewer Base Rate [d]	Total Direct Rate: Sewer Usage Rate [e]
1999	57,913	53,520	4,393	7.59%	49,476	$ 5.13	$ 5.74	$ 5.70	$ 7.14
2000	60,021	57,144	2,877	4.79%	53,016	5.61	6.20	5.70	7.14
2001	57,243	53,047	4,196	7.33%	52,344	5.61	9.19	5.70	7.14
2001[a]	36,883	34,716	2,167	5.88%	29,561	5.61	9.19	5.70	7.14
2002	52,698	51,850	848	1.61%	52,180	5.61	11.97	5.70	7.14
2003	54,540	50,576	3,964	7.27%	49,669	5.61	13.20	5.70	7.14
2004	52,588	49,366	3,222	6.13%	49,593	5.61	15.47	6.60	8.19
2005	58,489	55,005	3,484	5.96%	49,287	6.11	18.42	7.33	9.10
2006	63,388	57,724	5,664	8.94%	53,268	6.56	19.59	7.37	9.14
2007	55,043	49,511	5,532	10.05%	49,218	6.56	19.59	7.37	9.14

(1) Unaudited.
(a) Seven months ended December 31, 2001. In 2001, the SAWS Board of Trustees approved a change in the fiscal year-end from May 31st to December 31st.
(b) Rate shown is for 5/8" meters.
(c) Represents standard (non-seasonal) usage charge for monthly residential water usage of 7,788 gallons per month. Includes water supply and EAA fees.
(d) Minimum service availability charge (includes charge for first 1,496 gallons).
(e) Represents usage charge for a residential customer based on winter average water consumption of 6,178 gallons per month.
Source: SAWS.

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

	Fiscal Year Ended December 31									
	2007	2006	2005	2004	2003	2002	2001[a]	2001	2000	1999
Water Sales [b]:										
Residential Class	26,651	33,162	30,917	27,054	27,624	28,227	19,398	28,621	31,008	29,496
General Class	19,166	20,232	19,769	18,851	19,464	20,155	13,444	23,042	25,512	23,496
Wholesale Class	90	114	121	98	137	173	347	535	624	528
Irrigation Class	3,604	4,216	4,198	3,364	3,350	3,295	1,527	848	0	0
Total Water	49,511	57,724	55,005	49,367	50,575	51,850	34,716	53,046	57,144	53,520
Wastewater Sales:										
Residential Class	27,384	28,857	25,293	25,421	24,860	25,564	13,594	26,472	26,124	23,820
General Class	18,670	21,152	21,414	20,952	21,418	22,319	13,209	21,516	22,980	21,660
Wholesale Class	3,164	3,259	2,580	3,220	3,391	4,297	2,758	4,356	3,912	3,996
Total Wasterwater	49,218	53,268	49,287	49,593	49,669	52,180	29,561	52,344	53,016	49,476
Conservation - Residential Class [c]	2,432	4,276	3,613	2,634	2,636	2,742	2,757	1,460	3,629	3,541
Recycled Water Sales	1,164	1,801	1,014	592	608	727	219	258	0	0

(1) Unaudited.
(a) Seven months ended December 31, 2001. In 2001, the SAWS Board of Trustees approved a change in the fiscal year end from May 31st to December 31st.
(b) Water Supply and EAA fees are billed based on the gallons billed for water sales.
(c) Gallons billed for conservation are included in the gallons billed for water sales.
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' waterworks system currently extends over approximately 620 square miles, making it the largest water purveyor in Bexar County. SAWS serves more than 80% of the water utility customers in Bexar County and provides potable water service on average to approximately 341,220 customers, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 24 elevated storage tanks and 39 ground storage reservoirs, of which 13 act as both, with combined storage capacities of 164 million gallons. As of December 31, 2007, the waterworks system had in place 4,673 miles of distribution mains, ranging in size from six to 61 inches in diameter (the majority being between six and 12 inches), and 25,004 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 517 square miles. SAWS also coordinates with the City for wastewater planning for the City's total planning area, ETJ, of approximately 956 square miles. The population for this planning area is approximately 1.2 million people. SAWS currently provides wastewater services to approximately 380,000 customers.

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.

The wastewater system is composed of approximately 4,877 miles of mains and three major treatment plants, Dos Rios, Leon Creek, and Medio Creek. All three plants are conventional activated sludge facilities. SAWS holds Texas Pollutant Discharge Elimination System wastewater discharge permits, issued by the TCEQ for a combined treatment capacity of 177.5 million gallons per day. The permitted flows from the wastewater system's three regional treatment plants represent approximately 98% of the municipal discharges within the ETJ.

The System has applied to the TCEQ to expand its Certificates of Convenience and Necessity ("CCN") or service areas for water and sewer from the existing boundaries to the ETJ boundary of the City of San Antonio. When the TCEQ grants a CCN to a water or sewer purveyor, it provides that purveyor with a monopoly for retail service. By expanding the CCN's to the ETJ, developments needing retail water and sewer service within the ETJ

must apply to SAWS. Service can then be provided according to System standards and small, undersized systems can be avoided. The System's CCN application for water covers about 60,000 acres and the application for sewer about 435,000 acres. The expansion of the CCN to the ETJ also supports development regulations for the City. Within the ETJ, the City has certain standards for development. These standards somewhat insure the City that areas developed in the ETJ and then annexed by the City, will already have some City development regulations in place. The applications are currently proceeding through the TCEQ administrative and legal processes.

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 water recycling program is designed to provide 35,000 acre-feet per year of recycled water to commercial and industrial businesses in San Antonio. This system is comprised of two north/south transmission lines. Approximately 80 miles of pipeline delivers highly treated effluent to 82 customers consisting of golf courses, parks, and commercial and industrial customers throughout the city. The system was also designed to provide baseflows in the upper San Antonio River and Salado Creek, and the result has been significant and lasting environmental improvements for the aquatic ecosystems in these streams.

Chilled Water and Steam System. SAWS owns and operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water and/or steam service to 23 customers. Various City facilities, that include the Convention Center and Alamodome, constitute approximately 75% of the downtown system's chilled water and steam annual production requirements. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the Port industrial area. SAWS' chilled water-producing capacity places it as one of the largest producers of chilled water in South Texas. SAWS also operates and maintains the thermal energy plants at Brooks City Base under an agreement with the Brooks Development Authority. Together, chilled water and steam services produced $13,101,371 in revenues in fiscal year 2007.

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 Environmental Protection Agency-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 2008 is $4,210,843, for which SAWS is reimbursed $3,358,241 from the stormwater utility fee imposed by the City.

Water Supply

In August 2005, the System completed a comprehensive analysis of its existing water supply projects and developed a series of conservation and water resource strategies that will enable it to provide adequate water supplies, even during critical drought periods; postpone dependence on more costly resources, when possible; promote greater use of non-Edwards Aquifer supplies in the long-term; fulfill the needs of San Antonio customers, while providing the Bexar County region with the option to utilize the System as a regional wholesale provider; and recognize the reality that future water supplies must be affordable.

These strategies are outlined in the 2005 Update to the System's Water Resource Plan (the "2005 Update"). The 2005 Update is a continuation of the process that began in 1996 to develop a fifty-year plan. In 1996, the City Council appointed a 34-member citizen's committee to develop strategic policies and goals for water resource management. The Citizens Committee on Water Policy report, entitled "A Framework for Progress: Recommended Water Policy Strategy for the San Antonio Area," was unanimously accepted by City Council, becoming the foundation for the System's "Water Resources Plan." On November 5, 1998, the City Council accepted the Water Resources Plan "Securing Our Water Future Together" as the first comprehensive widely-supported water resource plan for San Antonio. The 1998 plan established programs for immediate implementation, as well as a process for developing long-term water resources. In October 2000, the City Council created a permanent funding mechanism (known as the Water Supply Fee) for water supply development and water quality protection through Ordinance No. 92753. The Water Supply Fee provides a specific fund for the development of water resources.

In August 2005, the System's Board of Trustees unanimously approved the 2005 Update. The 2005 Update is a comprehensive review of the assumptions governing population and per capita consumption projections in Bexar County through 2050. The 2005 Update includes an analysis of each water supply alternative available for meeting future needs and demonstrates the System's commitment to increasing the diversification of its water inventory. The estimated cost opinion for the water supply projected identified in the 2005 Update totaled approximately $2.8 billion; however, recent cost re-estimates have increased this amount to approximately $3.5 billion. As a result of some of the identified cost increases as well as changes in personnel, in June 2008, a Water Supply Task Force was assembled to review, evaluate, and perform an update of the 2005 Update. This task force, currently in the middle of considerations, is scheduled to perform its review with a desire to develop recommendations to be delivered to the SAWS Board of Trustees in late 2008 (the "2008 Update").

Edwards Aquifer

Historically, the City obtained nearly all of its water from the Edwards Aquifer. The Edwards Aquifer lies beneath an area approximately 3,600 square miles in size. 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 Brackettville, 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, which serves as a home for well over one million residents. In 2007, the Edwards Aquifer will supply 93% of the water for municipal, domestic, industrial, commercial, and agricultural needs in the greater San Antonio area. 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 Edwards Aquifer is recharged by seepage from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern areas. Practically continuous recharge is furnished by spring-fed streams, with stormwater runoff adding additional recharge, as well. The historical annual recharge, from 1934 to the present, 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, slow floodwaters and allow much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

In 1993, the Texas Legislature created the Edwards Aquifer Authority ("EAA") to manage groundwater withdrawals from the Edwards Aquifer through a permitting system and to provide for appropriate springflow during drought periods. As a consequence of the EAA's permitting regime, the System's access to Edwards Aquifer supplies is now limited to its historic use and subject to regulation during periods of drought.

As part of its long-term water supply plan, the System has initiated a program to acquire up to 60,000 acre-feet of additional Edwards Aquifer groundwater withdrawal rights by the purchase of these groundwater withdrawal rights in the open market. The direction outlined in the 2005 Update contemplated the acquisition of Edwards Aquifer water rights by purchase only. Due to variations in market conditions, SAWS acquisition effort has evolved into a program that is a mix of purchases and leases. The combined total of Edwards Aquifer groundwater rights added to the System's inventory since 2005 is approximately 27,000 acre-feet. This includes leases that are expiring and those that have been added. This number is dynamic primarily due to the fluctuations in lease inventory in any given year.

In 2007, the Texas Legislature passed Senate Bill 3, which established a new pumping cap and placed restrictions on supply availability during drought periods into state statute. Senate Bill 3 established a regional pumping cap of 572,000 acre-feet. The System currently has access to 40% of this figure. Senate Bill 3

incorporates restrictions on supply availability during drought periods into state statute, thus making these restrictions state law. In addition, to support ongoing efforts to identify and evaluate methods to protect threatened and endangered species, the Texas Legislature prescribed in detail a Recovery Implementation Plan ("RIP") for the Edwards Aquifer region. The RIP, which will be undertaken in coordination with U.S. Fish and Wildlife Service, is intended to help the region meet the needs of endangered species, while respecting and protecting the legal rights of water users.

Edwards Aquifer Recharge Initiatives

Recharge dams are structures that retain rainfall runoff water for short periods of time over the Edwards Aquifer Recharge Zone. Recharge dams retain storm runoff and retain it long enough to allow for a larger volume of water to enter into the Edwards Aquifer. During storm events, storm runoff flows at a faster rate than what can be taken by the recharge features located in the stream channels. The recharge dam allows for a longer retention for more water to filter into the Edwards Aquifer, thus increasing recharge amounts.

The Nueces, San Antonio, and Guadalupe River Basins are favorable for development of recharge projects. Of the three basins, the Nueces Basin is the most prolific in terms of recharge effectiveness. With assistance from the U.S. Army Corps of Engineers and other regional partners, studies are currently under way within the Cibolo Creek Watershed and the Nueces River Basin. The results of these studies will identify which sites will have the most potential for recharge enhancement. With the recharge structures tentatively identified, the 2005 Update predicted a yield of 13,400 acre-feet per year. This project will cost an estimated $118 million in capital cost and $1.7 million in annual operation and maintenance.

The System is evaluating the feasibility of the development of recharge structures in the Cibolo Creek Watershed and the Nueces River Basin in concert with a host of local agencies, including the Guadalupe-Blanco River Authority, San Antonio River Authority, and the U.S. Army Corps of Engineers. In 2007, feasibility analyses continued to refine sites for potential dams, evaluate surface water storage potential, and prepare for environmental permitting.

Oliver Ranch (Massah Corporation) and BSR Water Company (Sneckner Partners Ltd.) Projects

The System reached a milestone in February 2002 with the introduction of the first non-Edwards drinking water supply from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in northern Bexar County. The System has wholesale contracts with Massah Corporation (Oliver Ranch) and Sneckner Partners, Ltd. (BSR Water Company) for delivery of up to 5,000 acre-feet per year of non-Edwards groundwater from the Trinity Aquifer from two properties located in north-central Bexar County. The construction cost to produce and deliver this water supply is approximately $12 million. Initial delivery of water from the Oliver Ranch project began in February 25, 2002 with BSR Water Company wells 1 and 2 production in July 2003. The BSR Water Company project was fully operational in June 2004 with the connection of BSR Water Company wells 3 and 4 to the System's distribution system.

In 2007, production from Oliver Ranch and BSR projects was 3,126 acre-feet. In 2008, production from these combined projects is expected to total approximately 3,500 acre-feet.

Western Canyon Project

The System, Comal and Kendall County Participants, and the Guadalupe-Blanco River Authority ("GBRA") are working together on the Western Canyon Project for the delivery of water from Canyon Lake Reservoir. GBRA is required through the contract to divert, treat and deliver the water to a certain point into the System's delivery system. The System will initially receive over 9,000 acre-feet per year for service to northern Bexar County. Over time, this amount will decline to 4,000 acre-feet, as GBRA's in-district participants in the project complete infrastructure necessary to enable them to obtain supplies and growth allows the participants to utilize their full allotment of reserved water.

The System began receiving water from this project in April 2006. In 2006, the System received 4,957 acre-feet of supplies from this project. In 2007, the System produced approximately 6,956 acre-feet of supplies

from this project, in addition to completing the addition of a storage tank and integration pipeline to facilitate delivery of this supply into our distribution system. In 2008, 9,500 acre-feet is the anticipated delivery from this project. Pursuant to the terms of the contract with GBRA, this contract will terminate in 2037, with an option to extend until 2077 under new payment terms.

Brackish Groundwater Desalination Project

The 2005 Update includes a recommendation that the System develop a brackish groundwater desalination project. This project involves the development of a moderately-sized water supply facility with the capacity to treat at least 20 mgd. Such a project is well suited for the south central Texas region, which contains more than 4,000,000 acre-feet of brackish groundwater. Hydrologic research on the sustainability of supply and water quality parameters began in December 2005.

In 2007 and 2008, the System continued its hydrogeologic evaluation on four test sites in the saline portions of the Edwards and Wilcox Aquifers in Atascosa and Bexar Counties. The hydrogeologic evaluation involves the construction of test and monitoring wells that will provide an indication of the firm supply of water available for the project and the impacts of the System's production on the Carrizo-Wilcox Aquifer system. The data obtained from the tests and monitoring wells will support the evaluation of various pre-treatment, treatment, and concentrate management strategies.

The majority of feasibility work for the brackish water desalination project will be completed by the third quarter 2008. Raw water quality is favorable for development of a desalination facility that would be sustainable for over 50 years. The treatment plant would be a Reverse Osmosis plant and is projected to be located in southern Bexar County on property currently owned by the System. Water from the desalination plant would be integrated by pipeline into the northwest portion of San Antonio. Pilot testing of the reverse osmosis membranes that would be utilized in the treatment plant (required for facility permitting) is currently underway. It is currently anticipated that concentrate disposal will be accomplished using deep well injection. Further data will be developed in preparation for required permitting of the concentrate injection wells through the Texas Commission on Environmental Quality.

This technical analysis is being accompanied by an evaluation of the potential benefit and feasibility of applying innovative procurement methods, such as Design Build, Design Build Operate, and Design Build Own Operate Transfer strategies. In 2007, the System supported efforts to enable Design Build to be used for brackish groundwater and wastewater projects. During the 80th Legislative Session, the Texas Legislature passed HB 1886, which authorized Design Build for water and wastewater projects.

Carrizo Aquifer Projects

In 2008, the System continues the development of plans to deliver and treat up to 56,200 acre-feet of groundwater from the Carrizo Aquifer in Gonzales and Wilson Counties. The project will be developed in phases, with delivery of water from the first phase (22,600 acre-feet) planned for 2013. Phase I has an estimated capital cost of approximately $204 million. If all phases of the project are completed, the combined capital costs are approximately $325 million.

Development of the Carrizo Aquifer projects depends upon issuance of permits for groundwater drilling, production, and transport from local groundwater conservation districts. The System submitted an initial, consolidated permit application, for production and transportation, for 11,687 acre-feet to the Gonzales County Underground Water Conservation District (the “GCUWD”) in June 2006. Pursuant to GCUWD rules, production permits have a term of two years, after which a new permit may be issued upon application, subject to the notice and hearing requirements applicable to permit applications. The applications were declared administratively complete on July 12, 2006 and contested by several parties on October 10, 2006.

Throughout 2007 and continuing into 2008, the System participated in several public hearings and multiple mediation sessions as part of the contested case hearing process. Resolution is anticipated in 2009 with construction activities commencing soon after permits are issued.

Lower Colorado River Authority Project

The Lower Colorado River Authority-San Antonio Water System ("LCRA-SAWS") Water Project would conserve, develop, and make available up to 150,000 acre-feet per year of surface water supplies for San Antonio by 2025 while firming up water supplies in the Colorado River basin. In February 2001, a Memorandum of Agreement with LCRA outlining the terms for a future binding contract was signed. That same year, legislation was passed to authorize LCRA to sell water outside its statutory boundary to the System. The System and LCRA executed a definitive agreement (2002) outlining LCRA's and the System's obligations consistent with the Memorandum of Agreement. The System and LCRA are now entering the fifth year of the study period to assess the environmental, engineering, and cost impacts. Finalization of studies and obtaining appropriate permits for the project are expected to be complete between 2013 and 2015. The estimated project cost, including study period costs, design, and construction, is approximately $2.3 billion.

Throughout the study period, the System and LCRA evaluate the Project's viability on an ongoing basis. Specific legislative criteria (Texas Water Code § 222.030) must be met before any water is transferred from the Colorado River basin. Among other requirements, legislation mandates that the project must provide for beneficial inflows sufficient to maintain the ecologic health and productivity of the Matagorda Bay System; protect and benefit the lower Colorado River Basin; raise the highland lake levels; and provide for a broad, public and scientific review process. In 2008, research activities focused on development of bay health species and inflow criteria; water quality; instream flow criteria; agricultural conservation; groundwater development; socioeconomic considerations; waterfowl; surface water availability modeling; the identification of a preferred alternative site for the location of an off-channel storage facility and river intake facility; the transportation system, treatment, and integration system from the LCRA basin boundary to San Antonio; and project permitting.

Bexar County Aquifer Storage and Recovery

An Aquifer Storage and Recovery ("ASR") project involves injecting ground or surface water into an aquifer, storing it and later retrieving it for use. Essentially, it accomplishes storage that is traditionally provided through surface water reservoirs without the concern of evaporation. The ASR is primarily designed to optimize use of water from the Edwards Aquifer and may be expanded to inject water from currently planned Water Supply projects. In December 2002, the Evergreen Underground Water Conservation District and the System approved an Aquifer Protection and Management Agreement. This agreement ensures operation of the ASR site if the property is annexed into the district, manages groundwater production, and commits the System to monitoring water levels and mitigation of potential negative impacts.

The System began study of an ASR project in 1996, acquired 3,200 acres in southern Bexar County and has completed construction of Phase I of the $125 million ASR project and the approximately $60 million "integration facilities" to transport this water into the System's distribution system. Phase I of the project was dedicated on June 18, 2004 and gives the System the ability to inject or recover up to 30,000 acre-feet of Edwards Aquifer water per year.

In 2006, the ASR was an integral component of the System's drought management strategy. By the end of the first quarter 2006, the System was able to amass more than 26,000 acre-feet of water stored since the project's inception. Approximately 5,800 acre-feet of supplies were withdrawn primarily during the hot, dry summer months in order to reduce peak demand during the drought period. Effective scheduling and use of this additional inventory enabled the System to ensure its compliance with the EAA's rules for groundwater withdrawals.

In 2008, the System continues capital improvements to complete Phase II of the project, which involves well field expansion through the completion of thirteen additional wells, the addition of a 7.5 million gallon tank, and the addition of various pumping facilities, among other improvements. The $55 million Phase II expansion is on schedule for completion in November 2008 and will effectively double the System's ability to inject or recover Edwards Aquifer to 60,000 acre-feet per year. While underway, the System has continued to store water in the ASR. At the end of July 2008, the total ASR storage volume was approximately 48,000 acre-feet. During July 2008, ASR water was recovered and returned to the System's distribution system when the Edwards Aquifer Authority implemented State I water restrictions. The System ASR facility was recognized in 2007 by the National Groundwater Association as the "2007 Outstanding Groundwater Project."

Local Carrizo Water Supply Project

A provision of the 2002 Water Resource Protection and Management Agreement with the Evergreen Underground Water Conversation gives the System the ability to withdraw up to 2 acre-feet of Carrizo Aquifer water per surface acre of land owned or leased (controlled). This equates to approximately 6,400 acre-feet of Carrizo Aquifer production per year. Thus, in 2006, the System initiated the Local Carrizo Program at the ASR site with dual goals in mind. The first was to provide the System with access to approximately 6,400 acre-feet of Carrizo Aquifer water, while the second was to counter the natural down-dip drift of the stored Edwards Aquifer water away from the ASR wellfield with water drilled up-dip of the stored Edwards Aquifer water.

The approximately $17 million Local Carrizo Water Supply program is being constructed in two phases: an ASR onsite phase and an ASR offsite phase. The onsite phase has been completed with the offsite phase anticipated to be complete by February 2010.

Water Reuse Program

The System owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside the System's water and wastewater service area. The System has developed a water reuse program utilizing the wastewater stream. Currently, approximately 23,000 acre-feet are under contractual commitment and 12,600 acre-feet are on-line. The System 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 the System's current usage. Reuse water will be delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 45,000 acre-feet per year used by CPS, this is the largest reuse water project in the country. The System 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 Gross Revenues, and are not included in any transfers to the City.

Conservation

Beginning in 1994, the System progressively implemented aggressive water conservation programs, which have reduced total per capita water production and use by 43.2%, going from 213 gallons-per–capita-per day ("gpcd") in 1994 to approximately 121 gpcd in 2004. Given these accomplishments, the 2005 Update to the System's fifty-year Water Resource Plan set a new goal for conservation that includes the provision to reduce per capita consumption to 116 gpcd during normal-year conditions and 122 gpcd during dry-year conditions by 2016. As the System has experienced two more dry years (2005 and 2006) and one more wet year (2007) since the adoption of these goals, an evaluation of these per capita usage goals for both normal and dry-year conditions is being preformed as part of the 2008 Update.

In 2006, these efforts earned the System the 2006 City Water Conservation Achievement Award. This award, sponsored by the U.S. Conference of Mayors, recognizes a city's ability to significantly reduce water use. In 2007, the System's conservation activities were recognized by Harvard University and the Ford Foundation as one of 18 finalists for the 2007 Innovations in American Government Awards.

Indoor Residential Conservation

Indoor residential conservation programs encourage customers to save water inside their homes. A variety of education and rebate incentive programs assist ratepayers in achieving conservation. Customers learn about these programs through the System's website, public events, direct mail inserts in bills, paid advertisements and educational materials in popular local periodicals. Among the System's most effective programs for indoor water use reduction:

"Toilet Retrofits," which involve the distribution of high-efficiency toilets, provide a substantial water savings for San Antonio. The System sponsors activities like the "Season to Save Community Challenge," which tests the idea that non-profit organizations are effective at motivating ratepayers to

participate in resource management programs. In 2007, the System distributed 27,000 high-efficiency toilets, in comparison to its annual goal of 16,900 high-efficiency toilets.

"Plumbers to People" provides leak repairs and retrofits to qualified low-income homeowner customers. The System, in cooperation with the City's Community Action Division, qualifies applicants based on the current Federal Assistance Guidelines. Only leaks that result in a loss of potable water are eligible for repair under the program. Water Conservation is achieved by quickly repairing leaks that would otherwise continue due to the cost of repairs. Analysis of program costs and water savings indicate that this affordability program is also one of our most effective at conserving water at a reasonable cost per unit.

Outdoor Residential Conservation

Residential outdoor programs address landscape and irrigation practices of homeowners. Outdoor use can account for up to 50% of total residential water use in the summers and average 20% of the water used annually. Education programs help ratepayers understand how following best practices can save water and money. Among the System's most effective programs for outdoor water use reduction:

"Irrigation Check-Ups" provide the System's ratepayers with a free analysis of their in-ground irrigation system. Trained conservation technicians visit homes to review each component of irrigation systems to determine maintenance needs to make suggestions for improving efficiency. Customers are invited to participate in the review process to get the maximum benefit from the site visit. A report that outlines any necessary maintenance repairs, suggestions for design improvements and how much water the system uses is mailed to customers. The report includes rebate incentive amounts available for making suggested design improvements.

"Seasonal Irrigation Program ("SIP")" is a free information service provided to customers who want expert advice on how to water their lawns. The irrigation advice is based on evapotranspiration ("ET") data calculated from a local weather station. Horticulture experts from the Texas Cooperative Extension use the ET data to make weekly irrigation recommendations for recommended grass varieties. Customers receive the advice through e-mail, recorded phone message, the local newspaper, a SIP hotline, or the System's web site. Volunteers from the Bexar County Master Gardeners and Garden Volunteers of South Texas have been trained on lawn care and the SIP program. They help market the program through neighborhood workshops, local events, corporate brown bags and other speaking opportunities. Several thousand people are in the SIP database to receive the free SIP messages each week. More will be added as customers learn about the program from the trained volunteers.

Commercial and Industrial Programs

The System has been working closely with commercial customers to help them conserve water for several years. In 1998, the commercial and industrial programs were expanded to include the toilet retrofit rebates previously offered only to residential customers. Water audits and case-by-case rebates for large-scale retrofits are also available. Since 1996, car wash businesses that meet certain conservation criteria are certified and provided a sign to be posted on their place of business. Every year the System presents the WaterSaver Awards to recognize businesses, organizations, and/or individuals that voluntarily initiated water conservation practices. Among the System's most effective programs for commercial and industrial water use reduction:

"Commercial Toilet Distribution Program" allows apartments and other businesses with older, high-flow toilets to replace them by receiving free toilets from the System. Upon completion of all retrofits, we provide a rebate of $25 per toilet to program participants. This program also provides participants replacing more than 50 high-flow toilets a $50.00 per retrofit incentive if all retrofits are completed within 30 calendar days from the date in which the toilets were provided to the customer. If the toilets are elongated, a $25.00 rebate applies.

"Restaurant Certification Program" is the result of the System working with the San Antonio Restaurant Association. Participating restaurants receive replacement spray valves for their kitchen, have

older toilets replaced, and learn about other ways they can reduce their water bills. The program has been very popular with restaurants. To date, 1,200 restaurants have been certified, with the replacement of 2,200 high-flow pre-rinse spray valves and 687 high-flow toilets. Total water savings associated with this program equates to 577 acre-feet per year. A list of the Certified WaterSavers Restaurants is available on the System's website.

"Large-scale Retrofits Program" allows large-scale water users to apply on a case-by-case basis for a rebate for installation of water conserving equipment. The rebate may be for up to one-half of the cost of the retrofit, depending on the amount of water to be saved and other factors. The program requires a pre-audit, a pre-inspection, and ongoing verification of water savings.

"Cooling Tower Audits" help businesses manage their cooling towers as efficiently as possible. This program provides for free audits of all cooling towers within the System's service area. A cooling tower audit provides the customer with a detailed engineering report on their specific operation, as well as recommendations for achieving water and energy savings through increased cycles of concentration, capture of blowdown water for reuse in other applications, or installation of other water-conserving equipment.

Agricultural Conservation and Irrigation Efficiency

The System has been successful in developing partnership throughout the region as well as with federal agencies through cost-share programs. The System has partnered with the United States Department of Agriculture ("USDA") and farmers to acquire efficient irrigation systems in exchange for Edwards Aquifer water rights. The System is also currently working with the Army Corps of Engineers, the Natural Resource Conservation Service and other local sponsors on programs designed to enhance recharge of the Edwards Aquifer through impoundment structures and brush management.

Water Quality

The System's Resource Protection and Compliance Department is responsible for protecting the quality of the Edwards Aquifer and conducting technical evaluations of how to increase its yield. The Texas Commission on Environmental Quality has adopted rules relating to the activities of landowners in the recharge and drainage zones of the Edwards Aquifer. The City has adopted ordinances applicable within its city limits that limit or regulate activities, which could be harmful to water quality and has, through its Unified Development Code, regulated certain development within the City's extraterritorial jurisdiction (five miles from the city limits).

Research on the Edwards Aquifer is conducted as part of the Edwards Aquifer Optimization program. This is a comprehensive program that identifies and evaluates technical options to increase available yield from the Edwards Aquifer and to attempt to use the aquifer's storage capacity more efficiently. In 2007, the System continued its investigative studies concerning the freshwater/saline-water interface of the Edwards Aquifer. The goal of these studies is to gain a better understanding of the hydrogeologic framework, chemical and hydraulic characteristics, and ground water flowpaths of the freshwater-saline water interface of the Edwards Aquifer. In the fall of 2007, the System also commenced an evaluation of the hydrogeology and water balance of San Marcos Springs, in support of the scientific efforts to be initiated for the Edwards Aquifer Recovery Implementation Program. The goal of this study is to define and characterize sources for recharge and local flowpaths to San Marcos Springs. In addition, the study will determine local influences and contributions to the San Marcos Springs from the Edwards Aquifer, and Trinity Aquifer, as well as from streams and rivers in the area.

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 projection. The Water Supply Fee is assessed on all potable water service for water usage in every instance of service for each month or fraction thereof.

A listing of scheduled water supply fees for years 2001 through 2005 is provided in the following table:

Year	Approved Incremental Charge Per 100 Gallons	Total Approved 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.

On November 17, 2005, the City Council approved the following Water Supply Fee effective January 1, 2006 to remain in effect until amended by City Council. The fee assessed per 100 gallons is $0.1487.

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 2008:

- $21.8 million for the wastewater treatment program to repair, replace, or upgrade treatment facilities;
- $47.9 million for the wastewater collection program to fix deteriorated components of the collection system, and provide capacity for future growth;
- $29.0 million to replace sewer and water mains;
- $40.3 million for the governmental replacement and relocation program;
- $5.3 million to construct new production facilities;
- $10.3 million for the water distribution program to fix deteriorated components of the distribution system, and provide capacity for future growth; and
- $56.1 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,					
	2008	2009	2010	2011	2012	Total
Water Supply	$ 72,301,160	$ 207,913,048	$ 220,657,144	$ 70,309,908	$ 66,128,149	$ 637,309,409
Water Delivery	60,305,837	77,598,862	76,752,283	76,030,736	73,054,536	363,742,254
Wastewater	98,282,473	87,400,000	90,022,000	92,722,660	95,504,340	463,931,473
Heating and Cooling	3,024,000	188,240	190,424	192,674	194,991	3,790,329
Total	$ 233,913,470	$ 373,100,150	$ 387,621,851	$ 239,255,978	$ 234,882,016	$1,468,773,465

Source: SAWS. Project Funding Approach

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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,					
	2008	2009	2010	2011	2012	Total
Revenues	$ 46,830,862	$ 35,670,454	$ 27,414,762	$ 30,866,341	$ 41,132,923	$ 181,915,342
Impact Fees	36,634,866	78,812,111	44,315,511	33,390,430	33,390,430	226,543,348
Debt Proceeds	150,447,742	258,617,585	315,891,578	174,999,207	160,358,663	1,060,314,775
Total	$233,913,470	$373,100,150	$387,621,851	$239,255,978	$234,882,016	$1,468,773,465

Source: SAWS.

San Antonio Water System Summary of Pledged Revenues for Debt Coverage [(1)]
($000)

				Revenue Bond Debt Service[(b)]				Maximum Annual Debt Service Requirements			
Year	Gross Revenues[(c)]	Operating Expenses[(d)]	Net Revenue Available	Principal	Interest	Total	Coverage[(e)]	Total Debt	Coverage	Senior Lien Debt	Coverage
2007	$347,391	$188,180	$159,211	$24,880	$67,785	$92,665	1.72	$102,880	1.55	$86,138	1.85
2006	374,831	179,903	194,928	22,415	62,947	85,362	2.28	91,175	2.14	78,373	2.49
2005	332,669	173,490	159,179	16,505	54,987	71,492	2.23	94,992	1.68	78,373	2.03
2004	264,782	153,860	110,922	7,735	52,205	59,940	1.85	84,941	1.31	67,203	1.65
2003	242,488	152,743	89,745	5,515	44,614	50,129	1.79	76,075	1.18	61,511	1.46
2002	240,375	134,977	105,398	25,045	39,589	64,634	1.63	66,268	1.59	61,511	1.71
2001[(a)]	136,235	78,448	57,787	0	20,345	20,345	n/a		n/a		n/a
2001	207,225	121,351	85,874	23,760	36,661	60,421	1.42	66,994	1.28	56,293	1.53
2000	197,446	115,016	82,430	18,990	35,231	54,221	1.52	62,099	1.33	53,566	1.54
1999	181,801	100,430	81,371	17,960	31,456	49,416	1.65	49,385	1.65	49,385	1.65

(1) Unaudited.
(a) Seven months ended December 31, 2001. In 2001, the SAWS Board of Trustees approved a change in the fiscal year end from May 31st to December 31st.
(b) Details regarding outstanding debt can be found in the notes to the financial statements. All bonded debt is secured by revenue and is included in these totals.
(c) Gross Revenues are defined as operating revenues plus nonoperating revenues less revenues from the City Public Service contract and interest on Project Funds.
(d) Operating Expenses reflect operating expenses before depreciation as shown on the Statement of Revenues, Expenses and Changes in Equity. (e) SAWS bond ordinance requires the maintenance of a debt coverage ratio of at least 1.25x the annual debt service on outstanding senior lien debt.
n/a Not applicable due to short period.
Source: SAWS.

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The Airport System

General

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

The International Airport, located on a 2,600-acre site that is adjacent to Loop 410 freeway and U.S. Highway 281, is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, the following domestic air carriers provide service to San Antonio: American, American Connection (Trans States), Continental, Delta, ASA, Air Tran, Comair, Skywest (Delta and United Connection), Frontier, Northwest, Pinnacle (Northwest Connect), Shuttle America (Delta and United Connection), Southwest, Spirit, United, Go Jet (United Express), Mesa (United Express), and US Airways. Aeromexico, Mexicana, and Aeromar are Mexican airlines that provide passenger service to Mexico.

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 100% of capacity (see "THE AIRPORT SYSTEM – Capital Improvement Plan" below).

The International Airport is considered a medium hub facility by the Federal Aviation Administration ("FAA"). For the calendar year ended December 31, 2007, the International Airport enplaned approximately 4,030,571 passengers. Airport management has determined that of the Airport's passenger traffic, approximately 88% is origination and destination in nature (which 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 eight rental car companies which lease facilities at the International Airport and Stinson (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 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 ("TxDOT") 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, Port San Antonio, and Stinson. A Targeted Industries Study was completed in 2003 as part of the master planning process. The study helped facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at Stinson.

Capital Improvement Plan

In order to meet 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 passenger volume and aircraft operations. In fiscal year 2002, the City commenced implementation of a ten-year "Capital Improvement Plan" (the "CIP"). As part of the overall CIP, the fiscal year 2007 through fiscal year 2012 Capital Plan, including the Air Transportation Program, commenced in 2006. Included in the program are projects planned or currently under construction at the Airport and Stinson. The six-year program totals $609 million. The projects are consistent with the Airport Master Plan and are necessary to accommodate the expected continued growth in the aircraft and passenger activity at the Airport and to replace or rehabilitate certain facilities and equipment at the Airport and Stinson. The CIP is scheduled to conclude in fiscal year 2012. 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 a runway along with supporting taxiways and aircraft apron. Over the next five years, the CIP addresses primarily terminal-related improvements, parking, roadway improvements, and airfield improvements. The anticipated sources of funding for the Airport's CIP per the City's Adopted Capital Budget for fiscal years 2007 through 2012 are as follows:

Funding Sources	Anticipated Funding
Federal Grants	
Entitlements/General Discretionary	$114,190,064
Noise Discretionary	31,487,531
TxDOT Grant	10,086,667
Transportation Security Administration Grant	7,137,040
Passenger Facility Charges ("PFC")	
Pay-As-You-Go	43,743,514
PFC Secured Bonds	191,352,137
Other Funding	
Airport Funds	46,577,067
Airport Revenue Bonds	164,472,700
Total	$609,047,260

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

Improvement	Amount
International Airport	
Terminal/Gate Expansion	$236,105,644
Airfield Improvements	75,695,625
Parking	62,677,317
Acoustical Treatment	39,359,414
Roadway/Utilities Improvements	38,979,745
Apron	27,345,000
Land Acquisition	21,766,667
Program Management	18,900,000
Cargo Facilities	11,320,000
Central Utilities	11,361,655
Other Projects (i.e. Building and Drainage Improvements)	54,264,022
Stinson Airport	11,272,171
Total	$609,047,260

Proposed PFC Projects. Public agencies wishing to impose passenger facility charges are required to apply to the FAA for such authority and must meet certain requirements specified in the PFC Act (defined herein) 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. On February 22, 2005, the FAA approved the City's application for an additional $50,682,244 in PFC collections to be used for eleven new projects. On June 26, 2007, the FAA approved two amendments to approved applications increasing the PFC funding by a net amount of $121,611,491 for two projects and $67,621,461 for four projects. Additionally, the FAA approved the increased collection rate from $3.00 to $4.50 effective October 1, 2007.

On October 1, 2007, the City began collecting a $4.50 PFC (less an $0.11 air carrier collection charge) per paying passenger enplaned. A total of approximately $188.8 million in PFC revenues will be required to provide funding for the projects included in the Airport's 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 collection expiration date is April 1, 2016.

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

Replace Remain Overnight Apron
Implement Terminal Modifications
Reconstruct Perimeter Road
Construct New Concourse B
Acoustical Treatment Program
Construct Elevated Terminal Roadway
Upgrade Central Utility Plant
Construct Apron – Terminal Expansion
Install Utilities – Terminal Expansion
Replace Two Airport Fire & Rescue Vehicles
Conduct Environmental Impact Statement
Reconstruct Terminal Area Roadway
Install Noise Monitoring Equipment
Install Terminal and Airfield Security Improvements
Install Airfield Electrical 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 to provide 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, 44 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 $5.6 million in fiscal year 2007. This represented an 80% gain in five years. On a per-boarding passenger basis, concession revenue went from $0.86 in fiscal year 2002 to $1.40 for the fiscal year 2007. Following the Airport's implementation of its new concessions program, it was recognized by the *Airport Revenue News* ("ARN") "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 four first place awards over the last four 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 in 2005. The publication noted the Airport's high-tech business services, such as high-speed fax and internet, wireless capabilities and conference rooms. The Airport Council International-North America also recognized the International Airport first in the "Best Food and Beverage Program" and second in the "Best Specialty Retail Program" for small airports. In 2006, for the third straight year, the International Airport was recognized by the ARN for the 2006 Best Customer Service Airport-Wide, Most Unique Services, and Best Concession Management Team. In addition, the International Airport concessionaires won in all thirteen of ARN's 2006 Best Concessions Poll categories. In 2007, the airport concessions program once again received a first place award from the ARN annual concessions contest. Several awards were received by Airport tenants, including "Best Overall Concessions Program". The Best Overall Concessions Program award is given to airports with a convenient customer-friendly layout, good visibility, attractive storefronts, and interesting themes.

Terminal Improvements. The terminal expansion project will include a seven-gate Terminal B (expandable up to eight gates) 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. Site work for the new Terminal B occurred on June 17, 2008. The present Terminal 1 will be redesignated as Terminal A. Terminal C plans are in the development stages.

Airfield Improvements. Implementation of the Master Plan Airfield Recommendations required an Environmental Impact Statement ("EIS") to assess the environmental impacts associated with the capacity enhancing runway/taxiway projects. Public involvement throughout the process is essential to the successful completion of these projects. Airport Master Plan projects included as part of the EIS include extension of Runway

3/21 and Taxiways N and Q; 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. With a determination from the FAA that the Runway 12L/30R project was not yet critical to airfield capacity and that the required length of extension for Runway 3/21 was 1,000 feet rather than 1,500 feet proposed by the Master Plan, the EIS was reclassified as an environmental assessment ("EA") for the remaining work. The final public meeting for the EA was held on August 28, 2007 and a finding of no significant impact was received.

Parking Improvements. The International Airport operates and maintains approximately 8,683 parking spaces and 1,263 employee parking spaces for a total of 9,946 parking spaces. This includes an additional 2,800 spaces added with the opening of the new parking garage on July 22, 2008. 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 exceeded the available supply at the end of 2006

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 constructed a processing facility in the year 2000. In 2005, UPS expanded its facilities by relocating from the West Cargo area to the East Cargo Area. Additional land has been allocated to accommodate future growth and an expansion of facilities is currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2007 totaled 105,372 tons.

Airport Operations

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 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 Department has worked closely with the TSA to forge a new higher level of security for the traveling public. TSA employs about 351 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 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 $351,077 for the costs associated with the use of Airport Police Officers at the Airport security screening checkpoints in each terminal. The Department also utilizes five 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 $250,000.

The Department has continued to work to improve its security measures. The FAA approved a grant application (80% Airport Improvement Program 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. Stinson is at 100% occupancy rate and has a tenant waiting list for the facilities. Because of its growth, the TxDOT Aviation Division has approved grant funds for various projects at Stinson. To accommodate the demand for services at Stinson, a $4.8 million terminal expansion project will add approximately 24,000 square feet of additional concession, administrative, education, and corporate aviation space to the existing 7,000 square-foot terminal building. With Airport System funds, the Stinson Terminal Building renovation project will be completed in November 2008. The terminal expansion project adds administrative offices, classrooms, concession, retail space and conference rooms to accommodate and attract new business. In November 2007, the Environmental Assessment for the runway extension and related airfield projects were approved when the TxDOT Aviation Division issued a "Finding of No Significant Impact". The runway project will start construction in late 2008 and will provide usable runway length of at least 5,000 feet. The additional runway length will allow Stinson to serve additional corporate aircraft under all conditions. The expansion, along with a runway extension and other infrastructure improvements, will allow for the growth of existing tenants as well as create opportunities for new business to locate at Stinson. Palo Alto Community College is anticipated to move its Aviation Program to Stinson in the expanded terminal space in the spring 2009.

Recent Financial Transactions

On November 28, 2007, the City issued $82,400,000 "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2007" and $74,860,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007," which were delivered on December 19, 2007.

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

The historical financial performance of the Airport System is shown below for the last five fiscal years:

	Fiscal Year Ended September 30				
	2003	2004	2005	2006	2007
Gross Revenues[1]:	$43,930,687	$44,729,253	$47,081,109	$52,785,593	$56,682,447
Airline Rental Credit	2,612,609	3,486,271	5,323,738	7,988,304	8,804,756
Adjusted Gross Revenues	$46,543,296	$48,215,524	$52,404,847	$60,773,897	$65,487,203
Expenses	(25,363,607)	(25,127,534)	(26,411,106)	(29,471,313)	(32,583,696)
Net Income	$21,179,689	$23,087,990	$25,993,741	$31,302,584	$32,903,507

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

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Total Domestic and International Enplaned Passengers - San Antonio International Airport

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

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1998	3,505,372	----	----
1999	3,538,070	32,698	0.93
2000	3,647,094	109,024	3.08
2001	3,444,875	(202,219)	(5.54)
2002	3,349,283	(95,592)	(2.78)
2003	3,250,911	(98,372)	(2.94)
2004	3,498,972	248,061	7.63
2005	3,713,792	214,820	6.14
2006	4,002,903	289,111	7.79
2007	4,030,571	27,668	0.69

Source: City of San Antonio, Department of Aviation.

Total Enplaned and Deplaned International Passengers - San Antonio International Airport

The total enplaned and deplaned for international passengers on a calendar year basis, along with year-to-year percentage change are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1998	246,902	----	----
1999	229,397	(17,505)	(7.09)
2000	243,525	14,128	6.16
2001	219,352	(24,173)	(9.93)
2002	201,274	(18,078)	(8.24)
2003	159,576	(41,698)	(20.72)
2004	191,254	31,678	19.85
2005	185,992	(5,262)	(2.76)
2006	199,138	13,146	7.07
2007	202,911	3,773	1.89

Source: City of San Antonio, Department of Aviation.

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Air Carrier Landed Weight - San Antonio International Airport

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

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1998	5,601,616	---	---
1999	5,778,407	176,791	3.16
2000	5,838,185	59,778	1.03
2001	5,546,561	(291,624)	(5.00)
2002	5,559,018	12,457	0.22
2003	5,391,301	(167,714)	(3.02)
2004	5,416,555	25,574	0.47
2005	5,642,188	225,633	4.17
2006	5,946,232	304,044	5.39
2007	6,098,276	152,044	2.56

Source: City of San Antonio, Department of Aviation.

* * *

APPENDIX B

Form of Opinions of Co-Bond Counsel

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An opinion in substantially the following form will be delivered by Winstead PC and West & Associates, L.L.P. "Co-Bond Counsel", upon delivery of the Certificates, assuming no material changes in facts or law.

WINSTEAD PC
700 North St. Mary's, Suite 1900
San Antonio, Texas 78205

WEST & ASSOCIATES, L.L.P.
111 Soledad, Suite 331
San Antonio, Texas 78205

[Closing Date]

CITY OF SAN ANTONIO, TEXAS
GENERAL IMPROVEMENT, SERIES 2008
IN THE AGGREGATE PRINCIPAL AMOUNT OF $75,060,000

We have acted as Co-Bond Counsel to the City of San Antonio, Texas (the "Issuer") in connection with the issuance of the bonds described above (the "Bonds") 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 of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We have relied solely on information and certifications furnished to us by the Issuer with respect to the current outstanding indebtedness of, and assessed valuation of taxable property within, the Issuer.

In our capacity as Co-Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds that contains certified copies of certain proceedings of the City Council of the Issuer (the "Council"); an ordinance of the Council authorizing the Bonds adopted on December 4, 2008 (the "Ordinance"); the "Purchase Contract" dated December 4, 2008 between the underwriters named therein and the Issuer; the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the Issuer (including a "Federal Tax Certificate"), and other public officials; and other documents relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service as we have deemed relevant. We have also examined executed Bond No. I-1.

Based on said examination, it is our opinion that:

1. The Issuer is a validly existing municipal corporation, home rule city, and political subdivision, of the State of Texas with power to adopt the Ordinance, perform its agreements therein, and issue the Bonds.

2. The Bonds have been authorized, sold, and delivered in accordance with law.

3. The Bonds constitute valid and legally binding obligations of the Issuer enforceable in accordance with their terms except as the enforceability thereof may be limited by principles of sovereign immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors' rights generally.

4. Ad valorem taxes, within the limit prescribed by law, upon all taxable property within the Issuer, necessary to pay the interest on and principal of the Bonds, have been pledged irrevocably for such purpose.

Based on the foregoing, it is our opinion that under existing law, interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103 of the Code, and the Bonds will not be treated as "private activity bonds" within the meaning of section 141 of the Code. Accordingly, interest on the Bonds will not be included as an alternative minimum tax preference item for individuals and corporations under section 57(a)(5) of the Code, except that interest on the Bonds will be included in the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax imposed on corporations by section 55 of the Code. The statutes, regulations, published rulings, and court decisions on which such opinions are based are subject to change.

In rendering these opinions, we have relied upon representations and certifications of the Issuer, the Issuer's Co-Financial Advisors and the underwriters of the Bonds with respect to matters solely within the knowledge of such parties, respectively, which we have not independently verified, and we assume continuing compliance by the Issuer with covenants pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations and certifications are determined to be inaccurate or incomplete, or the Issuer fails to comply with the foregoing covenants, interest on the Bonds could become includable in gross income retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any other federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds.

We call your attention to the fact that the ownership of obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, certain S corporations with Subchapter C earnings and profits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred expenses allocable to, tax-exempt obligations.

The opinions set forth above are based on existing laws of the United States and the State of Texas, which are 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 hereafter come to our attention, or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based on our review of existing law, and are made in reliance on 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 relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit is commenced, under current procedures, the Service would treat the Issuer as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. We observe that the Issuer 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.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Bonds.

This legal opinion expresses the professional judgment of these firms as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do 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 our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

An opinion in substantially the following form will be delivered by Winstead PC and West & Associates, L.L.P. "Co-Bond Counsel", upon delivery of the Certificates, assuming no material changes in facts or law.

WINSTEAD PC
700 North St. Mary's, Suite 1900
San Antonio, Texas 78205

WEST & ASSOCIATES, L.L.P.
111 Soledad, Suite 331
San Antonio, Texas 78205

[Closing Date]

CITY OF SAN ANTONIO, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2008
IN THE ORIGINAL PRINCIPAL AMOUNT OF $85,005,000

We have acted as "Co-Bond Counsel" to the City of San Antonio, Texas (the "Issuer") in connection with the issuance of the certificates of obligation described above (the "Certificates") for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. We have relied solely on information and certifications furnished to us by the Issuer with respect to the current outstanding indebtedness of, and assessed valuation of taxable property within, the Issuer.

In our capacity as Co-Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates that contains certified copies of certain proceedings of the City Council of the Issuer (the "Council"); an ordinance authorizing the Certificates adopted on December 4, 2008 (the "Ordinance"); the "Purchase Contract" dated December 4, 2008 between the underwriters named therein and the Issuer; the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the Issuer (including a "Federal Tax Certificate"), and other public officials; and other documents relating to the issuance of the Certificates. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service as we have deemed relevant. We have also examined executed Certificate No. I-1.

Based on said examination, it is our opinion that:

1. The Issuer is a validly existing municipal corporation, home-rule city, and political subdivision of the State of Texas with power to adopt the Ordinance, perform its agreements therein, and issue the Certificates.

2. The Certificates have been authorized, sold, and delivered in accordance with law.

3. The Certificates constitute valid and legally binding obligations of the Issuer enforceable in accordance with their terms except as the enforceability thereof may be limited by principles of sovereign immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors' rights generally.

4. Ad valorem taxes, within the limit prescribed by law, upon all taxable property within the Issuer, necessary to pay the interest on and principal of the Certificates, have been pledged irrevocably for such purpose, and, solely to comply with legal requirements which permit the sale of the Certificates for cash, $1,000 of the net revenues of the Issuer's municipal parks system have also been pledged.

Based on the foregoing, it is our opinion that under existing law, interest on the Certificates will be excludable from gross income for federal income tax purposes under section 103 of the Code, and the Certificates will not be treated as "private activity bonds" within the meaning of section 141 of the Code. Accordingly, interest on the Certificates will not be included as an alternative minimum tax preference item for individuals and corporations under section 57(a)(5) of the Code, except that interest on the Certificates will be included in the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax imposed on corporations by section 55 of the Code. The statutes, regulations, published rulings, and court decisions on which such opinions are based are subject to change.

In rendering these opinions, we have relied upon representations and certifications of the Issuer, the Issuer's financial advisor, and the underwriters of the Certificates with respect to matters solely within the knowledge of such parties, respectively, which we have not independently verified, and we assume continuing compliance by the Issuer with covenants pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Certificates for federal income tax purposes. If such representations and certifications are determined to be inaccurate or incomplete, or the Issuer fails to comply with the foregoing covenants, interest on the Certificates could become includable in gross income retroactively to the date of issuance of the Certificates, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any other federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Certificates.

We call your attention to the fact that the ownership of obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, certain S corporations with Subchapter C earnings and profits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred expenses allocable to, tax-exempt obligations.

The opinions set forth above are based on existing laws of the United States and the State of Texas, which are 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 hereafter come to our attention, or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal

judgment based on our review of existing law, and are made in reliance on 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 relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Certificates. If such an audit is commenced, under current procedures, the Service would treat the Issuer as the taxpayer, and owners of the Certificates would have no right to participate in the audit process. We observe that the Issuer 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 Certificates as includable in gross income for federal income tax purposes.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Certificates.

This legal opinion expresses the professional judgment of these firms as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do 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 our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

APPENDIX C

Selected Portions of the City's Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2007

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CITY OF SAN ANTONIO

P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

July 18, 2008

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, 2007. These financial statements were prepared by the City's Finance Department and audited by the public accounting firm of Grant Thornton, LLP. As reflected in the Independent Auditors' Report, the City's financial statements are presented fairly in all material respects in accordance with U.S. generally accepted accounting principles. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City.

The Management Discussion and Analysis, (MD&A) beginning on page 1, provides 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 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 *Audit of State and Local Government and Nonprofit Organizations*, 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. Copies are available upon request.

CITY SERVICES

The City is a home rule city that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two-year terms, limited to two consecutive terms. The City is located in South Central Texas, approximately 75 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, 2007, the City's geographic area was approximately 504 square miles, making it one of the largest cities in the United States of America. The United States Census Bureau cites the City as the second most populated city in the State of Texas with 1,312,286 citizens and ranked as the seventh most populated city in the country.

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 and natural gas 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 and use taxes, grants, user fees, revenues from municipally owned utilities, and bond proceeds. The City has twenty entities that are legally separate, but are considered part of the City's operations and therefore are included in its annual financial statements. Nine of these entities are presented as blended component units of the City, while the other eleven entities are discretely presented in the City's financial statements. 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 1, entitled, Summary of Significant Accounting Policies subsection Reporting Entity.

CITY SERVICES (Continued)

In fiscal year 2007, enhancements to City services for the San Antonio Police Department included the addition of 54 new police officers detailed to various police substations throughout the City at a cost of $2.3 million. A civilization plan was also created that increased the use of civilian employees performing administrative duties by redirecting 46 sworn officers and 11 new patrol cars to the field at a cost of $1.4 million. The fiscal year 2007 budget further enhanced police services by setting aside $2.4 million in reserve for 50 additional police officers in fiscal year 2008, as the second phase of a long-range strategic analysis that will address police staffing needs and increase response time. In 2007, the Collective Bargaining Agreement was negotiated and ratified by association members and became effective for the term October 1, 2006 through September 30, 2009 at total value of $45.4 million over the life of the contract. The contract adopted new state legislative language affecting the pre-paid retiree health plan.

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. The City's economic strategy focuses on further development of major industries, which include health care and bioscience, international trade and distribution, information technology and security, telecommunications, aerospace, tourism, financial services, automotive manufacturing, and the military.

The City is also undertaking ongoing infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as providing assistance to businesses of all sizes. Both government and citizens are actively committed to increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in the City. During 2007, approximately 37 Parks and Recreation Department capital improvement projects were completed at a construction cost of over $11.6 million, and an additional 43 capital improvement projects were under construction, out for bid, or in design at the end of the fiscal year. On May 12, 2007, voters approved a new bond issue, which included $79.1 million for 69 park projects. Projects involve land acquisition, rehabilitation of existing parks, and the development of new parks on previously undeveloped land. The highlight of the parks bond issue was the inclusion of $33.5 million for the acquisition and development of the Voelcker Park property. Projects will be initiated immediately and all projects will be substantially completed by December 2012.

The City's healthy economy and positive business climate are enhanced by elements key to continuing economic growth, such as increased opportunities for 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.

Economic indicators tell the story of a healthy 2007 for San Antonio. Employment grew by 3.3% in the San Antonio metropolitan area in fiscal year 2007, while unemployment in the same area fell from 4.7% in fiscal year 2006 to 4.1% in fiscal year 2007. Sales and use tax revenue grew by 8.7% from fiscal year 2006 to 2007. According to the business cycle index - a composite index measuring current economic activity - the San Antonio economy continued its string of consecutive month-to-month growth in fiscal year 2007. While the national housing market suffered substantial declines, the housing market in San Antonio held steady in fiscal year 2007. It is expected that San Antonio will continue to experience economic growth in fiscal year 2008, albeit at a slower pace.

San Antonio's strong growth was fueled by several targeted industry projects in 2007. Microsoft invested over $500.0 million to construct a data center in Westover Hills. The company will employ 75 people at an average annual salary of $60,000 to $70,000. Fiscal year 2007 also saw Rackspace Managed Hosting, a highly successful local IT start-up, relocate and expand its headquarters in Northeast San Antonio. The State of Texas, City of San Antonio and the City of Windcrest worked together to support the $100.0 million investment in improvements to the former Windsor Park Mall. The new site paves the way for 4,000 to 5,000 new IT jobs over the next five years and the project has become an anchor for revitalization in Northeast San Antonio. The City of Windcrest in partnership with developers is supporting an additional investment of $310.0 million through a mixed-use redevelopment project in the surrounding area.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Other growing companies include Maxim Integrated Products and the Boeing Co. Maxim established operations in San Antonio in 2004 and has since increased employment at its facility to 500. In 2007, the firm decided to expand their operations to 800 employees in the coming years resulting in an additional $36.2 million in facility investment. In 2007, Boeing was also on a hiring spree as it ramped up for work on its 787 Dreamliner and depot maintenance for the military's fleet of KC-135 Stratotankers. Boeing announced 400 temporary jobs associated with the validation work on the 787 Dreamliner. Additionally, the U.S. Air Force awarded the Boeing Co. a 10-year, $1.1 billion contract renewal creating an additional 200 aerospace industry positions and retaining some 300 jobs currently in San Antonio.

Economic impact analysis initiated by the Greater San Antonio Chamber of Commerce in the manufacturing and health care and bioscience industries also illustrated strengthening targeted industries. In 2006, the manufacturing industry contributed a total of $14.4 billion to the local economy, a healthy 13.0% increase from the 2005 level. According to the Greater Chamber, the industry has grown by about 50.0% over the past decade. Individuals employed in the manufacturing industry earned on average, $41,496 in 2006. This is approximately 13.0% above the 2006 average of $36,699 for all workers in San Antonio. Additionally, the health care and bioscience industry registered equally impressive figures contributing a total of $15.3 billion to the local economy, a healthy 7.7% increase from the 2005 level. Individuals employed in the health care and bioscience industry earned, on average, $39,267 in 2006 or 7.0% above the average salary for all San Antonio workers.

Following are additional details that provide a more in-depth look at the business climate and local economy for the City of San Antonio:

Base-Realignment and Closure (BRAC) and Fort Sam Houston

One of the most significant events in San Antonio's recent economic history is the 2005 Base Realignment and Closure (BRAC). BRAC will have a major positive impact on military medicine in San Antonio resulting in $1.6 billion in construction and the addition of 11,500 personnel in San Antonio by 2011. Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston. As a result of BRAC 2005, all military combat medic training - Army, Air Force, Navy, Marines and Coast Guard - will be undertaken at the new Medical Education and Training Campus at Fort Sam Houston known as the San Antonio Military Medicine Center (SAMMC). Wilford Hall Medical Center will transfer its Level 1 trauma facility to Brooke Army Medical Center (BAMC). This will double BAMC's trauma and burn capabilities and will be renamed SAMMC-North. Wilford Hall Medical Center will receive outpatient missions from BAMC, become an outpatient facility, and will transform into SAMMC-South. In addition, San Antonio will receive new medical research missions. The U.S. Army Institute for Surgical Research located next to BAMC will double in size as a result of new BRAC missions and will be renamed Battlefield Health and Trauma. The new mission will continue its cutting edge research in the areas of robotics, prosthetics and regenerative medicine.

Port San Antonio

Port San Antonio (the Port) is a multi-modal logistics platform and aerospace complex that encompasses almost 1,900 acres of platted and zoned property along with 9.5 million square feet of buildings, with approximately 300,000 square feet of available space. The Port's transportation assets include an 11,500-foot runway at Kelly Field (SKF). Opening in early 2008, the Port will feature a new 89,000 square foot air cargo terminal with 14 acres of available ramp space enabling accessibility, storage and quick turnarounds.

The Port is home to over 65 tenants including world-renowned aerospace leaders such as Boeing, Lockheed Martin, Standard Aero, and two divisions of Chromalloy Gas Turbine Corporation, Gore Design Completions and Pratt & Whitney. The aerospace industry is one of the highest paying industries in San Antonio and of the approximately 12,000 employees at the Port, an estimated 3,500 are employed in the aerospace industry.

Within the Port, the East Kelly Railport (the Railport) offers 350 acres of rail-served and non-rail sites. The rail services include a dedicated switch engine, transload services and public warehousing; additionally there are 2.6 miles of interchange tracks within the Railport. Titan Development, the first developer to establish a new development in the Railport, has leased 70 acres and has built the first of three phases of warehouse/distribution buildings. Phase 1 is 360,000 square feet and is 80.0% leased. The Port is one of three activated Foreign Trade Zones in San Antonio's network of 10 general-purpose sites.

Port San Antonio (Continued)

The Port reached a development milestone this year with the opening of the Railport. The Railport is serviced by both the Union Pacific and the Burlington Northern Santa Fe railroads. Two new tenants of the Railport, RLI Logistics and Fiesta Warehouse Distribution offer rail shippers important transload and shipping services. The Port was the first recipient of the Governor's Texas Military Value Revolving Loan Fund. Through this program, the Port was able to borrow $39.3 million for critical infrastructure and new construction, including an 89,000 square foot air cargo terminal.

Brooks City-Base

Brooks City-Base (BC-B) continues to foster the development of its business and technology center on the south side of San Antonio through its aggressive business attraction and retention efforts. Recognized as one of the most innovative economic development projects in the United States, BC-B is a 1,246 acre campus with approximately 350 acres for immediate development.

In 2007, DPT Laboratories, Inc., a major pharmaceutical company, moved into its $24.0 million build-to-suit research and development warehouse production facility. The joint City/County Emergency Operations Center opened its $24.5 million operations facility in December 2007. BC-B broke ground on a new thoroughfare, which will connect the center with the major roadways surrounding the business and technology campus. The $47.0 million South New Braunfels Avenue extension will enhance access to BC-B for future development.

Aerospace Industry Development

The aerospace industry has a $3.3 billion annual economic impact on San Antonio according to a study conducted by the San Antonio Greater Chamber of Commerce. As San Antonio's favorable aviation climate continues to strengthen, aerospace businesses are seeing greater opportunity with the availability of qualified aerospace workers. Nearly 10,000 people work in the aerospace industry in San Antonio according to Business Facilities Magazine. San Antonio has developed innovative programs to meet the industry's workforce needs. The aerospace industry continues to expand as the City leverages its key aerospace assets. Many of the major aerospace industry leaders have significant operations in San Antonio, such as Boeing, Lockheed Martin, and General Electric to name a few. The industry in San Antonio is well diversified in air passenger service, air cargo, maintenance repair and overhaul (MRO), and manufacturing and general aviation.

San Antonio International Airport (SAT) has a total of 40 nonstop destinations, which does not include seasonal charter service to Mexico available during the spring and summer. In 2006, SAT handled a record number of passengers. At final count 8,031,405 people made their way through the gates in 2006, a number which had never been reached in the history of SAT. This marked the second year in a row that SAT had set an all-time record for the total number of passengers.

Of the 50 busiest airports across the country, SAT is the only major Texas airport to rank in the top ten for on-time departure percentage according to J.D. Power and Associates. While some major Texas airports registered an on-time percentage in the 60.0% range, SAT found its place in the 80.0% range.

On February 5, 2007 representatives of ExpressJet Airlines joined local officials to announce that the new airline was coming to San Antonio, bringing sixteen flights per day to eight nonstop destinations. Prior to the arrival of ExpressJet, none of these destinations had been available to the San Antonio market via a nonstop flight. ExpressJet launched its first flight in April 2007.

March 7, 2007 marked the start of the first of three major improvement projects at SAT. SAT officially launched the construction phase of a new long-term garage. The new facility will offer more than 2,800 spaces and will bring the airport's total parking inventory to approximately 9,000 spaces. In addition to the new parking garage, the airport expansion program includes the construction of two new terminal facilities and a new roadway system.

The terminal expansion project for SAT will include a seven-gate Terminal B and a five-gate Terminal C (expandable up to 11 gates). SAT is also in the process of an environmental assessment for implementation of proposed airfield capacity enhancement projects recommended in the Airport Master Plan.

Aerospace Industry Development (Continued)

Stinson Municipal Airport (Stinson) is at an occupancy rate of 100.0% and has a tenant waiting list for the facilities. To accommodate the demand for services at Stinson, a $4.8 million terminal expansion project will add approximately 24,000 square feet of additional concession, administrative, education, and corporate aviation space to the existing 7,000 square feet terminal building. The Stinson groundbreaking ceremony was held on May 31, 2006 for the terminal expansion project. The expansion, along with a runway extension and other infrastructure improvements, will allow for the growth of existing tenants as well as create opportunities for new business to locate at Stinson. Palo Alto College will move their Aviation Program to Stinson in the expanded terminal space.

The Port is also working to add air cargo activity as recommended by the Air Cargo Study and Strategic Plan completed 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. Additionally, Brooks Air Force Base 311th Human Systems Wing's School of Aerospace Medicine 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.

International Trade and Outlook

The International Affairs Department was created to provide a clear entrance or "front door" to City programs and services in order to achieve global trade, attract foreign investment, offer protocol guidance and establish San Antonio as the "Center of International Excellence".

In fiscal year 2007 the International Affairs Department continues to create wealth for local companies through effective global business development and lasting relationships. In doing so, it has identified and served over 440 companies that conduct business internationally. The department also conducts the Export Leaders Program that trains San Antonio companies on how to become successful in international markets. This unique municipal program has graduated 84 companies and has generated $37.0 million in exports. An additional tool to foster international trade is the department's new web portal that serves as a catalyst for business and cultural exchanges.

As of August 31, 2007, the North American Development Bank (NADB) is participating in the development and financing of 105 environmental infrastructure projects, with approximately $887.4 million in loans and grants.

These projects are estimated to cost a total of $2.6 billion to build and will benefit an estimated 11.8 million border residents throughout the 10 states that comprise the U.S. - Mexico border region.

San Antonio continues to develop itself as an Inland Port for imports and exports with Mexico, China, Japan, Spain, Latin America and other regions of the world. This is accomplished through transportation, manufacturing and logistics facilities; professional services and value-added services involved in processing, marketing and moving freight within the South Texas region. Over the past 15 years, the City led the nation by establishing three commercial trade offices in Mexico's principal cities: Mexico City, Guadalajara and Monterrey, which has generated over $170.0 million bilateral trade since its inception.

For 23 years the International Affairs Department's trade representative in Japan has attracted multi-million dollar operations to San Antonio including Takata Seat Belt, Sony Corporation, MyCom International, Hyatt Hill Country Resort (a major Japanese investment joint venture), Colin Medical Equipment, Toyota, and Haguishi to name a few. The City fortified its position by establishing an official trade office in Tokyo, Japan. The Trade Representative continues to promote two-way commerce by conducting trade missions between San Antonio and various cities in Japan.

Community Development

Community development projects continue to play an important role in San Antonio's economic success. Targeted redevelopment, neighborhood revitalization, and smart growth strategies are shaping the way San Antonio is growing and its citizens are living. The City of San Antonio has initiated efforts to redevelop portions of the community and influence the pattern of development of new areas, such as the far South Side.

Community Development (Continued)

Leveraging the economic momentum surrounding the Toyota manufacturing plant and Texas A&M University San Antonio campus development, the City South Management Authority (CSMA) continues to guide growth through development tools which focus on New Urbanism. CSMA has supported the adoption by City Council of amendments to the Unified Development Code for the Form Based Development Code and Form Based Zoning District in the City South area. CSMA and the City of San Antonio executed the Interlocal Agreement for Zoning and Plan Amendments providing zoning and plan amendment services through the City of San Antonio.

In 2007, San Antonio moved one-step closer to becoming the first major Texas city to possess both a University of Texas and Texas A&M University degree granting campuses. The Texas A&M University System accepted a donation of 696 acres of land from Triple L Management Company to develop a new San Antonio campus. To help the University raise enrollment to 1,500 students, the University has launched the A&M San Antonio Foundation with a goal of raising $8.0 million in scholarships. Triple L Management has supported the fund with a $1.0 million commitment.

Other community development efforts such as the Westside Development Corporation (WDC) are an example of the ongoing commitment to revitalization and targeted redevelopment. The WDC is a multi-council district collaboration focused on revitalization of San Antonio's inner-city Westside. The WDC focus area is one of the most densely populated and economically distressed areas in San Antonio. In 2007, the WDC Board of Directors hired a full-time executive director, completed a three-year strategic plan, and completed a comprehensive market analysis. WDC staff has been actively providing development assistance since its inception. Currently, the WDC is assisting three redevelopment projects and four potential employers to locate property for business expansion in the near Westside of San Antonio.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. A recent study by the Greater San Antonio Chamber of Commerce, released in 2006 (for period 2004), found that the hospitality industry had an economic impact of nearly $8.7 billion. The estimated annual payroll for the industry was $1.6 billion, and the industry employed over 94,000 citizens. The next economic impact study is scheduled for update and release in 2008.

San Antonio's hospitality industry attracted over 21.3 million visitors in 2004 (up 7.0% from 2002), with direct spending across all industries in the City of $4.3 billion. San Antonio ranks high as both a convention/group meeting destination as well as a top leisure destination. The State of Texas ranks San Antonio as the top leisure destination in the State and San Antonio is consistently ranked in the top 10 leisure destinations by various industry publications and research organizations. San Antonio ranked tenth among U.S. destinations for overnight leisure travel, according to the National Performance Monitor survey conducted by D.K. Shifflet & Associates. The list of attractions in the San Antonio area includes, among many others, the Alamo (and other sites of historic significance), the Riverwalk, two major theme parks (SeaWorld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs. San Antonio is also one of the top convention cities in the country. The City is proactive in attracting convention business through its management practices and marketing efforts.

According to Smith Travel, in 2006, the City's overall performance for hotel occupancy increased slightly by 0.3%; average daily rate (ADR) increased by 9.4%; revenue per available room (REVPAR) increased by 9.7%; and total room nights sold in the destination increased by 2.2%. In 2007, from January through August, hotel occupancy decreased by 4.5% while room nights sold decreased by 1.3%; however this is due to significant growth in room inventory from the prior year. ADR increased by 6.2% and REVPAR increased by 1.5%. Overall hotel revenue growth for San Antonio was up 4.8% for the first eight months of 2007.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Downtown Development Projects

Investment in a dense and thriving central City continues with support from tools such as the Federal Empowerment Zone program. This year saw the completion of a $39.9 million bond issuance for the development of Drury Plaza Hotel and the completion of the Riverwalk loop walkway. This project revitalized the Alamo National Bank Building and supported the redevelopment of the historic Aztec Theater. An additional allocation of $25.0 million in Empowerment Zone facility bond capacity was set aside to support the $113.0 million mixed-use Piazza San Lorenzo project continuing development along Houston Street.

Three additional hospitality projects were completed in 2007. The Staybridge Suites opened a new 138-room hotel at Sunset Station, adjacent to the Alamodome. The $10.0 million, 306-room El Tropicano Hotel, which was built in 1962, has been renovated with an updated version of the original style. La Cascada, Tower II (Tower I opened in 2006 and is a luxury condominium project) also opened in 2007. This $30.0 million, 10-story, 100-unit, time share facility, features 2 to 4 bedroom units, and is being operated by Wyndham Vacation Resorts.

Eight new projects broke ground or continued construction within downtown in 2007. These include three hotels, two residential projects and three public amenities projects.

The Grand Hyatt Hotel will open in the spring of 2008, in time to help host the NCAA Men's Basketball Championship. This project was $260.0 million and will add 1,000, 4-star hotel rooms to our downtown inventory as well as 147 condominiums, which is on the top 10 floors of the hotel. A 220-room, 17-story, Marriott Courtyard is under construction on St. Mary's Street and the historic Maverick Building on Alamo Plaza is being converted into the 91-room Indigo Boutique Hotel.

The Vidorra is downtown's first true high rise condominium project. Located just north of Sunset Station, this 138-unit, 20-story building will enjoy some of the best views in the City. The Vistana is a $60.0 million, 14-story, 246-unit rental apartment complex located in the western half of downtown, across from Market Square and Milam Park. This building includes retail on the ground floor, three levels of structured parking and apartments above. Both residential projects are scheduled to open in 2008.

A $10.0 million renovation is underway on Main Plaza, the historic center of San Antonio, with San Fernando Cathedral and many of our local government facilities adjacent to the plaza. The renovation includes the closure of two streets that ran through the plaza and the addition of new landscaping, fountains and public restrooms. Another important project currently underway is the Riverwalk Improvements. This project will extend the existing Riverwalk pedestrian amenities north almost two miles to the old Pearl Brewery, which is also in the middle of being renovated. One of the unique features is a lock and dam at Brooklyn that will allow the River boats to travel the full length of the improvements. This project will be completed in 2011. A smaller, but no less important project is the Visitor Information and Comfort Station under construction at the Riverbend Garage. This facility features a visitor information counter and a 12-stall, twenty-four hour, public restroom.

Piazza San Lorenzo is a mixed use residential/entertainment project planned on the River between Main Plaza and Houston Street. City Council recently approved the use of EZ bonds for funding this project, so construction can begin this year. Just across Houston Street from the Piazza San Lorenzo with its back on the River, a 260-room Embassy Suites will break ground in 2008.

Joint Planning and Operations Council

In response to the charge of the 2004 City of San Antonio/Bexar County Citizen's Commission on City/County Service Integration to investigate opportunities for integrating services, and in an effort to reduce system duplications and enhance coordination of care, the San Antonio Metropolitan Health District (SAMHD) and University Health System (UHS) engaged in a formal process to enhance collaboration. A Joint Planning and Operations Council (JPOC) composed of senior staff from both SAMHD and UHS was formed in October 2006 and has worked throughout the past year to develop a plan for enhancing the quality, accessibility, efficiency and preventive focus of health services in our community. Significant progress has already been made in the areas of maternal health, breast and cervical cancer screening, and laboratory services with additional joint planning for CareLink eligibility/enrollment, facilities needs, and other prevention programs ongoing.

Joint Planning and Operations Council (Continued)

With the support of the UHS Board of Managers and the San Antonio City Manager and City Council, SAMHD and UHS implemented the transition of clinical preventive health services from SAMHD to UHS control effective February 1, 2008. The transition also included the transferring of personnel and grants that supported the clinical preventive health services. Specifically, these services include prenatal care, family planning, well-child screenings, breast and cervical cancer screenings, senior health screenings, and refugee health services. SAMHD will continue to provide population-based health services including community health monitoring and investigations, community-based preventive services, communicable disease control programs, food and environmental health programs, and the public health emergency preparedness program. Current estimates indicate that about $8.0 million of SAMHD's budget is devoted to providing individual clinical services. This accounts for about 17.0% of the overall departmental budget, but $5.5 million of these costs supported by the City's General Fund represents about 33.0% of SAMHD's budget from that source.

Haven for Hope

In January 2005 City Council adopted a 10-year plan to end chronic homelessness. On February 13, 2006, Mayor Phil Hardberger committed to accelerating implementation of the City's 10-year Plan to End Chronic Homelessness and the development of a homeless campus. In order to address these issues he established the Mayor's Homeless Council. This unified vision officially set an aggressive timeline for development of the Campus.

The Haven for Hope facility will be located within one and one-half mile from central downtown, comprised of multiple buildings on up to 15 acres and have approximately 800 beds. The Campus will be a well designed, attractively landscaped, and secure property offering a range of services to residents and surrounding neighborhood members, including: medical, dental, education, job training, childcare, legal services and more.

The total projected investment for the Haven for Hope Campus is $74.0 million, with the City of San Antonio contributing $15.0 million for land acquisition, environmental remediation, demolition, furniture, fixtures and equipment. The remaining funding will come from Bexar County and private fundraising efforts. The Campus will also provide 100 new jobs, save taxpayers an estimated $40.0 million annually, and revitalize the surrounding neighborhood. By treating the causes of homelessness the community will reduce the use of the criminal justice system and emergency medical services and other high cost services that treat symptoms rather than underlying causes. The Campus development is being coordinated with the opening of a new detox facility.

Once constructed and opened, Haven for Hope will allow the City to treat the root causes of homelessness and address their housing, workforce, education, medical, mental health, and substance abuse needs. A count performed in January 2007 identified 2,247 individuals in San Antonio that were homeless of which 872 were families with children, 606 were employed and 309 were military veterans.

The Haven for Hope will create transformations in the lives of the homeless that walk through its doors and serve as a testament to what our City can do to help those less fortunate and create a lasting positive impact on our community.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

The management of the City is responsible for establishing a system of internal controls that are designed to provide reasonable assurance that assets are protected from loss, theft, or misuse. The City's accounting system supports the internal controls and procedures, which provide reliable financial records for preparing financial statements in conformity with U.S. generally accepted accounting principles. The internal control structure provides reasonable assurance that the City's assets are safeguarded as well as the reliability of financial records for preparing financial statements. 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)

The City Auditor supports the Mayor and City Council by performing independent audits of City programs, functions and activities. Results improve efficiency and effectiveness of City operations.

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 and are generally appropriated as part of the following year's budget. Another budgetary control is the monthly revenue and expenditure reports detailing budget and actual balances with variances that are generated and reviewed by the Office of Management and Budget, Finance and the City Manager's Office prior to submission to City Council. As part of the annual review and close out process, City Council will approve desired budget adjustments and carryforwards for the next fiscal year.

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.

Fiscal Management and Administrative Topics

Pension and Postemployment Retirement Benefits

The City provides retirement pension benefits for its uniformed and nonuniformed employees. Uniformed retirement benefits are provided through the Fire and Police Pension Fund, a single-employer defined benefit retirement plan, with contribution and benefit levels established under state statute. In addition, the City provides all other eligible employees with retirement benefits through the Texas Municipal Retirement System (TMRS), a state-wide public employee retirement system that is a joint contributory, hybrid defined benefit plan. For additional information on the City's pension plans, see Note 8, Pension and Retirement Plans.

Fiscal Management and Administrative Topics (Continued)

Pension and Postemployment Retirement Benefits (Continued)

The City provides postemployment health benefits to all nonuniformed City retirees, and for all uniformed fire and police retirees who retired prior to October 1, 1989. The cost of the program is reviewed annually, with costs funded jointly on a pay-as-you-go basis. The City also provides retirement health care benefits for eligible fire and police retirees under the Fire and Police Retiree Health Care Fund. Contribution and benefits levels are established under the City's collective bargaining agreements with the Fire and Police Unions, respectively, and benefits are financed on a prefunded basis. For additional information on the City's postemployment health benefits, see Note 9, Postemployment Retirement Benefits.

Active Employee Health Benefits Program

The City's Self-Insurance Employee Health Benefits Program achieved a positive balance of $8.0 million in spite of continuing cost pressures associated with rising health care and prescription drug cost, increased claims volume and an aging workforce. The City continues to rely on cost containment measures such as hospital audits, inpatient pre-certification, case management, prescription drug management, and aggressive discounting through our statewide Preferred Provider Organization. The City successfully completed collective bargaining negotiations with both Fire and Police Associations in fiscal year 2007, yielding nearly $442,000 in health care cost savings through plan design changes. Additionally, health benefit premiums were increased for civilian and retired non-uniformed employees in an effort to bring employee contributions in line with similarly sized state and local government organizations, with which the City benchmarks its wage and benefits package. The City's shift of paying less in health premiums has allowed for higher salaries to be paid to employees. This revised total compensation approach will allow the City to more competitively attract and retain key employees and become more equitable in its approach to employee compensation in general. Plan design

Active Employee Health Benefits Program (Continued)

changes implemented in previous years have resulted in an overall 5.0% medical trend for fiscal year 2007, below the national average of 6.1% (HRET and Kaiser Family Foundation, Employer Health Benefits, 2007 Annual Survey). The City continues to develop and expand comprehensive wellness strategies to further control current and future medical costs. The City had over 2,000 employees participate by completing a health risk appraisal in fiscal year 2007. These efforts will be expanded in fiscal year 2008 on expanded preventative benefits and with the addition of a dedicated Occupational Health and Wellness facility, to be provided on a contractual basis.

In fiscal year 2008, the City will continue to build on the success of past cost savings, and remain vigilant of future cost saving strategies that will keep this fund fiscally sound in successive years.

Risk Management Programs

The City's Liability and Workers' Compensation Funds operate under the direction of the Risk Management Division within the Human Resources Department. Programs are reviewed continuously to reduce liability exposure, minimize losses, and strategize to reduce the frequency of injuries, illnesses, and the cost of workers' compensation.

Appropriate insurance policies are purchased by the City to cover standard risks associated with commercial property coverage for its buildings, airport liability, boilers and machinery, commercial crime, medical professional insurance, and public official bonds. Excess insurance policies are also purchased to cover large liability and workers' compensation exposures.

In addition, the City engages an actuary to review the City's self-insurance funds. Such reviews estimate outstanding losses, project the ultimate losses, and recommend overall funding each year. Contributions to the City's self-insurance funds include department assessments from the General Fund, Special Revenue Funds, and other Proprietary Funds.

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. This 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 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, Certificates of Deposit and Share Certificates, Repurchase Agreements, Securities Lending, Banker's Acceptance, Commercial Paper, Mutual Funds, Guaranteed Investment Contracts, 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. For additional information on cash and investments, see Note 3, Cash and Cash Equivalents and Investments.

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Debt Administration

The City utilizes a comprehensive debt management financial planning program, which is updated annually and is a major component of the City's financial planning. The model projects financing needs, 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 value 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, improving its bond rating by Moody's Investors Service, Inc. (Moody's) to Aa1 and maintaining both its Standard & Poor's Public Ratings Group, a division of McGraw-Hill Corporation (S&P) and Fitch Ratings (Fitch) at AA+ and AA+ respectively, on the City's general obligation and certificates of obligation debt. For additional information on the City's long-term debt, see Note 6, Long-Term Debt.

In May 2007, the citizens authorized the City to sell $550.0 million in debt for the 2007-2012 Municipal Bond Program. The program includes 151 projects designed to improve and enhance existing, as well as acquire or construct, new, local streets, bridges, sidewalks, drainage facilities, parks, athletic facilities, libraries, and public health centers. The Bonds are categorized in five areas: Streets, Bridges and Sidewalks Improvements; Drainage Improvements; Parks, Recreations, Open Space, and Athletics Improvements; Library Improvements; and Public Health Facilities Improvements. The Bonds are pledged with and will be repaid from property tax revenue the City collects on an annual basis.

OTHER INFORMATION

Independent Audit

State statutes require that an annual audit by an independent certified public accountant be conducted. The City selected the accounting firm Grant Thornton, LLP. 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, *Audit of State and Local Government and Nonprofit Organizations* and *State of Texas Single Audit Circular*. The Independent Auditors' Report on the basic financial statements, MD&A (required supplementary information), required disclosures, and schedules are included in the Financial Section of this CAFR. The Independent Auditors' Report, along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996, and OMB Circular A-133, 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, 2006. This was the 31st 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 CAFR. This report satisfies both U.S. 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 CAFR 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.

The Office of Management and Budget received the Annual Distinguished Budget Award from the Government Finance Officers Association, recognizing outstanding achievement in preparation of the 2007 Operating and Capital Budget.

OTHER INFORMATION (Continued)

Acknowledgments

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2007, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the accounting group. 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 Managers, Assistant City Managers, and their staff, for their continued support.

Respectfully submitted,

Ben Gorzell, Jr., CPA
Director
Finance Department

Certificate of Achievement for Excellence in Financial Reporting

Presented to

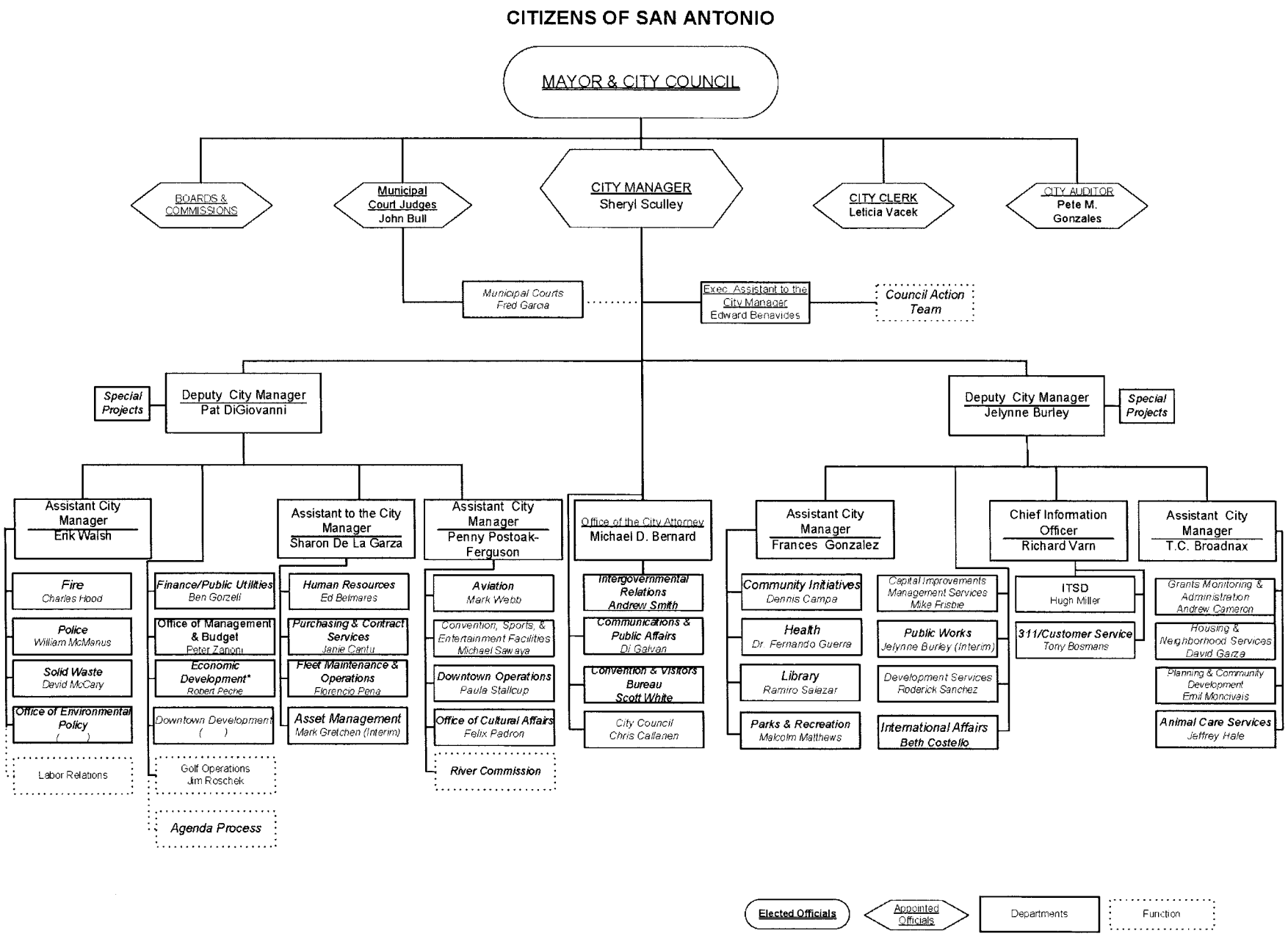
City of San Antonio Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

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



* Includes Office of Military Affairs

Comprehensive Annual Financial Report
Year Ended September 30, 2007

Incorporated December 14, 1837
Charter Adopted October 2, 1951
Council - Manager Form of Government

CITY COUNCIL

Phil Hardberger
Mayor

Mary Alice P. Cisneros
District 1

Sheila D. McNeil
District 2

Roland Gutierrez *
District 3

Philip A. Cortez
District 4

Lourdes Galvan
District 5

Delicia Herrera
District 6

Justin Rodriguez
District 7

Diane G. Cibrian
District 8

Kevin A. Wolff **
District 9

John G. Clamp
District 10

MANAGEMENT TEAM

Sheryl L. Sculley
City Manager

Jelynne LeBlanc Burley
Deputy City Manager

Pat DiGiovanni
Deputy City Manager

Frances A. Gonzalez
Assistant City Manager

Erik J. Walsh
Assistant City Manager

Penny Postoak-Ferguson
Assistant City Manager

T.C. Broadnax
Assistant City Manager

Sharon De La Garza
Assistant to the City Manager

Richard Varn
Chief Information Officer

Michael Bernard
City Attorney

** Replaced by Jennifer V. Ramos on January 17, 2008*
*** Replaced by Louis E. Rowe on January 17, 2008*

Member of The Government Finance Officers
Association of the United States and Canada

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year Ended September 30, 2007

City of San Antonio, Texas

Financial Section

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year Ended September 30, 2007

City of San Antonio, Texas

Independent Auditors' Report

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year Ended September 30, 2007

Grant Thornton

Independent Auditor's Report

Audit • Tax • Advisory

Grant Thornton LLP
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The Honorable Mayor and Members of the City Council
City of San Antonio, Texas

We have 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 (the City), as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of San Antonio Fire and Police Pension Fund, San Antonio Fire and Police Retiree Health Care Fund, San Antonio Development Agency, San Antonio Education Facilities Corporation, Port Authority of San Antonio, San Antonio Housing Trust Foundation, Inc., San Antonio Local Development Company and Brooks Development Authority, blended component units, which represent 74%, 77% and 40%, respectively, of the assets, net assets and revenues /additions, of the aggregate remaining fund information. We also did not audit the San Antonio Water System, City Public Service of San Antonio, and the other non major discretely presented component units which represent 100% of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of 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, 2007, 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.

Grant Thornton

As discussed in Note 17 to the financial statements, the net assets of the governmental activities, the business-type activities, the airport system fund, and the aggregate remaining funds as of September 30, 2006 have been restated.

The Management's Discussion and Analysis on pages 1 through 13 and the Budgetary Comparison Schedule – General Fund on page 138, and Schedules of Funding Progress on pages 173 - 174 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 did not audit the information and express no opinion on it.

Grant Thornton LLP

Dallas, Texas
July 18, 2008

City of San Antonio, Texas

Management's Discussion and Analysis
(Required Supplementary Information)
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2007. 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 $2,611,930 (net assets). Of this amount, $205,751 (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 $826,054, a decrease of $19,259 compared to the fiscal year 2006 fund balance. The total unreserved fund balance of $528,881 is available for spending at the government's discretion. Of this amount, $68,736 is designated and $460,145 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $142,960 or 22.1% of the total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction to the City of San Antonio's basic financial statements, which have 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 help determine or help indicate whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during 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 not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the 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, culture and recreation, convention and tourism, urban redevelopment and housing, welfare, and economic development and 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 nonmajor 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 categories: 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 maintains five individual governmental fund types for financial reporting purposes. The governmental fund types are General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds. 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, Categorical Grant-In Aid, and the Debt Service Fund, all of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation labeled "Nonmajor Governmental Funds." Individual fund data for each nonmajor governmental fund is provided in the form of combining statements elsewhere in this report.

Proprietary Funds - The City maintains two types of proprietary funds. *Enterprise funds* are used to report the functions presented in business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Airport System, Parking System, 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 and are reported alongside the enterprise funds in the fund financial statements.

Information is presented separately in the proprietary funds statement of net assets and in the proprietary funds statement of revenues, expenses, and changes in fund net assets for the Airport System Fund, which is considered to be a major fund. The Internal Service Funds are combined into a single aggregated presentation in the proprietary fund financial statements. Data from the other enterprise funds are combined into a single, aggregated presentation labeled "Nonmajor Enterprise Funds." Individual fund data for each nonmajor enterprise fund and each internal service fund are provided in the form of respective combining statements elsewhere in this report.

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. With the exception of agency funds, 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 the required supplementary information of (a) the City's General Fund budgetary comparison schedule that demonstrates compliance with its budget, and (b) schedules of funding progress related to pension and retirement plans. The Debt Service Fund, various Special Revenue Funds and specific Permanent Fund budgets, which are legally adopted on an annual basis, are also included in the CAFR as additional supplementary information.

Government-Wide Financial Statement Analysis

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the City as a whole as of and for the year ended September 30, 2007.

Net Assets
Year Ended September 30, 2007
(With Comparative Totals for September 30, 2006 Restated)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006 (Restated)*	2007	2006 (Restated)*	2007	2006 (Restated)*
Current and Other Assets	$ 1,135,530	$ 1,079,838	$ 245,495	$ 245,795	$ 1,381,025	$ 1,325,633
Capital Assets	3,197,479	3,056,369	344,861	295,565	3,542,340	3,351,934
Total Assets	4,333,009	4,136,207	590,356	541,360	4,923,365	4,677,567
Current and Other Liabilities	333,554	189,577	51,634	23,171	385,188	212,748
Long-term Liabilities	1,673,940	1,675,180	252,307	266,790	1,926,247	1,941,970
Total Liabilities	2,007,494	1,864,757	303,941	289,961	2,311,435	2,154,718
Net Assets:						
Investments in Capital Assets, net of related debt	2,023,868	1,984,942	201,846	216,459	2,225,714	2,201,401
Restricted	118,906	105,024	61,559	27,700	180,465	132,724
Unrestricted	182,741	181,484	23,010	7,240	205,751	188,724
Total Net Assets	$ 2,325,515	$ 2,271,450	$ 286,415	$ 251,399	$ 2,611,930	$ 2,522,849

*Certain amounts have been restated to correct errors as discussed in Note 17, Prior Period Restatement.

For the year ended September 30, 2007, total assets exceeded liabilities by $2,611,930. The largest portion of the City's net assets, $2,225,714 (85.2%) represents its investment in capital assets less any related debt used to acquire those assets that are 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, $180,465 (6.9%) represents resources that are subject to external restrictions on how they may be used. The remaining $205,751 (7.9%) 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
Year Ended September 30, 2007
(With Comparative Totals for September 30, 2006)

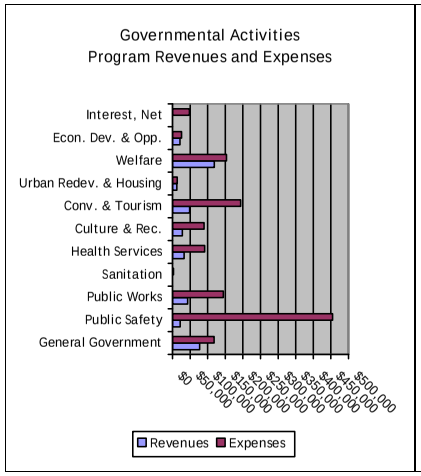
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006 (Restated)*	2007	2006 (Restated)*	2007	2006 (Restated)*
Revenues:						
Program Revenues:						
Charges for Services	$ 160,179	$ 165,769	$ 133,431	$ 120,424	$ 293,610	$ 286,193
Operating Grants and Contributions	186,381	179,917			186,381	179,917
Capital Grants and Contributions	57,891	29,050	23,188	18,079	81,079	47,129
General Revenues:						
Property Taxes	326,342	276,728			326,342	276,728
Other Taxes	327,990	308,017			327,990	308,017
Revenues from Utilities	257,687	256,541			257,687	256,541
Investment Earnings	54,027	38,386	11,099	10,023	65,126	48,409
Miscellaneous	26,530	16,173	1,973	589	28,503	16,762
Special Items				10,870		10,870
Total Revenues	1,397,027	1,270,581	169,691	159,985	1,566,718	1,430,566
Expenses:						
Primary Government:						
Governmental Activities:						
General Government	118,288	83,719			118,288	83,719
Public Safety	454,673	424,058			454,673	424,058
Public Works	144,806	226,849			144,806	226,849
Sanitation	2,786	3,112			2,786	3,112
Health Services	91,544	87,283			91,544	87,283
Culture and Recreation	89,961	90,337			89,961	90,337
Convention and Tourism	193,702	126,802			193,702	126,802
Conservation		146				146
Urban Redevelopment and Housing	13,322	21,766			13,322	21,766
Welfare	153,664	134,554			153,664	134,554
Economic Development and Opportunity	25,698	12,159			25,698	12,159
Interest on Long-Term Debt, Net Amortization	48,114	65,960			48,114	65,960
Business-Type Activities:						
Airport System			64,482	78,083	64,482	78,083
Parking System			8,525	9,299	8,525	9,299
Enviromental Services			68,072	61,253	68,072	61,253
Total Expenses	1,336,558	1,276,745	141,079	148,635	1,477,637	1,425,380
Change in Net Assets Before Transfers	60,469	(6,164)	28,612	11,350	89,081	5,186
Transfers	(6,404)	1,021	6,404	(1,021)		
Net Change in Net Assets	54,065	(5,143)	35,016	10,329	89,081	5,186
Beginning, Net Assets as restated	2,271,450	2,276,593	251,399	241,070	2,522,849	2,517,663
Ending, Net Assets	$ 2,325,515	$ 2,271,450	$ 286,415	$ 251,399	$ 2,611,930	$ 2,522,849

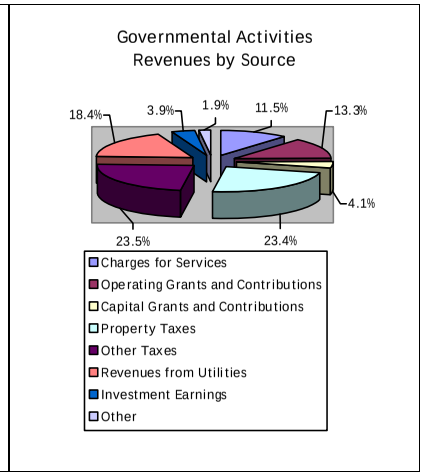
* Certain amounts presented in the prior year data have been restated to correct errors as discussed in Note 17, Prior Period Restatement; and reclassified in order to be consistent with the current year's presentation.

Governmental Activities

The City's total revenues were $1,566,718 for fiscal year ended September 30, 2007. Revenues from governmental activities totaled $1,397,027 and revenues from business-type activities totaled $169,691. General revenues represented 64.4% of the City's total revenue, while program revenues provided 35.6% of revenue received in fiscal year 2007.

Expenses for the City totaled $1,477,637. Governmental activity expenses totaled $1,336,558, or 90.5% of total expenses.





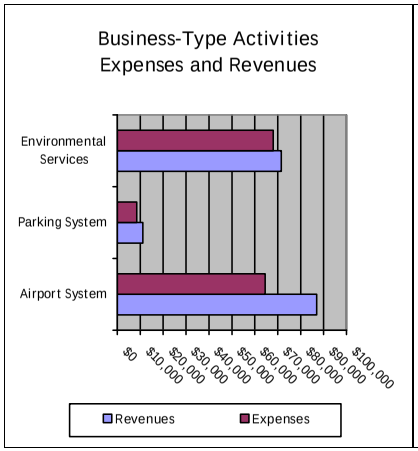
Governmental Activities increased the City's net assets by $54,065. The reason for the change is as follows:

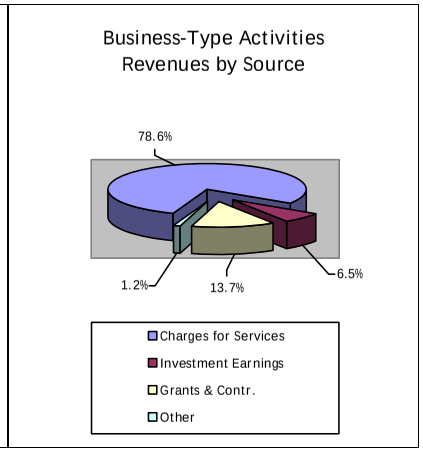
- Grants and Contribution revenues increased by $35,305 primarily as a result of $8,729 in additional contributions for the Convention Center Finance Corp., $6,808 in additional grants and contributions related to the Community Development Program, $6,285 in additional contributions for capital projects, and $7,314 in additional contributions for HUD 108 programs.
- Revenues from Property Taxes increased by $49,614 due to an increase in the overall taxable value, due to reappraisals, annexations and new construction. Taxable values increased from $49,868,955 in fiscal year 2006 to $56,767,701 in fiscal year 2007 while the tax rate remained the same in both years, resulting in additional revenues of $40,012.
- Other Taxes increases of $19,973 included sales and use taxes, whose revenues increased by $14,715 due to a healthy economy, increased economic development throughout the City, and increased tourism. Hotel occupancy taxes also increased by $5,200 due to an increase in tourism and convention business.
- Investment Earnings increased by $15,641 due to a significant increase in yields and higher cash and investment holdings as a result of higher average investment balances.
- Miscellaneous Revenues increased by $10,357 primarily as a result of $10,990 of lease proceeds and $3,000 of reimbursement of prior year expenditures for capital projects.
- An increase of $34,569 of General Government is attributed to an increase in depreciation expense of $2,334 for depreciable assets in service during fiscal year 2007; additional activities of $1,434 in the Equipment Acquisition Fund for the purchase of trash cans; new activity within the Tax Increment Reinvestment Zone (TIRZ) that resulted in $3,400 of additional expenditures; $9,153 reduction of accreted debt in fiscal year 2006 that did not reoccur; $1,178 increase in capital projects; and $5,550 increase in general government activities such as river operations, municipal elections and the reorganization and moving costs of various City departments.
- Public Safety expenses increased by $30,615 primarily due to an increase in uniformed personnel.

- Public Works expenses decreased by $82,043 was due to $25,983 of Hurricane Katrina relate expenses incurred in fiscal year 2006 that did not reoccur; $24,908 in cumulative depreciation expense and $10,088 of assets not capitalized correctly as recorded in fiscal year 2006 as part of the restatement. The remainder of the variance is attributable to the cumulative effect of restating accumulated depreciation in fiscal year 2006, which has skewed comparative balances from fiscal year 2006 to 2007.
- Convention and Tourism expenses increased by $66,900, primarily due to an increase in expenses of $84,353 for the Convention Center Hotel as it continued construction in fiscal year 2007. The City additionally paid a $3,000 litigation settlement related to the Henry B. Gonzalez Convention Center during fiscal year 2007.
- Welfare expenses increased in fiscal year 2007 by $19,110 due to increased expenditures targeting workforce development and increased housing and neighborhood services.
- Expenses for Economic Development and Opportunity increased by $13,539 due to various public improvement projects downtown including landscaping and district reorganizations; $833 in principal and interest payments for Starbright Development Corporation; and $5,044 for increased grant activities.
- Interest in Long-Term Debt, Net Amortization decreased by $17,846 due to a $4,000 decrease in interest expense as a result of principal payments made during 2007. An additional reduction in expenses of $12,554 was due to the annual amortization of debt related items and a change in amortization to the effective interest method. The straight line method was used to amortize bond issuance costs, premiums and discounts in fiscal year 2006.

Business-Type Activities

Program revenues for the City's Business-Type Activities totaled $156,619, which is $18,116 higher than the previous fiscal year. The remaining revenues were a result of interest and other miscellaneous items. Expenses for Business-Type Activities were $141,079 compared to prior year's expenses of $148,635.





Business-Type Activities increased the City's net assets by $35,016, primarily because of the following:

- Charges for Services increased $13,007 because of an increase in customers served, as well as various fee increases implemented in fiscal year 2007. Environmental Services experienced an increase of $9,990 primarily due to an increase in the solid waste fee and the implementation of a new automated

garbage collection fee. Within the Airport System, most revenue categories had nominal increases due to increased passengers as well as greater revenue from terminal building rentals and property leases.

- Investment earnings increased by $1,076 when compared to fiscal year 2006 due to higher interest rates earned on time deposits, and a larger cash base to earn interest on as a result of higher average investment balances.
- A $5,109 increase in Capital Grants and Contributions in the Airport System Fund was primarily attributed to a $4,107 increase in reimbursement from grant funded capital expenditures at the San Antonio International Airport.
- A $10,870 decrease in Parking System's Special Items, was a result of a one-time reallocation of general obligation debt to the City's governmental activities in fiscal year 2006.
- Airport System expenses decreased by $13,601. This decrease is primarily due to $24,262 in adjustments from CIP for non-City assets that was recorded as part of the restatements. This decrease was mitigated by the continued progression of noncapitalizable improvement projects with current year expenses of $9,680.
- Environmental Services expenses increased by $6,819. This increase is primarily due to additional expenses associated with the implementation of automated garbage collection services, primarily in the way of interest payments as well as increases in fuel and maintenance costs within that fund.

Financial Analysis of Governmental Funds

Activities of the Primary Government's General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds and Categorical Grant-In Aid Fund 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. The Capital Projects Funds are used to account for financial activity related to the City indebtedness for Capital Projects, other agency contributions and the operating activities of those projects. The Categorical Grant-In Aid Fund is used primarily to account for receipt and disbursement of all federal and state grants except for Community Development Block Grants, HUD 108 Loan Program and HOME Investment Partnership Grants.

Revenues from taxes increased by $56,049, which is primarily attributable to: (1) a $19,355 or 34.5% increase in property tax and related penalties and interest revenues in the General Fund, (2) a $12,323 or 22.0% increase in sales and use tax revenues in the General Fund, (3) a $14,406 or 25.7% increase in property tax and related penalties and interest revenues for the Debt Service Fund, and (4) a $5,220 or 9.3% increase in occupancy taxes for the Nonmajor Governmental Funds. The increases in property taxes are a result of increased property valuation, new construction, and annexation; while the increase in sales and use taxes and occupancy taxes are a result of a strong economy, expanded tourism and room capacity.

The total fund balance of the General Fund at year-end was $159,690, a decrease of $1,786 from the total fund balance of $161,476 for the close of fiscal year 2006. The total unreserved General Fund balance for fiscal year 2007 is $142,960, which represents $62,662 in designated and $80,298 in undesignated fund balance. The undesignated fund balance, which represents amounts available for additional appropriations in the General Fund at the close of the fiscal year, decreased by $22,225 from the previous year. This decrease is attributed to the increase of the City's financial reserves in the amount of $19,950 in fiscal year 2007. This reserve, which is recorded in the designated unreserved balance, will be utilized for unforeseen operational or capital requirements, extraordinary occurrences such as natural disasters or occurrence of a similar event, and to assist the City in managing fluctuations in available general fund resources and to stabilize the budget.

The total fund balance of the Debt Service Fund at year-end was $102,306; an increase of $9,863 from the total fund balance of $92,443 for the close of fiscal year 2006. The entire fund balance is reserved for payment of debt service.

The Categorical Grant-In Aid has a total deficit fund balance of $10,504. The City engaged in a grant reconciliation effort that began in fiscal year 2006 and continued into fiscal year 2008. The City's departmental fiscal staff was required to validate data in the City's financial system relating to grants. With this effort, the

City determined that the City spent dollars in excess of the grant allocations while providing more services to the community. These deficits have been incorporated into the City's annual budget process and are scheduled to be funded over the next five years.

General Fund Budgetary Highlights

Significant Variances in Budget Appropriations
(Budgetary Basis)
General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 115,017	$ 101,702	$ 79,705
Public Safety	414,494	435,028	437,207
Public Works	11,028	11,028	10,760
Health Services	12,637	13,215	13,110
Sanitation	3,274	3,281	3,008
Welfare	36,919	42,632	42,124
Culture and Recreation	70,608	71,225	69,729
Economic Development and Opportunity	2,846	3,117	3,505
Transfers to Other Funds	122,846	124,633	126,065
Total	$ 789,669	$ 805,861	$ 785,213

Changes in original budget appropriations to the final amended budget appropriations were a $16,192 increase in appropriations. This increase can be summarized by the following discussion:

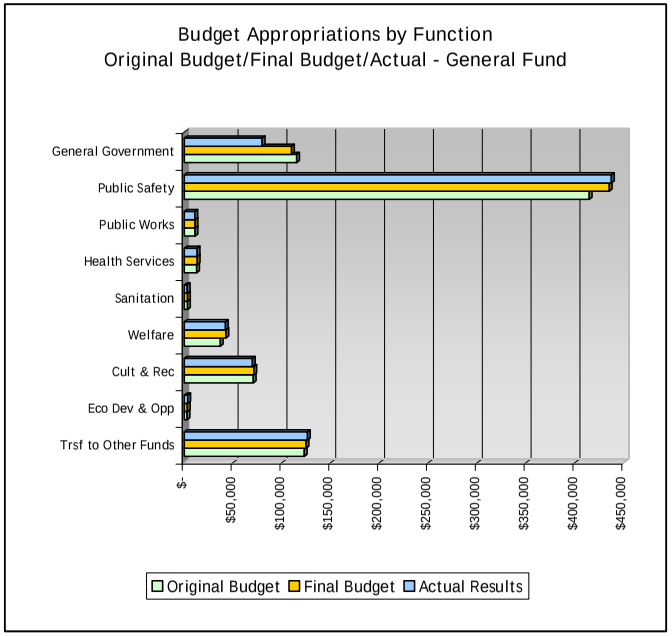
- General Government has a $13,315 decrease composed of $5,133 of budget carryforwards and an $18,448 decrease in budget. Of the $5,133 of budget carryforwards, $5,589 is nondepartmental carryforwards and the remainder are carryforwards for other departments. The $18,448 budget decrease is made up of the indirect cost reallocation of $7,791, decreases in special projects and nondepartmental appropriations of $14,399, and other budget increases and decreases in various departments resulting in a net budget increase of $3,742.
- Of the $20,534 increase in Public Safety, $5,215 is due to budget carryforwards and $15,319 to budget increases. The $15,319 in budget increases is primarily due to an increase to the Police Department of $6,501 for personal services and Public Safety Administration of $9,617. The increase to Public Safety Administration reflects a $7,532 appropriation based on the new collective bargaining agreement which included retroactive raises for fiscal year 2006 and 2007.
- Of the $5,713 increase in Welfare; $1,891 is due to budget carryforwards and $3,822 is due to a budget increase. These budget increase and carryforwards were reallocated to fund functional costs over original budget.
- The $1,787 increase in transfers is due to $292 in budget carryforwards and $1,495 in new appropriations. The majority of the new appropriations come from the transfer of $1,051 to the Capital Projects Fund for the Main Plaza renovation project.

Final budgeted appropriations for the General Fund were $805,861, while actual expenditures were $785,213 creating a positive variance of $20,648. Significant variances are as follows:

- General Government had a $21,997 positive variance, which is due to the fact that indirect costs charged and recovered from other departments are netted against actual related expenditures. These indirect cost's recoveries ($7,900 in fiscal year 2007) were not included in the budget. The City included the annual cost of living adjustment estimate in the General Government function even though actuals payouts are posted to both General Government and Public Safety. Public Safety typically receives 70% of the total estimate.

- Culture and Recreation had a $1,496 positive variance, which is due to encumbrances at year end of $830, primarily related to the new book tagging system for the Library.
- Public Safety had a $2,179 negative variance, which is primarily due to cost of living increases for Public Safety employees, uniformed and civilian, that was recognized under this function but budgeted under General Government.
- Transfers to Other Funds had a $1,432 negative variance, which is composed of $1,051 for Main Plaza Renovations and smaller variances primarily related to funding capital projects and grant funds, as authorized by City Council.

The following charts provide a comparison of the City's budget appropriations.



Financial Analysis of Proprietary Funds

Activities of the Primary Government's Airport System, Parking System, and Environmental Services Funds are considered proprietary funds. The Airport System handles operations at both the San Antonio International Airport and Stinson Municipal Airport. The Parking System handles operations of the City's parking garages and lots. The Environmental Services handles trash collection operations and the activities of the City's landfills. Financial analysis for the proprietary funds is on the same basis as the business-type activities. See further analysis on the funds' operations at pages 6 and 7.

Capital Assets

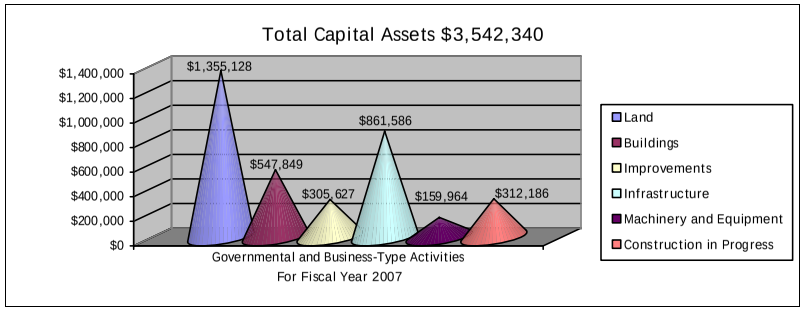
The City's investment in capital assets for its governmental and business-type activities as of September 30, 2007 amounts to $3,549,809 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, and machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was $190,406, which comprises a $141,110 increase for governmental activities and a $49,296 increase for business-type activities.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006 (Restated)*	2007	2006 (Restated)*	2007	2006 (Restated)*
Land	$ 1,341,567	$ 1,289,520	$ 13,561	$ 11,988	$ 1,355,128	$ 1,301,508
Buildings	448,840	452,684	99,009	103,048	547,849	555,732
Improvements	176,013	168,632	129,614	135,014	305,627	303,646
Infrastructure	861,586	880,539			861,586	880,539
Machinery and Equipment	155,286	154,827	4,678	3,149	159,964	157,976
Construction in Progress	214,187	110,167	97,999	42,366	312,186	152,533
Total	$ 3,197,479	$ 3,056,369	$ 344,861	$ 295,565	$ 3,542,340	$ 3,351,934

* These amounts have been restated to correct errors as discussed in Note 17, Prior Period Restatement.

During fiscal year 2007, the City transferred $64,538 of construction in progress to depreciable asset classes for various completed projects for buildings, improvements, infrastructure, and equipment. The City additionally restated fiscal year 2006 balances to properly transfer $(204,936) from construction in progress to depreciable asset classes; adjust $195,995 in construction in progress to expenses for projects that did not create City assets; and record $(29,175) in prior period depreciation.

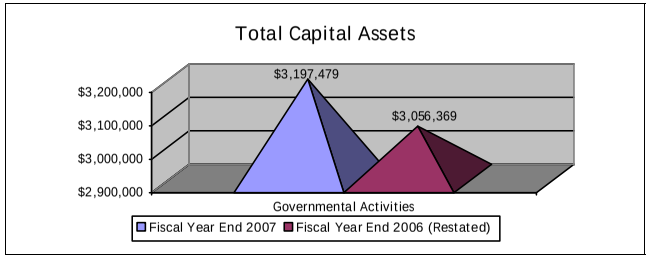
The following schedule provides a summary of the City's capital assets:

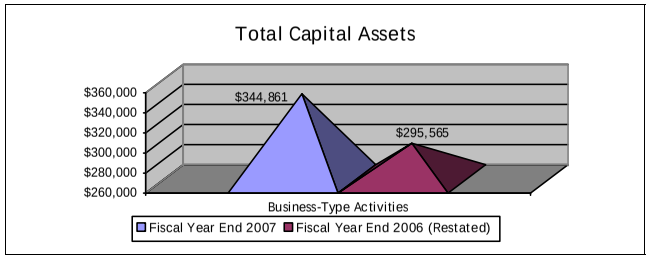


Change in Capital Assets
September 30, 2007

	Governmental Activities	Business-Type Activities	Total
Beginning Balance (Restated)	$ 4,793,533	$ 461,990	$ 5,255,523
Additions	257,131	60,077	317,208
Deletions	(13,337)	(332)	(13,669)
Accumulated Depreciation	(1,839,848)	(176,874)	(2,016,722)
Ending Balance	$ 3,197,479	$ 344,861	$ 3,542,340

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, Capital Assets.

Debt Administration

Long-Term Debt

At the end of the current fiscal year, the City had a total of $1,771,994 in bonds, certificates, revenue bonds, Tax Notes, and commercial paper outstanding, an increase of 6.1% over last year. Additional information on the City's long-term debt, including descriptions of the new issues, can be found in Note 6, Long-Term Debt and Note 7, Commercial Paper Programs and Other Borrowings.

City of San Antonio's Outstanding Debt
September 30, 2007 and 2006

	Governmental Activities 2007	Governmental Activities 2006
Bonds Payable:		
General Obligation Bonds	$ 667,280	$ 623,075
Tax Exempt Certificates of Obligation	218,185	183,455
Taxable Certificates of Obligation	290	6,170
Tax Notes	60,000	37,600
Commercial Paper	4,000	
Revenue Bonds	554,372	551,767
Capital Appreciation Bonds (CAB)	16,497	15,440
Total	$ 1,520,624	$ 1,417,507

	Business-Type Activities 2007	Business-Type Activities 2006
Bonds Payable:		
Revenue Bonds	$ 251,370	$ 261,885
Total	$ 251,370	$ 261,885

Governmental Activities

In 2007, the City issued debt for a total of $386,060. The $386,060 was composed of $170,785 in general obligation bonds, $73,155 in certificates of obligation, $60,000 in Tax Notes, $78,120 in revenue bonds, and $4,000 in commercial paper. The general obligation bonds will be utilized to refund a portion of the City's outstanding tax supported debt, fund capital improvements to include street, drainage, library, parks and recreation, and public health improvements. The certificates of obligation will be utilized to fund capital improvements to include public safety, including constructing, renovating, and improving existing fire stations; street, sidewalk, bridge, and drainage improvements; construction improvements for flood control, dams, landscaping and amenities along the San Antonio River; construction improvements and renovations to municipal and public facilities to include the Plaza de Armas building and Pearsall Landfill; construction improvements to the City's library system, and municipal golf courses; constructing utility system and other infrastructure improvements at KellyUSA; constructing and equipping certain downtown public restroom facilities; payment of the costs of a study for the possible relocation of the San Antonio Metropolitan Health District Laboratory to Brooks City-Base and a portion of the relocation costs; the purchase of materials, supplies, machinery, land, and rights of way for authorized needs and purposes relating to public safety, drainage, flood control, street, library, parks, utility infrastructure, and public works purposes. In October 2006, the City issued $72,620 of Hotel Occupancy Tax (HOT) Revenue Refunding Bonds; the proceeds will be used to refund a portion of the City's outstanding debt. Additionally, in June 2007 the City issued $60,000 in Tax Notes that will be used for the acquisition and construction of land for the Homeless Campus; acquiring land for the park facilities, Voelker Park and Denman Land; acquisition of a San Antonio Police property room; fund public safety, drainage, sidewalk, bridge, and street improvements; constructing improvements for flood control, dams, landscaping and amenities along the San Antonio River; and constructing and improving municipal facilities. The City issued $5,500 HOT Notes; proceeds of the note will be used for Alamodome renovations and enhancements necessary to host the 2008 NCAA Men's Final Four. In May 2007, the City adopted an ordinance authorizing the issuance of up to $50,000 in Sales Tax Revenue Commercial Paper Notes, Series A. Proceeds from the sale of the Commercial Paper Notes are to provide funds to acquire property for a conservation easement or open space preservation program with the intent of protecting water in the Edwards Aquifer as contemplated by the "Edwards Aquifer Protection Venue Project." As of September 30, 2007, $4,000 of these Commercial Paper Notes were issued and outstanding.

Business-Type Activities

On December 12, 2006, the City issued $17,850 of Airport System Revenue Refunding Bonds, Series 2006 to refund a portion of the City's outstanding debt.

Standard & Poor's, Moody's, and Fitch's underlying rating for City obligations during fiscal year 2007 are as follows:

	Standard & Poor's	Moody's	Fitch
General Obligation/ Certificates of Obligation	AA+	Aa2	AA+
Hotel Occupancy Tax Bonds	AAA	Aaa	AAA
Hotel Occupancy Tax Notes	Private Placement - Not Rated		
Airport System	A+	A1	A+
Aiport PFC	A-	A2	A+
Parking System	A+	A2	A+

Moody's elevated the City's General Obligation/Certificates of Obligation rating in November 2007 to Aa1.

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. For more information related to these limits see Note 6, Long-Term Debt. The total assessed valuation for the fiscal year ended 2007 was $65,033,626, which provides a debt ceiling of $6,503,363.

Currently Known Facts

The City processed numerous debt issuances after fiscal year end. In November 2007, the City issued $121,220 of General Improvement and Refunding Bonds, Series 2007, $21,270 in Tax Notes, Series 2007A, $82,400 in Airport System Revenue Improvement Bonds, Series 2007 $74,860 in Passenger Facility Charge and Airport System Revenue Improvement Bonds, Series 2007 and in July 2008, the City issued $135,000 in HOT Revenue and Refunding Bonds, Series 2008.

In 2004, the City of San Antonio and the Bexar County Citizen's Commission on City/County Service Integration recommended the establishment of a new city-county health authority that would combine the San Antonio Metropolitan Health District (SAMHD) and the University Health System (UHS). The transition occurred February 4, 2008.

At its December 8, 2007 meeting, the Texas Municipal Retirement System (TMRS) Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. Since its inception, TMRS has used the traditional Unit Credit actuarial funding method. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit method would be used. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. Using demographic data from the December 31, 2006 valuation, TMRS' actuary had made revised calculations with the new actuarial assumptions.

For more information on these items, please see Note 18, Subsequent Events.

In the second quarter of fiscal year 2008, the City's third party contractor, who handled geotechnical and environmental engineering services for Nelson Gardens Landfill, cancelled their contract, resulting in the City having to pick up additional costs related to ground water monitoring at Nelson Gardens Landfill. These additional costs were included in the City's postclosure liability calculation. For more information on this item, please see Note 11, Commitments and Contingencies.

Requests for Information

This financial report is designed to provide a general overview of the City's position for 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.

City of San Antonio, Texas

Basic Financial Statements

Statement of Net Assets
As of September 30, 2007
(In Thousands)

	PRIMARY GOVERNMENT			DISCRETELY PRESENTED COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Assets:				
Cash and Cash Equivalents	$ 12,943	$ 1,113	$ 14,056	$ 84,682
Cash Collateral from Securities Lending				626,370
Investments	292,554	34,179	326,733	462,740
Receivables, Net	96,382	12,134	108,516	226,215
Due from:				
Fiduciary Funds	670		670	
Other Governmental Agencies, Net	1,674		1,674	2,948
Internal Balances	3,008	(3,008)		
Materials and Supplies, at Cost	5,490	777	6,267	138,146
Prepaid Expenses	960	17	977	52,334
Other Assets				530
Deposits	36		36	
Restricted Assets:				
Cash and Cash Equivalents	141,012	30,103	171,115	239,966
Investments	458,287	157,179	615,466	1,534,226
Receivables, Net	57,758	2,823	60,581	11,562
Prepaid Expenses	39		39	
Deposits	261		261	
Deferred Charges				2,304
Due from:				
Other Governmental Agencies	4,160		4,160	
Capital Assets:				
Non Depreciable	1,555,754	111,560	1,667,314	1,018,586
Depreciable, Net	1,641,725	233,301	1,875,026	6,982,854
Assets Held for Resale				3,367
Other Noncurrent Assets				478,084
Unamortized Debt Expense	60,296	10,178	70,474	50,856
Total Assets	4,333,009	590,356	4,923,365	11,915,770
Liabilities:				
Accounts Payable and Other Current Liabilities	107,975	17,541	125,516	332,283
Unearned Revenue	10,973	838	11,811	3,537
Securities Lending Obligation				626,370
Accrued Interest		15	15	
Due to:				
Other Governmental Agencies	735		735	1,215
Restricted Liabilities:				
Accounts Payable and Other Current Liabilities	43,917	15,603	59,520	17,439
Unearned Revenue	13,140		13,140	
Accrued Interest	9,507	3,263	12,770	8,283
Due to:				
Other Governmental Agencies	2,929		2,929	
Noncurrent Liabilities:				
Due within One Year	144,378	14,374	158,752	201,349
Due in More Than One Year	1,673,940	252,307	1,926,247	6,005,488
Total Liabilities	2,007,494	303,941	2,311,435	7,195,964
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,023,868	201,846	2,225,714	3,441,597
Restricted for:				
Debt Service	105,108	30,860	135,968	26,985
Education and Training				38
Capital Projects		30,699	30,699	3,618
Equipment Renewal and Replacement				586,234
Employee Benefits Plans				203,127
Perpetual Care:				
Expendable	3,071		3,071	
Nonexpendable	10,727		10,727	
Unrestricted	182,741	23,010	205,751	458,207
Total Net Assets	$ 2,325,515	$ 286,415	$ 2,611,930	$ 4,719,806

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Activities
Year Ended September 30, 2007
(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	$ 118,288	$ 44,700	$ 14,316	$ 17,751	$ (41,521)	$ -	$ (41,521)	$ -
Public Safety	454,673	9,059	8,293	4,158	(433,163)		(433,163)	
Public Works	144,806	39,090	1,021	2,652	(102,043)		(102,043)	
Sanitation	2,786	268	19		(2,499)		(2,499)	
Health Services	91,544	24,401	8,503	242	(58,398)		(58,398)	
Culture and Recreation	89,961	21,603	4,756	1,557	(62,045)		(62,045)	
Convention and Tourism	193,702	19,067	3	29,744	(144,888)		(144,888)	
Urban Redevelopment and Housing	13,322	1	12,439	704	(178)		(178)	
Welfare	153,664	19	118,929	160	(34,556)		(34,556)	
Economic Development and Opportunity	25,698	1,971	18,102	923	(4,702)		(4,702)	
Issuance Cost	(2,384)				2,384		2,384	
Amortization of Bond Premium	(3,595)				3,595		3,595	
Amortization of Refunding Charges	(5)				5		5	
Interest on Long-Term Debt	54,098				(54,098)		(54,098)	
Total Governmental Activities	1,336,558	160,179	186,381	57,891	(932,107)		(932,107)	
Business-Type Activities:								
Airport System	64,482	53,115		23,188		11,821	11,821	
Parking System	8,525	10,236				1,711	1,711	
Environmental Services	68,072	70,080				2,008	2,008	
Total Business-Type Activities	141,079	133,431		23,188		15,540	15,540	
Total Primary Government	$ 1,477,637	$ 293,610	$ 186,381	$ 81,079	(932,107)	15,540	(916,567)	
Discretely Presented Component Units:								
San Antonio Water System	$ 323,730	$ 363,500	$ -	$ 126,320				166,090
CPS Energy	1,803,745	1,770,086		39,317				5,658
San Antonio Development Agency	505	(16)	57					(464)
San Antonio Education Facilities Corporation	6	22		5				21
Port Authority of San Antonio	30,308	30,195		1,287				1,174
San Antonio Housing Trust Foundation, Inc.	703	9		410				(284)
San Antonio Local Development Company	1,432	403		408				(621)
Westside Development Corporation	129							(129)
Brooks Development Authority	19,832	16,379		2,429				(1,024)
Total Component Units	$ 2,180,390	$ 2,180,578	$ 57	$ 170,176				170,421
General Revenues:								
Taxes:								
Property					326,342		326,342	
General Sales and Use					224,480		224,480	
Selective Sales and Use					5,308		5,308	
Gross Receipts Business					30,236		30,236	
Occupancy					63,878		63,878	
Penalties and Interest on Delinquent Taxes					4,088		4,088	
Revenues from Utilities					257,687		257,687	
Investment Earnings					54,027	11,099	65,126	144,771
Miscellaneous					26,530	1,973	28,503	4,774
Adjustment for STP Pension Cost								1,505
Special Items								(4,999)
Transfers, net					(6,404)	6,404		
Total General Revenues, Special Items, and Transfers					986,172	19,476	1,005,648	146,051
Change in Net Assets					54,065	35,016	89,081	316,472
Net Assets - Beginning of Fiscal Year, as restated					2,271,450	251,399	2,522,849	4,403,334
Net Assets - End of Fiscal Year					$ 2,325,515	$ 286,415	$ 2,611,930	$ 4,719,806

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Statement of Activities
Year Ended September 30, 2007
(In Thousands)

The accompanying notes are an integral part of these basic financial statements.

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Amounts are expressed in thousands

Balance Sheet
Governmental Funds
As of September 30, 2007
(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:					
Cash and Cash Equivalents	$ 2,011	$ -	$ -	$ 7,308	$ 9,319
Investments	67,008			114,200	181,208
Receivables, Net	78,874			14,402	93,276
Due from:					
Other Funds	45,418			3,011	48,429
Other Governmental Agencies	725			879	1,604
Materials and Supplies, at Cost	3,017			1,175	4,192
Restricted Assets:					
Cash and Cash Equivalents		45,555	2	95,455	141,012
Investments		54,888	348	403,051	458,287
Receivables, Net		6,215	35,143	16,400	57,758
Prepaid Expenditures			14	25	39
Deposits				261	261
Due from:					
Other Funds		312	894	7,994	9,200
Other Governmental Agencies				4,160	4,160
Total Assets	$ 197,053	$ 106,970	$ 36,401	$ 668,321	$ 1,008,745
Liabilities and Fund Balances:					
Liabilities:					
Vouchers Payable	$ 4,580	$ -	$ -	$ 9,792	$ 14,372
Accounts Payable - Other	4,278			7,921	12,199
Accrued Payroll	10,495			2,978	13,473
Accrued Leave Payable	6,810			1,641	8,451
Unearned Revenue	8,484			4,106	12,590
Due to:					
Other Funds	2,716			15,206	17,922
Other Governmental Agencies				24	24
Restricted Liabilities:					
Vouchers Payable			4,358	30,558	34,916
Accounts Payable - Other		19	2,615	3,042	5,676
Accrued Payroll			710	186	896
Accrued Leave Payable				3	3
Unearned Revenue		4,645	6,096	7,044	17,785
Amounts Held in Trust				2,429	2,429
Due to:					
Other Funds			32,824	6,202	39,026
Other Governmental Agencies			302	2,627	2,929
Total Liabilities	37,363	4,664	46,905	93,759	182,691
Fund Balances:					
Reserved:					
Reserved for Encumbrances	13,713			176,922	190,635
Reserved for Material and Supplies	3,017			1,176	4,193
Reserved for Prepaid Expenditures			14	25	39
Reserved for Debt Service		102,306			102,306
Unreserved:					
Designated: General Fund	62,662				62,662
Designated: Special Revenue Funds				3,003	3,003
Designated: Permanent Funds				3,071	3,071
Undesignated: Major Funds	80,298		(10,518)		69,780
Undesignated: Special Revenue Funds				180,110	180,110
Undesignated: Capital Projects Funds				199,579	199,579
Undesignated: Permanent Funds				10,676	10,676
Total Fund Balances	159,690	102,306	(10,504)	574,562	826,054
Total Liabilities and Fund Balances	$ 197,053	$ 106,970	$ 36,401	$ 668,321	$ 1,008,745

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
As of September 30, 2007
(In Thousands)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund Balances - Total Governmental Funds		$ 826,054
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental Capital Assets:		
Land	1,341,567	
Construction in Progress	214,187	
Buildings	668,171	
Improvements	237,910	
Infrastructure	2,246,274	
Machinery and Equipment	190,856	
Less: Accumulated Depreciation	(1,751,997)	
Total Governmental Capital Assets		3,146,968
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 (See Note 14).		6,851
Long-term receivables applicable in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		834
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 included in governmental activities in the Statement of Net Assets.		100,748
Long-term liabilities are not due and payable in the current period neither are associated unamortized assets available financial resources and, therefore, are not reported in the governmental funds.		
Governmental Bonds Payable	(1,516,623)	
Commercial Paper Payable	(4,000)	
Unamortized Discount/(Premium) on Bonds, Net	(82,099)	
Deferred Amount on Refunding	17,283	
Leases Payable	(13,927)	
Notes Payable	(56,171)	
Other Payables	(4,619)	
Unamortized Debt Expense	60,296	
Accrued Interest	(9,507)	
Arbitrage Rebate	(828)	
Compensated Absences	(145,745)	
		(1,755,940)
Net Assets of Governmental Activities		$ 2,325,515

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2007
(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:					
Taxes:					
Property	$ 202,876	$ 118,113	$ -	$ 4,821	$ 325,810
General Sales and Use	189,753			34,727	224,480
Selective Sales and Use	5,308				5,308
Gross Receipts Business	30,236				30,236
Occupancy				63,892	63,892
Penalties and Interest on Delinquent Taxes	2,278	1,312		111	3,701
Licenses and Permits	6,927				6,927
Intergovernmental	4,036		144,014	54,617	202,667
Revenues from Utilities	257,687				257,687
Charges for Services	25,221		736	110,993	136,950
Fines and Forfeits	15,114				15,114
Miscellaneous	7,491		826	16,181	24,498
Investment Earnings	6,815	7,900	21	35,314	50,050
Contributions				29,744	29,744
In-Kind Contributions			13,786		13,786
Total Revenues	753,742	127,325	159,383	350,400	1,390,850
Expenditures:					
Current:					
General Government	74,049	403	1,184	39,332	114,968
Public Safety	436,295		12,369	2,000	450,664
Public Works	10,760		14,587	76,086	101,433
Health Services	12,928		18,279	61,143	92,350
Sanitation	2,824				2,824
Welfare	38,673		113,696	1,508	153,877
Culture and Recreation	68,901		2,911	13,710	85,522
Convention and Tourism				60,288	60,288
Urban Redevelopment and Housing			449	13,579	14,028
Economic Development and Opportunity	3,450		1,626	19,745	24,821
Capital Projects				345,047	345,047
Debt Service:					
Principal Retirement		80,215		1,620	81,835
Interest		57,190			57,190
Arbitrage				42	42
Issuance Costs		2,451		1,106	3,557
Total Expenditures	647,880	140,259	165,101	635,206	1,588,446
Excess (Deficiency) of Revenues Over (Under) Expenditures	105,862	(12,934)	(5,718)	(284,806)	(197,596)
Other Financing Sources (Uses)					
Issuance of Long-Term Debt		205,395		176,665	382,060
Payments to Refunded Bond Escrow Agent		(210,643)			(210,643)
Issuance of Notes and Loans				10,966	10,966
Issuance of Commercial Paper				4,000	4,000
Premium/(Discount) on Long-Term Debt		7,673		(534)	7,139
Transfers In	15,972	20,372	7,546	291,200	335,090
Transfers Out	(123,620)		(1,503)	(225,152)	(350,275)
Total Other Financing Sources (Uses)	(107,648)	22,797	6,043	257,145	178,337
Net Change in Fund Balances	(1,786)	9,863	325	(27,661)	(19,259)
Fund Balances, October 1, as restated	161,476	92,443	(10,829)	602,223	845,313
Fund Balances, September 30	$ 159,690	$ 102,306	$ (10,504)	$ 574,562	$ 826,054

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
Year Ended September 30, 2007
(In Thousands)

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balances - Total Governmental Funds		$ (19,259)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated 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	239,605	
Less: Current Year Depreciation	(95,375)	
Less: Current Year Deletions	(2,866)	141,364
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(1,067)
The issuance of long-term debt (e.g. bonds, notes and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond, Note and Loan Amounts Issued	(397,026)	
Premium, Discount and Deferred Charges	(7,139)	
Bond Issuance Costs	3,557	
Payments to Escrow Agent	210,643	
Amortization of Bond Premiums and Discounts, Deferred Charges, and Bond Issuance Costs, Net	9,185	
Lease Purchase Amounts Assumed by Business-type Activities	3,158	
Principal Payments	81,835	(95,787)
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 (See Note 14).		(6,120)
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.		34,934
Change in Net Assets of Governmental Activities		$ 54,065

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Net Assets
Proprietary Funds
As of September 30, 2007
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 594	$ 519	$ 1,113	$ 3,624
Investments	18,244	15,935	34,179	111,346
Receivables:				
Other Accounts, Net	2,766	86	2,852	768
Accrued Interest	184	158	342	937
Accrued Revenue	3,186	5,754	8,940	1
Due from:				
Other Funds	204		204	50
Other Governmental Agencies, Net				70
Materials and Supplies, at Cost	563	214	777	1,298
Prepaid Expenses	17		17	960
Deposits				36
Total Unrestricted Assets	25,758	22,666	48,424	119,090
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	17,390	1,766	19,156	
Investments	13,611	277	13,888	
Receivables - Accrued Interest	291	9	300	
Due from Other Funds	364		364	
Construction Accounts:				
Cash and Cash Equivalents	9,223	269	9,492	
Investments	90,599	7,980	98,579	
Receivables - Accrued Interest	1,149	87	1,236	
Due from Other Funds	30		30	
Improvement and Contingency Accounts:				
Cash and Cash Equivalents	1,369	78	1,447	
Investments	42,049	2,400	44,449	
Receivables - Accrued Interest	413	25	438	
Due from Other Funds	1,346		1,346	
Other Restricted Accounts:				
Cash and Cash Equivalents	8		8	
Investments	263		263	
Receivables - Accrued Interest	42		42	
Accrued Revenue	807		807	
Total Restricted Assets	178,954	12,891	191,845	
Total Current Assets	204,712	35,557	240,269	119,090
Noncurrent Assets:				
Capital Assets:				
Land	4,543	9,018	13,561	
Buildings	144,248	30,362	174,610	178
Improvements	210,372	7,013	217,385	530
Machinery and Equipment	11,189	6,991	18,180	137,654
Construction in Progress	97,999		97,999	
Total Capital Assets	468,351	53,384	521,735	138,362
Less: Accumulated Depreciation	160,379	16,495	176,874	87,851
Net Capital Assets	307,972	36,889	344,861	50,511
Unamortized Debt Expense	9,134	1,044	10,178	
Total Noncurrent Assets	317,106	37,933	355,039	50,511
Total Assets	$ 521,818	$ 73,490	$ 595,308	$ 169,601

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Proprietary Funds
As of September 30, 2007
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Liabilities:				
Current Liabilities:				
Payable from Current Unrestricted Assets:				
Vouchers Payable	$ 505	$ 1,711	$ 2,216	$ 7,829
Accounts Payable-Other	11,913	1,961	13,874	6,108
Claims Payable				52,947
Accrued Payroll	636	815	1,451	1,047
Current Portion of Accrued Leave Payable	342	303	645	433
Unearned Revenue	838		838	23
Accrued Interest		15	15	
Lease Purchase				236
Due to Other Funds		17	17	
Total Payable from Current Unrestricted Assets	14,234	4,822	19,056	68,623
Payable from Restricted Assets:				
Vouchers Payable	15,547	56	15,603	
Accrued Bond Interest	3,052	211	3,263	
Current Portion of Bonds	10,155	660	10,815	
Due to Other Funds	1,982	6	1,988	
Current Portion of Unamortized Premium/Discount	1,272	60	1,332	
Current Portion of Deferred Amount on Refunding	(97)		(97)	
Current Portion of Lease Purchase		869	869	
Current Portion of Accrued Landfill Postclosure Costs		425	425	
Other Payables	378	7	385	
Total Payable from Restricted Assets	32,289	2,294	34,583	
Total Current Liabilities	46,523	7,116	53,639	68,623
Noncurrent Liabilities:				
Revenue Bonds, Net of Current Portion	218,440	22,115	240,555	
Unamortized Premium/Discount (Net of Current Portion)	8,181	330	8,511	
Deferred Amount on Refunding (Net of Current Portion)	(2,840)		(2,840)	
Accrued Leave Payable (Net of Current Portion)	1,708	1,514	3,222	2,164
Lease Purchase (Net of Current Portion)		1,809	1,809	302
Due to Other Governmental Agencies				711
Accrued Landfill Postclosure Costs (Net of Current Portion)		1,050	1,050	
Total Noncurrent Liabilities	225,489	26,818	252,307	3,177
Total Liabilities	272,012	33,934	305,946	71,800
Net Assets:				
Invested In Capital Assets, Net of Related Debt	181,816	20,030	201,846	49,973
Restricted:				
Debt Service	28,597	2,263	30,860	
Capital Projects	27,972	2,727	30,699	
Unrestricted	11,421	14,536	25,957	47,828
Total Net Assets	$ 249,806	$ 39,556	$ 289,362	$ 97,801
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds			(2,947)	
Net Assets of Business-Type Activities			$ 286,415	

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended September 30, 2007
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:				
Charges for Services	$ 53,101	$ 80,316	$ 133,417	$ 224,019
Total Operating Revenues	53,101	80,316	133,417	224,019
Operating Expenses:				
Personal Services	22,318	30,989	53,307	34,196
Contractual Services	3,787	22,471	26,258	18,808
Commodities	1,564	7,176	8,740	2,700
Materials				17,699
Claims				94,817
Other	5,916	14,954	20,870	19,356
Depreciation	9,136	1,586	10,722	13,845
Total Operating Expenses	42,721	77,176	119,897	201,421
Operating Income	10,380	3,140	13,520	22,598
Nonoperating Revenues (Expenses):				
Investment Earnings	10,035	1,064	11,099	3,942
Other Nonoperating Revenue	12,012	1,332	13,344	1,995
Gain on Sale of Capital Assets	14		14	1,040
Interest and Debt Expense	(12,110)	(1,379)	(13,489)	(24)
Other Nonoperating Expense	(10,253)	(838)	(11,091)	
Total Nonoperating Revenues (Expenses)	(302)	179	(123)	6,953
Change in Net Assets before Contributions and Transfers	10,078	3,319	13,397	29,551
Capital Contributions	11,817		11,817	
Transfers In (Out)				
Transfers In	6	8,417	8,423	11,161
Transfers Out	(312)	(1,707)	(2,019)	(2,380)
Total Transfers In (Out)	(306)	6,710	6,404	8,781
Change In Net Assets	21,589	10,029	31,618	38,332
Net Assets - October 1, as restated	228,217	29,527		59,469
Net Assets - September 30	$ 249,806	$ 39,556		$ 97,801
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds			3,398	
Change in Net Assets of Business-Type Activities			$ 35,016	

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2007
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:				
Cash Received from Customers	$ 50,212	$ 79,495	$ 129,707	$ 223,618
Cash Received from Interfund Services Provided				(8)
Cash Received for Interfund Services Used				513
Cash Payments to Suppliers for Goods and Services	(8,468)	(44,859)	(53,327)	(149,345)
Cash Payments to Employees for Service	(21,612)	(30,864)	(52,476)	(34,192)
Cash Received from Other Nonoperating Revenues	12,012	1,268	13,280	1,995
Net Cash Provided by Operating Activities	32,144	5,040	37,184	42,581
Cash Flows from Noncapital Financing Activities:				
Transfers In from Other Funds	(685)	8,466	7,781	11,161
Transfers Out to Other Funds	416	(1,690)	(1,274)	(2,480)
Due from Other Funds				(1,886)
Net Cash Provided by (Used for) Noncapital Financing Activities	(269)	6,776	6,507	6,795
Cash Flows from Capital and Related Financing Activities:				
Acquisitions and Construction of Capital Assets	(34,147)	220	(33,927)	(13,592)
Principal Payments on Long-Term Debt	(9,895)	(620)	(10,515)	(100)
Interest Paid on Long-Term Debt	(12,262)	(1,295)	(13,557)	
Debt Issuance Costs	(9,640)		(9,640)	
Principal Payments on Notes		(775)	(775)	(192)
Interest Paid on Notes		(74)	(74)	(24)
Proceeds from Sale of Assets	14		14	1,040
Net Cash (Used for) Capital and Related Financing Activities	(65,930)	(2,544)	(68,474)	(12,868)
Cash Flows from Investing Activities:				
Purchases of Investment Securities	(340,099)	(54,173)	(394,272)	(226,380)
Maturity of Investment Securities	373,566	44,395	417,961	184,252
Investment Earnings	10,166	992	11,158	3,739
Net Cash Provided by (Used for) Investing Activities	43,633	(8,786)	34,847	(38,389)
Net Increase (Decrease) in Cash and Cash Equivalents	9,578	486	10,064	(1,881)
Cash and Cash Equivalents, October 1	19,006	2,145	21,151	5,505
Cash and Cash Equivalents, September 30	$ 28,584	$ 2,631	$ 31,215	$ 3,624

The accompanying notes are an integral part of these basic financial statements.

Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2007
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income	$ 10,380	$ 3,140	$ 13,520	$ 22,598
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	9,136	1,586	10,722	13,845
Other Nonoperating Revenues	12,012	1,268	13,280	1,995
Changes in Assets and Liabilities:				
(Increase) Decrease In Other Accounts Receivable	(143)	93	(50)	936
(Increase) In Accrued Revenues	(3,159)	(904)	(4,063)	
(Increase) In Due from Other Governmental Agencies				(11)
(Increase) Decrease In Materials and Supplies	(51)	6	(45)	209
(Increase) Decrease In Due from Other Funds		6	6	513
Increase (Decrease) In Due to Other Funds				(58)
Decrease In Prepaid Expenses				59
Decrease In Deposits				3
Increase (Decrease) In Vouchers Payable	(23)	34	11	483
Increase (Decrease) In Accounts Payable and Other Payables	2,874	(304)	2,570	3,282
Increase In Accrued Payroll	74	49	123	44
Increase (Decrease) In Accrued Leave Payable	631	76	707	(40)
Increase (Decrease) In Unearned Revenue	413	(10)	403	(1,277)
Net Cash Provided by Operating Activities	$ 32,144	$ 5,040	$ 37,184	$ 42,581
Noncash Investing, Capital and Financing Activities:				
Acquisition of Assets Purchased from Governmental Funds		2,499	2,499	
Assumption of Lease Obligations from Governmental Funds		(3,338)	(3,338)	
Change in Accounting Estimate		(64)	(64)	

The accompanying notes are an integral part of these basic financial statements.

Statement of Fiduciary Net Assets
Fiduciary Funds
As of September 30, 2007
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Assets:			
Current Assets:			
Cash and Cash Equivalents	$ 77,966	$ 1	$ 7,416
Security Lending Collateral	233,592		
Investments, at Fair Value:			
U.S. Government and Agency Issues	112,548	21	1,931
Corporate Bonds	295,661		
Preferred and Common Stock	1,205,569		
Other	703,063		
Total Investments, at Fair Value	2,316,841	21	1,931
Receivables:			
Other Accounts	4,814		328
Accrued Interest	6,289		18
Accrued Revenue	2,054		
Prepayments	19		
Total Current Assets	2,641,575	22	9,693
Capital Assets:			
Machinery and Equipment	44		
Buildings	849		
Total Capital Assets	893		
Less: Accumulated Depreciation	355		
Net Capital Assets	538		
Total Assets	2,642,113	22	$ 9,693
Liabilities:			
Vouchers Payable	5,837		$ 10
Accounts Payable - Other	9,813		9,013
Accrued Payroll	81		
Due to Other Funds			670
Unearned Revenue	305		
Securities Lending Obligation	233,592		
Total Liabilities	249,628		$ 9,693
Net Assets:			
Held in Trust for Pension Benefits and Other Purposes	$ 2,392,485	$ 22	

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2007
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS
Additions:		
Contributions:		
Employer	$ 73,779	$ -
Employee	30,975	
Total Contributions	104,754	
Investment Earnings:		
Net Increase in Fair Value of Investments	302,540	
Real Estate Income, Net	5,954	
Interest and Dividends	41,188	1
Securities Lending	11,861	
Other Income	3,365	
Total Investment Earnings	364,908	1
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(13,988)	
Securities Lending Expenses:		
Borrower Rebates	(11,027)	
Lending Fees	(292)	
Net Investment Income	339,601	1
Total Additions	444,355	1
Deductions:		
Benefits	93,934	
Refunds of Contributions	341	
Administrative Expense	2,089	12
Salaries, Wage, and Employee Benefits	593	
Total Deductions	96,957	12
Change in Net Assets	347,398	(11)
Net Assets - October 1	2,045,087	33
Net Assets - September 30	$ 2,392,485	$ 22

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2007
(In Thousands)

	SAN ANTONIO WATER SYSTEM	CPS ENERGY	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 14,042	$ 41,344	$ 29,296	$ 84,682
Cash Collateral from Securities Lending		626,370		626,370
Investments	189,285	270,009	3,446	462,740
Receivables:				
Notes			7,520	7,520
Other Accounts, Net	39,952	151,279	733	191,964
Accrued Interest	2,192	22,513	2,026	26,731
Materials and Supplies, at Cost	5,075	133,010	61	138,146
Due from Other Governmental Agencies			2,948	2,948
Prepaid Expenses	2,060	50,050	224	52,334
Other Assets			530	530
Total Unrestricted Assets	252,606	1,294,575	46,784	1,593,965
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	6,647	5,963		12,610
Investments	19,986			19,986
Receivables-Accrued Interest		21		21
Construction Accounts:				
Cash and Cash Equivalents	3,839	14		3,853
Investments	195,015	285,042		480,057
Receivables-Accrued Interest		2,718		2,718
Ordinance Accounts:				
Cash and Cash Equivalents		72,496		72,496
Investments		508,972		508,972
Receivables - Accrued Interest		2,341		2,341
Other Restricted Accounts:				
Cash and Cash Equivalents		142,342	8,665	151,007
Investments	6,729	518,482		525,211
Deferred Charges			2,304	2,304
Receivables			3,871	3,871
Receivables - Accrued Interest		2,611		2,611
Total Restricted Assets	232,216	1,541,002	14,840	1,788,058
Total Current Assets	484,822	2,835,577	61,624	3,382,023
Noncurrent Assets:				
Capital Assets:				
Land	112,788	60,080	13,379	186,247
Infrastructure			53,346	53,346
Buildings			200,056	200,056
Utility Plant in Service	2,792,757	7,808,688		10,601,445
Machinery and Equipment	118,966		2,953	121,919
Construction in Progress	371,388	419,795	28,557	819,740
Utility Property Leased		18,785		18,785
Nuclear Fuel, Net		521,229		521,229
Nonutility Property - Land		12,599		12,599
Total Capital Assets	3,395,899	8,841,176	298,291	12,535,366
Less: Accumulated Depreciation	926,250	3,546,384	61,292	4,533,926
Net Capital Assets	2,469,649	5,294,792	236,999	8,001,440
Assets Held for Resale	2,760		607	3,367
Other Noncurrent Assets	1,481	476,603		478,084
Unamortized Debt Expense	13,442	37,414		50,856
Total Noncurrent Assets	2,487,332	5,808,809	237,606	8,533,747
Total Assets	$ 2,972,154	$ 8,644,386	$ 299,230	$ 11,915,770

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2007
(In Thousands)

	SAN ANTONIO WATER SYSTEM	CPS ENERGY	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Liabilities:				
Current Liabilities:				
Payable from Current Unrestricted Assets:				
Accounts Payable and Other Current Liabilities	$ 27,420	$ 289,606	$ 13,715	$ 330,741
Sewer Service Collections Payable	332			332
Unearned Revenues			3,537	3,537
Securities Lending Obligation		626,370		626,370
Notes and Lease Payables	456		754	1,210
Due to Other Governmental Agencies			1,215	1,215
Current Portion of Long-term Lease/Notes Payable	420	22,561	875	23,856
Current Portion of Other Payables	3,338	2,529	4,991	10,858
Total Payable from Current Unrestricted Assets	31,966	941,066	25,087	998,119
Payable from Restricted Assets:				
Accrued Bond and Certificate Interest	8,283			8,283
Current Portion of Bonds and Certificates	24,880	141,755		166,635
Other Payables	17,439			17,439
Total Payable from Restricted Assets:	50,602	141,755		192,357
Total Current Liabilities	82,568	1,082,821	25,087	1,190,476
Noncurrent Liabilities:				
Revenue Bonds, Net of Current Portion	1,258,630	2,969,100		4,227,730
Commercial Paper	237,360	350,000		587,360
Unamortized Premium on New Series Bonds	13,573	104,212		117,785
Unamortized Discount on New Series Bonds	(11,867)			(11,867)
Deferred Amount on Refunding	(27,574)	(95,761)		(123,335)
Long-Term Lease/Notes Payable (Net of Current Portion)	571	543,333	84,130	628,034
Other Payables (Net of Current Portion)	1,881	567,285	10,615	579,781
Total Noncurrent Liabilities	1,472,574	4,438,169	94,745	6,005,488
Total Liabilities	1,555,142	5,520,990	119,832	7,195,964
Net Assets:				
Invested in Capital Assets, Net of Related Debt	1,177,436	2,118,261	145,900	3,441,597
Restricted for:				
Equipment Renewal and Replacement		583,809	2,425	586,234
Debt Service	18,350	5,984	2,651	26,985
Employee Benefit Plans		203,127		203,127
Capital Projects			3,618	3,618
Education and Training			38	38
Unrestricted	221,226	212,215	24,766	458,207
Total Net Assets	$ 1,417,012	$ 3,123,396	$ 179,398	$ 4,719,806

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Activities
Discretely Presented Component Units
Year Ended September 30, 2007
(In Thousands)

		PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
San Antonio Water System	$ 323,730	$ 363,500	$ -	$ 126,320
CPS Energy	1,803,745	1,770,086		39,317
Nonmajor Component Units	52,915	46,992	57	4,539
Total	$ 2,180,390	$ 2,180,578	$ 57	$ 170,176

	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	SAN ANTONIO WATER SYSTEM	CPS ENERGY	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
	$ 166,090	$ -	$ -	$ 166,090
		5,658		5,658
			(1,327)	(1,327)
	166,090	5,658	(1,327)	170,421
General Revenues:				
Investment Earnings	20,819	121,694	2,258	144,771
Miscellaneous			4,774	4,774
Adjustment for STP Pension Cost		1,505		1,505
Special Items	(4,999)			(4,999)
Total General Revenues and Special Items	15,820	123,199	7,032	146,051
Change in Net Assets	181,910	128,857	5,705	316,472
Net Assets - Beginning of Fiscal Year, as restated	1,235,102	2,994,539	173,693	4,403,334
Net Assets - End of Fiscal Year	$ 1,417,012	$ 3,123,396	$ 179,398	$ 4,719,806

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAN ANTONIO, TEXAS

Statement of Activities
Discretely Presented Component Units
Year Ended September 30, 2007
(In Thousands)

The accompanying notes are an integral part of these basic financial statements.

- 26 - *Amounts are expressed in thousands*

Comprehensive Annual Financial Report
Table of Notes to Financial Statements
Year Ended September 30, 2007

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Note 1 Summary of Significant Accounting Policies

The financial statements of the City of San Antonio (the City) have been prepared in conformity with U.S. 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.

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.

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, 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 Statements No. 14 and No. 39 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 Statements No. 14 and 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

The criteria outlined above were excerpted from GASB Statements No. 14 and No. 39. For a more detailed explanation of the criteria established by the Statements, the reader is referred to the *Codification of Governmental Accounting and Financial Reporting Standards*, as of June 30, 2007, 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 its relationship with the City. Predicated upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units

The relationships among the following component units and the City meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity and are 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. Following is a brief description of the City's blended component units:

Convention Center Hotel Finance Corporation
100 Military Plaza,
4th Floor, City Hall
San Antonio, Texas 78205-2425
Contact: Robert Peche
Telephone No. (210) 207-8040

The Convention Center Hotel Finance Corporation (CCHFC) was established in fiscal year 2005 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The CCHFC is governed by a board of directors, which is comprised of the City Council of San Antonio.

Empowerment Zone Development Corporation
100 Military Plaza,
4th Floor, City Hall
San Antonio, Texas 78205-2425
Contact: Robert Peche
Telephone No. (210) 207-8040

The Empowerment Zone Development Corporation (EZDC) was established in fiscal year 2004 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The EZDC is governed by a board of directors, which is comprised of the City Council of San Antonio. The EZDC is fully blended within Fund 28, Community Development Program, in the Grants section. EZDC has neither assets nor obligations and has incurred expenditures of $69 during fiscal year 2007 that were paid with CDBG funding. Financial statements are not audited or separately available.

San Antonio Fire and Police Pension Fund
311 Roosevelt
San Antonio, Texas 78210-2700
Contact: Warren Schott
Telephone No. (210) 534-3262

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 of San Antonio. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state laws. Benefit levels are also set by state laws. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers, upon retirement.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Fire and Police Retiree Health Care Fund
300 Convent Street, Suite 2500
San Antonio, Texas 78205-3716
Contact: James Bounds
Telephone No. (210) 220-1385

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 health care 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 health care 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 of San Antonio, and is funded primarily by contributions from the City and contributions made by active employees and retirees on behalf of their dependents. Contribution rates for the City, uniform active employees, and retirees are established pursuant to the Fire and Police collective bargaining agreements.

San Antonio Health Facilities Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Robert Peche
Telephone No. (210) 207-8040

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 City Council of San Antonio comprises the board of directors that govern HFDC.

San Antonio Housing Trust Finance Corporation
2515 Blanco Road
San Antonio, Texas 78212
Contact: John Kenny
Telephone No. (210) 735-2772

The San Antonio Housing Trust Finance Corporation (SAHTFC) was established in fiscal year 1997 under the Texas Housing Finance Corporations Act (the Act), in accordance with state laws for the purposes of, and to act on behalf of the City in, carrying out the purposes of the Act, including the issuance of single family and multi-family revenue bonds. SAHTFC is managed by a five-member board of directors, which is appointed by the City Council of San Antonio.

San Antonio Industrial Development Authority
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Robert Peche
Telephone No. (210) 207-8040

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 advance and encourage employment and public welfare. The IDA is governed by a board of directors, which is comprised of the City Council of San Antonio.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Texas Municipal Facilities Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Ben Gorzell Jr.
Telephone No. (210) 207-8620

The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in fiscal year 2001 in accordance with state laws for the purposes of, and to act on behalf of the City in, acquiring, constructing, equipping, financing, operating, and maintaining 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 San Antonio.

Starbright Industrial Development Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Ben Gorzell Jr.
Telephone No. (210) 207-8620

The Starbright Industrial Development Corporation (SIDC) was established in fiscal year 2003 in accordance with state laws for the purposes of, and to act on behalf of the City in, the promotion and development of commercial, industrial, and manufacturing enterprises, to advance and encourage employment and public welfare, including but not limited to the acquisition of land. The SIDC is governed by a board of directors, which is comprised of the City Council of San Antonio.

Discretely Presented Component Units

The relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity, and accordingly are included; however, is such that the financial statements are discretely presented alongside, but not blended with those of the City.

Brooks Development Authority
8030 Challenger Drive
Brooks City-Base, Texas 78235-5355
Contact: Bart Sanchez
Telephone No. (210) 536-6710

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 laws for the purposes of, and to act on behalf of the City in, improving mission effectiveness, reducing the cost of providing quality installation support through improved capital asset management, and promoting economic development for Brooks Air Force Base and in the surrounding community. An eleven-member board of directors appointed by the City Council of San Antonio 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.

CPS Energy
P.O. Box 1771
San Antonio, Texas 78296-1771
Contact: Richard E. Williamson
Telephone No. (210) 353-2397

CPS Energy, a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS Energy is governed by a board of trustees, which is comprised of four members appointed by the City Council of San Antonio and the Mayor of the City as an ex-officio member. In 2006, City Public Service changed its name to CPS Energy. The user rates for services and charges and the issuance of bonds are approved by the City Council.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

Municipal Golf Association - San Antonio
8250 Vista Colina
San Antonio, Texas 78255
Contact: James E. Roschek
Telephone No. (210) 695-5050

The Municipal Golf Association - San Antonio (MGA-SA) was established in fiscal year 2007 in accordance with state laws for the purposes of, and to act on behalf of the City in, operating and promoting the City of San Antonio municipal golf facilities. The MGA-SA is governed by a fifteen member board of directors, which is comprised of seven members selected by MGA-SA according to the approved process contained in its by-laws; two ex-officio member positions for City staff to be appointed by the City Manager; and six members appointed by the City Council of San Antonio. While this entity was created in fiscal year 2007, operations did not begin until fiscal year 2008. As such, MGA-SA has no financial information available for fiscal year 2007.

Port Authority of San Antonio dba Port San Antonio
143 Billy Mitchell Blvd., Ste 6
San Antonio, Texas 78226-1816
Contact: Bruce Miller
Telephone No. (210) 362-7800

The Greater Kelly Development Corporation (GKDC) was established in 1996 as a 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 has 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. In 2006, GKDA changed its name to Port Authority of San Antonio dba Port San Antonio (the Port). The Port 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 Port is governed by an eleven-member board of directors, appointed by the City Council of San Antonio. The City Council also has the ability to remove appointed members of the organization's governing board at will. The Port is authorized to issue bonds to finance any project as permitted by state laws, but said bonds are not obligations of the City.

San Antonio Development Agency
P. O. Box 831386
San Antonio, Texas 78283-1386
Contact: David D. Garza
Telephone No. (210) 207-5850

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 in such areas as it deems advisable, subject to approval by the City Council of San Antonio 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 daily operations are being staffed by City personnel. SADA is governed by a seven-member board of commissioners appointed by the City Council.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Education Facilities Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Robert Peche
Telephone No. (210) 207-8040

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 its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to San Antonio Education Facilities Corporation (SAEFC). The Code 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 of San Antonio 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.

SA Energy Acquisition Public Facility Corporation
145 Navarro
San Antonio, Texas 78205
Contact: Shannon R. Albert
Telephone No. (210) 353-2940

The SA Energy Acquisition Public Facility Corporation (SAEAPFC) was established in 2007, in accordance with state laws for the purposes of, and to act on behalf of the City in, the financing and acquisition of electric energy and power, oil, gas, coal and other liquid, gaseous or solid hydrocarbon fuels for the electric and gas systems of the City of San Antonio. SAEAPFC is governed by a seven-member board of directors appointed by the City Council of San Antonio for two-year terms. Board members are subject to removal by the City Council for cause, or at will. SAEAPFC's fiscal year ends January 31. Since the entity has not completed a full year of operations as of September 30, 2007 there are no financial statements available for the City's fiscal year 2007 CAFR.

San Antonio Housing Trust Foundation, Inc.
2515 Blanco Rd.
San Antonio, Texas 78212-2796
Contact: John Kenny
Telephone No. (210) 735-2772

The San Antonio Housing Trust Foundation, Inc. (SAHTF) is a nonprofit 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, and 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 of San Antonio. 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Local Development Company Inc. dba South Texas Business Fund
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact: Robert Peche
Telephone No. (210) 207-8040

The San Antonio Local Development Company, Inc. (SALDC) is a nonprofit 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 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 twenty-five member board of trustees, twelve are directors all appointed by the City Council of San Antonio and the Alamo Area Council of Governments. 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, the Bill Sinkin Micro-Loan Fund, and the Inner-City Loan Fund.

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298-2449
Contact: Doug Evanson
Telephone No. (210) 233-3803

On May 19, 1992, the consolidation of all water systems, agencies and activities into one institution through a refunding of the then outstanding water and sewer bonds of the former City Water Board, Alamo Water Conservation and Re-Use District, and the City's Sewer and Stormwater System, resulted in the creation of the San Antonio Water System (SAWS). The City Council of San Antonio determined that the interests of the citizens, and the customers would 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.

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

Westside Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Ramon Flores
Telephone No. (210) 207-8204

The Westside Development Corporation (WDC) was established in fiscal year 2006 in accordance with state laws for the purposes of promoting economic development and redevelopment opportunities in the Westside of San Antonio. WDC seeks to generate new capital investment, create more, higher paying jobs, and reduce the poverty level in the area. In addition, the WDC functions as a land development corporation that has the power to buy, sell, and accept land as a nonprofit without the restrictions placed upon a municipality. The WDC is governed by a board of directors nominated by a City Council committee and appointed by the City Council of San Antonio. Representatives of key stakeholders and Westside advocates are the policy-setting oversight authority for the WDC, comprising of 17 members.

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.

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS Energy and SAWS would be misleading. CPS Energy and SAWS have been identified as major discretely presented component units as they both 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 CPS Energy and SAEAPFC with fiscal year-ends of January 31, and SAWS, with a fiscal year-end of December 31.

Related Organizations

The City Council of San Antonio appoints the members to the board of commissioners for the San Antonio Housing Authority (SAHA); however, the City's accountability for this entity does not extend beyond making appointments to the board of commissioners and the coordination and approval of strategic plans.

Basic Financial Statements - GASB Statement No. 34

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 nonfiduciary activities of the primary government and its component units. The MD&A 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, *Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments*, the City 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Basic Financial Statements - GASB Statement No. 34 (Continued)

The Statement of Net Assets - Reflects both short-term and long-term assets and liabilities. In the government-wide Statement of Net Assets, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by user fees and charges for services. Long-term assets, such as capital assets and unamortized debt expense, and long-term obligations, such as debt, are now reported in the governmental activities. 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 within governmental and business-type activities have been eliminated in the government-wide Statement of Net Assets, which minimizes the duplication of assets and liabilities within the governmental and business-type activities. The net amount of interfund transfers between governmental, proprietary and fiduciary funds is the balance reported in the Statement of Net Assets. Component units are also reported in the Statement of Net Assets.

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 and use tax, revenues from utilities, etc.). Direct (gross) expenses of a given function or segment are offset by charges for services, and operating and capital grants and contributions. Program revenues must be directly associated with the function of program 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.

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 balances 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, enterprise 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 governmental funds and major enterprise funds are reported separately in the fund financial statements. Nonmajor funds are aggregated in the fund financial statements and independently presented in the combining statements.

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund are as follows: the total assets, liabilities, revenues or expenditure/expenses of that governmental or enterprise fund are at least 10.0% of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise funds), and the same element that met the 10.0% criterion above in the governmental or enterprise fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

Note 1 Summary of Significant Accounting Policies (Continued)

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 Funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs, except those that are accounted for in proprietary type funds.
- The Categorical Grant-In-Aid fund accounts for the receipt and disbursement of all federal and state grants, except for Community Development Block Grants, HUD 108 loans, and HOME Investment Partnership Grants.

The following is a brief description of the major proprietary fund that is 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.

Governmental Funds

General Fund is the primary operating fund for the City, which accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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 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 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 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.

The governmental funds that have legally adopted budgets are the General Fund, Special Revenue Funds (excluding Project Management Office, HOME Program, Categorical Grant-In-Aid, HUD 108 Loan Program, Community Development Program, and most Community Services Funds), Debt Service Funds, Visitor Information Center & City Store, Animal Care, Better Jobs, Child Safety, Municipal Courts Security, Municipal Courts Technology, Recreation Athletic, South Texas Business, Starbright Industrial Development Corporation, Tax Increment Financing, Tree Mitigation, and San Jose Burial Fund. Please note the Visitor Information Center & City Store, Animal Care, Better Jobs, Child Safety, Municipal Courts Security, Municipal Courts Technology, Recreation Athletic, South Texas Business, Starbright Industrial Development Corporation, Tax Increment Financing, and Tree Mitigation are reported as components of the Community Services Funds.

Proprietary 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 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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 these funds.

Fiduciary 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 and Retiree Health Care Trust, which account for resources for pension fund and health care benefits for the City's firefighters and police officers. The Private Purpose Trust Funds includes an assistance fund and a scholarship fund for City employees, as well as reporting on funds restricted for the City's literacy programs. The Agency Funds account for the City's sales and use tax to be remitted to the State of Texas, various fees for other governmental entities, unclaimed property, and holds various deposits. 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 the measurement of results of operations.

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 in the period for which they were levied. Property taxes receivable includes taxes due and amounts expected to be collected within 60 days after the year-end, along with related interests and penalties. For additional disclosure related to property taxes see Note 2, Property Tax. Other taxes and fees are recognized as revenue in the year they are earned. Revenues 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 additionally reported as program revenues.

1) Charges for services are revenues 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, license and permits and intergovernmental revenues as reported in the General Fund 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 for operations of a particular program.
3) Capital grants and contributions are also restricted revenues; the funds may only be spent to purchase or build capital assets for specified programs.

Note 1 Summary of Significant Accounting Policies (Continued)

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 in 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 60 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 unearned revenue until earned and available.

Gross receipts and sales and use taxes are considered available when received by 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 rebates 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 materials and supplies 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 in 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, 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 System Fund. This definition is consistent with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, 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, noncapital 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 proprietary 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 Energy and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

CPS Energy's 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, and ancillary services. Operating expenses are recorded as incurred and include those costs that result from the ongoing operations of the electric and gas systems.

Nonoperating revenue consists primarily of investment income, including fair market value adjustments. The amortization of net gains from the lease/leaseback of J.K. Spruce Unit 1 and the sale of water rights, when applicable, are also included. Certain miscellaneous income amounts from renting general property and providing various services are also recorded as nonoperating when they are not directly identified with the electric or gas systems. These amounts for fiscal year 2007 were recorded net of expenses incurred to support the applicable activities. Nonoperating expenses consist primarily of interest expense, amortization of debt related costs and payments to the City.

SAWS' principal operating revenues are charges to customers for water, wastewater, water supply, and chilled water and steam 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. Nonoperating expenses consist primarily of interest expense, amortization of debt related costs, sales of capital assets and payments to the City.

Current Year GASB Statement Implementations

In fiscal year 2007, the City implemented the following GASB Statement with no effect to the City's financials other than additional component unit disclosures; see Note 9, Postemployment Retirement Benefits and the related Pension Schedules:

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 GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. GASB Statement No. 43 follows a similar approach to GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*, with modifications to reflect differences between pension plans and OPEB plans.

Future GASB Statement Implementations

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 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.

GASB Statement No. 47, *Accounting for Termination Benefits*, requires employers to disclose termination benefit arrangements, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. Termination benefits that are provided through an existing defined benefit OPEB plan should be implemented for the fiscal period beginning after December 15, 2006 (simultaneously with GASB Statement No. 45).

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes criteria that governments will use to determine if a certain transaction should be regarded as a sale or a collateralized borrowing, requires enhanced disclosures pertaining to future revenues that have been pledged or sold, provides guidance on sales of receivables and future revenues within the same financial reporting entity, and provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues. The requirements for this Statement are effective for fiscal periods beginning after December 15, 2006.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes accounting and financial reporting standards for pollution, including contamination, remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and clean-ups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning. The requirements for this Statement are effective for fiscal periods beginning after December 15, 2007.

GASB Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*, aligns the reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Post-employment Benefits Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2007.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes consistent guidance on recognition of intangible assets. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. This Statement also establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also establishes guidance specific to intangible assets related to amortization. It provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions, and if there are no factors that limit the useful life of an intangible asset, it is considered to have an indefinite useful life. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2009.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2008.

The City has not fully determined the effects that implementation of Statements No. 45 and No. 47 through No. 52 will have on the City's financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

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, 2007, the City's investment portfolio did not contain any derivative or alternative investment products, nor was it leveraged in any way, except as noted in the Fire and Police Pension Fund and Fire and Police Retiree Health Care Fund. For a listing of authorized investments, see Note 3, Cash and Cash Equivalents and Investments.

The City, CPS Energy, 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 Retiree 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, CPS Energy, and SAWS consider all highly liquid investments with an original maturity of approximately 90 days or less to be cash equivalents.

Materials and Supplies and Prepaid Items

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 certain materials and supplies. Under the consumption method, these acquisitions are recorded in material and supplies accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

Prepaid items are goods and services that are paid 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.

Capital Assets and Depreciation

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 in the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The City has established capitalization thresholds for buildings, improvements, infrastructure, machinery and equipment, and furniture and office equipment which includes computer equipment. All infrastructure assets are reported in the financial statements and the estimated useful lives and capitalization thresholds applied are as follows:

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

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	100

During fiscal year 2007, the infrastructure capitalization threshold was increased from $25 to $100 to provide accounting consistency with other construction type assets. Infrastructure previously capitalized, prior to the policy change, will continue to be capitalized and depreciated as originally scheduled.

CPS Energy

The CPS Energy's utility plant is stated at the cost of construction, including expenses for 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), which represents capitalized interest. CPS Energy computes AFUDC using rates that approximate the cost of borrowed funds measured as the short-term investment rate for other funds used for construction. Noncash AFUDC is applied to projects estimated to require 30 days or more to complete.

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.3% for fiscal year 2007.

CPS Energy 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 Energy is charged a fee for disposal of spent nuclear fuel, which is based upon CPS Energy's share of the STP generation that is available for sale to CPS Energy customers. The charge is included in the monthly fuel expense. For further discussion regarding the STP, see Note 10, CPS Energy South Texas Project (STP).

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	Units of Production

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

San Antonio Water System (SAWS)

SAWS' capital assets in service are capitalized when the unit cost is greater than or equal to $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. It is the policy of SAWS to capitalize 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; major plant replacements are capitalized. 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 estimated useful lives of capital assets are as follows:

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

General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Funds. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, interest earned within the Debt Service Funds, and transfers from other funds.

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 nonuniformed 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 nonuniformed, nonexempt 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.

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Insurance (Continued)

The City is insured for property and casualty liability. During fiscal year 2007, Great American Insurance 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-insurance 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 that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third-party administrators. In addition, as of September 30, 2007, the City has excess workers' compensation coverage through the State National Insurance Company. 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, Risk Financing.

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 years' expenditures and amounts allocated to making future improvements and replacements. Such designations will be reflected on the fund financial statements.

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. "Available" means collectible within the current period, or soon enough thereafter, to be used to pay liabilities of the current period. Revenues from property taxes, sales and use taxes, occupancy taxes, gross receipts taxes, municipal court fines and fees, licenses, revenues from utilities, 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. 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 Energy 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 Energy reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned, under the accrual basis.

Note 1 Summary of Significant Accounting Policies (Continued)

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 2007, general government expenditures were reduced by $7,791, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of $4,896 and $2,895, respectively.

Nuclear Decommissioning

CPS Energy, together with the other owners of 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 Energy and the other owners 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 1999, the owners conducted a review of decommissioning costs. The results estimated CPS Energy's share of decommissioning costs at approximately $311,000 in 1998 dollars. In 2004, the owners conducted an additional review of decommissioning, and results showed that CPS Energy's share of decommissioning costs was approximately $397,400 in 2004 dollars.

Although there was an increase in decommissioning base costs from the 1998 study to the 2004 study, there was an offsetting decrease in applicable cost escalation assumptions. Therefore, CPS Energy was able to decrease its minimum annual contribution requirement from $15,900 in fiscal year 2004 to $5,000 in fiscal year 2007.

In 1991, CPS Energy started accumulating the decommissioning funds for their original 28.0% share of STP in an external trust in accordance with the NRC regulations. The 28.0% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excluding securities lending cash collateral, as of December 31, 2006 (the Decommissioning Trust's year end), CPS Energy had accumulated approximately $256,200 of funds in that 28.0% external trust. Based on the annual calculation of financial assurance required by the NRC, CPS Energy's 28.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $87,300 at December 31, 2006.

In conjunction with the acquisition of the additional 12.0% interest in STP in May 2005, CPS Energy also assumed control of a relative portion of the Decommissioning Trust previously established by American Electric Power (AEP). This is referred to as the 12.0% Decommissioning Trust, and its assets and related liabilities are also included in CPS Energy's financial statements as a component unit.

In fiscal year 2006, AEP's remaining operational interest in STP was simultaneously acquired by Texas Genco. Additionally, the remaining portion of AEP's Decommissioning Trust was assumed by Texas Genco. These transactions occurred before Texas Genco was acquired by NRG.

Subject to Public Utility Commission of Texas (PUCT) approval as requested in the future, credits or deficiencies in the funding of this 12.0% Decommissioning Trust will be received from or distributed to AEP's customers. Excluding securities lending cash collateral, as of December 31, 2006, the 12.0% Decommissioning Trust had accumulated approximately $82,700 of funds. According to the 2004 study mentioned above, the estimated decommissioning costs for that 12.0% Decommissioning Trust are approximately $170,300 in 2004. Based on the annual calculation of financial assurance required by the NRC, the 12.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $37,400 at December 31, 2006.

Note 1 Summary of Significant Accounting Policies (Continued)

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 are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 are reported as other financing uses.

Bond Issuance Costs

In the government-wide and proprietary fund financial statements, bond issuance costs are reported as assets in the Statement of Net Assets and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period 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.

Elimination of Internal Activity

Elimination of internal activity, particularly related to Internal Service Fund transactions, is 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 charge 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 over time.

Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditures are 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Special Items

San Antonio Water System (SAWS)

During the first quarter of 2006, SAWS completed an independent evaluation of its regional Carrizo water supply project which is designed to bring groundwater from Gonzalez and Wilson Counties to San Antonio via 60 miles of pipe. The results of the study showed potential immediate capital cost savings of approximately $50,000 through utilization of a pipeline route that takes better advantage of existing system capacity. However, as a result of this study and subsequent rerouting of the pipeline, certain design and acquisition costs associated with a previously planned segment of this pipeline were deemed to be obsolete. The total balance of these charges, $4,999, was written off during 2006.

Unreserved Designated Fund Balance

The designated fund balances from the governmental funds balance sheet are composed of the following:

- The General Fund has designated unreserved fund balances of $2,192 for budgeted carryforwards, $8,522 for special projects, $48,118 for reserve for revenue loss, and $3,830 for Public, Educational and Government Access Funding (PEG) revenues.
- Special Revenue Funds designated fund balance consists entirely of budgeted carryforwards.
- Permanent Funds designated fund balance consists of a reservation from the sale of burial lots within the San Jose Burial Park Fund as well as a reservation for security of a loan within the San Antonio Housing Trust Fund.

Note 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 become delinquent the following February 1. Property tax billing and collections are performed via an inter-local agreement with the Bexar County Tax Assessor/Collector's Office.

In the governmental funds, 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 receivables, net of allowances for uncollectible amounts, are offset by unearned 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 (please note amounts are not reflected in thousands). The tax rate approved by City ordinance for the fiscal year ended September 30, 2007, was $0.57854 per $100 taxable valuation, which means that the City has a tax margin of $1.92146 per $100 taxable valuation (please note that tax rate amounts are not reflected in thousands). This could raise an additional $1,090,769 per year based on the net taxable valuation of $56,767,702 before the limit is reached.

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Note 3 Cash and Cash Equivalents and Investments

Summary of Cash and Cash Equivalents and Investments

A summary of cash and cash equivalents and investments for the primary government (City), Fire and Police Pension Fund, Fire and Police Retiree Health Care Fund, CPS Energy, and SAWS are presented below as of each entity's respective fiscal year. The information is provided in order to facilitate reconciliation between the Statement of Net Assets and the following note disclosures:

Totals from Statement of Net Assets

	City [1]	Fire and Police Pension Fund [2]	Fire and Police Retiree Health Care Fund [2]	CPS Energy [3]	SAWS [4]
Unrestricted:					
Cash and Cash Equivalents	$ 14,056	$ 68,799	$ 9,167	$ 41,344	$ 14,042
Security Lending Collateral		207,659	25,933	626,370	
Investments	326,733	2,125,254	191,587	270,009	189,285
Total Unrestricted	340,789	2,401,712	226,687	937,723	203,327
Restricted:					
Cash and Cash Equivalents	179,039			220,815	10,486
Investments	617,418			1,312,496	221,730
Total Restricted	796,457			1,533,311	232,216
Total Cash and Cash Equivalents and Investments	$ 1,137,246	$ 2,401,712	$ 226,687	$ 2,471,034	$ 435,543

[1] Private Purpose Trust and Agency Funds and Westside Development Corporation were held by the City in a fiduciary capacity and are excluded from the primary Statement of Net Assets. These assets are presented as Restricted Cash and Cash Equivalents of $7,924 and Investments of $1,952.

[2] The following funds are separately issued fiduciary component units and are excluded from the primary Statement of Net Assets.

[3] For the fiscal year ended January 31, 2007.

[4] For the fiscal year ended December 31, 2006.

Summary of Cash and Cash Equivalents

	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
Deposits with Financial Institutions	$ 15,410	$ -	$ 110	$ 1,936	$ 18,741
Investments with Original Maturities of Less than Ninety Days	177,409		9,032	259,379	5,787
Cash with Pension/Retiree Health Care Fiscal Agents		68,799			
Cash with Other Financial Agents	79		25	742	
Petty Cash Funds	197			102	
Total Cash and Cash Equivalents	$ 193,095	$ 68,799	$ 9,167	$ 262,159	$ 24,528

Note 3 Cash and Cash Equivalents and Investments (Continued)

Summary of Cash and Cash Equivalents and Investments (Continued)

Summary of Investments

	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
U.S. Treasury, Government Agencies, and Money Market Funds	$ 1,065,294	$ 112,548	$ 18,728	$ 1,464,381	$ 416,802
Repurchase Agreements	56,266				
Corporate Bonds		295,661		62,424	
Foreign Bonds				10,452	
Preferred Stock		1,108			
Common Stock		1,132,268	48,595	289,153	
Real Estate		183,676	25,369	8,518	
Mutual Funds - Invest in Common Stock					
Hedge Funds		255,426	61,300		
International Equities			23,598	6,956	
Swaps Liabilities		(346)			
Alternative Investment		144,913	23,029		
Total Investments	1,121,560	2,125,254	200,619	1,841,884	416,802
Less: Investments with original maturities of Less than Ninety Days included in Cash and Cash Equivalents	(177,409)		(9,032)	(259,379)	(5,787)
Total	$ 944,151	$ 2,125,254	$ 191,587	$ 1,582,505	$ 411,015

Primary Government (City)

City monies are deposited in demand accounts at the City's depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata shares of highly liquid investments, including U.S. Treasury securities, U.S. government agency securities, and repurchase agreements with original maturities of ninety days or less, summarized by fund type and included in the combined Statement of Net Assets as cash and cash equivalents. Overdrafts, which result from a fund overdrawing its share of pooled cash, are reported as interfund payables by the overdrawn fund and as interfund receivables of the General Fund.

Collateral is required for demand deposits and certificates of deposit at 110.0% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States of America and its agencies and obligations of the state and its municipalities, school districts, and district corporations. Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services.

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 market 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 with securities consisting of U.S. government or government agency or U.S. government guaranteed obligations held in book entry form by the Federal Reserve Bank in the City's name.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Primary Government (City) (Continued)

The City's investment portfolio is managed in accordance with its own Investment Policy and the Texas Public Funds Investment Act, as amended. 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 greater than ninety days. Each fund's pro rata share of these investments with original maturities greater than ninety days is combined with similar nonpooled 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, 2007.

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. The increase in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $64 for the year ended September 30, 2007. The City does not participate in external investment pools.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Exposure*, the following table and narrative addresses the interest rate risk exposure by investment type, using the weighted average maturity (WAM) method, custodial credit risk, interest rate risk, credit risk, and concentration of credit risk. The City does not hold any foreign securities; therefore, foreign currency risk is not applicable.

A summary of the City's cash and cash equivalents is provided at the beginning of Note 3, with a comparison to the Statement of Net Assets and Statement of Fiduciary Net Assets.

City Investments

	Carrying [1] Amount	Fair [1] Value	Allocation [2]	Rating [3]	WAM
U.S. Government Agency Securities	$ 666,073	$ 666,181	59.4%	AAA/A-1+	0.35 years
U.S. Treasuries	271,509	271,465	24.2%	N/A	0.24 years
Money Market Mutual Fund	127,648	127,648	11.4%	AAA	1 day
Repurchase Agreement	56,266	56,266	5.0%	N/A	1 day
Total City Investments	$ 1,121,496	$ 1,121,560	100.0%		

[1] The Carrying Amount and Fair Value include investments for the Starbright Industrial Development Corporation, Texas Municipal Facilities Corporation, and Convention Center Hotel Finance Corporation, which total $74,824.

[2] The allocation is based on fair value.

[3] Standard & Poors.

Custodial Credit Risk (Deposits) - Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services. The City periodically determines that the collateral has a market value of not less than 102.0% of the deposit amount 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, with securities consisting of U.S. government agency or securities held in book entry form by the Federal Reserve Bank in the City's name.

Custodial Credit Risk (Investments) - The City's investment securities are held at the City's depository bank's third-party custodian, The Bank of New York Mellon, in the depository bank's name "as a custodian for the City". Assets pledged as collateral must generally be a type of security specifically authorized to be held as a direct investment; must be held by an independent third party; and must be pledged in the name of the City.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Primary Government (City) (Continued)

Interest Rate Risk - The City manages exposure to value losses resulting from rising interest rates by limiting the investment portfolio's weighted-average maturity to five years. Per the City's Investment Policy, investments are diversified across issuers and maturity dates as fewer funds should be subject to interest rate risk occurrence at any given time. In addition, the City generally follows a laddered approach to investing, whereby blocks of roughly the same increments are invested at similarly increased maturity lengths. This approach provides security that all funds will not fall due at one particularly advantageous or disadvantageous period of time, thereby spreading the risk. Weighted-average maturity is defined as the weighted-average time to the return of a dollar of principal. It is used as an estimate of the interest rate risk of a fixed income investment. The City invests in money market mutual funds with 100.0% overnight liquidity. Additionally, the City entered into several repurchase agreements with 100.0% overnight liquidity for investment of certain bond proceeds.

Credit Risk - The City's Investment Policy is to purchase securities that are of the highest credit quality, based on current ratings provided by nationally recognized credit rating agencies. The City deems investments in U.S. Treasury Securities and federal agency securities that are guaranteed to be without credit risk. Investments in other debt securities will consist of securities rated "A" or better by at least two nationally recognized rating agencies. As of September 30, 2007, the City's investment portfolio, with the exception of the repurchase agreement and the money market mutual fund investments, consisted only of U.S. Treasury securities and U.S. government agency securities. Investments in U.S. government agency securities, including Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, and Federal Farm Credit Bank were rated Aaa by Moody's Investors Services and AAA by Standard & Poor's. The investments in the money market funds were rated Aaa by Moody's Investor Service and AAA by Standard & Poor's, and all repurchase agreements were over 100.0% collateralized with U.S. government agency securities. The City manages its exposure to credit risk by limiting its fixed income investments to a rating of "A" or better.

Concentration of Credit Risk - Although the City's Investment Policy does not limit the amount of the portfolio invested in any one U.S. government agency, the City manages exposure to credit risk through diversification. As of September 30, 2007, the U.S. government agency securities allocation was as follows: Federal National Mortgage Association 24.6%, Federal Home Loan Mortgage Corporation 20.7%, Federal Home Loan Bank 11.6%, and Federal Farm Credit Bank 2.5%.

Fire and Police Pension Fund

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, hedge funds 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 is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Investment income is recognized as earned. Gains and losses on sales and exchanges are recognized on the trade date. Investments that do not have an established market are reported at estimated fair value. The Pension Fund's assets are invested as authorized by Texas state law. The fair value of the Pension Fund's cash and investment are $2,401,712. A summary of the Pension Funds cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposits) - Cash and short-term investments include demand deposit accounts, equity in pooled cash of the City, and short-term U.S. government and other investments. As of September 30, 2007, cash in demand deposit accounts and the pooled cash of the City were fully collateralized.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Custodial Credit Risk (Investments) - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. As of September 30, 2007, the Pension Fund had investment in foreign currency in the amount of $45 that was uninsured and uncollateralized.

Credit Risk - Using Standard and Poor's rating system for fixed income securities as of September 30, 2007, 45.0% of the Pension Fund's bonds were rated AAA, 4.0% were rated AA, 9.0% were rated A, 17.0% were rated BBB, 8.0% were rated BB, 8.0% were rated B, 2.0% were rated CCC, and 7.0% were not rated.

Interest Rate Risk - Only the fixed income securities of the Pension Fund are subject to interest rate risk due to the possibility that prevailing interest rates could change before the securities reach maturity. Securities that are subject to interest rate risk as of September 30, 2007 amount to $408,419 and have a weighted-average maturity (WAM) of 10.89 years. Securities that are subject to interest rate risk are shown in the following table.

Investment Type	Fair Value	Weighted-Average Maturity WAM (Years)
Corporate Bonds	$ 63,960	11.23
Government Agencies	16,656	16.64
Government Bonds	89,864	6.05
Short Term Bills and Notes	497	0.17
Government Mortgage Backed Securities	95,243	7.17
Non-Government Backed C.M.O.s	16,262	28.35
Commercial Mortgage-Backed	821	25.91
Asset Backed Securities	24,721	27.86
Ashmore	28,374	16.40
Ashmore LFC	16,281	6.79
Wellington Emerging Market Debt	55,740	9.20
Total Interest Rate Sensitive Securities	$ 408,419	10.89

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Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Foreign Currency Risk - The Pension Fund's investments include investments in equities, bonds, and cash in foreign currency denominations. Equities denominated in foreign currencies as of September 30, 2007 amounted to $421,163 in equities, $146,716 in bonds and $2,336 in cash. Detailed as follows:

Country	Equities	Bonds	Cash	Total
Argentine Peso	$ -	$ 2,000	$ -	$ 2,000
Australian Dollar	13,074	15,749	572	29,395
Bolivian Boliviano		26		26
Brazilian Real	15,957	13,947		29,904
Canadian Dollar	22,577	5,512	2,024	30,113
Swiss Franc	14,669		4,777	19,446
Chinese Renminbi	2,432	11		2,443
Chilean Peso		641		641
Colombian Peso		1,795		1,795
Czech Republic Krona	1,094	1,112		2,206
Danish Krone	1,829		13	1,842
Dominican Peso		31		31
Egyptian Pound		848		848
European Union	103,205	641	(2,469)	101,377
British Pound	67,023	8,627	(5,459)	70,191
Ghanaian Cedi		24		24
Hong Kong Dollar	15,068	549	85	15,702
Hungarian Forint	1,783	3,517		5,300
Indonesian Rupiah	1,233	6,159	30	7,422
Israeli New Shekel	4,489	1,025		5,514
Indian Rupee	436	494		930
Jamaican Dollar		18		18
Japanese Yen	64,064		730	64,794
South Korean Won	28,660	497		29,157
Kuwati Dinar		224		224
Mexican Peso	6,786	7,467		14,253
Malaysian Ringgit	1,743	8,492		10,235
Norwegian Krone	3,691	5,231	52	8,974
New Zealand Dollar	192	5,022		5,214
Nigerian Naira		41		41
Pakistani Rupe	466	20		486
Panamanian Balboa		101		101
Peruvian Nuevo Sol		600		600
Philippine Peso		2,265		2,265
Polish Zloty	5,297	12,190		17,487
Romanian Leu	2,008	250		2,258
Russian Ruble	5,015	6,668		11,683
Swedish Krona	6,411	10,932	49	17,392
Singapore Dollar	1,221	9,707	29	10,957
Slovak Koruna		1,121		1,121
Thai Baht	7,743	352		8,095
Turkey New Lira	5,493	2,813	1,903	10,209
Taiwan Dollar	14,833			14,833
Ukrainian Hyvnia		840		840
UAE Dirham		519		519
Uruguay Peso		1,061		1,061
Venezuelan Bolivar		1,337		1,337
South African Rand	2,671	6,240		8,911
	$ 421,163	$ 146,716	$ 2,336	$ 570,215

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Securities Lending - State statutes and Pension Fund policies allow for securities lending transactions. 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 102.0% and 105.0% 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, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due, and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote. Cash open collateral is invested in a short-term investment pool with an average weighted maturity of 32 days at September 30, 2007.

As of September 30, 2007, the Pension Fund had lending arrangements outstanding with a total market value of $210,084, which were fully collateralized with cash and securities. Of this amount, cash collateral of $207,659 is recorded in the accompanying Statement of Plan Fiduciary Net Assets. Net income for the year ended September 30, 2007 under the securities lending arrangement was $542.

Derivatives and Structured Investments - 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, 2007 was approximately $16,262 in commercial mortgage obligations, which is included with investments in the Statement of Net Assets.

The Pension Fund invested using an investment strategy called "portable alpha" in the year ended September 30, 2007. In implementing this strategy, the Pension Fund combined a low volatility absolute return strategy to provide consistent returns that are greater than interest paid at LIBOR, or "alpha". These returns are added to the difference between LIBOR and the Lehman Brothers Government Index, or "beta". In order to simulate the beta exposure, a two part strategy is employed. First, a swap is employed whereby the Pension Fund pays the 30 day LIBOR and receives a fixed rate of 5.2%. The notional amount of the swap is $27,000. The counterparty pays the fixed rate every 6 months on February 28th and August 28th. The Pension Fund pays interest every quarter on February 28th, May 28th, August 28th and November 28th. The contracts are effective as of February 28, 2007. The swap is subject to counterparty risk in the event that the counterparties are unable to pay the guaranteed amount because of financial insolvency. The amount at risk would be the difference between the interest using 30 day LIBOR on $27,000 and the fixed 5.2% interest on $27,000 for the same period. Management of the Pension Fund considers the possibility of loss due to the failure of the counterparties to be remote. A liability of $346 related to the swap is included with the investments on the Statement of Net Assets for the fiscal year ended September 30, 2007. The second part of the strategy involves the use of Treasury futures to replicate the return from the Lehman Brothers Government Index. The contracts used are 3 month contracts and are usually rolled over to new contracts within a half month of their maturity dates. The underlying securities used are new issues. As of September 30, 2007, the Pension Fund held Treasury futures contracts in the amount of $68,933. The margin accounts for the futures contracts are settled daily, so there is no market value for the futures as of September 30, 2007. Income is recognized in the Statement of Changes in Fiduciary Net Assets in net appreciation in fair value of investments.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund

The Fire and Police Retiree Health Care Fund (Health Care Fund) board of trustees administers investments of the Fire and Police Retiree Health Care Fund, a blended component unit. Investments are reported at fair value and short-term investments are reported at amortized cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments in hedge funds, real estate investment trusts, and alternative investments are held in the form of nonmarketable limited partnership investments. These investments are subject to the terms of the respective partnerships' governing documents, which may limit the Health Care Fund's withdrawal to specified times and conditions and restrict the transferability of the Health Care Fund's interest. The fair valuation of these investments is based on net assets values set by the partnerships. These net assets values may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material.

The Health Care Fund's assets are invested as authorized by the Investment Policy Statement and Guidelines of the San Antonio Fire and Police Retiree Health Care Fund, San Antonio (Investment Policy). The Health Care Fund utilizes an investment consultant to make recommendations as to the appropriate target portfolio weightings among the major asset classes (e.g. stocks, bonds, cash) within the Health Care Fund. Additionally, the Health Care Fund has hired certain investment managers to exercise full discretionary authority as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in the Investment Policy. All of the Health Care Fund's assets are held by a custodial bank, Frost National Bank of San Antonio, Texas.

Investments authorized by the Health Care Fund's Investment Policy include U.S. equities, including common stocks, securities convertible into common stock, and open or closed end mutual funds; international equity; certain fixed income assets and alternative investments, including real estate, absolute return hedge funds, and timber. The cash portion of the Health Care Fund will be invested in a short-term investment fund administered by the custodian bank, a money market mutual fund, or in individual permissible securities. The fair value of the Health Care Fund's cash and investments at September 30, 2007 is $226,687. A summary of the Health Care Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposits) - The Health Care Fund's deposits held with the custodial bank are insured up to $100 by federal deposit insurance. Deposit balances over $100 are not insured and are uncollateralized. There are no state regulations, however, which require the fund to maintain collateral for demand deposits not covered by federal deposit insurance. The bank balance of the Health Care Fund, which is exposed to custodial credit risk as of September 30, 2007, is $664. The Health Care Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2007. The Health Care Fund is aware of these risks and monitors such risks as part of its day-to-day operations and through its daily dealings with the custodian bank.

Custodial Credit Risk (Investments) - The Health Care Fund's investment securities, stocks, and bonds, are held at Frost National Bank's third-party custodian, Bank of New York. All securities held for the Health Care Fund at the Bank of New York are in Frost National Bank's name, and Frost National Bank tracks these securities as being held for the benefit of the Health Care Fund. Since the securities are not registered in the name of the Health Care Fund, are held by a counterparty, and are not insured, they are considered to be exposed to custodial credit risk. These investments are reported as follows, by investment type, as of September 30, 2007:

Common Stock	$ 48,595
International Equity	23,598
Money Market Mutual Fund	9,032

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Credit Risk - According to the Investment Policy of the Health Care Fund the average credit quality rating for the fixed-income portfolio will be at least A. Ninety percent of the securities must be rated BBB-/Baa3 or higher by a nationally recognized rating agency at the time of purchase. For split-rated securities, the higher rating will be used in determining compliance with these guidelines. Credit quality ratings for investments with credit risk were AAA for the money market mutual fund.

Concentration of Credit Risk - The Health Care Fund's Investment Policy regarding concentration of credit risk for equities states that no more than 5.0% of any investment manager's portfolio at cost and 8.0% at the market value shall be invested in the securities of any one company. Regarding fixed-income assets, no more than 10.0% of an investment manager's bond portfolio at cost shall be invested in the securities of any one issuer. The policy further states there shall be no such limit on U.S. government securities, U.S. agency securities or government - sponsored entities, U.S. agency mortgage-backed securities, or other sovereign issues rated AAA or Aaa. At year-end, the Health Care Fund did not have any investments in any one issuer that represented 5.0% or more of total investments.

Interest Rate Risk - The Health Care Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Health Care Fund is aware of this risk and has chosen to rely on the expert advice of professional money managers to manage its exposure to interest rate changes. The money market mutual fund had a fair value of $9,032 at year-end and is payable on demand.

Securities Lending - Securities lending assets are reported at fair value. The Investment Policy of the Health Care Fund and state statutes allow for securities lending transactions. The Health Care Fund entered into an agreement with its custodial bank in May 2003 to lend the Health Care Fund's securities to one or more borrowers for a fee. It is the policy of the Health Care Fund and the custodian bank to require that collateral equal 100.0% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned, and 102.0% of the loaned security's market value plus accrued interest for approved, domestic, nongovernment, or agency securities loaned be maintained by the custodial 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 Health Care Fund may suffer a loss. Management of the Health Care Fund considers the possibility of such a loss to be remote. Cash collateral is invested in money market funds at September 30, 2007.

Subscribed Capital Commitments - As of September 30, 2007, the Fund had non-binding commitments to invest capital in 10 investment companies under investment capital subscription agreements. These commitments are subject to periodic calls from the investment companies. The amount of this investment capital committed under the subscription agreements totaled to $91,500. As of September 30, 2007, $29,524 of this total had been called.

CPS Energy

CPS Energy's cash deposits at January 31, 2007 were entirely insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the securities were U.S. Government, U.S. Government Agency, or U.S. Government-guaranteed obligations held in book entry form by Frost National Bank in CPS Energy's name. A summary of CPS Energy's cash, cash equivalents, and investment can be found at the beginning of Note 3.

CPS Energy's cash, cash equivalents, and investments can be separated by those that are directly managed by CPS Energy, those managed through the Decommissioning Trusts, and those managed through the Employee Benefit Plans. For financial reporting purposes, cash, cash equivalents and investments managed directly by CPS Energy have been consistently measured as of the end of the applicable fiscal years. The Decommissioning Trusts and the Employee Benefit Plans are reported on a calendar-year basis.

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Investments managed directly by CPS Energy and the investments held in the Decommissioning Trusts are subject to the rules and regulations of the Public Funds Investment Act (PFIA). The PFIA regulates what types of investments can be made, requires written investment policies, mandates training requirements of investment officers, requires internal management reports to be produced at least quarterly, and provides for the selection of authorized brokers. In September 2005, the PFIA was amended to allow the decommissioning trust funds for municipally owned nuclear power plants to hold investments authorized by Subtitle B, Title 9, of the Property Code (i.e., corporate bonds and equities such as common stocks).

CPS Energy's allowable direct investments are defined by CPS Energy Board Resolution, CPS Energy Investment Policy, Bond Ordinances, Tax-Exempt Commercial Paper Ordinance and state law. These investments are subject to market risk, and their market value will vary as interest rates fluctuate. All CPS Energy direct investments are held in trust custodial funds by an independent bank.

CPS Energy's investments in the Decommissioning Trusts are held by an independent trustee. Investments are limited to those defined by CPS Energy Board Resolution, the South Texas Project Decommissioning Trust Investment Policy, the Investment Strategy Committee, the Trust Agreements and state law. Allowable investments for the Decommissioning Trusts include those mentioned above as directly permissible for CPS Energy, as well as equities and corporate bonds. Specifically, starting in September 2005, in accordance with the applicable amended investment policies, equity investments held can comprise 60.0% of total investments.

Investments in the Employee Benefit Plans are also held by an independent trustee. With the exception of real estates, these investments are limited to the same types mentioned above as authorized by the plans' Administrative Committees, the Trust Agreements and state law. Equity investments can comprise 60.0% of total investments in the health plan and can comprise 65.0% of total investments in the disability and life plans.

Cash equivalents and fixed-income investments are exposed to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk. Interest rate risk is the exposure to fair market value losses resulting from rising interest rates. Credit risk is the risk that an issuer of an investment will not fulfill its obligations (will be unable to make timely principal and interest payments on the security). Foreign currency risk is the exposure to fair market value losses arising from changes in exchange rates. Cash, cash equivalents and fixed-income investments are also exposed to inflation, liquidity, political, legal, event, reinvestment and timing (call) risk. Additionally, equity investments are exposed to political, legal, event and general economic risk.

CPS Energy identifies and manages all of these risks by following an appropriate investment oversight strategy, establishing and monitoring compliance with investment policies and procedures, and continually monitoring prudent controls over risks. All investment policies follow the "prudent person" concept.

Effective September 1, 2005, the investment policies of the Decommissioning Trusts were revised to allow for investment in additional types of securities, such as corporate bonds and equity securities. The policies provide guidelines to ensure all funds are invested in authorized securities in order to earn a reasonable return. The primary emphasis is placed on long-term growth commensurate with the need to preserve the value of the assets and, at the time funds are needed for decommissioning costs, on liquidity. The investment policies continue to follow the "prudent person" concept.

In November 2005, the Oversight Committees of the Employee Benefit Plans formally adopted Statements of Investment Objectives, Policy, Guidelines, and Administrative and Review Procedures. The investment objectives of the plans are to preserve plan assets through investment diversification and the trading of high quality securities and to provide sufficient liquidity to pay plan benefits. These investment policies also follow the "prudent person" concept.

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

In accordance with GASB Statement No. 40, additional disclosures have been provided in this note that address investment exposure to interest rate, concentration of credit, credit and foreign currency risks, as applicable. The disclosure requirements of this GASB statement do not apply to equity securities or real estate since neither is directly or immediately exposed to these risks. CPS Energy and its component units do not have custodial credit risk, as all investments are held either by an independent trustee or bank and are in CPS Energy's and the component units' names.

CPS Energy's Direct Investments - In accordance with GASB Statement No. 40, the following tables address interest rate risk exposure by investment type using the weighted-average maturity (WAM) method, concentration of credit risk and credit risk. Since CPS Energy does not hold foreign instruments in its direct investments (those not held by a component unit) foreign currency risk is not applicable.

Interest Rate Risk - In accordance with its investment policy, CPS Energy manages exposure to fair market value losses resulting from rising interest rates by limiting the portfolio's WAM to two years or less. WAM is defined as the weighted-average time to return a dollar of principal. It is used as an estimate of the interest rate risk of a fixed-income investment. CPS Energy invests the cash collateral received from securities lending and other funds in money market mutual funds that have no fixed maturities. Accordingly, a WAM in terms of years for money market mutual funds is not applicable.

Concentration of Credit Risk - In accordance with its investment policy, CPS Energy manages exposure to concentration of credit risk through diversification and by limiting its investment in each government-sponsored entity to 50.0% and its investment in any nongovernmental issuer to 5.0% of the total fixed-income portfolio.

Investment Type	Carrying Value	Market Value	Allocation	Weighted-Average Maturity (Years)
U.S. Agencies:				
Federal Home Loan Mortgage Corp.	$ 593,426	$ 593,300	32.6%	0.4
Federal National Mortgage Assn.	421,804	421,785	23.1%	0.3
Federal Home Loan Bank	131,066	131,037	7.2%	0.7
Total Fixed-Income Investments	1,146,296	1,146,122	62.9%	0.4
Cash Collateral - Securities Lending	626,370	626,370	34.7%	
AIM Money Market	42,500	42,500	2.4%	
Total Portfolio	$ 1,815,166	$ 1,814,992	100.0%	

Credit Risk - In accordance with its investment policy, CPS Energy manages exposure to credit risk by limiting its fixed-income investments to a credit rating of "A" or better. As of January 31, 2007, CPS Energy held no direct investments with a credit rating below "AAA".

Credit Rating	Carrying Value	Market Value	Allocation
AAA	$ 1,815,166	$ 1,814,992	100.0%
Total Fixed-Income Investments	$ 1,815,166	$ 1,814,992	100.0%

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Decommissioning Trust Investments - The following tables address interest rate risk exposure by investment type using the weighted-average duration method, credit risk, concentration of credit risk and foreign currency risk. All investments held by the Decommissioning Trusts are long-term in nature and recorded at market value. The Decommissioning Trusts report their assets on a calendar-year basis; therefore, the tables in this section are as of December 31, 2006.

Interest Rate Risk - Generally, the long-term nature of the liabilities, and the limited need for daily operating liquidity, allows interim fluctuations in market value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim market value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim market value of longer-maturity bonds may change substantially. One of the techniques used to mitigate this risk is having a duration limitation. The overall portfolio duration should not deviate from the weighted-average duration of the Investment Strategy Committee's specified fixed-income index by more than +/- 1.5 years. The Investment Strategy Committee's fixed-income index is based on the Lehman Brothers Aggregate Index, which is 4.5 for 2006.

Weighted-average duration is defined as the weighted-average time to return a dollar of principal and interest and also incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows and is used as an estimate of the interest rate risk of a fixed-income investment - especially those with payment terms dependent on market interest rates.

Concentration of Credit Risk - In accordance with the investment policy, exposure to concentration of credit risk is managed through diversification and by limiting investments in each government-sponsored entity to 30.0% and investments in any nongovernment-sponsored issuer to 5.0% of the total fixed-income portfolio (excluding cash collateral from securities lending). At December 31, 2006, total nongovernment-sponsored (corporate and foreign) issuers amounted to 30.9% of the 28.0% Decommissioning Trust and 16.0% of the 12.0% Decommissioning Trust.

The following tables list the fixed-income investment holdings by type:

	28.0% Interest			12.0% Interest		
Investment Type	Market Value	Allocation	Weighted-Average Duration (Years)	Market Value	Allocation	Weighted-Average Duration (Years)
U.S. Treasuries	$ 24,232	12.0%	3.3	$ 7,024	10.5%	5.4
U.S. Agencies:						
Federal National Mortgage Assn.	32,727	16.2%	3.8	6,136	9.2%	4.0
Federal Home Loan Mortgage Corp.	14,221	7.0%	3.4	6,132	9.2%	4.3
Small Business Administration	4,817	2.4%	3.1			
Government National Mortgage Assn.				2,714	4.0%	4.0
Municipal Bonds - Texas	305	0.1%	2.7	281	0.4%	7.7
Municipal Bonds - Other States	1,776	0.9%	8.2	4,264	6.4%	4.7
Corporate Bonds	37,776	18.6%	6.0	5,144	7.7%	4.8
Foreign Bonds	1,576	0.8%	11.3			
Total Fixed-income Investments	$ 117,430	58.0%	4.5	$ 31,695	47.4%	4.6
Cash Collateral - Securities Lending	75,178	37.1%		34,845	52.0%	
AIM Money Market	9,832	4.9%		428	0.6%	
Total Portfolio	$ 202,440	100.0%		$ 66,968	100.0%	

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Credit Risk - In accordance with the investment policies, exposure to credit risk is managed by limiting all fixed-income investments to a credit rating of "BBB-" or better from at least two nationally recognized credit rating agencies.

	28.0% Interest		12.0% Interest	
Credit Rating	Market Value	Allocation	Market Value	Allocation
U.S. Treasuries	$ 24,232	12.0%	$ 7,024	10.5%
AAA	150,862	74.5%	55,832	83.4%
AA	140	0.1%	1,282	1.9%
A	12,376	6.1%	2,233	3.3%
BBB	14,830	7.3%	597	0.9%
Total Fixed-income Investments	$ 202,440	100.0%	$ 66,968	100.0%

Foreign Currency Risk - With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are U.S. dollar-denominated. This, along with the low level of foreign fixed-income investment, reduced the potential currency risk exposure to the portfolio. The foreign bonds outstanding -- both rated and unrated -- amounted to $1,600 as of December 31, 2006.

CPS Energy Employee Benefit Plans - The Employee Benefit Plans consist of three separate plans; City Public Service of San Antonio Group Health Plan (Health Plan), City Public Service of San Antonio Disability Income Plan (Disability Plan) and City Public Service of San Antonio Group Life Insurance Plan (Life Plan). These plans report their assets on a calendar-year basis; therefore, the tables in this section are as of December 31, 2006.

The Health Plan - The following tables address interest rate risk exposure by investment type using the weighted-average duration method, credit risk, concentration of credit risk and foreign currency risk.

In accordance with historical guidelines and the investment policy, the Administrative Committee manages exposure to fair value losses resulting from rising interest rates by limiting the effective duration of each manager's portfolio to +/- 1.5 years of the effective duration of the specified fixed-income index used as a benchmark for the investment manager's portfolio. In addition, the duration of the aggregate fixed-income portfolio of the trust should not deviate from the duration of the specified fixed-income index used as a benchmark for the aggregate portfolio by more than +/- 1.5 years.

Effective duration is defined as the present value weighted-average time to return a dollar of principal and interest and also incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows. It is used as an estimate of the interest rate risk of a fixed-income investment -- especially those with payment terms dependent on market interest rates.

In accordance with historical guidelines and the investment policy, the Administrative Committee has established maximum holdings of other than federal government issuers so that in the event of failure of any one issuer it would not affect the entire investment portfolio. Further, exposure to credit risk is managed through diversification and by limiting the amount that may be invested in any one corporate bond issuer to 5.0% of the market value of an investment manager's fixed-income portfolio. In addition, the maximum investment in any one corporate bond or note should not exceed 5.0% of the market value of the aggregate fixed-income portfolio. There is no such concentration restriction on the investment in government-guaranteed or government agency debt issues, other than government agency debt may not exceed 50.0% by any one issuer. There were no corporate bonds exceeding these limits at December 31, 2006.

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

The following table lists the fixed-income investment holdings by type:

CPS Energy - Health Plan			
Investment Type	Market Value	Allocation	Weighted-Average Duration (Years)
U.S. Treasuries	$ 3,094	5.2%	7.7
U.S. Agencies:			
Federal National Mortgage Assn.	6,376	10.7%	3.8
Federal Home Loan Mortgage Corp.	8,168	13.7%	3.4
Federal Home Loan Bank	962	1.6%	3.9
Government National Mortgage Assn.	25		3.1
Corporate Bonds	14,925	25.0%	5.1
Foreign Bonds	6,481	10.9%	4.4
Total Fixed-income Investments	40,031	67.1%	4.6
AIM Money Market	19,654	32.9%	
Total Portfolio	$ 59,685	100.0%	
Specified Fixed-income Index:			
Lehman Brothers U.S. Aggregate Index			4.5
Citigroup High Yield Bond Index			4.5
Citigroup World Government Bond Index			6.0

In accordance with historical guidelines and the investment policy, the Administrative Committee manages exposure to credit risk by limiting high grade domestic debt managers to no more than 7.5% of their total portfolio in bonds rated below BBB. The investment policy also authorizes the Administrative Committee to retain investment managers to manage "high yield" debt securities. The maximum allocation to high yield securities is 7.5% of total investments, which equated to 29.0% of total fixed-income investments at December 31, 2006.

CPS Energy - Health Plan		
Credit Rating	Market Value	Allocation
U.S. Treasuries	$ 3,094	5.2%
AAA	38,317	64.2%
AA	1,610	2.7%
A	2,318	3.9%
BBB	1,239	2.0%
Less than BBB	6,626	11.1%
Navarro Investments, L.L.C. - See Next Table	6,481	10.9%
Total Fixed-income Investments	$ 59,685	100.0%

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

As noted above, even though at the end of calendar year 2006, the Health Plan held approximately 10.9% of its fixed-income investments in funds that were not rated by a rating agency, the majority of the underlying securities were rated. The following table reflects the weighting of the securities by market value (U.S. dollars) and the corresponding ratings of the underlying securities at the end of 2006. The weighted-average rating for those securities was calculated to be AAA.

CPS Energy - Health Plan		
Credit Rating - Navarro Investments, L.L.C.	Market Value	Allocation
AAA	$ 5,692	87.8%
AA	439	6.8%
Unrated	350	5.4%
Total - Navarro Investments, L.L.C.	$ 6,481	100.0%

The historical guidelines and the investment policy place a 7.5% of total investment portfolio (fixed-income and equities) limit on the amount that may be invested in foreign-currency-denominated securities. The foreign currency risk is further mitigated by the investment guidelines in the fund.

CPS Energy - Health Plan			
Investment Type	Currency	Percentage of Total Portfolio	Market Value
Foreign Bond Fund			
Navarro Investments, L.L.C.	$ *	4.2%	$ 6,481

* The currencies of the underlying investments include the British Pound, European Euro and Japanese Yen. The weighted-average rating of these securities is calculated to be AAA.

The Disability Plan - The following tables address interest rate risk exposure by investment type using the weighted-average duration method, credit risk and concentration of credit risk. This plan does not hold foreign investments.

The provisions for interest rate risk as noted previously for the Health Plan were consistent with those herein applicable for the Disability Plan.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

The provisions for concentration of credit risk as noted previously for the Health Plan were consistent with those herein applicable for the Disability Plan. The following table lists the fixed-income investment holdings by type:

CPS Energy - Disability Plan			
Investment Type	Market Value	Allocation	Weighted-Average Duration (Years)
U.S. Treasuries	$ 244	15.4%	6.5
U.S. Agencies:			
Federal National Mortgage Assn.	391	24.7%	4.7
Federal Home Loan Mortgage Corp.	349	22.1%	3.6
Federal Home Loan Bank	50	3.2%	5.5
Government National Mortgage Assn.	31	1.9%	4.5
Corporate Bonds	285	18.0%	4.7
Total Fixed-income Investments	1,350	85.3%	4.7
AIM Money Market	233	14.7%	
Total Portfolio	$ 1,583	100.0%	
Specified Fixed-Income Index:			
Lehman Brothers U.S. Aggregate Index.			4.5

In accordance with its historical guidelines and the investment policy, the Administrative Committee manages exposure to credit risk by limiting high grade domestic debt managers to no more than 7.5% of their portfolio in bonds rated below BBB.

CPS Energy - Disability Plan		
Credit Rating	Market Value	Allocation
U.S. Treasuries	$ 244	15.4%
AAA	1,139	71.9%
AA	25	1.6%
A	108	6.8%
BBB	67	4.3%
Total Fixed-income Investments	$ 1,583	100.0%

The Life Plan - The following tables address interest rate risk exposure by investment type using the weighted-average duration method, credit risk, concentration of credit risk and foreign currency risk.

The provisions for interest rate risk as noted previously for the Health Plan were consistent with those herein applicable for the Life Plan.

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

The provisions for concentration of credit risk as noted previously for the Health Plan were consistent with those herein applicable for the Life Plan. The following table lists the fixed-income investment holdings by type:

CPS Energy - Life Plan			
Investment Type	Market Value	Allocation	Weighted-Average Duration (Years)
U.S. Treasuries	$ 1,551	8.7%	7.6
U.S. Agencies:			
Federal National Mortgage Assn.	3,920	22.0%	4.1
Federal Home Loan Mortgage Corp.	3,720	20.9%	3.3
Government National Mortgage Assn.	92	0.5%	1.3
Federal Home Loan Bank	74	0.4%	0.7
Corporate Bonds	4,294	24.1%	5.3
Foreign Bonds	2,395	13.5%	4.4
Total Fixed-income Investments	16,046	90.1%	4.6
AIM Money Market	1,739	9.9%	
Total Portfolio	$ 17,785	100.0%	
Specified Fixed-income Index:			
Lehman Brothers U.S. Aggregate Index			4.5
Citigroup World Government Bond Index			6.0

In accordance with historical guidelines and the investment policy, the Administrative Committee manages exposure to credit risk by limiting high grade domestic debt managers to no more than 7.5% of their portfolio in bonds rated below BBB.

CPS Energy - Life Plan		
Credit Rating	Market Value	Allocation
U.S. Treasuries	$ 1,551	8.7%
AAA	11,161	62.8%
AA	816	4.6%
A	1,357	7.6%
BBB	505	2.8%
Navarro Investments, L.L.C. - See Next Table	2,395	13.5%
Total Fixed-income Investments	$ 17,785	100.0%

As noted above, even though at the end of calendar year 2006, the Life Plan held approximately 13.5% of its fixed-income investments in funds that were not rated by a rating agency, the majority of the underlying securities were rated. The following table reflects the weighting of the securities by market value (U.S. dollars) and the corresponding ratings of the underlying securities at the end of 2006. The weighted-average rating for those securities was calculated to be AAA.

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

CPS Energy - Life Plan		
Credit Rating - Navarro Investments, L.L.C.	Market Value	Allocation
AAA	$ 2,104	87.8%
AA	162	6.8%
Unrated	129	5.4%
Total - Navarro Investments, L.L.C.	$ 2,395	100.0%

The historical guidelines and the investment policy place a 7.5% of total investment portfolio (fixed-income and equities) limit on the amount that may be invested in foreign-currency-denominated securities. The foreign currency risk is further mitigated by the investment guidelines in the fund.

CPS Energy - Life Plan			
Investment Type	Currency	Percentage of Total Portfolio	Market Value
Foreign Bond Fund			
Navarro Investments, L.L.C.	$ *	5.1%	$ 2,395

* The currencies of the underlying investments include the British Pound, European Euro and Japanese Yen. The weighted-average rating of these securities is calculated to be AAA.

San Antonio Water System (SAWS)

The investment policy of SAWS, a major discretely presented component unit, is governed by state statute, local ordinance, and their own respective written investment policy. SAWS is permitted by City Ordinance No. 75686 to invest in direct obligations of the U.S. or its agencies and instrumentalities. Other allowable investments include direct obligations of the State of Texas or its agencies and instrumentalities, secured certificates of deposit issued by state and national banks domiciled in the State of Texas, defined bankers' acceptances and commercial paper, collateralized direct repurchase agreements, reverse repurchase agreements, no-load money market mutual funds; investment pools, and other types of secured or guaranteed investments. These investments are subject to market risk, interest rate risk, and credit risk, which may affect the value at which these investments are recorded. Investments other than money market investments are reported at fair value. 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 reported cost. A summary of SAWS cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposit) - All funds are deposited at JP Morgan Chase Bank N.A., SAWS' general depository bank. The general depository agreement does not require that SAWS maintain an average monthly balance. As required by state law, all deposits are fully collateralized and/or are covered by federal depository insurance. At December 31, 2006, the collateral pledged is being held by the Federal Reserve Bank of New York under SAWS' name so SAWS incurs no custodial credit risk. As of December 31, 2006, the bank balance of demand and savings account was $21,249, and the reported amount was $18,741.

Custodial Credit Risk (Investment) - All investments, with the exception of those held in escrow, are in Agencies of the United States and are held in safekeeping by SAWS' general depository bank, JP Morgan Chase Bank N.A., registered as accounts of SAWS. Funds held in escrow are money market funds managed by U.S. Bank and are invested in U.S. Treasury obligations. Investments are classified as current and non-current based on the maturity dates as of the end of the fiscal year.

Note 3 Cash and Cash Equivalents and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

As of December 31, 2006, SAWS had the following investments and maturities:

Investments Maturities (in Days)					
Investment Type	90 Days or Less	91 to 180	181 to 365	Fair Value	Reported
U.S. Agency Discount Notes	$ 132,771	$ 85,274	$ 25,148	$ 243,193	$ 243,328
U.S. Agency Coupon Notes	72,943	60,687	31,769	165,399	165,431
Money Market Funds:					
U.S. Bank	8,043			8,043	8,043
	$ 213,757	$ 145,961	$ 56,917	$ 416,635	$ 416,802
Percentage of Portfolio	51.3%	35.0%	13.7%	100.0%	

Interest Rate Risk - As a means of limiting its exposure to fair value losses due to rising interest rates, SAWS' investment policy limits its investment maturities to no more than five years. As indicated in the table above, 100.0% of SAWS' investment portfolio is invested in maturities less than one year.

Credit Risk - In accordance with its investment policies, SAWS manages exposure to credit risk by limiting its investments in obligations of other states and cities to those with a credit rating of "A" or better. Additionally, any investments in commercial paper require a rating of at least "A-1" or "P-1". As of December 31, 2006 SAWS held no direct investments with a credit rating below "AAA".

Concentration of Credit Risk - SAWS' investment policy does not limit the amount it may invest in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to credit risk, SAWS' investment policy does limit the amount it can invest in any one government-sponsored issuer to no more than 50.0% of the total investment portfolio, and no more than 5.0% of the total investment portfolio on any non-government issuer unless it is fully collateralized. As of December 31, 2006, SAWS has invested more than 5.0% of its investments in the following government-sponsored entities in the form of discount or coupon notes: 19.9% in Federal Home Loan Bank, 37.0% in Federal National Mortgage Association, and 35.8% in Federal Home Loan Mortgage Corporation.

Note 4 Capital Assets

Primary Government (City)

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes guidance for accounting and reporting for the impairment of assets and for insurance recoveries. There were no impairments of the City's business-type activities during fiscal year 2007; however impairments of $903 were identified and reduced in capital assets for governmental activities.

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

Capital asset activity for governmental activities, to include Internal Service Funds, for the year ended September 30, 2007, is as follows:

Capital Assets - Governmental Activities							
Governmental Activities	Beginning Balance	Prior Period Adjustment	Beginning Balance (Restated)	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:							
Land	$ 1,289,520	$ -	$ 1,289,520	$ 52,047	$ -	$ -	$ 1,341,567
Construction in Progress	252,149	(141,982)	110,167	168,558		(64,538)	214,187
Total Non-Depreciable Assets	1,541,669	(141,982)	1,399,687	220,605		(64,538)	1,555,754
Depreciable Assets:							
Buildings	634,082	20,358	654,440	2,644	(276)	11,541	668,349
Improvements	146,063	76,817	222,880	99		15,461	238,440
Infrastructure	2,151,113	58,340	2,209,453	35	(750)	37,536	2,246,274
Machinery and Equipment	307,414	(341)	307,073	33,748	(12,311)		328,510
Total Depreciable Assets	3,238,672	155,174	3,393,846	36,526	(13,337)	64,538	3,481,573
Accumulated Depreciation:							
Buildings	(205,684)	3,928	(201,756)	(17,810)	57		(219,509)
Improvements	(47,136)	(7,112)	(54,248)	(8,179)			(62,427)
Infrastructure	(1,316,822)	(12,092)	(1,328,914)	(55,845)	71		(1,384,688)
Machinery and Equipment	(140,521)	(11,725)	(152,246)	(27,386)	6,408		(173,224)
Total Accumulated Depreciation	(1,710,163)	(27,001)	(1,737,164)	(109,220)	6,536		(1,839,848)
Total Depreciable Assets, net	1,528,509	128,173	1,656,682	(72,694)	(6,801)	64,538	1,641,725
Total Capital Assets, net	$ 3,070,178	$ (13,809)	$ 3,056,369	$ 147,911	$ (6,801)	$ -	$ 3,197,479

Depreciation expense was charged to governmental functions as follows:

General Government	$ 22,345
Public Safety	8,197
Public Works	52,073
Health Services	356
Sanitation	55
Welfare	372
Culture and Recreation	7,913
Convention and Tourism	4,048
Economic Development and Opportunity	16
Depreciation on Capital Assets Held by City's Internal Service Funds are Charged to Various Functions Based on Asset Usage	13,845
Total Depreciation Expense for Governmental Activities	$ 109,220

The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2007, Internal Service Funds capital assets increased by $17,526, and decreased by $9,937, resulting in an ending balance of $138,362. Depreciation expense of $13,845 resulted in an ending accumulated depreciation balance of $87,851, to arrive at net book value of $50,511.

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

The City capitalizes interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62, *Special Reports*, issued by the Financial Accounting Standards Board. In fiscal year 2007, the City capitalized construction period interest for the Airport System in the amount of $364. Capital asset activity for business-type activities for the year ended September 30, 2007, is as follows:

Capital Assets - Business-Type Activities						
	Beginning Balance	Prior Period Adjustment	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Non-Depreciable Assets:						
Land:						
Airport System	$ 2,970	$ -	$ 2,970	$ 1,573	$ -	$ 4,543
Nonmajor Enterprise Funds	9,018		9,018			9,018
Total Land	11,988		11,988	1,573		13,561
Construction in Progress:						
Airport System	103,986	(61,620)	42,366	55,633		97,999
Nonmajor Enterprise Funds	1,334	(1,334)				
Total Construction in Progress	105,320	(62,954)	42,366	55,633		97,999
Total Non-Depreciable Assets	117,308	(62,954)	54,354	57,206		111,560
Depreciable Assets:						
Buildings:						
Airport System	144,248		144,248			144,248
Nonmajor Enterprise Funds	30,182		30,182	180		30,362
Total Buildings	174,430		174,430	180		174,610
Improvements:						
Airport System	170,860	39,512	210,372			210,372
Nonmajor Enterprise Funds	5,717	1,295	7,012	1		7,013
Total Improvements	176,577	40,807	217,384	1		217,385
Machinery and Equipment:						
Airport System	11,359		11,359	147	(317)	11,189
Nonmajor Enterprise Funds	4,447	16	4,463	2,543	(15)	6,991
Total Machinery and Equipment	15,806	16	15,822	2,690	(332)	18,180
Total Depreciable Assets	366,813	40,823	407,636	2,871	(332)	410,175
Accumulated Depreciation:						
Buildings:						
Airport System	(61,488)		(61,488)	(3,428)		(64,916)
Nonmajor Enterprise Funds	(10,112)	218	(9,894)	(791)		(10,685)
Total Buildings	(71,600)	218	(71,382)	(4,219)		(75,601)
Improvements:						
Airport System	(78,779)	(2,142)	(80,921)	(5,150)		(86,071)
Nonmajor Enterprise Funds	(1,214)	(235)	(1,449)	(251)		(1,700)
Total Improvements	(79,993)	(2,377)	(82,370)	(5,401)		(87,771)
Machinery and Equipment:						
Airport System	(9,083)	(12)	(9,095)	(558)	261	(9,392)
Nonmajor Enterprise Funds	(3,575)	(3)	(3,578)	(544)	12	(4,110)
Total Machinery and Equipment	(12,658)	(15)	(12,673)	(1,102)	273	(13,502)
Total Accumulated Depreciation	(164,251)	(2,174)	(166,425)	(10,722)	273	(176,874)
Total Depreciable Assets, net	202,562	38,649	241,211	(7,851)	(59)	233,301
Total Capital Assets, net	$ 319,870	$ (24,305)	$ 295,565	$ 49,355	$ (59)	$ 344,861

Note 4 Capital Assets (Continued)

CPS Energy

CPS Energy's plant-in service includes seven power plants, which are solely owned and operated by CPS Energy. In total, the plants have 19 generating units—three of which are coal-fired and 16 of which are gas-fired. The following is a list of plants and relative generating units:

Plant	Generating Units	Type	Plant	Generating Units	Type
J.T. Deely	2	Coal	V.H. Brauning	3	Gas
J.K. Spruce	1	Coal	W.B. Tuttle	4 [1]	Gas
Arthur von Rosenberg	1	Gas	Leon Creek	6 [1]	Gas
O.W. Sommers	2	Gas			

[1] Included as a part of the 16 gas generating units are W.B. Tuttle Unit 2 and Leon Creek Unit 4, which are fully depreciated and are currently not available for use.

Construction on J.K. Spruce Unit 2 (Spruce 2) was started on March 21, 2006, with plans for commercial operation in 2010. CPS Energy selected Calaveras Power Partners—a team led by Zachry Construction Corporation of San Antonio—to construct the 750-megawatt coal-fired generating unit at Calaveras Lake. Spruce 2 will be the largest of the coal units at Calaveras Lake, and it will be equipped with current emissions-control technology.

Plant-in-service also includes CPS Energy's 40.0% interest in South Texas Project (STP). Other notable capital assets in electric and gas plant include a fleet of rail cars, a transmission network for the movement of electric power from the generating stations, and electric and gas distribution systems.

Included in general plant are the Energy Management Center; the main office complex; the North Side Customer Service Center; the construction and service centers; the Villita Assembly Building; and a fleet of automobiles, trucks, and work equipment.

An internal company-wide review of capital assets, in accordance with GASB Statement No. 42, indicated that CPS Energy had no impaired capital assets for fiscal year 2007.

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Note 4 Capital Assets (Continued)

CPS Energy (Continued)

Below is a detail of the activity of CPS Energy's Net Capital Assets as presented on the balance sheet, including capital asset activity for the fiscal year ended January 31, 2007:

Capital Assets - CPS Energy	Beginning Balance	Increases	Transfers	Decreases	Ending Balance
Non-Depreciable Assets:					
Land	$ 58,651	$ -	$ 1,429	$ -	$ 60,080
Nonutility Land	12,599				12,599
Construction in Progress	296,946	546,009	(423,160)		419,795
Total Non-Depreciable Assets	368,196	546,009	(421,731)		492,474
Depreciable Capital Assets:					
Electric Plant	6,259,022	36,801	335,897	(32,269)	6,599,451
Gas Plant	574,138	3,827	22,201	1,287	601,453
General Plant	540,008	13,625	63,633	(9,482)	607,784
Utility Property Leased	18,785				18,785
Nuclear Fuel	485,055	36,174			521,229
Total Depreciable Capital Assets	7,877,008	90,427	421,731	(40,464)	8,348,702
Accumulated Depreciation:					
Electric Plant	(2,530,472)	(214,410)		36,407	(2,708,475)
Gas Plant	(191,045)	(12,966)		(1,065)	(205,076)
General Plant	(155,130)	(34,495)		8,885	(180,740)
Utility Property Leased	(336)	(504)			(840)
Nuclear Fuel	(425,585)	(25,668)			(451,253)
Total Accumulated Depreciation	(3,302,568)	(288,043)		44,227	(3,546,384)
Depreciable Assets, net	$ 4,574,440	$ (197,616)	$ 421,731	$ 3,763	$ 4,802,318
Total Capital Assets, net	$ 4,942,636	$ 348,393	$ -	$ 3,763	$ 5,294,792

Cash flow information - Cash paid for additions, net removal costs, and nuclear fuel was $623,739, and noncash AFUDC was $16,460, for a total of $640,199. Included in Decreases was $7,500 in removal costs, offset by $3,737 in salvage sales. Depreciation and depletion totaled $288,043.

Other - the increases in electric plant also included new substations and distribution infrastructure.

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Note 4 Capital Assets (Continued)

CPS Energy (Continued)

STP is a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by the STP Nuclear Operating Company (a non-profit Texas Corporation) and is financed and controlled by the owners—CPS Energy, NRG Energy, Inc., and the City of Austin. Also, see Note 10, CPS Energy South Texas Project (STP). To achieve the 40.0% interest in STP, CPS Energy exercised its right of first refusal to acquire an additional 12.0% (300 megawatts) share from AEP, the prior owner. The purchase was completed May 19, 2005 and increased CPS Energy's proportionate share of STP from 28.0% to 40.0%. As of January 31, 2007, CPS Energy's capital investment in STP is as follows:

STP Capital Investment (40.0% share), Net	January 31, 2007
STP capital assets (40.0% share), net	
Construction in Progress	$ 30,966
Land	5,701
Electric and general plant	1,376,023
Nuclear fuel	69,976
Total STP capital asset (40.0% share), net	$ 1,482,666
Total CPS Energy assets, net	$ 5,294,792
STP capital investment as a percentage of total CPS Energy capital assets, net	28.0%

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Note 4 Capital Assets (Continued)

San Antonio Water System (SAWS)

SAWS capitalized interest incurred on revenue bonds and commercial paper debt totaled $69,146 during the twelve months ended December 31, 2006, of which $10,234 was capitalized as part of the cost of SAWS' utility plant additions. Capital asset activity for SAWS is as follows:

Capital Assets - San Antonio Water System	Beginning Balance	Increases	Transfers	Decreases	Ending Balance
Non-Depreciable Assets:					
Land	$ 72,822	$ -	$ 407	$ 160	$ 73,069
Acquisition of Water Rights	36,047		3,672		39,719
Construction in Progress	483,201	203,726	(308,009)	7,530	371,388
Total Non-Depreciable Assets	592,070	203,726	(303,930)	7,690	484,176
Depreciable Assets:					
Structures and Improvements	311,977		39,413	48	351,342
Pumping and Purification	79,524		31,858		111,382
Distribution and Transmission System	1,020,945	1,189	132,001	1,575	1,152,560
Treatment Facilities	1,085,163		92,310		1,177,473
Machinery and Equipment	82,748	4,639	5,716	4,642	88,461
Furniture and Fixtures	4,823	40	2	35	4,830
Computer Equipment	14,438	1,063	1,117	775	15,843
Software	7,755	564	1,513		9,832
Total Depreciable Assets	2,607,373	7,495	303,930	7,075	2,911,723
Accumulated Depreciation:					
Structures and Improvements	(68,304)	(6,824)		(14)	(75,114)
Pumping and Purification	(16,017)	(2,444)			(18,461)
Distribution and Transmission System	(298,767)	(25,342)		(1,502)	(322,607)
Treatment Facilities	(408,361)	(28,636)			(436,997)
Machinery and Equipment	(50,358)	(5,036)		(3,924)	(51,470)
Furniture and Fixtures	(2,721)	(333)		(33)	(3,021)
Computer Equipment	(10,358)	(1,620)		(752)	(11,226)
Software	(6,277)	(1,077)			(7,354)
Total Accumulated Depreciation	(861,163)	(71,312)		(6,225)	(926,250)
Total Depreciable Assets, net	1,746,210	(63,817)	303,930	850	1,985,473
Total Capital Assets, net	$ 2,338,280	$ 139,909	$ -	$ 8,540	$ 2,469,649

During the first quarter of 2006, SAWS completed an independent evaluation of its regional Carrizo water supply project which is designed to bring groundwater from Gonzalez and Wilson Counties to San Antonio via 60 miles of pipe. The results of the study showed potential immediate capital cost savings of approximately $50,000 through utilization of a pipeline route that take better advantage of existing system capacity. However, as a result of this study and subsequent rerouting of the pipeline, certain design and acquisition costs associated with a previously planned segment of this pipeline were deemed to be obsolete. The total $4,999 balance of these charges was written off during 2006.

Note 5 Receivables and Payables

Disaggregation of Receivables

Net receivables at September 30, 2007 are as follows:

	Accounts	Taxes	Notes and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities	$ 70,022	$ 70,347	$ 3,676	$ 9,956	$ 139	$ 154,140
Business-Type Activities:						
Airport System	$ 6,759	$ -	$ -	$ 2,079	$ -	$ 8,838
Nonmajor Enterprise Funds	5,840			279		6,119
Total Business-Type Activities	$ 12,599	$ -	$ -	$ 2,358	$ -	$ 14,957

The receivable balances for Governmental Activities have been reduced by estimated allowances for doubtful accounts of $47,734 against customer, other governmental agencies and other receivables, and $3,949 against property and occupancy taxes. The receivable balance for Business-Type Activities have been reduced by estimated allowances for doubtful accounts of $1,605 against customer and other receivables.

The only receivables not expected to be collected within one year are $2,875 of notes and loans receivables, net allowance for doubtful accounts, related to Urban Redevelopment and Housing and Economic Development and Opportunity. These notes and loans have a corresponding unearned revenue balance recorded within the respective funds.

Disaggregation of Payables

Payables at September 30, 2007 are as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities	$ 136,477	$ 15,415	$ 151,892
Business-Type Activities:			
Airport System	$ 27,965	$ 636	$ 28,601
Nonmajor Enterprise Funds	3,728	815	4,543
Total Business-Type Activities	$ 31,693	$ 1,451	$ 33,144

Interfund Receivable and Payable Balances

As of September 30, 2007, the interfund receivable and payable balances represent short-term loans resulting from (1) post closing adjustments between funds after cash and related interest earning have been calculated and allocated and (2) short-term borrowings at year-end. Of the $45,418 due from other funds in the General Fund, $44,784 is a result of overdraws of pooled cash. All amounts are expected to be paid within one year. See table on next page.

Note 5 Receivables and Payables (Continued)

Interfund Receivable and Payable Balances (Continued)

The following is a summary of interfund receivables and payables for the City as of September 30, 2007:

Summary Table of Interfund Receivables and Payables
As of September 30, 2007

	Due from Other Funds	Due To Other Funds
General Fund:		
Fiduciary Funds	$ 670	$ -
Categorical Grant-In Aid	30,785	1
Nonmajor Governmental Funds	13,919	2,715
Airport System Fund	38	
Nonmajor Enterprise Funds	6	
Total General Fund	45,418	2,716
Debt Service Funds:		
Nonmajor Governmental Funds	295	
Nonmajor Enterprise Funds	17	
Total Debt Service Funds	312	
Airport System Fund:		
General Fund		38
Airport Operating Fund from the Airport I&C Fund	204	
Airport PFC I&C Fund from Airport PFC Fund	846	
Stinson Airport Fund from the Airport I&C Fund	500	
Airport Debt Service Fund from the Airport I&C Fund	364	
Airport Construction Fund to Airport Construction Fund	30	30
Airport I&C Fund to the Airport Debt Service Fund		364
Airport I&C Fund to the Stinson Airport Fund		500
Airport PFC Fund to the Airport PFC I&C Fund		846
Airport I&C Fund to the Airport Operating Fund		204
Total Airport System Fund	1,944	1,982
Categorical Grant-In Aid:		
General Fund	1	30,785
Categorical Grant-In Aid	531	531
Nonmajor Governmental Funds	362	1,508
Total Categorical Grant-In Aid	894	32,824
Fiduciary Funds:		
General Fund		670
Total Fiduciary Funds		670
Internal Service Funds:		
Nonmajor Governmental Funds	50	
Total Internal Service Funds	50	
Nonmajor Governmental Funds:		
General Fund	2,715	13,919
Categorical Grant-In Aid	1,508	362
Debt Service Fund		295
Internal Service Funds		50
Nonmajor Governmental Funds	6,782	6,782
Total Nonmajor Governmental Funds	11,005	21,408
Nonmajor Enterprise Funds:		
General Fund		6
Debt Service Fund		17
Total Nonmajor Enterprise Funds		23
Total	$ 59,623	$ 59,623

Note 6 Long-Term Debt

Primary Government (City)

Governmental Activity Long-Term Debt

The City's debt management and on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2007. In December 2006, the City issued the following; $170,785 in General Improvement and Refunding Bonds, Series 2006 and $73,155 Combination Tax and Revenue Certificates of Obligations, Series 2006.

The General Improvement and Refunding Bonds, Series 2006 were issued to refund certain tax-supported debt for interest cost savings and are pledged from ad valorem taxes. The net proceeds from the sale of the General Improvement and Refunding Bonds, Series 2006, which included an original premium of $9,018, were applied, together with a cash contribution from the City, to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2006 refunding, the City will realize a total reduction of $16,828 in debt service payments. Through this 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 $3,424, in interest cost savings. Remaining proceeds will be used for constructing street, drainage, library, parks and recreation, and public health improvements. The General Improvement and Refunding Bonds are retired serially in the years 2007 through 2026 and bear interest rates ranging from 3.5% to 5.0%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2006 will be utilized to fund capital improvements to include public safety, including constructing, renovating, and improving existing fire stations; street sidewalk, bridge, and drainage improvements; construction improvements for flood control, dams, landscaping and amenities along the San Antonio River; constructing improvements and renovations to municipal and public facilities to include the Plaza de Armas building and Pearsall Landfill; construction improvements to the City's library system, municipal golf courses; constructing utility system and other infrastructure improvements at KellyUSA; constructing and equipping certain downtown public restroom facilities; payment of the costs of a study for the possible relocation of the San Antonio Metropolitan Health District Laboratory to Brooks City-Base and a portion of the relocation costs; the purchase of materials, supplies, machinery, land, and rights of way for authorized needs and purposes relating to public safety, drainage, flood control, street, library, parks, utility infrastructure, and public works purposes; and the payment of professional services related to the construction and financing of the aforementioned projects. The Certificates are retired serially in the years 2007 through 2026 and bear interest rates ranging from 3.5% to 4.4%.

On October 18, 2006 the City issued $72,620 of Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006. The bonds are payable from and are equally secured by a lien on the Pledged Revenues. The net proceeds from the sale of the 2006 revenue bonds, less $385 of the original issue discount, together with a cash contribution from the City, was applied to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2006 refunding, the City will realize a total reduction of $10,440 in debt service payments. Through this transaction, the City obtained a total economic gain of $11,507. The Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006 are retired serially in the years 2007 through 2026 and bear interest rates ranging from 4.0% to 4.5%.

On June 1, 2007, the City issued $5,500 of Hotel Occupancy Tax (HOT) Notes, Series 2007. The HOT Notes are payable from HOT revenues which are being used as an interim funding mechanism in anticipation of the projected reimbursement from the State under Senate Bill 150 which allows for the City to be reimbursed for these capital improvements via the State's portion of sales and use tax collected in conjunction with the NCAA 2008 Final Four. Proceeds of the note will be used for Alamodome renovations and enhancements necessary to host the NCAA 2008 Final Four. The HOT Notes, Series 2007 are retired in the year 2010 and bear an interest of 4.0%.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Additionally, on June 6, 2007, the City issued and received proceeds for $60,000 of Tax Notes, Series 2007. The Tax Notes are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the limitations prescribed by law. The Tax Notes, Series 2007 are retired in the year 2010 and bear an interest rate of 3.9%.

Proceeds of the Tax Notes, Series 2007 will be used for the acquisition and construction of land for the Haven for Hope Homeless Campus; acquiring land for the park facilities, Voelker Park and Denman Land; acquisition of a San Antonio Police Department property room; fund public safety, drainage, sidewalk, bridge, and street improvements; constructing improvements for flood control, dams, landscaping and amenities along the San Antonio River; and constructing and improving municipal facilities. $43,500 of these proceeds are set aside to fund projects approved in the $550,000 May 2007 Municipal Bond Program.

The City of San Antonio's General Obligation, Certificates of Obligation, and Tax Notes are pledged with ad valorem taxes. The Certificates of Obligations are additionally secured by a lien on and pledge of certain Pledged Revenues of the City's municipal parks system, not to exceed $1,000 during the entire period the Certificates or interest remains outstanding, solely to permit the Certificates to be sold for cash. The Convention Center Expansion Revenue Bonds are pledged from hotel occupancy tax. The Municipal Drainage Bonds are pledged from municipal drainage revenue. The Municipal Facilities Corporation Lease Revenue Bonds are funded by lease payments. The Hotel Empowerment Zone Bonds are pledged by revenues to be received from the hotel operations. Starbright Industrial Development Corporation Revenue Bonds are pledged by utility revenue received by the City from CPS Energy.

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain general obligation bonds, revenue bonds, certificates of obligation, and Tax Notes. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amounts scheduled to mature in principal amounts that, when added to interest earned on the Purchased Securities plus remaining balances in the escrow accounts, are fully sufficient to make timely payments on the principal, premium, if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer liabilities of the City; therefore, they are not included in the City's financial statements. On September 30, 2007, $213,330 of previously defeased bonds were outstanding.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year ended September 30, 2007 for governmental activity debt:

Governmental Activity Long-Term Debt (Ad Valorem Tax Pledge)							
	Time of Original Issuance						
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2006	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2007
General Obligation Bonds:							
1996A Refunding	$ 82,730	2016	4.8000-6.000	$ 8,120	$ -	$ 3,915	$ 4,205
1996B Refunding	6,030	2008	6.700	1,475		1,475	
1998 Refunding	30,855	2018	4.500-5.000	16,435		2,310	14,125
1998 Forward Refunding	53,950	2008	5.500-6.000	15,005		7,375	7,630
1998A Refunding	49,110	2019	4.000-5.250	27,030		5,650	21,380
1999	12,000	2011	5.500	2,690		480	2,210
2000	27,565	2020	4.500-5.000	17,490		10,870	6,620
2000A	15,615	2021	5.250-5.375	7,090		2,790	4,300
2001	84,945	2022	3.000-5.250	47,510		44,190	3,320
2002 Forward Refunding	251,280	2013	5.000-5.250	157,360		21,860	135,500
2002	55,850	2023	3.000-5.500	46,790		14,530	32,260
2003	40,905	2014	2.750-5.000	28,925		3,085	25,840
2003A	56,515	2016	3.500-5.000	53,540		2,850	50,690
2004	33,570	2024	2375-4.750	33,570			33,570
2004 Refunding	13,245	2016	1.875-4.650	10,785		1,100	9,685
2005	116,170	2025	3.500-5.250	116,170			116,170
2006 Refunding	33,090	2016	3.700-5.500	33,090			33,090
2006 Refunding	170,785	2026	3.500-5.000		170,785	4,100	166,685
Total General Obligation Bonds	$ 1,134,210			$ 623,075	$ 170,785	$ 126,580	$ 667,280
Tax-Exempt Certificates of Obligation:							
Series 1998	$ 4,315	2018	4.700-5.000	$ 1,375	$ -	$ 460	$ 915
Series 1998A	36,535	2019	4.000-5.250	14,115		4,000	10,115
Series 1999	4,230	2011	5.750	950		170	780
Series 2000	8,490	2020	4.500-5.000	5,385		3,350	2,035
Series 2000A	8,810	2021	5.250-5.375	4,000		1,575	2,425
Series 2000C	6,415	2020	5.000-5.500	5,805		275	5,530
Series 2001	65,195	2014	4.000-5.250	48,650		10,660	37,990
Series 2002	69,930	2023	3.000-5.500	64,125		14,875	49,250
Series 2004	29,525	2024	2.000-5.000	28,515		600	27,915
Series 2005	10,535	2025	4.000-5.250	10,535			10,535
Series 2006	73,155	2026	3.500-4.370		73,155	2,460	70,695
Total Tax-Exempt Certificates of Obligation	$ 317,135			$ 183,455	$ 73,155	$ 38,425	$ 218,185
Taxable Certificates of Obligation:							
Series 1996	$ 6,160	2009	6.550-6.050	$ 1,000	$ -	$ 1,000	$ -
Series 1996B	7,375	2008	6.800	715		715	
Series 2000B	1,755	2021	7.450-7.550	1,555		1,265	290
Series 2005A	2,900	2007	4.610	2,900		2,900	
Total Taxable Certificates of Obligation	$ 18,190			$ 6,170	$ -	$ 5,880	$ 290
Tax Notes:							
Series 2006	$ 37,600			$ 37,600	$ -	$ 37,600	$ -
Series 2007	60,000	2010	3.898		60,000		60,000
Total Tax Notes	$ 97,600			$ 37,600	$ 60,000	$ 37,600	$ 60,000
Revenue Bonds:							
Series 1996 Hotel Occupancy Tax [1]	$ 182,012	2026	5.100-6.020	$ 86,897	$ -	$ 68,785	$ 18,112
Series 2004A Hotel Occupancy Tax	10,390	2029	5.000	10,390			10,390
Series 2004B Hotel Occupancy Tax	111,425	2034	2.000-5.000	109,250		2,300	106,950
Series 2006 Hotel Occupancy Tax Ref	72,620	2026	4.000-4.500		72,620	800	71,820
Series 2007 Hotel Occupancy Tax Note	5,500	2010	4.040		5,500		5,500
Series 2003 Municipal Drainage	44,150	2028	3.500-5.000	40,950		1,140	39,810
Series 2005 Municipal Drainage	61,060	2030	3.500-5.250	59,750		1,355	58,395
Series 2001 Municipal Facility Corp	14,465	2020	3.800-5.200	11,700		610	11,090
Convention Series 2005A	129,930	2039	5.000	129,930			129,930
Convention Series 2005B	78,215	2028	4.500-5.310	78,215			78,215
Starbright Industrial Development Corp.	24,685	2033	2.180-5.110	24,685		525	24,160
Total Revenue Bonds	$ 734,452			$ 551,767	$ 78,120	$ 75,515	$ 554,372
Total	$ 2,301,587			$ 1,402,067	$ 382,060	$ 284,000	$ 1,500,127

[1] A portion of the Hotel/Motel 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 2007 has resulted in an increase of $16,496 in revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not shown in the above table.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirement to amortize all general obligation bonds, certificates of obligation, tax notes, and revenue bonds outstanding as of September 30, 2007 is as follows:

Principal and Interest Requirements									
	General Obligation Bonds		Certificates of Obligation		Tax Notes		Revenue Bonds		
Year Ending September 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total Annual Requirements
2008	$ 57,575	$ 32,662	$ 18,190	$ 9,546	$ -	$ 2,787	$ 6,910	$ 26,116	$ 153,786
2009	58,500	29,565	18,710	8,711		2,339	9,760	23,643	151,228
2010	61,955	26,971	18,060	7,903	60,000	2,339	18,395	23,313	218,936
2011	65,360	23,889	18,800	7,060			10,112	22,626	147,847
2012	46,215	20,633	19,990	6,121			10,644	22,305	125,908
2013-2017	196,575	67,917	52,145	20,065			58,071	105,773	500,546
2018-2022	142,460	25,197	43,615	11,340			103,010	90,148	415,770
2023-2027	38,640	2,586	28,965	1,893			123,620	64,301	260,005
2028-2032							105,555	37,801	143,356
2033-2037							79,145	17,248	96,393
2038-2039							29,150	2,205	31,355
Total	$ 667,280	$ 229,420	$ 218,475	$ 72,639	$ 60,000	$ 7,465	$ 554,372	$ 435,479	$ 2,245,130

Total Principal and Interest Payable within One Year					
Principal	$ 57,575	$ 18,190	$ -	$ 6,910	$ 82,675
Interest	32,662	9,546	2,787	26,116	71,111
Total	$ 90,237	$ 27,736	$ 2,787	$ 33,026	$ 153,786

A portion of the Hotel/Motel Occupancy Tax Revenue Bonds 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. Interest accreted through fiscal year 2007 has resulted in an increase of $16,496 in revenue bonds payable. The increase is reflected on the Statement of Net Assets but is not in this table.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Authorized but Unissued General Obligation Debt				
Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized but Unissued
01-26-80 [1]	Drainage and Flood Control	$ 21,637	$ 17,413	$ 4,224
01-26-80 [1]	Fire Protection	4,257	2,125	2,132
01-26-80 [1]	Libraries	4,978	3,926	1,052
01-26-80 [1]	Street, Bridge, and Related Improvements	43,287	34,035	9,252
11-04-03 [2]	Street and Pedestrian	29,398	29,398	
11-04-03 [2]	Drainage	18,913	18,913	
11-04-03 [2]	Parks and Recreation	27,224	27,224	
11-04-03 [2]	Library System	3,965	3,965	
11-04-03 [2]	Public Health and Safety	35,500	35,500	
05-12-07 [3]	Street, Bridge, and Sidewalks	306,998	5,321	301,677
05-12-07 [3]	Drainage	152,052	2,636	149,416
05-12-07 [3]	Parks and Recreation	79,125	35,338	43,787
05-12-07 [3]	Libraries	11,025	191	10,834
05-12-07 [3]	Public Health and Safety	800	14	786
Total		$ 739,159	$ 215,999	$ 523,160

[1] In addition to the debt authorized on November 4, 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.

[2] $115,000 in debt was authorized on November 4, 2003, the City issued the remaining balance of $48,325 on December 5, 2006.

[3] $550,000 in debt was authorized on May 12, 2007, the City issued $43,500 through the usage of 2007 Tax Notes in debt.

In May 2007, the citizens authorized the City to sell $550,000 in debt for the 2007-2012 Municipal Bond Program. The program includes 151 projects designed to improve and enhance existing, as well as acquire or construct, new local streets, bridges, sidewalks, drainage facilities, parks, athletic facilities, libraries, and public health centers. The Bonds are categorized in five areas: Streets, Bridges and Sidewalks Improvements; Drainage Improvements; Parks, Recreations, Open Space, and Athletics Improvements; Library Improvements; and Public Health Facilities Improvements. The Bonds are pledged with and will be repaid from property tax revenue the City collects on an annual basis.

Debt Limitation

The amount of ad valorem tax-supported 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 10.0% of the total assessed valuation. The total assessed valuation for the fiscal year 2007 was $65,033,626, which provides a debt ceiling of $6,503,363. The total outstanding debt that is secured by an ad valorem tax pledge is $945,755.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Debt Limitation (Continued)

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 90.0% collections.

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, 2007 were approximately $3,676.

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:

Machinery and Equipment	$ 34,457
Less: Accumulated Depreciation	(12,108)
Total	$ 22,349

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

As of September 30, 2007, the City had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

	Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30:			
2008	$ 4,620	$ 4,016	$ 8,636
2009	3,837	3,396	7,233
2010	3,678	2,527	6,205
2011	2,795	2,254	5,049
2012	610	1,895	2,505
2013-2017		2,803	2,803
Future Minimum Lease Payments	15,540	$ 16,891	$ 32,431
Less: Interest	(1,075)		
Present Value of Future Minimum Lease Payments	14,465		
Less: Current Portion	(4,156)		
Capital Lease, Net of Current Portion	$ 10,309		

Business-Type Activity Long-Term Debt

Business-Type Activity 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 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 Airport System and its facilities.

On December 13, 2006, the City issued $17,850 of Airport System Revenue Refunding Bonds, Series 2006. The bonds are special obligations of the City payable from gross revenues. The net proceeds from the 2006 revenue refunding bonds, which include an original premium of $870, were applied together with a cash contribution from the City, to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2006 refunding, the City will realize a total reduction of $543 in debt service payments. Through the transactions, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $907. The Airport System Revenue Refunding Bonds, Series 2006 are retired serially in the years 2007 through 2014 and bear an interest rate of 5.0%.

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 revenue bonds, 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.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Capitalized Interest Costs - Interest costs incurred on revenue bonds totaled $14,386. For fiscal year 2007, an amount of $364 was capitalized for the Airport System, as part of the cost of additions to the Airport System.

The following table is a summary of changes in revenue bonds for the fiscal year ended September 30, 2007.

Business-Type Long-Term Debt							
	Time of Original Issuance						
Issues	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2006	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2007
Airport System:							
Revenue Bonds:							
Series 1996	$ 38,000	2014	5.700-5.750	$ 17,725	$ -	$ 17,725	$ -
Series 2001	17,795	2016	5.375	17,795			17,795
Series 2002	92,470	2027	5.000-5.750	90,220		1,215	89,005
Series 2002 PFC	37,575	2027	4.000-5.750	34,270		920	33,350
Series 2003 Refunding	50,230	2013	5.500-6.000	37,965		4,545	33,420
Series 2003B	3,255	2009	2.300-3.000	3,255		1,020	2,235
Series 2005 PFC	38,085	2030	3.375-5250	37,260		855	36,405
Series 2006 Refunding	17,850	2014	5.000		17,850	1,465	16,385
Total Airport System	$ 295,260			$ 238,490	$ 17,850	$ 27,745	$ 228,595
Parking System:							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 23,395	$ -	$ 620	$ 22,775
Total Parking System	$ 24,845			$ 23,395	$ -	$ 620	$ 22,775
Total	$ 320,105			$ 261,885	$ 17,850	$ 28,365	$ 251,370

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to revenue bonds outstanding at September 30, 2007, are as follows:

Business-Type Long-Term Debt						
	Airport System			Parking System		
Year Ending Sept. 30:	Principal	Interest	Total	Principal	Interest	Total
2008	$ 10,155	$ 12,208	$ 22,363	$ 660	$ 1,264	$ 1,924
2009	11,585	11,704	23,289	850	1,230	2,080
2010	12,195	11,119	23,314	350	1,187	1,537
2011	13,365	10,448	23,813	575	1,169	1,744
2012	14,090	9,700	23,790	1,110	1,139	2,249
2013-2017	62,715	36,819	99,534	6,515	4,742	11,257
2018-2022	42,210	22,893	65,103	8,560	2,715	11,275
2023-2027	54,910	10,529	65,439	4,155	362	4,517
2028-2030	7,370	692	8,062			
Total	$ 228,595	$ 126,112	$ 354,707	$ 22,775	$ 13,808	$ 36,583

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Leases

The City has entered into various lease purchase agreements for the acquisitions of a high-capacity trailer, garbage trucks and garbage containers. 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. While the garbage containers meet the criteria for capital leases recognition these items were expensed during the current year as their individual costs were below the City capitalization threshold.

The assets acquired through capital leases for business-type activities are as follows:

Machinery and Equipment	$ 3,208
Less: Accumulated Depreciation	(893)
Total	$ 2,315

As of September 30, 2007, the City had future minimum payments under capital and operating leases with a remaining term in excess of one year for business-type activities as follows:

	Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30,			
2008	$ 954	$ 160	$ 1,114
2009	937	148	1,085
2010	366	12	378
2011	192		192
2012	192		192
2013-2014	240		240
Future Minimum Lease Payments	2,881	$ 320	$ 3,201
Less: Interest	(203)		
Present Value of Future Minimum Lease Payments	2,678		
Less: Current Portion	(869)		
Capital Leases, Net of Current Portion	$ 1,809		

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt

Long-term obligations and amounts due within one year:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 623,075	$ 170,785	$ 126,580	$ 667,280	$ 57,575
Tax-Exempt Certificates of Obligation	183,455	73,155	38,425	218,185	18,125
Taxable Certificates of Obligation	6,170		5,880	290	65
Tax Notes	37,600	60,000	37,600	60,000	
Revenue Bonds	551,767	78,120	75,515	554,372	6,910
	1,402,067	382,060	284,000	1,500,127	82,675
Unamortized Premium/Discount [3]	48,189	41,403	7,493	82,099	4,007
Deferred Amount on Refunding	(8,598)	(10,151)	(1,466)	(17,283)	(2,004)
Total Bonds Payable	1,441,658	413,312	290,027	1,564,943	84,678
Total Commercial Paper [1]		4,000		4,000	
Other Payables:					
Accrued Arbitrage Rebate Payable [2]	401	427		828	
Capital Leases	10,267	10,965	6,767	14,465	4,156
Compensated Absences	141,406	69,953	54,563	156,796	51,144
Notes Payable	58,005	151	1,985	56,171	2,085
Other Payables	8,003		3,384	4,619	2,315
Total Other Payables	218,082	81,496	66,699	232,879	59,700
Total Governmental Activities Long-Term Liabilities	$ 1,659,740	$ 498,808	$ 356,726	$ 1,801,822	$ 144,378
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	$ 261,885	$ 17,850	$ 28,365	$ 251,370	$ 10,815
Unamortized Premium/Discount [3]	3,813	7,126	1,096	9,843	1,332
Deferred Amount on Refunding	(3,390)	(451)	(904)	(2,937)	(97)
Total Bonds Payable	262,308	24,525	28,557	258,276	12,050
Other Payables:					
Airport System	168	74		242	242
Nonmajor Enterprise Funds	1,011		1,004	7	7
	1,179	74	1,004	249	249
Airport System Arbitrage Rebate Payable [2]	30	106		136	136
Capital Leases Nonmajor Enterprise Funds	115	3,338	775	2,678	869
Accrued Landfill Postclosure Costs [2]		1,552	77	1,475	425
Compensated Absences	3,158	3,052	2,343	3,867	645
Total Other Payables	4,482	8,122	4,199	8,405	2,324
Total Business-Type Activities Long-Term Liabilities	$ 266,790	$ 32,647	$ 32,756	$ 266,681	$ 14,374

NOTE: The accreted interest through fiscal year 2007 has resulted in an increase of $16,496 in Hotel/Motel Tax Revenue Bonds Payable in governmental activities. The accreted interest in the amount of $16,496 is reflected on the Statement of Net Assets, but is not reflected in this table.

[1] See Note 7, Commercial Paper Programs and Other Borrowings for a description of the commercial paper program.

[2] See Note 11, Commitments and Contingencies for a description of the Arbitrage and Landfill Postclosure Care Costs.

[3] Changed policy from straight line to effective interest resulted in $34,264 increase of additions for Governmental and $6,256 increase of additions for Business-Type activities.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

Compensated Absences

The following is a summary of compensated absences for the year ended September 30, 2007:

Governmental Activities					
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 8,454	$ 42,257	$ 50,711	$ 103,488	$ 154,199
Internal Service Funds		433	433	2,164	2,597
Total Governmental Activities	$ 8,454	$ 42,690	$ 51,144	$ 105,652	$ 156,796

The General Fund, which accounts for approximately 65.0% of the City's employees, has typically been used in prior years to liquidate the liability for compensated absences. However, the fund which liquidates compensated absences is the same fund that the employees' salaries are charged to throughout the year.

Business-Type Activities			
Fund	Short-Term	Long-Term	Total
Airport System	$ 342	$ 1,708	$ 2,050
Nonmajor Enterprise Funds	303	1,514	1,817
Total Business-Type Activities	$ 645	$ 3,222	$ 3,867

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Education Facilities Corporation, Health Facilities Development Corporation, Industrial Development Authority, and Empowerment Zone Development Corporation, component units of the City, to provide financial assistance to various entities for the acquisition, construction, and/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, 2007, the aggregate principal amounts outstanding are as follows: seven series of Education Facility Revenue Bonds in the amount of $88,005; one series of Health Facilities Development Bonds in the amount of $7,540; two series of Industrial Revenue Bonds in the amount of $12,250; and one series of Empowerment Zone Development Revenue Bonds in the amount of $21,900.

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 September 30, 2007, 31 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of $270,706 and an aggregate principal amount issued of $272,529.

The City has authorized San Antonio Housing Trust Finance Corporation to issue single family and multi-family mortgage revenue bonds used to provide affordable housing to the City of San Antonio. The bonds are payable solely out of the revenues and receipts derived from any residential development or home mortgage financed by the bonds. As of September 30, 2007, the amount of conduit debt was $30,369.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

Conduit Debt Obligations (Continued)

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 for the principal, premium, interest, and purchase price of the bonds when they become due. The aggregate principal amount outstanding for the Special Facilities Airport Revenue Bonds, Series 1995 and for the Special Airport Facilities Revenue Refunding Bonds, Series 1999 at September 30, 2007 was $0 and $3,600, respectively.

The City entered into an agreement with the Port to fund renovations at the Port, in the amount of $20,000. The Department of Housing and Urban Development (HUD) provides the funding for the loan through a Section 108 Loan. The loan is secured by pledged Port revenues and property and is payable solely from payments received by the Port. As of September 30, 2007, the aggregate amount of the outstanding loan totaled $15,670.

The City also facilitates the issuance of tax-exempt revenue bonds for SA Energy Acquisition Public Facility Corporation (SAEAPFC) to enter into long-term pre-paid purchases of natural gas. SAEAPFC in turn, sells contracted volumes of the pre-paid gas to CPS Energy on a monthly basis at a discounted rate, which is passed on to CPS Energy's gas customers through reduced utility costs. The bonds are secured by the gas supplier and are payable primarily from the contracted volume sales and associated gas swap payments. As of September 30, 2007, SAEAPFC issued one series of tax-exempt revenue bonds with an aggregate principal amount issued and payable of $644,260.

Neither the City, the State of Texas, nor any political subdivision of the State of Texas, is obligated in any manner for repayment of the aforementioned bonds, loans or leases. Accordingly, the bonds, loans, and leases are not reported as liabilities in the accompanying financial statements.

CPS Energy

As of January 31, 2007, the bond ordinances for New Series Bonds issued on and after February 1, 1994 contained, among others, the following provisions:

Revenue deposited in CPS Energy's General Account shall be pledged and appropriated to be used in the following priority: (a) for maintenance and operating expenses of CPS Energy, (b) for payments of the New Series Bonds, (c) for the payment of prior lien bonds, including junior lien obligations, (d) payment of the notes and the credit agreement (as defined in the ordinance authorizing commercial paper), (e) payment of an inferior lien obligations issued, which are inferior in lien to the New Series Bonds, the prior lien bonds, and the notes and credit agreement, (f) for an annual amount equal to 6.0% of the gross revenues of CPS Energy to be deposited in the Repair and Replacement account, (g) for cash payments and benefits to the General Fund of the City not to exceed 14.0% of the gross revenue of CPS Energy, and (h) for 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 City's General Fund from the net revenues of CPS Energy during any fiscal year shall not exceed 14.0% of the gross revenues of CPS Energy, less the value of gas and electric services of CPS Energy 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 CPS Energy to be paid over, or credited, to the City's General Fund each fiscal year shall be determined (within the 14.0% limitation) by the governing body of the City.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

The net revenues of CPS Energy are pledged to the payment of principal of and interest on the New Series Bonds, which are classified as Senior Lien Obligations. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of CPS Energy.

The Junior Lien, Variable Rate Demand Obligation (VRDO) bonds are debt instruments of the City payable solely from, and equally and ratably secured by, a junior lien on and pledge of the net revenues of CPS Energy, subject and subordinate to liens and pledges securing the outstanding Senior Lien Obligations and any additional Senior Lien Obligations hereafter issued, and superior to the pledge and lien securing the currently outstanding Commercial Paper Obligations, all as fully set forth in the ordinances authorizing the issuance of the Junior Lien Obligations as noted below:

The City agrees that it will at all times maintain rates and charges for the sale of electric energy, gas, or other services furnished, provided, and supplied by CPS Energy to the City and all other consumers that shall be reasonable and nondiscriminatory and that 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 of the Texas Government Code, as amended;

(b) the interest on and principal of all parity bonds, as defined in the New Series Bonds 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 parity 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) any legal debt or obligation of CPS Energy as and when the same shall become due.

Revenue Bonds

On August 31, 2006, CPS Energy issued $384,185 of tax-exempt New Series 2006A Revenue Bonds. These bonds were partially used to reimburse the Repair and Replacement Account for construction expenditures made during the months of February through July 2006 in the amount of $131,200. The $268,800 remaining proceeds and net original issue premium will be used to fund generation, as well as electric and gas distribution construction projects.

On August 11, 2006, $106,400 of New Series 1997 Revenue and Refunding Bonds were legally defeased with cash. Under this defeasance, the debt obligations have been technically voided, as an appropriate level of cash has been set aside in escrow to service the debt. As a result, an accounting loss of $7,200 was recorded. The basis of the loss calculation included $107,800 paid for the actual defeasance; less the par value of debt outstanding; plus unamortized bond issue, reacquisition, and discount costs.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

CPS Energy Revenue Bond Summary

Bond Series	Weighted Average Yield on Outstanding Bonds at January 31, 2007	January 31, 2007
Tax Exempt New Series Bonds, 1994A-2006A; 2008-2025	4.8%	$ 2,578,485
Taxable New Series Bonds, 1998 and 2000; 2008-2021	6.7%	125,370
Total		2,703,855
Tax Exempt Variable Rate Series Bonds, 2003-2004, 2024-2033	4.8%	407,000
Total Revenue Bonds Outstanding		3,110,855
Less: Current Maturities of Bonds		141,755
Total Revenue Bonds, Net of Current Maturities		$ 2,969,100

Principal and interest amounts due for all revenue bonds outstanding for each of the next five years and thereafter to maturity are:

CPS Energy
Principal and Interest Requirements

Year	Principal	Interest	Total
2008	$ 141,755	$ 152,493	$ 294,248
2009	151,225	145,274	296,499
2010	148,170	137,495	285,665
2011	161,805	129,735	291,540
2012	175,900	121,216	297,116
2013-2017	722,290	473,450	1,195,740
2018-2022	717,340	300,127	1,017,467
2023-2027	603,120	121,159	724,279
2028-2032	239,250	39,188	278,438
2033	50,000	1,770	51,770
Totals	$ 3,110,855	$ 1,621,907	$ 4,732,762

The above table includes Senior Lien and Junior Lien bonds. Interest on the Senior Lien bonds is based upon the stated coupon rates of each series of bonds outstanding. The 2003 Junior Lien bonds were issued as variable rate bonds and as such have interest rates that reset on a weekly basis. On December 1, 2005, the 2004 Junior Lien bonds were remarketed for a two-year term at an interest rate of 3.6%. This interest rate will remain in effect until the next interest reset date of December 1, 2007. The total interest amounts for all revenue bonds outstanding included a blended interest rate of 3.5% for the 2003 and 2004 Junior Lien bonds.

The interest rate term mode for the Junior Lien Revenue bonds, or any portion thereof, may be converted to a different mode, or to an auction rate or term 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.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

Long-Term Debt Activity							
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2006	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2007
Revenue and Refunding Bonds:							
1994A Tax Exempt	$ 684,700	2012	5.008	$ 68,965	$ -	$ -	$ 68,965
1995 Tax Exempt	125,000	2007	5.500	5,800		5,800	
1997 Tax Exempt	350,000	2020	5.738	4,085		4,085	
1997 Tax Exempt	311,170	2014	5.509	102,355		102,355	
1998A Tax Exempt	785,515	2021	4.918	550,040		34,545	515,495
1998B Taxable	99,615	2020	6.343	87,815		4,175	83,640
2000A Tax Exempt	170,770	2010	5.374	11,170		3,080	8,090
2000B Taxable	50,425	2021	7.403	43,425		1,695	41,730
2001 Tax Exempt	115,280	2011	3.843	106,430		21,400	85,030
2002 Tax Exempt	436,090	2017	4.055	436,090			436,090
2002 Tax Exempt	140,615	2015	4.751	10,525			10,525
2003 Tax Exempt Junior Lien	250,000	2033	Variable	250,000			250,000
2003A Tax Exempt	93,935	2014	3.675	89,150		7,000	82,150
2003 Tax Exempt	350,490	2013	3.081	312,400		57,080	255,320
2004 Tax Exempt Junion Lien	160,000	2027	Variable	157,000			157,000
2005 Tax Exempt	294,625	2020	4.381	294,625			294,625
2005 Tax Exempt	240,675	2025	4.683	240,675			240,675
2005A Tax Exempt	197,335	2025	4.571	197,335			197,335
2006A Tax Exempt	384,185	2025	4.555		384,185		384,185
				2,967,885	384,185	241,215	3,110,855
Bonds Outstanding:							
Bond Current Maturities				(135,155)	(6,600)		(141,755)
Bond (Discount)/Premium				102,164	18,447	16,399	104,212
Bond Reacquisition Costs				(121,298)		(25,537)	(95,761)
Revenue Bonds, Net				2,813,596	396,032	232,077	2,977,551
Tax Exempt Commercial Paper (TECP)			Variable	150,000	200,000		350,000
Total Long-Term Debt, Net				$ 2,963,596	$ 596,032	$ 232,077	$ 3,327,551

San Antonio Water System (SAWS)

On April 30, 1992, the City Council approved Ordinance No. 75686 which effectuated the consolidation of all City owned utilities related to water including the water, wastewater, and water reuse systems as the San Antonio Water System.

The System - SAWS has been defined in City Ordinance No. 75686 as all properties, facilities and plants currently owned, operated, and maintained by the City and/or the board of trustees, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS provided however, that the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

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.

Stormwater - As defined in City Ordinance No. 75686 the stormwater program is not considered a part of SAWS and as such, revenues generated by the stormwater program are used to pay expenses of the stormwater program but are not available for debt service of SAWS or for transfer to the City. The City and SAWS have administrative responsibility for the Stormwater Program and have entered into an interlocal agreement, which establishes the entities' respective responsibilities. SAWS responsibility is in various aspects of data collection and analysis related to the water quality of stormwater as well as responsibility for customer billings and collection. Costs incurred by SAWS related to the stormwater program are reflected as expenses and are reimbursed by the City. Such reimbursements are included in water supply operating revenues.

Reuse Contract - SAWS has a contract with CPS Energy, the City-owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities, are excluded from the calculation of gross revenues, and are not included in any transfers to the City's General Fund.

No Free Service - City Ordinance No. 75686 also provides for no free services except for municipal firefighting purposes.

Revenue Bonds - On May 15, 2006, SAWS redeemed the $68,000 outstanding balance of its Series 1996 Senior Lien Bond obligations at a 2.0% premium. These bonds were refunded through the issuance of tax-exempt commercial paper. The redemption of fixed-rate debt with lower coupon variable-rate debt provided cash savings to SAWS of approximately $809 for 2006.

Senior Lien Water System Revenue Bonds, comprising of Series 1997, Series 2001, Series 2002, Series 2002-A, Series 2004, and Series 2005, outstanding in the total amount of $958,255 at December 31, 2006 are collateralized by a senior lien and pledge of the 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.

Junior Lien Water System Revenue Bonds, comprising of Series 1999, Series 1999-A, Series 2001, Series 2001-A, Series 2002, Series 2002-A, Series 2003, Series 2004, and Series 2004-A outstanding in the total amount of $208,990 at December 31, 2006 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 and maintaining an operating reserve for operating and maintenance expenses and debt service on senior lien debt.

Subordinate Lien Water System Revenue Bonds comprising of Series 2003-A and 2003-B, outstanding in the amount of $116,265 at December 31, 2006 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 of SAWS and maintaining an operating reserve for operating and maintenance expenses and debt service on senior lien and junior lien debt.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

Revenue bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Build, Improve, Extend, Enlarge, and Repair the System	0.60-6.25%	$ 1,283,510

The following summarizes transactions of the Revenue Bonds for the year ended December 31, 2006:

	Beginning Balance Jan. 1, 2006	Additions	Reductions	Ending Balance Dec. 31, 2006	Due Within One Year
Bonds Payable	$ 1,373,925	$ -	$ 90,415	$ 1,283,510	$ 24,880
Deferred Amounts for Issuance (Discounts)/Premiums/(Losses)	(25,872)	(2,942)	2,946	(25,868)	
Total Bonds Payable, Net	$ 1,348,053	$ (2,942)	$ 93,361	$ 1,257,642	$ 24,880

Annual debt service requirements are shown as follows:

Annual Debt Service Requirements Revenue and Refunding Bonds						
Year Ended December 31,	Senior Lien		Junior Lien		Subordinate Lien	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 14,755	$ 48,114	$ 7,850	$ 7,044	$ 2,275	$ 4,860
2008	18,705	47,227	8,085	6,797	2,375	4,765
2009	19,585	46,229	10,285	6,520	2,485	4,665
2010	20,065	45,207	12,555	6,186	2,600	4,562
2011	20,145	44,203	12,950	5,802	2,720	4,453
2012-2016	101,530	205,643	71,950	22,161	15,555	20,454
2017-2021	135,845	175,814	68,740	8,536	19,435	16,893
2022-2026	218,070	130,385	16,575	741	24,300	12,442
2027-2031	158,385	74,983			30,355	6,880
2032-2036	92,930	53,945			14,165	895
2037-2040	158,240	16,170				
Total	$ 958,255	$ 887,920	$ 208,990	$ 63,787	$ 116,265	$ 80,869

Pay-Fixed, Receive-Variable Interest Rate Swap - On March 27, 2003, SAWS entered into an interest rate swap agreement in connection with its City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A and 2003-B (the Series 2003 Bonds), issued in a variable interest rate mode. The Series 2003 bonds were issued to provide funds for the Capital Improvement Program and to refund certain outstanding commercial paper notes. The swap was used to hedge interest rates on the Series 2003 Bonds to a synthetic fixed rate that produced a lower expected interest rate cost to SAWS than traditional long-term fixed rate bonds.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Terms - The terms, including the counterparty credit ratings of the outstanding swap, as of December 31, 2006, are included in the following table. SAWS' swap agreement contains scheduled reductions to the outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2003 Bonds were issued on March 27, 2003, with a principal amount of $122,500. The swap was structured to match the principal amortization structure and dates of the Series 2003 Bonds. The counterparty to the swap is Bear Stearns Financial Products, Inc. (Bear Stearns) with the index for the variable rate leg of the swap being the Bond Market Association (BMA) Municipal Swap Index.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value at December 31, 2006
Series 2003	May 1, 2033	Bear Sterns	Aaa/AAA/AAA	BMA	4.18%	$ (3,652)

The combination of variable rate bonds and a floating-to-fixed swap creates a synthetic fixed rate issue for SAWS. The synthetic fixed rate protects against the potential of rising interest rates in conjunction with SAWS Series 2003 Bond issued in a weekly mode and achieved a lower fixed rate than in the traditional fixed rate bond market at the time of issuance.

Fair Value - The swap had a negative fair value as of December 31, 2006 of $3,652. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk - As of December 31, 2006, SAWS was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, SAWS would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, Bear Stearns, was rated AAA by Fitch's Ratings and Standard & Poor's and Aaa by Moody's Investor Service as of December 31, 2006. The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should Bear Stearns credit rating fall below the applicable thresholds in the agreement.

Basis Risk - SAWS is exposed to basis risk to the extent that the interest payments on its variable rate bonds do not match the variable rate payments received on the associated swap. SAWS mitigates this risk by (a) matching the notional amount and amortization schedule of the swap to the principal amount and amortization schedule of the Series 2003 Bonds, and (b) selecting an index for the variable rate leg of the swap that is expected to match the interest rate resets on the Series 2003 Bonds over the life of the issue.

Termination Risk - SAWS may terminate the swap at any time for any reason. Bear Stearns may terminate the swap if SAWS fails to perform under the terms of the agreement. The ongoing payment obligations under the swap are insured, and Bears Stearns cannot terminate as long as the insurer does not fail to perform. If the swap should be terminated, the Series 2003 Bonds would no longer carry synthetic fixed interest rates. If at the time of the termination the swap has a negative fair value, SAWS would be liable to the counterparty for a payment equal to the swap's fair value.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Swap Payments and Associated Debt - As of December 31, 2006, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same, are detailed in the following table. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Pay-Fixed, Receive-Variable Interest Rate Swap
Estimated Debt Service Requirements of Variable-Rate
Debt Outstanding and Net Swap Payments

	Variable Rate Bonds		Interest Rate	
Year	Principal	Interest	Swap, Net	Total
2007	$ 2,275	$ 4,546	$ 314	$ 7,135
2008	2,375	4,457	308	7,140
2009	2,485	4,364	301	7,150
2010	2,600	4,267	295	7,162
2011	2,720	4,165	288	7,173
2012-2016	15,555	19,133	1,321	36,009
2017-2021	19,435	15,801	1,091	36,327
2022-2026	24,300	11,639	804	36,743
2027-2031	30,355	6,436	444	37,235
2032-2033	14,165	837	58	15,060
Total	$ 116,265	$ 75,645	$ 5,224	$ 197,134

Capitalized Interest Costs - Interest costs incurred on revenue bonds and commercial paper debt totaled $69,146 during the year ended December 31, 2006, of which $10,239 was capitalized as part of the cost of SAWS' utility plant additions.

Debt Covenants - SAWS is required to comply with various provisions included in the ordinance which authorized the bond issuances. SAWS is in compliance with all significant provisions of the ordinance.

Prior Years Defeasance of Debt - In prior years, SAWS defeased certain revenue bonds by placing revenues or proceeds of new bond issues in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in SAWS' financial statements. At December 31, 2006, $107,455 of bonds outstanding are considered defeased.

Note Payable - During fiscal year 2000, a contract was entered into between SAWS and CPS Energy whereby SAWS acquired water rights valued at $3,593 from certain CPS Energy owned properties. In exchange for these water rights, a note was signed for 116 payments of $40 at an interest rate of 7.5%. The liability as of December 31, 2006 is included in the Statement of Net Assets for both the current portion of $420 and long-term amount of $571. The annual principal and interest requirements are as follows:

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Notes Payable (Continued)

San Antonio Water System
Principal and Interest Requirements

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2007	$ 420	$ 60	$ 480
2008	453	27	480
2009	118	2	120
Total	$ 991	$ 89	$ 1,080

Note 7 Commercial Paper Programs and Other Borrowings

Primary Government (City)

Commercial Paper

In May 2007, the City adopted an ordinance authorizing the issuance of up to $50,000 in Sales Tax Revenue Commercial Paper Notes, Series A. Proceeds from the sale of the Commercial Paper Notes are to provide funds to acquire property for a conservation easement or open-space preservation program with the intent of protecting water in the Edwards Aquifer as contemplated by the "Edwards Aquifer Protection Venue Project" (authorized at an election held on May 7, 2005). As of September 30, 2007, $4,000 of Commercial Paper Notes are outstanding with various maturities ranging from 1 to 270 days.

The Commercial Paper Notes are supported by an irrevocable direct-pay Letter of Credit dated as of May 23, 2007 issued by Bank of America, N.A. The role of the Letter of Credit provider is to assure the timely payment of principal and interest on the Notes at maturity. The Letter of Credit provider has issued its irrevocable, direct-pay Letter of Credit for the account of the city and for the benefit of the issuing and paying agent on behalf of the note holders. The dealer for the commercial paper notes is UBS Investment Bank and the issuing and paying agent is Wells Fargo, N.A. The Letter of Credit in an amount equal to $53,699 enables the City to pay at maturity the principal amount of the Commercial Paper Notes plus up to 270 days interest, at an assumed interest rate of 10.0% per year; provided however that none of the Commercial Paper Notes shall mature later than August 1, 2017. Under the terms of the Letter of Credit, the City may borrow up to an aggregate amount not to exceed $50,000 for the purpose of paying principal due under the Commercial Paper Notes. The Letter of Credit agreement will expire April 30, 2012, unless previously terminated or extended. As of September 30, 2007, there have been no borrowings under the Letter of Credit.

The Commercial Paper Notes have been classified as long-term in accordance with the refinancing terms of the revolving credit agreement included in the Letter of Credit. The Commercial Paper Notes are secured by sales and use tax of 1/8 cent not to exceed $90,000.

Commercial Paper

Issue	Balance Outstanding October 1, 2006	Additions	Deletions	Balance Outstanding September 30, 2007
Series 2007	$ -	$ 4,000	$ -	$ 4,000

Note 7 Commercial Paper Programs and Other Borrowings (Continued)

CPS Energy

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, and refinancing or refunding any outstanding obligations that are secured by and payable from a lien and/or a pledge of net revenues of CPS Energy. 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 revolving credit agreement, CPS Energy may borrow up to an aggregate amount not to exceed $350,000 for the purpose of paying principal due under the TECP. The revolving credit agreement is currently extended until November 1, 2010, and may be renewed for an additional year.

As of January 31, 2007, there have been no borrowings under the revolving credit agreement. The TECP is secured by the net revenues of CPS Energy. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and Junior Lien Obligations.

CPS Energy issued $200,000 of TECP on August 24, 2006. These proceeds will be used to fund generation, as well as electric and gas distribution construction projects. The current outstanding TECP balance as of January 31, 2007, is $350,000.

As of January 31, 2007, a summary of TECP is as follows:

TECP Outstanding	$ 350,000
TECP New Money Issues	$ 200,000
Weighted Average Interest Rate of Outstanding TECP	3.6%
Average Life of Outstanding TECP (Approximate Number of Days)	90

San Antonio Water System (SAWS)

Commercial Paper

SAWS maintains a commercial paper program (Program) that is used to provide funds for the interim financing of a portion of capital improvements to SAWS.

On November 17, 2005, the City Council of the City of San Antonio approved the expansion of the Program from $350,000 to $500,000. The increase in the Program provides additional interim financing capacity for the increased level of future expenditures on water resource projects. Notes payable under the Program cannot exceed maturities of 270 days.

The City has covenanted in the ordinance authorizing the Program to maintain at all times credit facilities with banks or other financial institutions that would provide available borrowing capacity sufficient to pay the principal of the Program. The credit facility is maintained under the terms of a revolving credit agreement.

To further support the issuance of the Program, SAWS entered into agreements with the following participants:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Bank of America, N.A.
- Issuing and Paying Agency Agreement with the Bank of New York.

Note 7 Commercial Paper Programs and Other Borrowings (Continued)

San Antonio Water System (SAWS) (Continued)

Commercial Paper (Continued)

The borrowings under the Program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the Program and (ii) borrowing under and pursuant to the revolving credit agreement.

Commercial paper notes of $237,360 are outstanding as of December 31, 2006. The proceeds of the notes have been used solely for financing of capital improvements of SAWS. Consistent with prior years, the Program notes have been classified as long-term in accordance with the refinancing terms of the revolving credit agreement. Interest rates on the notes outstanding at December 31, 2006 range from 3.5% to 3.7% and maturities range from 19 to 152 days. The outstanding notes had an average rate of 3.6% and averaged 87 days to maturity.

The following summarizes transactions of the Program for the year ended December 31, 2006.

	Beginning Balance January 1, 2006	Additions	Reductions	Ending Balance December 31, 2006
Tax Exempt Commercial Paper Notes	$ 98,000	$ 139,360	$ -	$ 237,360

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Note 8 Pension and Retirement Plans

Primary Government (City)

General Plan Information

The City of San Antonio, SAWS, and CPS Energy participate in several contributory retirement plans. These are funded plans covering substantially all full-time employees. Payroll and contribution information as of the year-end for each entity is presented as follows:

Contributory Pension and Retirement Plans						
Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contribution
City	Fire and Police Pension Fund	Single Employer Defined Benefit Plan	$ 221,539	$ 27,476	$ 54,952	$ 82,428
	Texas Municipal Retirement System (TMRS)	Nontraditional Hybrid Defined Benefit Agent Plan	$ 231,262	$ 13,868	$ 28,455	$ 42,323
Component Units:						
SAWS	[1] Texas Municipal Retirement System (TMRS)	Nontraditional Defined Benefit Agent Plan	$ 65,078	$ 1,974	$ 2,197	$ 4,171
	[2] PMLIC Contract	Single Employer Defined Benefit Plan	$ 60,836	$ -	$ 4,575	$ 4,575
CPS Energy	[3] CPS All Employees Plan	Single Employer Defined Benefit Plan	$ 210,074	$ 10,005	$ 9,626	$ 19,631

[1] Plan year ended December 31, 2006

[2] Plan year ended December 31, 2006

[3] Fiscal year ended January 31, 2007

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Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

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 firefighters and police officers through the Pension Fund. Employees who terminate, having 5 to 20 years of service, may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for 20 years or more shall, upon application to the board of trustees (the Board) of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest 3 years of pay of the last 5 years of service. The retirement annuity for employees retiring after September 30, 2003 is computed at the rate of 2.3% of this average for each of the first 20 years of service, plus 4.5% of the member's average total salary for each of the next 7 years, plus 3.0% of the member's average total salary for each of the next 3 years of service, plus 0.5% of the member's average total salary for each of the next 4 years of service, with fractional years of service prorated based on full months served as a contributing member. In applying 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 20 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 20 years or 36 months and a reduced annuity payment.

There is also a provision for a thirteenth and fourteenth pension check. The Board may authorize the disbursement of a thirteenth 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 fourteenth 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 thirteenth and fourteenth 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 pro-rated check, and no check will be paid to members who retired after the end of the fiscal year). The Pension Fund met the criteria for the thirteenth and fourteenth checks for the year ended September 30, 2007. Subsequent to September 30, 2007, the Board did approve a thirteenth and fourteenth check.

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.

Effective October 1, 2001, in addition to the changes for credited service and the fourteenth check other new provisions included allowing the surviving spouse of an active member to elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a Back DROP election made by a retiring member, increasing the maximum benefit for surviving spouses and dependent children equal to a 27-year service pension.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Another important provision of the Pension Fund is the Cost of Living Adjustment (COLA). The COLA is based on the Consumer Price Index for all Urban Consumers - U.S. City Average (CPI) as published by the Bureau of Labor Statistics. Members whose retirement, disability, or death occurred before August 30, 1971 received an increase equal to 100.0% of the increase in the CPI. Members whose retirement, disability, or death occurred after August 30, 1971 but before October 1, 1993 receive an increase equal to 100.0% of the increase in the CPI up to 8.0%, and 75.0% of the increase in the CPI in excess of 8.0%. Members whose retirement, disability, or death occurred after October 1, 1993 receive an increase equal to 75.0% of the increase in the CPI.

Contribution requirements of plan members and the City are established and may be amended by state statute. In the current year, the City contributed 24.6% of covered payroll, and employees contributed 12.3% of covered payroll. The employer's required contribution of $54,952 and the employee's required contribution of $27,476 were made to the Pension Fund (see summary of contribution information at the beginning of Note 8). New firefighters and police officers are immediately eligible for membership after they receive state certification and complete all other requirements.

The Pension Fund's annual required contribution for fiscal year 2007 was determined by Pension Law. The Pension Fund's October 1, 2006 actuarial valuation used the entry-age normal cost method. Significant assumptions included (a) 8.0% investment rate of return and (b) projected annual salary increase of 4.3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability is amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period is 10.7 years with no assumption of a payroll growth rate.

The amounts of the actuarial value of assets represent estimates based upon the assumptions described above. Changes in those assumptions will result in changes in such estimates in the future. The amounts of benefits ultimately to be paid could differ materially from the current estimates.

The Board of the Pension Fund has historically recommended changes to benefits provided by the governing statute controlling the Fund that are actuarially prudent, keeping in mind the goal of reducing the unfunded liability of the Pension Fund over time. The Legislative Program has worked by soliciting the input of all affected interest groups and the advice of external professionals to reach agreement on a package of benefits that is actuarially prudent.

The Board reaffirms this commitment to a program of prudent legislative changes that result in greater retirement security for its members while at the same time moving towards full funding from an actuarial perspective. To evidence this policy, the Board adopted several guidelines for determining whether to recommend legislative amendments in the future. Two highlights of these guidelines include utilizing external actuarial analysis to determine the years to full funding based on reports as of October 1 every two years, commencing with the 2005 Actuarial Valuation Report, adjusted to include the 2007 Legislative Package. The actuarial cost of benefits enhancements recommended by the Board will not exceed 50.0% of any actuarial improvements, as measured by the years to full funding in any two year cycle. Any improvements in years to full funding not used for legislative benefit changes in any two year cycle may be banked for future benefits in subsequent two year cycles.

Another guideline adopted by the Board is that any decrease in the years to full funding resulting from modifications of actuarial assumptions may form the basis for recommending legislative benefits enhancements, except for any modification of the Inflation Rate Assumption regarding the amount of the rate that would reduce such rate below 4.3%.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

This policy reflects the current statement of Board policy and may be changed at any time by the current Pension Board or any future Board.

The Pension Fund's governing statute was amended by the Texas Legislature effective October 1, 2005. The major changes enacted during the 2005 legislative session are (i) administrative changes to permit the Board to operate more efficiently, (ii) providing for an election to be made by a service retiree to receive a reduced annuity during the retiree's lifetime to provide a death benefit annuity to the retiree's postretirement surviving spouse, (iii) providing for an increased death benefit payment by the Pension Fund to an active member's or retiree's estate if there is no named beneficiary, (iv) changing the threshold year for determining increases in annuities based on CPI increases from 1991 to 1993, (v) allowing the use of a participant's salary beyond 34 years of service for purposes of a Back DROP benefit calculation, and (vi) increasing the service allowed in determining the spouse Back DROP lump-sum payroll from 27 to 30 years. See Note 18, Subsequent Events for new legislation affecting this plan.

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.

Texas Municipal Retirement System (TMRS)

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to City employees. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the TMRS plan.

Benefits depend upon the sum of the employee's contributions to the TMRS plan, with interest, and the City-financed monetary credits, with interest. At the date the TMRS plan began, the City granted monetary credits for service rendered before the TMRS 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 TMRS plan. Monetary credits for service since the TMRS plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the TMRS plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage 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 City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years of service, or with 20 years of service regardless of age. The TMRS plan also provides death and disability benefits. A member is vested after five years, but must leave accumulated contributions in the TMRS plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

TMRS 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 contained in the statutes.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Contribution requirements are actuarially determined by TMRS' actuary (see summary of TMRS Actuarial Assumptions and Methods at the end of Note 8). The contribution rate for the City's employees is 6.0% and the matching percent is currently 12.3%, both as adopted by the governing body of the City (see summary of contribution information at the beginning of Note 8.) 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 percentage of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percentage, 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 percentage 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 25 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 25 year period. Currently, the unfunded actuarial liability is amortized over a constant 25 year period as a level percentage 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. See Note 18, Subsequent Events for update on the TMRS plan.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or calling (512) 476-7577.

San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System (TMRS), San Antonio Water System Retirement Plan, the San Antonio Water System Deferred Compensation Plan, and Social Security. The following information related to the TMRS was prepared as of December 31, 2005, while the information related to the San Antonio Water System Retirement Plan has been prepared as of January 1, 2006.

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 state-wide TMRS, one of more than 800 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and 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 the establishment of the plan. Monetary credits for service since the plan began are a percentage (100.0%, 150.0%, 200.0%) of the employee's accumulated contributions. In addition, SAWS can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount that 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 of his salary in 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.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Members can retire at ages 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 are adopted by SAWS within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The contribution rate for the employees is 3.0% of salary. SAWS' matching percent ratio is currently 1 to 1, as adopted by SAWS. Under the state law governing TMRS, the actuary annually determines SAWS' contribution rate (see summary of TMRS's Actuarial Assumptions and Methods at the end of Note 8). 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.

The unit credit actuarial cost method is used for determining SAWS contribution rate. Both the employees and SAWS make contributions monthly. 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 of the rate and the calendar year when the rate goes into effect (i.e. December 31, 2005, valuation is effective for rates beginning January 2007).

San Antonio Water System Retirement Plan (SAWSRP)

The San Antonio Water System Retirement Plan (SAWSRP) is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 75686, which serves as a supplement to TMRS and Social Security benefits. SAWSRP is governed by SAWS, which may amend plan provisions and which is responsible for the management of plan assets. SAWS has delegated the authority to manage certain plan assets to Principal Financial Group.

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 pension plan. Employees are eligible to participate in SAWSRP on January 1 of the calendar year following date of hire. A member does not vest in this plan until completion of five years of service.

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. Twenty years of credited service regardless of age, or
2. Five years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of vesting 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.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

The normal retirement benefit under the Principal Financial Group contract is equal to:

1. 1.2% of the average compensation, times years of credited service not in excess of 25 years, plus
2. 0.8% of the average compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.4% of the average compensation, times years of credited service in excess of 35 years.

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.

An employee is automatically 100.0% vested upon attainment of age 65 or upon becoming totally and permanently disabled. Benefits for retired employees are fully guaranteed at retirement. The pension plan's 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 Financial Group (PFG). Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets. The pension plan's unallocated separate accounts are valued at fair value.

The plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method estimates the total cost of the projected pension benefits for each employee evenly from the date the employee is first eligible for the plan to the employee's assumed retirement age. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. As the plan effective date, there are some accumulated Normal Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by SAWS. Active members are not required to contribute to the plan. Any obligation with respect to the pension plan shall be paid by SAWS. The actuarial valuation which was performed for the plan year ended December 31, 2005, reflects an unfunded frozen initial liability of $15,541.

If the Normal Cost or Unfunded Frozen Initial Liability becomes negative through the normal operation of the plan, the Unfunded Frozen Initial Liability will be reestablished using the Entry Age Normal method. If the reestablishment would result in a negative Normal Cost or Unfunded Frozen Initial Liability, the method will be changed to the aggregate method. If the actuarial value of assets exceeds the total present value of benefits, the Aggregate Normal Cost will be zero. Then the Frozen Initial Liability will be reestablished when a positive Entry Age Normal unfunded liability results from a change in assumptions or a plan amendment. A summary of the actuarial assumptions utilized in determining SAWS' contribution requirements is as follows:

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

SAWSRP Actuarial Assumptions

Actuarial Cost Method	Entry Age Normal - Frozen Initial Liability Period
Amortization Method	Level Dollar
Remaining Amortization Period	35 Years - Closed Period
Asset Valuation Method	Amortization Cost
Investment Rate of Return	8.0%
Inflation Rate	None
Salary Scale	Table S-5 from the Actuary's Pension Handbook plus 3.4%
Cost of Living Adjustments	None
Wage Base Increase	4.0% each year until retirement
Postemployment Benefits	None

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 Principal Financial Group, 711 High Street, Des Moines, Iowa 50392 or by calling (800) 986-3343.

San Antonio Water System Deferred Compensation Plan (SAWSDCP)

SAWS has a deferred compensation plan for its employees created in accordance with Internal Revenue Code Section 457. SAWSDCP, available to all regular employees, permits them to defer a portion of their salary until future years. The compensation deferred under this plan is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Participation in SAWSDCP is voluntary, and SAWS does not make any contributions. SAWS has no liability for losses under SAWSDCP, but does have the usual fiduciary responsibilities of a plan sponsor.

CPS Energy

All Employee Plan

The CPS Energy 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. It is an unconsolidated entity within which normal retirement is age 65; however, early retirement is available with 25 years of benefit service, as well as to those employees who are ages 55 or older with at least ten years of benefit service.

Plan Participants Summary

	Plan (Calendar) Year Date January 1, 2006
Retirees and Beneficiaries Currently Receiving Benefits	1,477
Terminated Employees not yet Receiving Earned Benefits	50
Current Employees Participating in Plan	3,779
Total	5,306

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service or age 62 with less than 25 years of service. The Plan is sponsored by and may be amended by CPS Energy. Plan net assets, having a market value of $1,100,000 at December 31, 2006, are held in a separate trust that is audited annually and in which statements include historical trend information. For further information, contact Compensation and Employee Benefits at CPS Energy.

The current policy of CPS Energy is to establish funding levels, considering annual actuarial evaluations and recommendations of the Administrative Committee, using both employee and employer contributions. Generally, participating employees contribute 5.0% of their total compensation and are normally fully vested in CPS Energy's contribution after completing seven years of credited service or at age 40.

Employee contributions commence with the effective date of participation and continue until attaining normal or early retirement age, completion of 44 years of benefit service or termination of employment. The balance of Plan contributions is the responsibility of CPS Energy, giving consideration to actuarial information, budget controls, legal requirements, compliance, and industry and/or community norms.

CPS Energy adopted a Restoration Plan effective January 1, 1998, to supplement benefits paid from the Plan due to federal tax restrictions on benefit amounts. The benefits due under the Restoration Plan have been paid annually by CPS Energy.

The total employer and employee pension funding, which includes amortization of past service costs using the unit credit cost actuarial method, is summarized as follows:

Pension Funding

	Fiscal Year Ended January 31, 2007
Employee Contributions	$ 10,005
Company Contributions	9,626
Total Contributions	$ 19,631
Covered Payroll	$ 210,074
Total Payroll	$ 221,456

The actuarially determined contribution requirements for calendar year 2007 were computed using an assumed rate of return of 8.0%. The past service costs for 2007 were amortized over a targeted 15 years. There were no changes in actuarial assumptions or in the actuarial cost method used for the 2007 valuation from those used for the 2006 valuation.

The employee contribution interest crediting rate was 8.0% for 2007. CPS Energy's company contributions to the Plan amounted to 4.4% of covered payroll in fiscal year 2007.

Actuarial valuation methods used for January 1, 2006 included (a) the five-year smoothed market for asset valuation, (b) the projected unit credit for actuarial accrued liability, and (c) the level dollar open for amortization of pension service costs. The remaining amortization periods for January 1, 2006 were 29.4 years and were calculated using the level dollar open amortization method.

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

Significant actuarial assumptions used for the January 1, 2006, actuarial valuation included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases averaging 4.1%, and (c) post retirement cost-of-living increases of 1.8%. The projected salary increases included an inflation rate of 3.5%.

Employees who retired prior to 1983 receive annuity payments from an insurance carrier, as well as some benefits directly from CPS Energy. The costs for the benefits directly received from CPS Energy were $176 for the fiscal year ended January 31, 2007. These costs were recorded when paid.

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	2005	$ 49,665			$ 49,665	$ (49,665)				100.0%
Pension Fund City	2006	51,614			51,614	(51,614)				100.0%
of San Antonio	2007	54,952			54,952	(54,952)				100.0%
TMRS -	2005	$ 25,131			$ 25,131	$ (25,131)				100.0%
City of	2006	27,077			27,077	(27,077)				100.0%
San Antonio	2007	28,455			28,455	(28,455)				100.0%
CPS All	2005	$ 8,694			$ 8,694	$ (8,694)				100.0%
Employee Plan [1]	2006	7,162			7,162	(7,162)				100.0%
	2007	10,051			10,051	(10,051)				100.0%
TMRS -	2004	$ 2,013			$ 2,013	$ (2,013)				100.0%
SAWS [2]	2005	2,101			2,101	(2,101)				100.0%
	2006	2,197			2,197	(2,197)				100.0%
PMLIC -	2004	$ 3,486			$ 3,486	$ (3,486)				100.0%
SAWS [2]	2005	3,689			3,689	(3,689)				100.0%
	2006	4,575			4,575	(4,575)				100.0%

[1] Fiscal year ended January 31, 2007
[2] Plan year ended December 31, 2006

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 following table for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years - Open Period
Asset Valuation Method	Amortization Cost
Investment Return - City	7.0%
Investment Return - SAWS	7.0%
Projected Salary Increases	None
Includes Inflation At	3.5%
Cost of Living Adjustments	None

Note 9 Postemployment Retirement Benefits

Primary Government (City)

In addition to the pension benefits discussed in Note 8, Pension and Retirement Plans, 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 nonuniformed City retirees and for all pre-October 1, 1989 uniformed (fire and police) retirees. Currently, there are 5,959 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, 2007, there were 1,316 retirees participating in the program that covers eligible expenses at 80.0% after a deductible of $500 (single)/$1,000 (family) for non-Medicare and $125/$250 for Medicare retirees. The cost of the program is reviewed annually, and the costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis, shared on a targeted 67.0% City, 33.0% 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 $12,311. For the year ended September 30, 2007, total contributions were as follows:

Total Contributions	
City	$ 3,831
Retiree Premiums	3,126
Total Contributions	$ 6,957

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the health plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the health plan on behalf of certain plan participants. As of September 30, 2007, the City had not received any payments. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*, future projected payments from the federal government have not been used to lessen total projected obligations under the City's plan.

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 Health Care Fund. The Health Care 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 firefighters and police officers who retired on or after October 1, 1989. Effective October 1, 1997, the Health Care Fund was created as a separate and distinct statutory trust. The Health Care Fund is governed by a nine-member board of trustees comprising of the Mayor, two City Council members, two active police officers, two active firefighters, 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 Health Care Fund. Contribution and benefit levels are currently determined by the respective collective bargaining agreements with the Fire and Police Associations.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

The benefits of this plan are financed on a prefunded basis. The City currently makes contributions on behalf of 3,512 active firefighters 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 20 years of service, and the plan currently provides benefits to 2,400 eligible retirees and dependents. The Health Care Fund reimburses 80.0% of the amount of eligible claims for standard medical costs and 100.0% for hospitalization costs incurred by the retiree and their eligible dependents for Prefund I (firefighters who retired on or after October 1, 1989, but before or on December 3, 1995 and police officers who retired on or after October 1, 1989 and before July 1, 1995). The Health Care Fund for Prefund II retirees (firefighters who retired on or after December 4, 1995 and police officers who retired on or after July 2, 1995) reimburses both the amount of eligible claims for standard medical costs and hospitalization costs incurred by the retiree and their eligible dependents at 80.0%.

Please note, the number of firefighters, police officers, and retirees in this section are not expressed in thousands. For the year ended September 30, 2007, total benefit payments for retired employees and eligible beneficiaries was $15,145.

Contribution levels for fiscal year 2007 were established under the current collective bargaining agreements between the City and the Fire and Police Associations. Under the Fire Agreement, the City contributed 8.7% of base pay plus longevity. Firefighters contributed $70 per month to the Health Care Fund. Pursuant to the Police Agreement, the City contributed 9.4% of base pay plus longevity and police officers contributed $70 per month. Total contributions to the Health Care Fund are summarized in the following table:

Total Contributions to the Health Care Fund	
City	$ 18,827
Employees and Retirees Dependent Premiums	3,499
Total Contributions	$ 22,326

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Health Care Fund and whether the existing financing of the Health Care 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 Health Care Fund's consulting actuaries performed an actuarial valuation dated February 19, 2007, as of October 1, 2006. The results of the actuarial valuation were that, in the opinion of the actuary, the Health Care Fund will have a long-term inadequate financing arrangement if present health benefits are left unchanged and contributions remain at current levels.

While the results of the studies reflect that significant changes would be required in contribution levels if benefits remain unchanged, the actuarial reports also state that the Health Care Fund does not have a short-term financing problem. As of September 30, 2007, net assets available for postemployment benefits were $198,274, while benefits payments for the fiscal year ended September 30, 2007 were $15,145. See Note 18, Subsequent Events for update on this plan.

CPS Energy

CPS Energy provides certain health and life insurance benefits for employees. Additionally, most CPS Energy employees are also eligible for these benefits upon retirement from CPS Energy. Assets of the plans are held in three separate, single-employer contributory plans: (1) City Public Service of San Antonio Group Health Plan (Health Plan), (2) City Public Service of San Antonio Group Disability Plan (Disability Plan), and (3) City Public Service of San Antonio Group Life Insurance Plan (Life Plan).

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

The Employee Benefit Plans' assets are segregated from CPS Energy's assets. They are separately managed by a committee whose members are appointed by the CPS Energy General Manager and CEO. These plans report results on a calendar-year basis and issue separately audited financial statements that may be obtained by contacting Compensation and Employee Benefits at CPS Energy.

The financial statements of each of the three Employee Benefit Plans are prepared using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plans apply all GASB pronouncements as well as FASB pronouncements, issued on or before November 30, 1989, unless those FASB pronouncements conflict with or contradict GASB pronouncements.

Funding of the plans 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 plan may be amended by CPS Energy. The annual cost of retiree health and life insurance benefits funded by CPS Energy is recognized as an expense of CPS Energy as employer contributions are made to the programs. These retiree costs approximated $7,000 for the fiscal year ended January 31, 2007. CPS Energy reimbursed a percentage of the monthly premium to certain retirees and their spouses enrolled in Medicare Part B. Costs for this reimbursement were $452 for the fiscal year ended January 31, 2007.

Retired employees and covered dependents contributed $3,200 for their health and life insurance benefits in fiscal year 2007. In fiscal year 2007, there were 2,502 retirees and covered dependents eligible for health and life insurance benefits.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the health plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the health plan on behalf of certain plan participants. The plan began receiving subsidy payments in the third quarter of fiscal year 2007; these payments totaled $598 as of January 31, 2007. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*, future projected payments from the federal government have not been used to lessen total projected obligations under the CPS Energy's plan.

In view of the potential economic significance of these benefits, CPS Energy has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1 valuations were $101,600 for health benefits and $27,000 for life insurance benefits for 2006. The actuarial analysis of the present value of postemployment benefit obligations for all active employees is estimated to be $126,800 for health, $33,900 for life insurance and $6,000 for disability benefits. CPS Energy began partial accrual and funding of projected future benefits in 1992. Funding totaled $3,200 in fiscal year 2007.

For the health plan, the actuarial cost method used was the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS Energy used a present-value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for January 1, 2006, included (a) a rate of return on the investment of present and future assets of 8.0% 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 2006, decreasing to 5.5% in 2016 and thereafter.

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS)

SAWS provides certain healthcare 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, 2006, there were 477 retirees with life insurance and 464 retirees with medical coverage. Please note, the number of retirees is 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 premiums for this coverage. Premiums for medical insurance and life insurance for retirees amounted to $4,519 and $88, respectively, for the period January 1, 2006 through December 31, 2006. Medical benefits are provided to retiree and active employees through a self-insured health plan administered by Blue Cross Blue Shield of Texas. Other similar benefits for active employees are provided through insurance companies.

Pursuant to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, SAWS will be required to account for and disclose its other postretirement liability for these benefit programs. While the provisions of GASB Statement No. 45 do not require SAWS to account for and disclose its other postretirement liability until December 31, 2007, SAWS is actively reviewing the provisions of this accounting standard and has had a preliminary actuarial valuation performed.

During 2006, SAWS engaged an actuarial consultant to perform a preliminary actuarial valuation of this program and assist in a review of the current provisions of the retirement health and life insurance plans. Based on the preliminary actuarial valuation, as of January 1, 2006, the unfunded actuarial accrued liability for these plans was projected at $326,000. SAWS is currently evaluating various potential cost savings strategies; however, no final decision with respect to these potential strategies has been made at this time.

Note 10 CPS Energy South Texas Project (STP)

Joint Operations

CPS Energy is one of three participants in STP, a two-unit nuclear power plant with Unit 1 nominally rated to produce 1,354.25 megawatts and Unit 2 nominally rated to produce 1,281.25 megawatts (these numbers not in thousands). The units' along with their support facilities and administrative offices' are located on a 12,220-acre site in Matagorda County, Texas. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. The other participants in STP are NRG Energy, Inc. and the City of Austin, Texas. Increased by the additional 12.0% interest acquired in fiscal year 2006, CPS Energy's 40.0% ownership in STP represents 1,054.2 megawatts of total plant capacity. On February 2, 2006, NRG Energy, Inc. acquired one of the prior participants of STP, Texas Genco.

On June 28, 2006, NRG Energy, Inc. announced plans to construct two additional reactors at the currently functioning STP site. With this addition, energy production is expected to increase by 2,700.0 megawatts for a total STP production capacity of 5,335.5 megawatts. NRG Energy, Inc. filed a letter of intent with the Nuclear Regulatory Commission (NRC) on June 19, 2006, and will proceed with the permitting and development of the new units. CPS Energy, as co-owner, has an option to also participate in this new construction project and is currently conducting its own feasibility study to determine which course of action is in the best long-term interest of its customers. The costs associated with the feasibility study will be accumulated in a deferred account during the evaluation process. As of January 31, 2007, $765.5 has been spent on the feasibility study.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, the STP Nuclear Operating Company (STPNOC), a Texas nonprofit, nonmember corporation created by the participants, assumed responsibility as the licensed operator of STP. As of January 31, 2007, the agreement had not been amended. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC.

CPS Energy amortizes its share of nuclear fuel for STP to fuel expense on a units-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 Energy is charged a fee for disposal of spent nuclear fuel, which is based upon CPS Energy's share of STP generation that is available for sale to CPS Energy customers. This charge is included in fuel expense monthly.

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 Energy 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. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC in accordance with the financial protection requirements of the Price-Anderson Act. A Master Worker Nuclear Liability policy, with a maximum limit of $300,000 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 approximately $1,100,000. The owners of STP currently maintain $2,800,000 of nuclear property insurance. 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 approximately $2,800,000 of nuclear property insurance, which consists of $500,000 in primary property damage insurance and $2,300,000 of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). A retrospective assessment could occur if property losses, as a result of an accident at any nuclear plant insured by NEIL, exceed the accumulated funds available to NEIL. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $25,500 during any one policy year.

Nuclear Decommissioning

CPS Energy, together with the other owners of the STP, files a certificate of financial assurance with the NRC for the decommissioning of the nuclear power plant. The certificate assures that CPS Energy and the other owners meet the minimum decommissioning funding requirements mandated by the NRC.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning (Continued)

The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1999, the owners conducted a review of decommissioning costs. The results estimated CPS Energy's share of decommissioning costs at approximately $311,000 in 1998 dollars. In 2004, the owners conducted an additional review of decommissioning, and results showed that CPS Energy's share of decommissioning costs was approximately $397,400 in 2004 dollars. Although there was an increase in decommissioning base costs from the 1998 study to the 2004 study, there was an offsetting decrease in applicable cost escalation assumptions. Therefore, CPS Energy was able to decrease its minimum annual contribution requirement from $15,900 in fiscal year 2004 to $5,000 for fiscal year 2007.

In 1991, CPS Energy started accumulating the decommission funds for the 28.0% portion in an external trust in an external trust in accordance with the NRC regulations. The 28.0% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excluding securities lending cash collateral, as of December 31, 2006, CPS Energy has accumulated the most recent annual calculation of financial assurance required by the NRC, CPS Energy's 28.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $87,300 at December 31, 2006.

In conjunction with the acquisition of the additional 12.0% interest in STP in May 2005, CPS Energy also assumed control of a relative portion of the Decommissioning Trust previously established by the prior owner, AEP. This is referred to as the 12.0% Decommissioning Trust, and its assets and related liabilities are also included in CPS Energy's financial statements as a component unit.

Subject to Public Utility Commission of Texas (PUCT) approval as requested in the future, credits or deficiencies in the funding of this trust will be received from or distributed to AEP customers. Excluding securities lending cash collateral, as of December 31, 2006, that trust has accumulated approximately $82,700. According to the 2004 study mentioned above, the estimated decommissioning costs for that trust are approximately $170,300 in 2004 dollars. Based on the most recent annual calculation of financial assurance required by the NRC, the 12.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $37,400 at December 31, 2006.

Both Decommissioning Trusts also have separate calendar-year financial statements. These separately audited financial statements can be obtained by contacting the Controller at CPS Energy.

STP Pension Plan and Other Postretirement Benefits - STP maintains a noncontributory defined-benefit pension plan covering most employees. Retirement benefits are based on length of service and compensation. Plan assets are invested in various equity and fixed-income securities. Pension contributions in the amount of $9,900 were made by STP in the 2006 calendar year, of which $7,900 were for the 2005 plan year. Included in the STP pension liability for calendar year 2006 is an additional minimum pension liability, which has been recognized as required due to the Plan's funding status, of $18,800.

Employees whose pension benefits exceed $220 for Employee Retirement Income Security Act limitations are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligation. The accruals for the cost of that plan are based on substantially the same actuarial methods and economics as the noncontributory defined-benefit pension plan.

STP also maintains a defined-benefit postretirement plan that provides medical, dental and life insurance benefits for substantially all retirees and eligible dependents. The cost of these benefits is recognized in the project statements during an employee's active working career. STP has a trust to partially meet the obligations of the plan.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning (Continued)

The owners of STP, including CPS Energy, share in all plan costs in the same proportion as their respective ownership percentages.

STP Pension Plan
Schedule of Funding Status (RSI-Unaudited)
Calendar Year 2006

	Pension Benefits	Other Benefits
Change in benefit obligation:		
Benefit Obligation - Beginning	$ 153,187	$ 58,866
Service Cost	7,498	4,332
Interest Cost	9,101	3,299
Amendments	8,454	(2,884)
Actuarial Loss	2,021	(8,194)
Benefits Paid	(2,061)	(2,233)
Benefit Obligation - Ending	178,200	53,186
Change in Plan Assets:		
Fair Value of Plan Assets - Beginning	100,808	9,975
Actual Return on Plan Assets	9,070	451
Employer Contributions	9,869	2,233
Benefits Paid	(2,061)	(2,233)
Fair Value of Plan Assets - Ending	117,686	10,426
Funded Status - Ending	(60,514)	(42,760)
Unrecognized Net Actuarial Loss	32,954	23,419
Unrecognized Prior Service Cost	10,557	(16,656)
Unrecognized Transition Obligation		431
Net Amount Recognized	(17,003)	(35,566)
Additional Minimum Pension Liability	(18,839)	
Accrued Benefit Cost	$ (35,842)	$ (35,566)
Weighted-average Assumptions:		
Discount Rate	5.8%	5.8%
Expected Return on Plan Assets	8.5%	8.5%
Rate of Compensation Increase	3.0%	3.0%

Note 11 Commitments and Contingencies

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 are 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, 2007. Grants awarded by federal, state, and other governmental agencies but not yet earned as of September 30, 2007 were $13,140.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Capital Improvement Program

The City will be undertaking various capital improvements during fiscal year 2008. The estimated cost of these improvements is $539,494, of which $188,220 is related to the Airport System. These projects are scheduled to be funded with a combination of grants, contributions from others, bonds and other designated City resources.

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 City has agreed to take an aggressive defensive posture on all litigation. While the City sets aside funds to defray the costs of investigations, costs of litigation, the appellate process and, when necessary, cost of judgments, there is no accurate means to assess the potential need for these contingent funds. The Office of the City Attorney estimates the probable liability for these suits, including those mentioned below will approximate $9,381, which is included as a component of the reserve for claims liability in the amount of $19,283. 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. The lawsuits specifically noted below are those cases that if the City were to lose would be deemed to materially effect the 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 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 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 if personal injuries are recovered, damages are capped at $250 under the Texas Tort Claims Act. The case was argued to the Texas Supreme Court on October 18, 2006. No further action or decision has been made since that date.

Samantha Rivera v. et. al. v. City of San Antonio and SAPD Officers Reynaldo Montes and Rachel Barnes The Plaintiff sued the City and officers who killed the Plaintiff's husband for federal constitutional violations as well as battery under state law. The claims against the City have been dismissed, with claims still pending against the police officers. Exposure to the City related to costs associated with providing counsel for the officers could range from $250 to $500. The case is set for trial on July 21, 2008.

Argonaut Southwest Insurance Company v. City of San Antonio The Plaintiff's insurance company sued the City alleging breach of an insurance contract related to the Convention Center Expansion Project and failure to pay premiums. The Plaintiff claims damages in excess of $500. This case is in preliminary stages.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

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; Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; En Sequido, Ltd. v. City of San Antonio; John M. Schaefer, et. al. v. City of San Antonio; VWC Ltd. v. City of San Antonio, et. al.; Lakeside Joint Venture, et. al. v. City of San Antonio These are similar cases brought by the same developer/landowner under different entities. These cases all raise complex issues of fact and law and collectively, challenge the City's authority to regulate land development, including but not limited to challenging the City's vested rights determinations for the landowner's projects. There are approximately ten (10) related cases. 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 the San Antonio Water System.

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Noncompliance 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. Arbitrage rebates of $828 and $136 were accrued for the governmental activities and Airport System (business-type activities), respectively at September 30, 2007.

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 the fiscal year ended September 30, 2007 was $10,717. As of September 30, 2007, the leases provide for the following future minimum rentals:

	Leases Revenues			
	Governmental Activities	Airport System	Parking System	Total
Fiscal year ending September 30:				
2008	$ 1,617	$ 9,063	$ 133	$ 10,813
2009	1,212	7,670	117	8,999
2010	928	4,392	117	5,437
2011	825	2,949	117	3,891
2012	682	2,427	36	3,145
2013-2017	2,342	11,636	21	13,999
2018-2022	1,230	6,176		7,406
2023-2027	500	3,714		4,214
2028-2032	500	1,033		1,533
2033-2037	500			500
2038-2042	500			500
2043-2047	25			25
Future Minimum Lease Rentals	$ 10,861	$ 49,060	$ 541	$ 60,462

Note 11 Commitments and Contingencies (Continued)

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 30 years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,825. 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 30-year period. In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost*, the estimated postclosure cost of $3,825 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, 2007 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,475. This represents an increase of $471 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services, as well a re-estimation of ground water monitoring costs resulting from the cancellation of a third party contract that occurred in the second quarter of fiscal year 2008.

Texas Commission on Environmental Quality (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, 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 City-Base. On July 22, 2002, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology and 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.

In the fiscal year ended January 31, 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority (BDA) to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest $6,300 ($4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at the location. BDA is required to pay its annual minimum payment from its available operating revenues. If BDA's operating revenues cannot cover the annual minimum payment, then the City will fund the obligation for that fiscal year. For fiscal year 2007 obligations were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base. BDA's obligation is backed by the City.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Brooks City-Base - Electric and Gas Utilities (Continued)

To the extent that the capital renewals and upgrades do not total $12,600 by September 2022 BDA's and CPS Energy's obligations each will be reduced equally. To date, CPS Energy has invested $3,700 and BDA has reduced its obligation, net of annual interest, by $800.

CPS Energy

Litigation

In the normal course of business, CPS Energy is involved in legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals, and discrimination cases. In addition, CPS Energy's power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of CPS Energy's management, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS Energy.

Leases

CPS Energy entered into a lignite mining lease with Aluminum Company of America (ALCOA) effective December 28, 1998, covering all of CPS Energy's lignite reserves in Bastrop and Lee Counties of Texas. ALCOA began making advance royalty payments to CPS Energy under the lease in January 1999. This converted to a production royalty when mining began in July 2005. All advance royalties previously received by CPS Energy are being deducted from production royalties at the same rate at which they were paid. The CPS Energy royalty falls within industry standard terms and is based on production volumes subject to certain minimum annual amounts. The base term of the lease runs through 2013. Renewal and extension options could result in ALCOA extending the lease to 2043.

On April 13, 2007 CPS Energy signed a Purchase and Sale Contract with a third party for the sale of the lignite properties.

Other

Purchase and construction commitments amounted to approximately $2,300,000 at January 31, 2007. This amount includes provisions for natural gas purchases expected through June 2010; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for coal purchases through December 2021 and for coal transportation through December 2014.

CPS Energy also has other purchase commitments totaling $1,600,000. This amount includes provisions for wind power through December 2027, landfill power through December 2020, capacity and other power purchases through December 2009, and raw uranium associated with STP fabrication and conversion services needed for refueling through May 2026.

The PUCT promulgated new rules in 1996 designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access 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. Reported costs are based on payments to other transmission providers, less receipts for wholesale transmission services that CPS Energy provided. CPS Energy's cost for calendar year 2006 was approximately $18,500. CPS Energy has not calculated its cost for calendar year 2007.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Other (Continued)

The Tax Increase Prevention and Reconciliation Act of 2005 enacted on May 17, 2006, added section 4965 to the Code (Section 4965), which imposes an excise tax with respect to "prohibited tax shelter transactions" on certain "tax exempt entities," including a state or political subdivision thereof, such as the City. CPS Energy, acting for the benefit of the City, entered into a series of leasing transactions in 2000, which may be considered prohibited tax shelter transactions.

Although the scope and applicability of Section 4965 is not clear, under one possible reading the IRS could assert that CPS Energy would be subject to the excise tax on a basis similar to a taxable entity. Accordingly, the City could be liable for an excise tax at the highest corporate tax rate (currently 35.0%) upon the greater of its net income for the taxable year properly attributable to the leasing transactions or 75.0% of the proceeds received by the City for the taxable year attributable to the leasing transactions. There are also additional excise tax provisions relating to "entity managers" (generally, persons with responsibility within the tax exempt entity) and for certain "knowing" transactions, in which the tax exempt entity knew or had reason to know that it was entering into a prohibited tax shelter transaction. In general, the new excise tax is effective for taxable years ending after the date of enactment of Section 4965.

CPS Energy has not been able to definitely determine the amount, if any, of the potential excise taxes it would be responsible for under Section 4965. However, the excise taxes under one scenario could exceed $12,000 for the taxable year ending 2007. CPS Energy has not attempted to make any calculations for later taxable years. It is possible under some interpretations of Section 4965 that CPS Energy would not owe any excise taxes with respect to the leasing transactions.

In the fiscal year ended January 31, 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority (BDA) to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest $6,300 ($4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at the location. BDA is required to pay its annual minimum payment from its available operating revenues. If BDA's operating revenues cannot cover the annual minimum payment, then the City will fund the obligation for that fiscal year. For fiscal year 2007 obligations were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base. BDA's obligation is backed by the City.

To the extent that the capital renewals and upgrades do not total $12,600 by September 2022, BDA's and CPS Energy's obligations each will be reduced equally. To date, CPS Energy has invested $3,700 and BDA has reduced its obligation, net of annual interest, by $800.

San Antonio Water System (SAWS)

Litigation

SAWS is the subject of various claims and litigation, which have risen in the ordinary course of its operations. Management, in consultation with legal counsel, is of the opinion that SAWS' liabilities in these cases, if decided adversely to SAWS, will not be material.

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Litigation (Continued)

As of December 31, 2005, SAWS recorded a contingent liability of approximately $3,900 related to contractual and/or legal expenditures that are expected to be incurred in the future as a result of actions taken by SAWS during 2005. As the matters that gave rise to this contingent liability were not resolved during 2006, no adjustment to this amount was made during the period. While the exact amount of any potential liability that may arise from these actions is still indeterminable, management believes that the amount recorded is a reasonable estimate.

In January 2006, SAWS settled a legal claim regarding the amount of water pumped under one of its existing water rights agreements. As part of this settlement, SAWS agreed to pay $924 related to past damages claimed and further modified the existing agreement to require SAWS to make minimum annual ground water payments of $338 on a take or pay basis. Under the terms of this agreement, SAWS is scheduled to make total payments of $4,400 between 2007 and 2020. Additionally, SAWS has agreed to make payments quarterly for any residential customers within a defined, currently undeveloped geographical area that begin taking water service from SAWS. While it is impossible to estimate the exact amount of any potential future payments associated with this provision of the agreement, management estimates of this potential contingent liability are less than $5,000.

Other

As of December 31, 2006, SAWS has various commitments relating to the procurement of future water supplies. A summary of these commitments for the next 30 years is provided below. As with any estimates, the actual amounts paid could differ materially.

	2007	2008	2009	2010	2011	Thereafter
Firm purchased water obligations	$ 3,605	$ 3,687	$ 3,773	$ 3,862	$ 3,956	$ 148,771
Firm purchased water obligations (acre feet)	4	4	4	4	4	99
Variable purchased water obligations	$ 6,002	$ 6,135	$ 6,275	$ 6,421	$ 6,575	$ 115,586
Variable purchased water obligations (acre feet)	7	7	7	7	7	87
Leased water rights	$ 2,260	$ 1,832	$ 1,149	$ 897	$ 1,691	$ 58,639

SAWS' firm and variable purchased water obligations relate to the contractual commitments made in connection with SAWS' Western Canyon water supply project. Under this contract, SAWS will receive between 3,950 and 10,750 acre feet of water annually during the years 2006-2037 at prices ranging from $875 to approximately $2,200 per acre foot (neither the acreage nor dollars per acre are in thousands). SAWS has an option to extend this contract until 2077 under new payment terms.

SAWS has entered into contractual agreements to obtain rights to pump water out of both the Edwards and Carrizo aquifers. The term of these agreements vary, with some expiring as early as 2007 and others continuing until cancelled by SAWS. The annual cost per acre foot under these agreements ranges from $10 to $100 per acre foot (neither the acreage nor dollars per acre are in thousands). Some of the agreements contain future price escalators.

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately $196,700 as of December 31, 2006. Funding of this amount will come from excess revenues of SAWS, contributions from developers, and restricted assets.

Note 12 Risk Financing

Primary Government (City)

Property and Casualty Liability

At September 30, 2007, 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 Health Benefits Liability Coverage. Great American 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 Insurance Reserve 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 health benefits 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 Employee Health Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

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 that 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 Workers' Compensation Fund and City departments are assessed premiums to cover expenditures. As of September 30, 2007, 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 Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year-end, claims were being administered externally 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 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.

Note 12 Risk Financing (Continued)

Primary Government (City) (Continued)

Employee Wellness Program

The Employee Wellness Program 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 Fund was established to offer City employees short-term mental health, marital, and financial counseling, as well as substance abuse intake and assessment.

Claims Liability

The liability for the Employee Health 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 feels 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 both the Insurance Reserve and Workers' Compensation Programs is based on a 3.0% discount rate.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Health Benefits, and Workers' Compensation Programs Funds for the year ended September 30, 2007:

Fund	October 1,	Estimates	Claims	Payments	September 30,
Insurance Reserve:					
Fiscal Year 2006	$ 19,199	$ 14	$ 5,413	$ (5,413)	$ 19,213
Fiscal Year 2007	19,213	70	6,712	(6,712)	19,283
Employee Health Benefits:					
Fiscal Year 2006	$ 8,548	$ 2,038	$ 75,416	$ (75,416)	$ 10,586
Fiscal Year 2007	10,586	1,382	78,072	(78,072)	11,968
Workers' Compensation: [1]					
Fiscal Year 2006	$ 21,879	$ 2,125	$ 8,261	$ (8,261)	$ 24,004
Fiscal Year 2007	24,004	19	8,290	(8,290)	24,023

[1] The Workers' Compensation Liability Balance of $24,023 is comprised of $21,697 recorded in the Workers' Compensation Fund, and the remaining liability of $2,326 is recorded in proprietary funds.

Note 12 Risk Financing (Continued)

CPS Energy

CPS Energy is exposed to various risks of loss including, but not limited to those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major risks. The property insurance program provides $4,300,000 of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductible for the property insurance policy is $5,000 for general property and turbine generators/transformers. CPS Energy did not have any claims settlements that have exceeded insurance coverage for the last three fiscal years. The liability insurance program includes:

- $100,000 of excess general liability coverage over a retention amount of $2,000;
- $25,000 of fiduciary liability coverage and
- Other property and liability insurance coverage, which includes employee travel, event insurance, and commercial crime.

Actuarial studies are performed periodically to assess and determine the adequacy of insurance reserve retentions. An actuarial study was performed in the third quarter of fiscal year 2007.

The remaining property reserve balance at January 31, 2007, related to estimated obligations for the clean up, closure, and postclosure care requirements of CPS Energy's landfills. CPS Energy has seven landfill sites -- four of which are at full capacity. The estimates for landfill liability are based upon capacity to date and are subject to change due to inflation or deflation, as well as new developments in technology, applicable laws, or regulations.

CPS Energy also manages its own workers' compensation program. Additionally, to support this program, $35,000 of excess workers' compensation coverage over a retention amount of $2,000 is maintained.

Beginning in fiscal year 2007, CPS Energy's reserve program was modified to record all claims against the reserve, whereas in prior years only significant claims were recorded against the reserve.

CPS Energy
Schedule of Changes in Claims Liability

Fund	Liability February 1,	Claims Adjustments	Claims Payments	Liability January 31,
Property Insurance:				
Fiscal Year 2006	$ 6,845	$ (3,208)	$ -	$ 3,637
Fiscal Year 2007	3,637	101		3,738
Employee and Public Liability Claims:				
Fiscal Year 2006	$ 6,035	$ 3,449	$ (341)	$ 9,143
Fiscal Year 2007	9,143	2,118	(2,590)	8,671

Hedging - The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas Public Funds Investment Act to allow municipal utilities the ability to purchase and sell energy-related financial instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil, and electric energy.

On July 31, 2006, the CPS Energy Board of Trustees reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. The essential goal of the Energy Price Risk Management Policy is to provide a framework for the operation of a fuel and energy price hedging program to better manage CPS Energy's risk exposures in order to stabilize pricing and costs for the benefit of CPS Energy and its customers.

Note 12 Risk Financing (Continued)

CPS Energy (Continued)

The hedge instruments are reported at cost on the balance sheet. Gains and losses related to the hedge instrument transactions are netted to fuel expense in the period realized. For fiscal year 2007, the commodity options and/or hedge instruments offset one another to achieve unrealized losses of approximately $893.

CPS Energy follows GASB Technical Bulletin No 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. Accordingly, the following information is provided regarding CPS Energy's outstanding financial hedge instruments as of January 31, 2007:

Fuel Derivative Transactions as of January 31, 2007		
Type of Transaction	Duration	Volumes in MMBTU
Long Call	Dec 2007 - Mar 2008	6,310,000
Short Call	Dec 2007 - Mar 2008	6,310,000
Short Put	Dec 2007 - Mar 2008	6,310,000
Long NG Futures	Mar 2007	50,000
Long Basis Swap	Feb 2007 - Mar 2007	147,500

The fair value of option contracts is determined using New York Mercantile Exchange (NYMEX) closing settlement prices as of the last day of the reporting period. For futures and basis swap contracts, the fair value is calculated by deriving the difference between the closing futures prices on the last day of the reporting period and the futures or basis swap purchase prices at the time the positions were established, less applicable commissions. As of January 31, 2007, the total cost of the outstanding hedge instruments was $31, with a fair value of $(855).

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established and options are sold, premiums are received and an obligation to honor the terms of the option contract, if exercised, is created. The decision whether to exercise the options or let them expire rests with the purchasing party.

Futures contracts represent a firm obligation to buy or sell the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy or sell the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. Only if expressly requested in advance, may an exchange for physical assets take place.

The hedging contracts expose CPS Energy to a minimal amount of credit risk. In the event of default or nonperformance by brokers or NYMEX, the operations of CPS Energy could be materially affected. However, CPS Energy does not expect the brokerages to fail to meet their obligations given their high credit rating and the strict and deep credit requirements upheld by NYMEX, of which these brokerage houses are members. Termination risk for exchange-traded instruments is greatly reduced by the strict rules and guidelines established by NYMEX, which is governed by the Commodity Futures Trade Commission.

Securities Lending - CPS Energy, the 28.0% Decommissioning Trust and the 12.0% Decommissioning Trust began engaging in securities lending transactions in fiscal year 2007 under a contract with their lending agent, Frost National Bank. Authority to engage in these transactions is granted under each entity's Investment Policy. Prior to January 31, 2007, the entities were authorized to loan up to 75.0% of their investments in securities lending transactions. The Investment Policies were revised effective January 31, 2007, authorizing up to 100.0% of investments to be loaned.

Note 12 Risk Financing (Continued)

CPS Energy (Continued)

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheet as an asset, with a corresponding liability for the obligation to repay the collateral.

In securities lending transactions, CPS Energy and the Decommissioning Trusts, through their lending agent, transfer securities to brokers/dealers in exchange for collateral and simultaneously agree to return the collateral for the same securities in the future. Cash collateral received from the borrower is invested in AAA-rated money market mutual funds. The maturities of these investments do not necessarily match the term of the loans, rather the investments are managed to maintain an average maturity of 30 days.

Lending income is earned if the returns on the cash collateral invested exceed the rebate paid to borrowers of the securities. The income is then shared with the lending agent to cover its fees based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from CPS Energy's or the Decommissioning Trusts' resources and the lending agent based on the rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium for the securities loaned. This income is split at the same ratio as the earnings for cash collateral. The collateral pledged to CPS Energy or the Decommissioning Trusts for the loaned securities is held by the lending agent. These securities are not available to CPS Energy or the Decommissioning Trusts for selling or pledging unless the borrower is in default of the loan.

Any collateral received is required to have a fair value of 102.0% of the loaned securities. Securities are marked to market daily and additional cash or securities are required from the borrower if the market value of the collateral falls below 100.0%. Cash collateral is reported on the Balance Sheet as an asset, with a corresponding liability for the obligation. Noncash collateral for securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, CPS Energy and the Trusts have authorized the lending agent to seize the collateral held. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities may not be able to be replaced. The lending agent has indemnified CPS Energy and the Decommissioning Trusts from any loss due to borrower default in the event the collateral is not sufficient to replace the securities.

At year-end, neither CPS Energy nor the Decommissioning Trusts had any credit risk exposure to borrowers because the amounts the Company and/or the Trusts owed to borrowers exceeded the amounts the borrowers owed. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses.

Direct Investments - At January 31, 2007, there was a total of $779,600 in securities, or 65.5% of CPS Energy's direct investments, out on loan to brokers/dealers. In exchange, CPS Energy received $626,400 in cash collateral and $165,900 in securities collateral, or 101.6% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to $295 in fiscal year 2007, of which 30.0% was paid as fees to the lending agent totaling $88.

Note 12 Risk Financing (Continued)

CPS Energy (Continued)

Decommissioning Trusts - At December 31, 2006, the 28.0% and 12.0% Decommissioning Trusts had respective totals of $75,600 and $36,200 in securities, or 29.7% and 44.0% of investments, out on loan to brokers/dealers. In exchange, the Trusts received $75,200 and $34,800 in cash collateral and $2,800 and $2,500 in securities collateral, respectively, or a total of 103.2% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for the Decommissioning Trusts amounted to $58 and $16 in calendar year 2006, of which 30.0% was paid as fees to the lending agent totaling $18 and $5, respectively.

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 workers' compensation, general liability, automobile liability, public official's liability claim, and $250 for each pollution legal liability claim. Claims that exceed the self-insured retention limit are covered through SAWS' comprehensive commercial insurance program. For the year ended December 31, 2006, there were no reductions in insurance coverage from the previous year and there were no claims incurred during the period that exceeded the self-insured retention limit. Settled claims have never exceeded the insurance coverage in any year for SAWS. SAWS has recorded accrued claims liability in the amount of $2,803 as of December 31, 2006, which is reported as a current liability of SAWS. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. Changes in the liability amount for the last fiscal year was as follows:

San Antonio Water System
Schedule of Changes in Claims Liability

Year Ended	Balance at Beginning of Fiscal Year	Claims and Adjustments	Claims Payments	Balance at End of Fiscal Year
Dec. 31, 2006	$ 2,552	$ 2,003	$ (1,752)	$ 2,803
Dec. 31, 2005	$ 2,477	$ 1,542	$ (1,467)	$ 2,552

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Note 13 Interfund Transfers

The following is a summary of interfund transfers for the City for the year ended September 30, 2007:

Summary Table of Interfund Transfers
Year Ended September 30, 2007

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
Airport System	$ 71	$ -
Debt Service Fund		760
Categorical Grant-In Aid	320	4,849
Internal Service Funds		4,899
Nonmajor Governmental Funds	14,697	104,695
Nonmajor Enterprise Fund	884	8,417
Total General Fund	15,972	123,620
Debt Service Funds:		
General Fund	760	
Nonmajor Enterprise Funds	134	
Nonmajor Governmental Funds	19,478	
Total Debt Service Funds	20,372	
Categorical Grant-In Aid:		
General Fund	4,849	320
Nonmajor Governmental Funds	2,697	1,183
Total Categorical Grant-In Aid	7,546	1,503
Airport System Fund:		
General Fund		71
Internal Service Funds		241
Nonmajor Governmental Funds	6	
Total Airport System Fund	6	312
Internal Service Funds:		
General Fund	4,899	
Airport System	241	
Internal Service Funds	1,767	1,767
Nonmajor Governmental Funds	3,760	613
Nonmajor Enterprise Funds	494	
Total Internal Service Funds	11,161	2,380
Nonmajor Governmental Funds:		
General Fund	104,695	14,697
Debt Service		19,478
Categorical Grant-In Aid	1,183	2,697
Airport System		6
Internal Service Funds	613	3,760
Nonmajor Governmental Funds	184,514	184,514
Nonmajor Enterprise Funds	195	
Total Nonmajor Governmental Funds	291,200	225,152
Nonmajor Enterprise Funds:		
General Fund	8,417	884
Debt Service		134
Internal Service Funds		494
Nonmajor Governmental Funds		195
Total Nonmajor Enterprise Funds	8,417	1,707
Total	$ 354,674	$ 354,674

Note 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.

Note 14 Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental funds Balance Sheet and the government-wide Statement of Net Assets

The governmental funds Balance Sheet includes reconciliation between total fund balances - total governmental funds and total 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 $6,851 is as follows:

Revenues previously reported as unearned in the fund financial statements	$ 15,646
Receivable applicable to governmental activities, which are not available in the current period	565
Unearned revenues previously reported as income in the fund financial statements	(9,360)
Revenues collected after year end, but not available soon enough to pay for the current period's expenditures and, therefore, are not reported in the governmental funds nor are associated unamortized assets financial resources	$ 6,851

Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes reconciliation between net change in fund balances - total governmental funds and change in net assets of governmental activities as reported in the government-wide Statement of Activities.

Another element of this reconciliation states, "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." The details of the $6,120 are as follows:

Compensated Absences	$ (13,956)
Arbitrage Rebate Expense	(427)
Interest Expense	61
Principal Paid on Leases	8,202
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	$ (6,120)

Note 15 Deficits in Fund Balances / Net Assets

Special Revenue Funds

During the course of the fiscal year 2006 financial audit the Finance Department conducted a comprehensive review and validation effort in coordination with City Departments of all current and past grants in order to reconcile departmental grant records to the accounting records. This effort identified $11,713 in deficit fund balances identified in grant projects. The deficit amount was further researched and refined during fiscal year 2007 and resulted in a final deficit amount of $10,504 in the Categorical Grant-in-Aid and $979 in the Community Development Program. These deficits are primarily attributed to the City providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts have been incorporated into the City's annual budget process and are scheduled to be funded over the next five years.

The Golf Course Fund had a deficit fund balance of $1,279 as of September 30, 2007. 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 City and MGA-SA entered into an agreement for MGA-SA to begin managing City owned golf courses starting October 2007 with a complete transition by March 2009. The agreement included that the City shall be paid 50.0% excess revenue from the courses' operations to reduce City deficits. In addition MGA-SA would also reimburse the City for personnel and equipment lease costs paid by the City for MGA-SA operations.

Development and Planning Services Fund had a deficit fund balance of $2,917 as of September 30, 2007. Despite fee increases that went into effect June 4, 2007, heavy rains and a slump in the housing market resulted in an 18.0% decrease in new residential permits, which attributed to the deficit balance. The City will freeze vacant positions and reduce other expenditures in the department in fiscal year 2008, in addition to performing an analysis of departmental expenditures that would be eligible for general fund contributions.

San Antonio Industrial Development Authority (SAIDA) is a blended component unit that has a deficit fund balance of $3 as of September 30, 2007. The component unit has been using its fund balance to pay for operational costs for at least the past three years. However, in fiscal year 2007 the fund balance was fully depleted. In fiscal year 2008, the SAIDA has entered into an agreement with the Tindall Corporation in which revenue bonds will be issued. Tindall has applied to the Texas Bond Review Board. Upon approval of the application, Tindall Corporation will reimburse SAIDA for administrative expenses, including the deficit fund balance.

Capital Projects Funds

As of September 30, 2007, deficit fund balances are reported in the General Obligation Project and the 2007 General Obligations Bond Fund in the amounts of $9,934 and $12, respectively. These deficit balances were identified during a capital project review and clean up which began in fiscal year 2007 and extended through fiscal year 2008. These deficits will be addressed through the identified bond authorization and other funds as necessary.

Note 16 Other Disclosures

Donor Restricted Endowment

The City has four Permanent Funds: the San Jose Burial Park 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.

Note 16 Other Disclosures (Continued)

Donor Restricted Endowment (Continued)

The San Jose Burial Park Fund generated $104 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 Cultural Center Endowment Fund generated $17 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 $553 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 San Antonio Housing 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, administered, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $15 in interest. These earnings are used on an annual basis to enhance the City 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.

Note 17 Prior Period Restatement

Primary Government (City)

In the process of preparing the City's 2007 financial statements, the City identified certain errors in previously reported capital asset amounts. As a result the net assets/fund balances of the City's Governmental Activities, Business-Type Activities, Airport System Fund and Aggregate Remaining Funds have been restated to give effect to the following:

Reporting Unit	Capital Assets as Previously Reported	Correction	Capital Assets as Restated
Governmental Activities	$ 3,070,178	$ (13,809)	$ 3,056,369
Business-Type Activities	319,870	(24,305)	295,565
Airport System Fund	284,073	(24,262)	259,811
Aggregate Remaining Funds	86,358	(363)	85,995

Note 17 Prior Period Restatement (Continued)

Primary Government (City) (Continued)

In fiscal years 2006 and prior, annual depreciation expense for completed assets that should have been placed in service in Governmental Activities, Business-Type Activities, Airport System Fund and Aggregate Remaining Funds was under reported in the Governmental and Business-Type Statement of Activities by $(18,909) and $(2,541), and in the Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds for the Airport System and Aggregate Remaining Funds by $(2,379) and $(162), respectively. It was additionally noted that a portion of depreciable assets were not properly being depreciated resulting in an (under)/overstatement of accumulated depreciation in Governmental Activities, Business-Type Activities, Airport System Fund and Aggregate Remaining Funds Statement of Net Assets by $(8,092), $367, $225 and $(178).

Per review of the capital asset subsidiary ledger for construction in progress assets, projects were identified in the Airport System Fund that would not become City assets. The balance of these projects, $(21,610), was expensed to net assets.

Per review of the construction in progress projects listing, projects funded by Governmental Activities and Business-Type Activities were not previously settled into construction in progress, rather they were shown as expenses. These asset additions were mitigated by other duplicated entries, by costs that could not be assigned to a specific asset or by variances in the reconciling of asset balances to the subledger detailed listings and therefore were expensed to net assets. These adjustments resulted in a net increase of $13,192 and $306 in Governmental Activities and Aggregate Remaining Funds' net assets and a net decrease of $(2,181) and $(2,142) in Business-Type Activities and the Airport System, respectively.

The impact on the government wide statements to place these assets in service, net of applicable depreciation, is depicted below:

	Governmental Activities	Business-Type Activities	Total	Discretely Presented Component Unit
Net Assets, Beginning of Year	$ 2,286,000	$ 275,704	$ 2,561,704	$ 4,402,821
WDC Reclass	(596)		(596)	596
SAHTF Beginning Balance	(145)		(145)	
Accumulated Depreciation	(27,001)	(2,174)	(29,175)	
Recognition of Noncapitalizable Outlay		(21,610)	(21,610)	
Net unsettled costs to construction in progress	11,160	(1,644)	9,516	
Duplicate entry and other CIP asset cleanup	4,621	1,107	5,728	
Reconciliation of Assets to Subledger	(2,589)	16	(2,573)	
SADA Restatement				(83)
Net Assets, Beginning of Year - as restated	$ 2,271,450	$ 251,399	$ 2,522,849	$ 4,403,334

Note 17 Prior Period Restatement (Continued)

Primary Government (City) (Continued)

The impact on the fund-level statements is depicted below:

	Airport Systems	Aggregate Remaining Funds
Net Assets Beginning of Year - previously reported	$ 252,479	$ 691,649
WDC Reclass		(596)
SAHTF Beginning Balance		6
Accumulated Depreciation	(2,154)	(340)
Recognition of Noncapitalizable Outlay	(21,610)	
Net unsettled costs to construction in progress	(1,644)	
Other CIP Asset Cleanup	1,146	(39)
Reconciliation of Assets to Subledger		539
Net Assets Beginning of Year - as restated	$ 228,217	$ 691,219

Primary Government (City) and Westside Development Corporation (WDC)

The Westside Development Corporation (WDC), a discretely presented component unit, is handled by City staff with financial statements included in the City's general ledger system. The City advanced $600 to WDC in fiscal year 2006, prior to the physical incorporation of the entity. As a result an ending net asset/fund balance of $596 was included in the City's governmental activities net asset/fund balance at September 30, 2006. This amount was removed from the City's beginning balance and included in the discretely presented component unit's financials for the year ended September 30, 2007.

San Antonio Housing Trust Finance Corporation

The San Antonio Housing Trust Finance Corporation (SAHTFC), a blended component unit, in previous years was not reported on the City's CAFR because the dollars flowing through SAHTFC were limited to less than $1 per month as well as the fact that the statements were not audited. In fiscal year 2007, increased funds in SAHTFC resulted in an annual audit. Since financial activity was present in prior years, but not reported in the City's CAFR, the beginning balance in the Statement of Activities and Statement of Revenues, Expenditures, and Changes in Fund Balances has been adjusted by $(145) and $6, respectively.

San Antonio Development Authority (SADA)

In April 2008, management completed an internal analysis and corrective reconciliation of certain errors that had occurred in the prior year resulting in the misstatement of land, receivables, accounts payable, and net assets/fund balance for that year. An adjustment for $(83) has been made to decrease unrestricted net assets/fund balance as of September 30, 2006.

Note 18 Subsequent Events

Primary Government (City)

Debt Transactions

On December 18, 2007, the City issued $121,220 in General Improvement and Refunding Bonds, Series 2007. The Bonds were issued to finance general improvements of the City and to refund the City's $60,000 Tax Notes, Series 2007. Concurrently, the City issued $106,755 in Combination Tax and Revenue Certificates of Obligation, Series 2007 to fund various capital projects. The Bonds and Certificates have maturities ranging from 2008 to 2028, with interest rates ranging from 4.0% to 5.0%.

On December 18, 2007, the City issued $21,270 in Tax Notes, Series 2007A. The proceeds of the Notes will be utilized to fund technology improvements for various City-owned systems and improvements to the City's infrastructure improvements at Brooks City-Base. The Notes are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the limitations prescribed by law. The Notes will have maturities ranging from 2008 to 2012, with interest rates ranging from 4.0% to 5.0%.

On December 19, 2007, the City issued $82,400 in Airport System Revenue Improvement Bonds, Series 2007. Concurrently, the City issued $74,860 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007. The Bonds were issued to fund various airport system capital improvements including PFC eligible airport-related projects. The Bonds have maturities ranging from 2008 to 2032, with interest rates ranging from 5.0% to 5.3%.

On June 12, 2008, the City Council authorized the issuance, sale, and delivery of approximately $135,000 in City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Variable Rate Demand Revenue and Refunding Bonds, Series 2008. Approximately $105,000 will be issued to refund the Hotel Occupancy Tax Revenue Bonds, Series 2004B. Additionally, approximately $30 in new money is being issued for renovation to the Lila Cockrell Theatre, included are ADA compliance improvements, asbestos abatement, renovation of all interior finishes and mechanical, electrical, and plumbing upgrades, as well as other expansion-related improvements. The Bonds have maturities ranging from 2008 to 2034, with interest rates set weekly.

Conduit Debt

On November 1, 2007, the City of San Antonio, Texas Empowerment Zone Development Corporation issued $18,000 in Contract Revenue Empowerment Zone Bonds (Drury Southwest Hotel Project), Series 2007. The proceeds of the Bonds will be loaned to Alamo National Building Development, LP and will be used for acquiring, renovating, and redeveloping the Alamo National Bank building and parking facilities into an approximately 390-room hotel. The Bonds are not debt of the City, and will mature in 2037, with interest rates set weekly.

On June 12, 2008, the City Council passed a resolution authorizing the City of San Antonio Industrial Development Authority (SAIDA) to issue $10,000 in tax-exempt and $4,000 in taxable Industrial Revenue Bonds (IRB) to assist in financing the development of Tindall Corporation. SAIDA will collect $20 from Tindall to cover administrative and closing fees upon issuance of the bonds.

University Health System

In 2004, the City of San Antonio and the Bexar County Citizen's Commission on City/County Service Integration recommended the establishment of a new city-county health authority that would combine the San Antonio Metropolitan Health District (SAMHD) and the University Health System (UHS). In October 2006, upon renewal of an existing interlocal agreement between the SAMHD and UHS, both entities added elements to the agreement to formally investigate opportunities to combine functions that would reduce duplication of services and enhance coordination of care. The Joint Planning and Operations Council (JPOC) was formed, comprised of senior staff from SAMHD and UHS, to explore areas for consolidation.

Note 18 Subsequent Events (Continued)

Primary Government (City) (Continued)

University Health System (Continued)

During the summer of 2007, the JPOC proposed to City Council and to the UHS Board of Managers that all individual clinical preventative health services should transition from SAMHD to UHS, including the personnel and grants that support these activities. These services include prenatal care, family planning, well-child screenings, breast and cervical cancer screenings, senior health screenings, and refugee health services. This transition occurred February 4, 2008. The City will pay UHS an amount not to exceed $4,203 beginning February 4, 2008 through December 31, 2008. In May 2008, $2,933 was paid to UHS, with the remaining balance to be calculated and paid in the City's Fiscal Year 2009. 125 SAMHD staff positions were transitioned to UHS and eight SAMHD grants were terminated as of January 31, 2008 for UHS to assume. UHS will be operating in ten facilities (nine SAMHD and one SAHA) and will have use of all equipment and City support services at no cost through this transition period.

Fire and Police Pension Plan

On October 1, 2007, new legislation became effective that modified the description for the pension plan. The major changes enacted during the 2007 legislative session are (i) the creation of a catastrophic injury disability annuity (87.5% of average total salary) to be granted to members who suffer irreparable physical bodily injury during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level, (ii) a revision of the spousal death benefit to provide that a spouse who married a retiree after retirement, and at least five years prior to the date of the retiree's death, is treated in the same manner as a spouse who married a member prior to retirement, (iii) a modification of the retirement pension computation, (iv) the implementation of a $200 per month increase in all pensions awarded prior to October 1, 1989, (v) the establishment of a $1,850 minimum monthly pension (vi) the expansion of the "BackDROP" lump-sum payment option from three to four years, (vii) the elimination of the requirement that a member serve at least five years before becoming entitled to a refund of contributions upon termination of employment, and (viii) the establishment of the Mayor's ability to appoint a representative to serve as a Trustee in place of the Mayor.

The Pension Fund's annual required contribution for fiscal year 2008 is determined by Pension Law. The Pension Fund's October 1, 2007 actuarial valuation used the entry-age normal cost method. Significant assumptions included (a) 8.0% investment rate of return and (b) projected annual salary increase of 4.3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability is amortized as a level percentage of projected payrolls on an open basis.

The remaining amortization period at October 1, 2007 was 8.7 years which, as reported under GASB guidelines, does not consider the assumption of a payroll growth rate. The amounts of the actuarial value of assets represent estimates based upon the assumptions described above. Changes in those assumptions will result in changes in such estimates in the future. The amounts of benefits ultimately to be paid could differ materially from the current estimates.

Note 18 Subsequent Events (Continued)

Primary Government (City) (Continued)

Fire and Police Health Care Fund

Effective October 1, 2007, Retiree Health Care Law was amended by the 80th Texas Legislature. Among other things, the law amended member, beneficiary and participating municipality's contributions to the Fire and Police Retiree Health Care Fund, San Antonio. Member and beneficiary contributions are set at specified rates applied to specified wage bases. For the years ending September 30, 2008, 2009, 2010, 2011 and years thereafter, the specified rates are 2.0%, 2.7%, 3.4%, 4.1% and 4.7%, respectively. The participating municipality's (the City of San Antonio) contributions will be set at 9.4% of specified wage base over the next 10 years. Additionally, if after 10 years, the Unfunded Actuarial Accrued Liability (UAAL) cannot be amortized over a period of 30 years or less, City and employee contributions will be increased by a percentage not to exceed 10.0% each year until the UAAL can by amortized over a period of 30 years or less.

The Fire and Police Health Care Fund's actuarial study with a valuation date of October 1, 2007 indicates that the UAAL, calculated in compliance with GASB regulations, was reduced from $540,100 to $325,300. The study further indicates that after a 10 year period maintaining the City's contribution at 9.4%, with an additional 10.0% increase in fiscal year 2018 and a 2.6% increase in fiscal year 2019, the Health Care Fund's amortization period for the UAAL is projected to be 30 years.

Texas Municipal Retirement System

At its December 8, 2007 meeting, TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the traditional Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date but does not project the potential future liability of provisions adopted by a participating government. Two-thirds of the governments participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. These provisions are considered to be "committed" benefits (or likely to be guaranteed); as such, for the December 31, 2007 valuation, TMRS' Board has adopted the Projected Unit Credit (PUC) actuarial funding method, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis.

In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period may be increased up to 30 years, unless a participating government requests that the period remain at 25 years. For governments with repeating features, these changes will likely result initially in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). The actuarial valuation for year ended December 31, 2007 resulted in a $317,700 unfunded actuarial accrued liability utilizing the adopted actuarial assumption and changed funding method. The projected calendar year 2009 contribution rate under a 30-year amortization period for the City was estimated by TMRS to be 16.6%. However, under the phase in option the rate for 2009 would be 13.0% for calendar year 2009.

The City created a work plan to review and address the changes made by TMRS. The City was successful in obtaining a voting seat on the TMRS Board. City staff also conducted six focus groups with employees and retirees during the spring of 2008. City employees, as well as retirees, were mailed a survey in April 2008 asking input on their TMRS benefits and priorities. The survey results will provide valuable input as the City continues to evaluate its options.

Note 18 Subsequent Events (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (Continued)

The City has also contracted with a legal firm to provide legal advice and assistance on TMRS and other pension related issues. The legal firm has engaged an actuarial firm to evaluate the assumptions and results of TMRS' report, to provide a historical performance analysis of the funds within TMRS, and will assist in exploring viable pension alternatives. A task force of current employees and retirees will be formed to provide input regarding the work to be completed by this actuarial firm.

Finally, City staff is being proactive in preparing for increased future costs. The City has included in its financial forecast the additional costs to include a phased in approach in order to increase contributions gradually to the full rate. Throughout this process, the City will work with TMRS, current employees and retirees to determine the best course of action.

Main Plaza Conservancy

In January 2008, the City entered into an agreement with the Main Plaza Conservancy (MPC) for the management of Main Plaza. The MPC is a 501 (c)(3) organization, incorporated in October 2007. The purpose of the MPC is to operate and maintain Main Plaza in coordination with the City and Bexar County; to develop and implement a strategy to increase awareness of the historical and cultural significance of Main Plaza, and to organize cultural and artistic events at Main Plaza for the benefit of the citizens, residents and visitors of San Antonio. The MPC is governed by an eleven member board of directors, with one representative from the City and one representative from the County. The MPC must obtain written permission from the City Manager or designee on such items including security guidelines, charges for admittance, improvements and changes to Main Plaza, and debt issuances. The MPC will be reported in the future as a discretely presented component unit.

CPS Energy

On February 8, 2007, CPS Energy issued $128,900 of tax-exempt New Series 2006B Revenue Refunding Bonds. The true interest cost on these bonds was approximately 4.0%. On February 9, 2007, the bond proceeds were used to refund $77,100 par value of the taxable New Series 1998B Bonds and $41,700 par value of the taxable New Series 2000B Bonds. At that time CPS Energy cash defeased $6,500 par value of the taxable New Series 1998B Bonds that could not be advance refunded with tax-exempt debt. The refunding transactions resulting in net present value debt service savings of $6,700, or approximately 5.3% of the par amount of the bonds refunded.

On May 29, 2008, the City Council authorized the issuance of approximately $300,000 "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2008". CPS Energy will use the proceeds of this issuance to continue financing construction work in process and to take advantage of the tax-exempt market's currently low cost of long-term borrowing.

San Antonio Water System (SAWS)

On January 23, 2007, SAWS issued $8,070 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007 through the Texas Water Development Board. The bonds were sold under the Federal Cross Cutter Program with interest rates ranging from 1.7% to 2.4%. 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, (ii) refund $550 in outstanding commercial paper notes, and (iii) 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.

Note 18 Subsequent Events (Continued)

San Antonio Water System (SAWS) (Continued)

On January 23, 2007, SAWS issued $35,375 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007A through the Texas Water Development Board. The bonds were sold under the State Revolving Fund Program with interest rates ranging from 2.7% to 3.4%. 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, (ii) refund $14,200 in outstanding commercial paper notes, and (iii) 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.

On February 22, 2007, SAWS issued $311,160 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2007. The proceeds from the sale of the Bonds were used to (i) refund $49,950 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 1997 (Series 1997 Bonds), (ii) refund $237,610 in outstanding commercial paper notes, (iii) advance refund $25,775 City of San Antonio Water System Revenue Bonds, Series 2002-A (Series 2002-A Bonds), and (iv) pay the cost of issuing the bonds. In addition to the bonds proceeds used to refund $49,950 Series 1997 Bonds, SAWS utilized $25,000 of Renewal and Replacement funds to redeem the remaining balance of the Series 1997 Bonds. The refunding of the Series 1997 Bonds resulted in a reduction of SAWS' total debt service payments over the next nine years of approximately $8,900 and SAWS obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $3,100. The advance refunding of the Series 2002-A Bonds resulted in the reduction of SAWS total debt service payments over the next 11 years of approximately $2,000 and provided an economic gain of approximately $1,500.

In late January 2008, as a result of a number of general financial market challenges, SAWS began to experience conditions in which the interest payments on its variable-rate bonds exceeded the variable-rate payments received on the associated swap. SAWS has undertaken certain measures to mitigate the impact of this basis risk; however, at this point in time SAWS has not been able to completely eliminate such risk. Since January 23, 2008, interest payments on the Series 2003 have exceeded the amounts received under the swap by approximately $220. SAWS is currently evaluating different approaches to further mitigate or eliminate such risk going forward. The potential impact of this ongoing risk is that SAWS will incur an effective interest rate greater than the synthetically fixed rate of 4.2% on the $114,000 outstanding balance of the Series 2003 bonds. Management does not expect that any higher effective interest rate will have a material adverse affect on SAWS' financial position or results of operation.

On March 16, 2008, JP Morgan Chase & Co. (JP Morgan) announced it is acquiring The Bear Stearns Companies Inc. (Bear Stearns). The Boards of Directors of both companies have unanimously approved the agreement. JP Morgan is guaranteeing the trading obligations of Bear Stearns and its subsidiaries, including swap agreements entered into by Bear Stearns FPI, and is providing management oversight for its operations. Other than shareholder approval, the closing is not subject to any material conditions. The transaction is expected to have an expedited close by the end of the calendar second quarter 2008. The Federal Reserve, the Office of the Comptroller of the Currency and other federal agencies have given all necessary approvals. SAWS does not anticipate the merger to have any adverse impact on the swap agreement, including to trigger any termination rights thereunder, and will continue to evaluate any risk associated with the counterparty to the swap.

On March 4, 2008, SAWS received notification from The Texas Commission on Environmental Quality (TCEQ) informing SAWS that allegations of violations of permit effluent limits under a SAWS Texas Pollutant Discharge Elimination System (TPDES) permit were noted during a record review. As TCEQ has not made a determination on these allegations, no estimate of liability can be made at this time.

City of San Antonio, Texas

Required Supplementary Information Other Than MD&A (Unaudited)

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year Ended September 30, 2007

City of San Antonio, Texas

GENERAL FUND:

- *Budgetary Comparison Schedule*
- *Schedules of Revenues, Expenditures, Encumbrances and Changes in Fund Balances Budget and Actual (Non-GAAP Budgetary Basis)*
- *Schedule of Revenues Compared to Budget (Non-GAAP Budgetary Basis)*
- *Schedule of Expenditures Compared to Budget (Non-GAAP Budgetary Basis)*

SCHEDULE OF REVENUES, EXPENDITURES, ENCUMBRANCES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS):

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- *Special Revenue Funds:*
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  - *Community and Visitor Facilities Fund*
  - *Hotel Motel Tax Capital Improvement Fund*
  - *Street Maintenance and Improvement Fund*
  - *Parks Development and Expansion Fund*
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  - *Emergency Medical Services Fund*
  - *Capital Improvement Reserve Fund*
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  - *Community Service Funds:*
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    - *Tax Increment Financing Fund*
    - *Tree Preservation Fund*
- *Permanent Fund:*
  - *San Jose Burial Park Fund*
- *Discretely Presented Component Unit:*
  - *Westside Development Corporation*

Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2007

	2007			
	BUDGETED AMOUNTS		BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
Resources (Inflows):				
Taxes	$ 418,050,765	$ 416,959,542	$ 430,451,032	$ 13,491,490
Licenses and Permits	6,261,555	5,728,475	6,926,703	1,198,228
Intergovernmental	3,382,826	3,382,826	4,035,641	652,815
Revenues from Utilities	235,554,797	235,554,797	257,687,224	22,132,427
Charges for Services	27,609,107	27,426,077	25,220,809	(2,205,268)
Fines and Forfeits	11,665,925	11,670,405	15,114,609	3,444,204
Interest Earned	4,629,076	3,888,420	6,815,240	2,926,820
Miscellaneous	9,003,157	11,552,901	7,491,413	(4,061,488)
Transfers from Other Funds	22,883,253	15,910,946	15,972,026	61,080
Amounts Available for Appropriation	739,040,461	732,074,389	769,714,697	37,640,308
Charges to Appropriations (Outflows):				
General Government	115,017,391	101,701,604	79,705,071	21,996,533
Public Safety	414,493,597	435,027,664	437,206,950	(2,179,286)
Public Works	11,028,164	11,028,194	10,759,958	268,236
Health Services	12,637,355	13,215,402	13,109,799	105,603
Sanitation	3,274,029	3,281,143	3,007,740	273,403
Welfare	36,918,498	42,632,219	42,124,122	508,097
Culture and Recreation	70,607,424	71,224,963	69,728,940	1,496,023
Economic Development and Opportunity	2,846,309	3,116,916	3,505,293	(388,377)
Transfers to Other Funds	122,845,796	124,632,509	126,065,404	(1,432,895)
Total Charges to Appropriations	789,668,563	805,860,614	785,213,277	20,647,337
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	(50,628,102)	(73,786,225)	(15,498,580)	58,287,645
Fund Balance Allocation	50,628,102	73,786,225	15,498,580	(58,287,645)
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	$ -	$ -	$ -	$ -

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	$ 769,714,697
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(15,972,026)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 753,742,671
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 785,213,277
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	(11,268,147)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(126,065,404)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 647,879,726

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 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 budgetary 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.

The City noted budget violations within the Public Safety, Economic Development and Opportunity and Transfers to Other Funds functions. However, as sufficient actual revenues or fund balance covered individual functional excesses they were not deemed to be material violations.

(unaudited - see accompanying auditors' report)

Schedules of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
General Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes	$ 416,959,542	$ 430,451,032	$ 13,491,490
Licenses and Permits	5,728,475	6,926,703	1,198,228
Intergovernmental	3,382,826	4,035,641	652,815
Revenues from Utilities	235,554,797	257,687,224	22,132,427
Charges for Services	27,426,077	25,220,809	(2,205,268)
Fines and Forfeits	11,670,405	15,114,609	3,444,204
Interest Earned	3,888,420	6,815,240	2,926,820
Miscellaneous	11,552,901	7,491,413	(4,061,488)
Total Revenues	716,163,443	753,742,671	37,579,228
Expenditures:			
General Government	101,701,604	79,705,071	21,996,533
Public Safety	435,027,664	437,206,950	(2,179,286)
Public Works	11,028,194	10,759,958	268,236
Health Services	13,215,402	13,109,799	105,603
Sanitation	3,281,143	3,007,740	273,403
Welfare	42,632,219	42,124,122	508,097
Culture and Recreation	71,224,963	69,728,940	1,496,023
Economic Development and Opportunity	3,116,916	3,505,293	(388,377)
Total Expenditures	681,228,105	659,147,873	22,080,232
Excess of Revenues Over Expenditures	34,935,338	94,594,798	59,659,460
Other Financing Sources (Uses):			
Transfers In	15,910,946	15,972,026	61,080
Transfers Out	(124,632,509)	(126,065,404)	(1,432,895)
Total Other Financing Sources (Uses)	(108,721,563)	(110,093,378)	(1,371,815)
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(73,786,225)	(15,498,580)	$ 58,287,645
Fund Balances, October 1	161,476,026	161,476,026	
Add Encumbrances		13,713,122	
Fund Balances, September 30	$ 87,689,801	$ 159,690,568	

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Property:			
Current	$ 200,514,728	$ 202,679,492	$ 2,164,764
Delinquent	2,736,425	196,952	(2,539,473)
General Sales and Use:			
City Sales	180,804,665	189,752,760	8,948,095
Selective Sales and Use:			
Alcoholic Beverages	5,168,023	5,307,873	139,850
Gross Receipts Business:			
Taxicabs	308,199	318,508	10,309
Telecommunication Access Lines Fees	13,881,845	17,980,100	4,098,255
Cablevision Franchise	10,969,900	11,106,898	136,998
Bingo	260,000	660,042	400,042
Other	331,719	170,797	(160,922)
Penalties and Interest on Delinquent Taxes	1,984,038	2,277,610	293,572
Total Taxes	416,959,542	430,451,032	13,491,490
Licenses and Permits:			
Alcoholic Beverages Licenses	394,980	401,903	6,923
Health Licenses	2,837,260	2,816,836	(20,424)
Amusement Licenses	183,703	147,660	(36,043)
Professional and Occupational Licenses	1,503,537	1,094,237	(409,300)
Animal Licenses	8,160	8,940	780
Street Permits	800,835	2,457,127	1,656,292
Total Licenses and Permits	5,728,475	6,926,703	1,198,228
Intergovernmental:			
Library Aid from Bexar County	2,903,632	3,494,199	590,567
Park Reservation Services	32,846	54,334	21,488
Health Aid from Bexar County	396,348	455,357	59,009
Hotel/Motel Tax Collection Fee	50,000	31,751	(18,249)
Total Intergovernmental	3,382,826	4,035,641	652,815
Revenues from Utilities:			
CPS Energy	227,039,000	248,539,890	21,500,890
San Antonio Water System	8,515,797	9,147,334	631,537
Total Revenues from Utilities	235,554,797	257,687,224	22,132,427

(Continued)

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Charges for Services:			
General Government	$ 3,928,563	$ 3,299,413	$ (629,150)
Public Safety:			
Police Department	9,131,651	7,879,986	(1,251,665)
Fire Department	779,631	762,476	(17,155)
Highway and Streets:			
Barricade Fees	1,261,545		(1,261,545)
Sanitation	314,716	259,136	(55,580)
Health	3,386,907	3,371,363	(15,544)
Culture and Recreation:			
Tower of the Americas	834,375	1,077,217	242,842
La Villita	319,876	234,687	(85,189)
Recreation Fees	405,400	434,155	28,755
Concessions in Other Parks	92,600	308,903	216,303
River Boats	4,311,342	4,760,595	449,253
Governor's Palace	37,270	29,496	(7,774)
Swimming Pools	67,075	65,940	(1,135)
Community Centers	364,988	366,645	1,657
Library	892,854	984,898	92,044
Market Square - Markets and Warehouses	1,118,254	1,139,922	21,668
Cemeteries	179,030	245,977	66,947
Total Charges for Services	27,426,077	25,220,809	(2,205,268)
Fines and Forfeits:			
Municipal Court Fines	11,670,405	15,114,609	3,444,204
Interest Earned:			
Interest Earned	3,888,420	6,815,240	2,926,820
Miscellaneous:			
Sales	3,007,820	3,592,839	585,019
Recovery of Expenditures	1,238,318	957,221	(281,097)
Annexation	1,089,723		(1,089,723)
Interfund Charges	4,332,769	1,320,404	(3,012,365)
Rents, Leases, and Concessions	954,239	932,027	(22,212)
Other	930,032	688,922	(241,110)
Total Miscellaneous	11,552,901	7,491,413	(4,061,488)
Total Revenues	$ 716,163,443	$ 753,742,671	$ 37,579,228

(End of Statement)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Expenditures:			
General Government:			
Legislative:			
Personal Services	$ 6,310,127	$ 5,894,998	$ 415,129
Contractual Services	2,806,728	2,158,089	648,639
Commodities	552,996	253,102	299,894
Other Expenditures	3,138,572	2,418,991	719,581
Total Legislative	12,808,423	10,725,180	2,083,243
Judicial:			
Personal Services	10,052,901	9,789,195	263,706
Contractual Services	911,387	918,093	(6,706)
Commodities	182,461	249,963	(67,502)
Other Expenditures	2,230,885	2,179,017	51,868
Capital Outlay		195,660	(195,660)
Total Judicial	13,377,634	13,331,928	45,706
Executive:			
Personal Services	40,768,528	25,942,870	14,825,658
Contractual Services	20,061,893	18,594,103	1,467,790
Commodities	3,892,375	1,796,985	2,095,390
Other Expenditures	10,792,751	8,824,218	1,968,533
Capital Outlay		489,787	(489,787)
Total Executive	75,515,547	55,647,963	19,867,584
Total General Government	101,701,604	79,705,071	21,996,533
Public Safety:			
Police:			
Personal Services	211,414,421	213,993,541	(2,579,120)
Contractual Services	4,688,611	5,890,382	(1,201,771)
Commodities	953,455	768,208	185,247
Other Expenditures	13,561,608	13,343,142	218,466
Capital Outlay		89,748	(89,748)
Total Police	230,618,095	234,085,021	(3,466,926)
Fire:			
Personal Services	104,478,754	109,761,979	(5,283,225)
Contractual Services	2,146,246	1,638,415	507,831
Commodities	2,151,792	2,205,554	(53,762)
Other Expenditures	10,675,394	10,611,747	63,647
Capital Outlay		157,571	(157,571)
Total Fire	119,452,186	124,375,266	(4,923,080)

(Continued)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Public Safety (Continued):			
Building Inspection and Regulations:			
Personal Services	$ 231,821	$ 237,236	$ (5,415)
Contractual Services	6,861	10,659	(3,798)
Commodities	2,783	3,432	(649)
Other Expenditures	10,828	8,584	2,244
Total Building Inspection and Regulations	252,293	259,911	(7,618)
Administration:			
Personal Services	22,340,757	14,759,103	7,581,654
Contractual Services	1,720,126	1,825,602	(105,476)
Commodities	1,245,737	1,460,687	(214,950)
Other Expenditures	11,113,279	10,736,257	377,022
Capital Outlay		26,159	(26,159)
Total Administration	36,419,899	28,807,808	7,612,091
Other Protection:			
Personal Services	27,146,314	29,508,623	(2,362,309)
Contractual Services	4,308,345	4,516,256	(207,911)
Commodities	3,076,750	2,887,216	189,534
Other Expenditures	12,944,512	11,861,925	1,082,587
Capital Outlay	809,270	904,924	(95,654)
Total Other Protection	48,285,191	49,678,944	(1,393,753)
Total Public Safety	435,027,664	437,206,950	(2,179,286)
Public Works:			
Streets:			
Personal Services	296,180	326,498	(30,318)
Contractual Services	6,416	31,246	(24,830)
Commodities	2,574	4,551	(1,977)
Other Expenditures	20,786	21,751	(965)
Total Streets	325,956	384,046	(58,090)
Lighting:			
Contractual Services	89,838		89,838
Commodities	10,612,400	10,375,912	236,488
Total Lighting	10,702,238	10,375,912	326,326
Total Public Works	11,028,194	10,759,958	268,236
Health Services:			
Personal Services	9,521,245	9,420,106	101,139
Contractual Services	1,160,533	1,320,736	(160,203)
Commodities	525,089	543,744	(18,655)
Other Expenditures	1,988,535	1,805,213	183,322
Capital Outlay	20,000	20,000	
Total Health Services	13,215,402	13,109,799	105,603

(Continued)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Sanitation:			
Personal Services	$ 2,433,695	$ 2,336,794	$ 96,901
Contractual Services	75,827	158,174	(82,347)
Commodities	468,462	254,928	213,534
Other Expenditures	303,159	257,844	45,315
Total Sanitation	3,281,143	3,007,740	273,403
Welfare:			
Personal Services	15,654,503	15,171,263	483,240
Contractual Services	12,665,043	19,611,228	(6,946,185)
Commodities	883,093	831,918	51,175
Other Expenditures	13,429,580	6,374,490	7,055,090
Capital Outlay		135,223	(135,223)
Total Welfare	42,632,219	42,124,122	508,097
Culture and Recreation:			
Libraries:			
Personal Services	17,222,840	17,018,231	204,609
Contractual Services	1,475,215	1,426,086	49,129
Commodities	3,437,853	3,387,025	50,828
Other Expenditures	2,924,609	2,391,558	533,051
Total Libraries	25,060,517	24,222,900	837,617
Parks:			
Personal Services	27,066,427	27,250,987	(184,560)
Contractual Services	5,932,387	6,080,830	(148,443)
Commodities	3,468,897	3,402,808	66,089
Other Expenditures	9,652,393	8,437,347	1,215,046
Capital Outlay	44,342	334,068	(289,726)
Total Parks	46,164,446	45,506,040	658,406
Total Culture and Recreation	71,224,963	69,728,940	1,496,023
Economic Development:			
Personal Services	2,289,871	2,363,335	(73,464)
Contractual Services	592,821	390,983	201,838
Commodities	32,333	54,303	(21,970)
Other Expenditures	201,891	696,672	(494,781)
Total Economic Development	3,116,916	3,505,293	(388,377)
Total Expenditures	$ 681,228,105	$ 659,147,873	$ 22,080,232

(End of Statement)

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Debt Service Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Current	$ 115,485,274	$ 116,663,904	$ 1,178,630
Delinquent	1,576,814	1,449,232	(127,582)
Penalties and Interests on Delinquent Taxes	1,143,265	1,312,431	169,166
Miscellaneous:			
Interest Revenue	7,508,185	7,899,806	391,621
Total Revenues	125,713,538	127,325,373	1,611,835
Expenditures:			
Fees to Professionals		402,962	(402,962)
Principal Retirement	80,215,000	80,215,000	
Interest	57,439,003	57,189,652	249,351
Issuance Costs	8,199	2,451,312	(2,443,113)
Total Expenditures	137,662,202	140,258,926	(2,596,724)
(Deficiency) of Revenues (Under) Expenditures	(11,948,664)	(12,933,553)	(984,889)
Other Financing Sources (Uses):			
Transfers In	20,373,883	20,372,312	(1,571)
Long-Term Debt Issued		205,395,000	205,395,000
Premium on Long-Term Debt		7,673,379	7,673,379
Payment to Refunded Bond Escrow Agent		(210,643,522)	(210,643,522)
Total Other Financing Sources	20,373,883	22,797,169	$ 2,423,286
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)	8,425,219	9,863,616	
Fund Balances, October 1	92,442,902	92,442,902	
Fund Balances, September 30	$ 100,868,121	$ 102,306,518	

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Confiscated Property Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Miscellaneous:			
Interest	$ 212,100	$ 105,528	$ (106,572)
Other	1,494,160	843,018	(651,142)
Total Revenues	1,706,260	948,546	(757,714)
Expenditures:			
Public Safety:			
Office of the Chief of Police:			
Personal Services	416,648	155,401	261,247
Contractual Services	666,028	406,487	259,541
Commodities	485,740	378,638	107,102
Other Expenditures	322,600	217,796	104,804
Capital Outlay	53,275	116,801	(63,526)
Total Expenditures	1,944,291	1,275,123	669,168
(Deficiency) of Revenues (Under) Expenditures	(238,031)	(326,577)	(88,546)
Other Financing (Uses):			
Transfers Out	(11,556)	(11,556)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(249,587)	(338,133)	$ (88,546)
Fund Balances, October 1	2,343,800	2,343,800	
Add Encumbrances		94,736	
Fund Balances, September 30	$ 2,094,213	$ 2,100,403	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community and Visitor Facilities Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Hotel Occupancy	$ 47,137,800	$ 49,710,736	$ 2,572,936
Penalties and Interest on Delinquent Taxes		86,076	86,076
Charges for Services	12,962,729	16,934,718	3,971,989
Miscellaneous:			
Interest	525,560	1,779,390	1,253,830
Recovery of Expenditures	125,000	185,131	60,131
Other	1,149,069	1,090,025	(59,044)
Total Revenues	61,900,158	69,786,076	7,885,918
Expenditures:			
Convention and Tourism:			
International Affairs:			
Personal Services	506,901	453,676	53,225
Contractual Services	429,474	445,650	(16,176)
Commodities	51,093	51,953	(860)
Other Expenditures	87,350	71,692	15,658
Total International Affairs	1,074,818	1,022,971	51,847
Arts and Cultural Affairs:			
Personal Services	702,634	683,184	19,450
Contractual Services	1,106,180	1,087,902	18,278
Commodities	12,659	9,541	3,118
Other Expenditures	33,058	33,917	(859)
Total Arts and Cultural Affairs	1,854,531	1,814,544	39,987
Convention Facilities:			
Personal Services	14,431,472	14,295,547	135,925
Contractual Services	3,559,174	3,656,593	(97,419)
Commodities	1,143,174	1,256,702	(113,528)
Other Expenditures	10,901,205	10,720,544	180,661
Capital Outlay		56,156	(56,156)
Total Convention Facilities	30,035,025	29,985,542	49,483
Convention and Visitors Bureau:			
Personal Services	5,214,957	5,097,171	117,786
Contractual Services	10,549,680	10,537,758	11,922
Commodities	200,612	186,775	13,837
Other Expenditures	564,701	534,612	30,089
Capital Outlay		135,406	(135,406)
Total Convention and Visitors Bureau	16,529,950	16,491,722	38,228
Nondepartmental:			
Personal Services	340,919	297,984	42,935
Contractual Services	976,286	836,270	140,016
Commodities	233,138	58,960	174,178
Other Expenditures	25,243	26,112	(869)
Total Nondepartmental	1,575,586	1,219,326	356,260
Contributions to Other Agencies	6,969,994	6,978,794	(8,800)
Total Expenditures	58,039,904	57,512,899	527,005
Excess of Revenues Over Expenditures	3,860,254	12,273,177	8,412,923
Other Financing Sources (Uses):			
Transfers In	498,978	498,978	
Transfers Out	(13,581,138)	(9,413,281)	4,167,857
Total Other Financing Sources (Uses)	(13,082,160)	(8,914,303)	4,167,857
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	(9,221,906)	3,358,874	$ 12,580,780
Fund Balances, October 1	16,116,224	16,116,224	
Add Encumbrances		1,338,417	
Fund Balances, September 30	$ 6,894,318	$ 20,813,515	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Hotel Motel Tax Capital Improvement Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes	$ 13,467,900	$ 14,181,798	$ 713,898
Penalties and Interest on Delinquent Taxes	34,631	24,586	(10,045)
Miscellaneous:			
Interest	27,860	173,208	145,348
Total Revenues	13,530,391	14,379,592	849,201
Expenditures:			
Convention and Tourism:			
Other Expenditures		3,000,000	(3,000,000)
Excess of Revenues Over Expenditures	13,530,391	11,379,592	(2,150,799)
Other Financing (Uses):			
Transfers Out	(11,480,489)	(9,590,789)	1,889,700
Excess of Revenues Over Expenditures and Other Financing (Uses)	2,049,902	1,788,803	$ (261,099)
Fund Balances, October 1	4,323,093	4,323,093	
Add Encumbrances		113,435	
Fund Balances, September 30	$ 6,372,995	$ 6,225,331	

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Street Maintenance and Improvement Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Intergovernmental	$ 278,240	$ 722,074	$ 443,834
Charges for Services	2,496,575	1,082,890	(1,413,685)
Miscellaneous:			
Interest	111,500	1,204,871	1,093,371
Recovery of Expenditures		3,310,717	3,310,717
Total Revenues	2,886,315	6,320,552	3,434,237
Expenditures:			
Streets and Roadways:			
Area Supervision:			
Personal Services	2,392,749	2,158,640	234,109
Contractual Services	21,665,407	19,591,421	2,073,986
Commodities	125,961	1,936,303	(1,810,342)
Other Expenditures	1,343,531	1,435,233	(91,702)
Capital Outlay		11,850	(11,850)
Total Area Supervision	25,527,648	25,133,447	394,201
Gravel and Asphalt Maintenance:			
Personal Services	8,553,178	8,489,583	63,595
Contractual Services	1,303,025	1,547,165	(244,140)
Commodities	5,670,637	5,145,364	525,273
Other Expenditures	4,646,419	3,986,727	659,692
Total Gravel and Asphalt Maintenance	20,173,259	19,168,839	1,004,420
Maintenance and Construction:			
Personal Services	3,058,518	2,513,506	545,012
Contractual Services	22,624,186	16,432,605	6,191,581
Commodities	5,136,678	1,609,888	3,526,790
Other Expenditures	1,120,449	824,485	295,964
Capital Outlay		10,260	(10,260)
Total Maintenance and Construction	31,939,831	21,390,744	10,549,087
Total Expenditures	77,640,738	65,693,030	11,947,708
(Deficiency) of Revenues (Under) Expenditures	(74,754,423)	(59,372,478)	15,381,945
Other Financing Sources (Uses):			
Transfers In	62,820,494	61,735,471	(1,085,023)
Transfers Out	(2,278,844)	(1,704,743)	574,101
Total Other Financing Sources (Uses)	60,541,650	60,030,728	(510,922)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)	(14,212,773)	658,250	$ 14,871,023
Fund Balances, October 1	5,701,917	5,701,917	
Add Encumbrances		15,580,307	
Fund Balances, September 30	$ (8,510,856)	$ 21,940,474	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Parks Development and Expansion Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes	$ 29,249,038	$ 23,719,249	$ (5,529,789)
Miscellaneous:			
Recovery of Expenditures		858,292	858,292
Interest	185,195	2,232,673	2,047,478
Total Revenues	29,434,233	26,810,214	(2,624,019)
Expenditures:			
Culture and Recreation:			
Contractual Services	1,090,442	558,799	531,643
Commodities		4,290	(4,290)
Other Expenditures	8,125	42,146	(34,021)
Total Expenditures	1,098,567	605,235	493,332
Excess of Revenues Over Expenditures	28,335,666	26,204,979	(2,130,687)
Other Financing Sources (Uses):			
Transfers In		12,078	12,078
Transfers Out	(85,729,160)	(29,693,836)	56,035,324
Total Other Financing Sources (Uses)	(85,729,160)	(29,681,758)	56,047,402
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(57,393,494)	(3,476,779)	$ 53,916,715
Fund Balances, October 1	41,141,345	41,141,345	
Add Encumbrances		6,931,149	
Fund Balances, September 30	$ (16,252,149)	$ 44,595,715	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Stormwater Operations Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 33,718,790	$ 35,550,020	$ 1,831,230
Miscellaneous:			
Interest	893,690	1,356,217	462,527
Recovery of Expenditures		234,439	234,439
Total Revenues	34,612,480	37,140,676	2,528,196
Expenditures:			
Public Works:			
Administration:			
Personal Services	2,368,855	1,871,745	497,110
Contractual Services	4,227,048	4,277,422	(50,374)
Commodities	151,632	160,306	(8,674)
Other Expenditures	499,461	454,900	44,561
Capital Outlay	41,000		41,000
Total Administration	7,287,996	6,764,373	523,623
Vegetation Control:			
Personal Services	2,607,474	2,211,666	395,808
Contractual Services	628,230	441,596	186,634
Commodities	295,509	338,111	(42,602)
Other Expenditures	963,622	875,962	87,660
Total Vegetation Control	4,494,835	3,867,335	627,500
River Maintenance:			
Personal Services	3,500,347	3,543,030	(42,683)
Contractual Services	1,109,623	685,641	423,982
Commodities	358,869	413,394	(54,525)
Other Expenditures	2,394,600	2,075,311	319,289
Total River Maintenance	7,363,439	6,717,376	646,063
Street Sweeping:			
Personal Services	2,298,612	2,121,594	177,018
Contractual Services	550,688	555,730	(5,042)
Commodities	122,491	268,108	(145,617)
Other Expenditures	1,032,376	827,757	204,619
Capital Outlay		9,225	(9,225)
Total Street Sweeping	4,004,167	3,782,414	221,753
Tunnel Maintenance:			
Personal Services	1,303,902	1,224,016	79,886
Contractual Services	546,528	324,351	222,177
Commodities	217,064	133,024	84,040
Other Expenditures	424,487	313,144	111,343
Capital Outlay		34,016	(34,016)
Total Tunnel Maintenance	2,491,981	2,028,551	463,430
Design Engineering:			
Personal Services	580,539	624,456	(43,917)
Contractual Services	73,721	64,419	9,302
Commodities	18,743	9,386	9,357
Other Expenditures	38,490	47,838	(9,348)
Total Design Engineering	711,493	746,099	(34,606)
Total Expenditures	26,353,911	23,906,148	2,447,763
Excess of Revenues Over Expenditures	8,258,569	13,234,528	4,975,959
Other Financing Sources (Uses):			
Transfers In	24,560	24,560	
Transfers Out	(34,744,213)	(19,023,746)	15,720,467
Total Other Financing Sources (Uses)	(34,719,653)	(18,999,186)	15,720,467
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(26,461,084)	(5,764,658)	$ 20,696,426
Fund Balances, October 1	30,344,607	30,344,607	
Add Encumbrances		6,124,148	
Fund Balances, September 30	$ 3,883,523	$ 30,704,097	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Emergency Medical Services Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Ambulance Service Fees	$ 14,469,201	$ 14,664,704	$ 195,503
Ambulance Contract Fees	582,929	563,251	(19,678)
Miscellaneous:			
Interest		136,778	136,778
Recovery of Expenditures		3,039	3,039
Other		751	751
Total Revenues	15,052,130	15,368,523	316,393
Expenditures:			
Health Services:			
Personal Services	42,514,990	42,366,670	148,320
Contractual Services	3,463,779	3,749,888	(286,109)
Commodities	1,182,015	1,337,148	(155,133)
Other Expenditures	5,162,061	4,930,346	231,715
Capital Outlay		116,209	(116,209)
Total Expenditures	52,322,845	52,500,261	(177,416)
(Deficiency) of Revenues (Under) Expenditures	(37,270,715)	(37,131,738)	138,977
Other Financing Sources:			
Transfers In	37,055,546	37,134,841	79,295
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	(215,169)	3,103	$ 218,272
Fund Balances, October 1	853,836	853,836	
Add Encumbrances		181,621	
Fund Balances, September 30	$ 638,667	$ 1,038,560	

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Capital Improvement Reserve Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Miscellaneous:			
Interest	$ 172,020	$ 314,228	$ 142,208
Total Revenues	172,020	314,228	142,208
Expenditures:			
General Government:			
Contractual Services		780	(780)
Total Expenditures		780	(780)
Excess of Revenues Over Expenditures	172,020	313,448	141,428
Other Financing (Uses):			
Transfers Out	(4,395,028)	(3,355,276)	1,039,752
Total Other Financing (Uses)	(4,395,028)	(3,355,276)	1,039,752
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(4,223,008)	(3,041,828)	$ 1,181,180
Fund Balances, October 1	6,674,596	6,674,596	
Fund Balances, September 30	$ 2,451,588	$ 3,632,768	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Public Health Support Revenue Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Intergovernmental	$ 141,997	$ 149,647	$ 7,650
Charges for Services	2,686,065	1,732,098	(953,967)
Miscellaneous:			
Interest		944	944
Other		385	385
Total Revenues	2,828,062	1,883,074	(944,988)
Expenditures:			
Health Services:			
Administration:			
Personal Services	794,252	851,140	(56,888)
Contractual Services	273,220	250,439	22,781
Commodities	896,084	863,381	32,703
Other Expenditures	101,206	91,460	9,746
Total Expenditures	2,064,762	2,056,420	8,342
Excess (Deficiency) of Revenues Over (Under) Expenditures	763,300	(173,346)	(936,646)
Other Financing Sources (Uses):			
Transfers In	955,254	955,254	
Transfers Out	(279,106)	(250,453)	28,653
Total Other Financing Sources (Uses)	676,148	704,801	28,653
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)	1,439,448	531,455	$ (907,993)
Fund Balances, October 1	15,712	15,712	
Add Encumbrances		1,383	
Fund Balances, September 30	$ 1,455,160	$ 548,550	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Job Training, Neighborhood Revitalization, and Economic Development Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Miscellaneous:			
Interest	$ 153,960	$ 186,365	$ 32,405
Excess of Revenues Over Expenditures	153,960	186,365	32,405
Other Financing (Uses):			
Transfers Out	(1,414,715)	(1,414,715)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(1,260,755)	(1,228,350)	$ 32,405
Fund Balances, October 1	3,894,641	3,894,641	
Add Encumbrances		914,715	
Fund Balances, September 30	$ 2,633,886	$ 3,581,006	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Golf Course Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 6,604,223	$ 5,478,903	$ (1,125,320)
Miscellaneous:			
Interest		584	584
Recovery of Expenditures		21,755	21,755
Other		405,251	405,251
Total Revenues	6,604,223	5,906,493	(697,730)
Expenditures:			
Culture and Recreation:			
Personal Services	3,553,268	3,543,616	9,652
Contractual Services	626,120	537,070	89,050
Commodities	651,666	877,759	(226,093)
Other Expenditures	1,737,312	1,394,630	342,682
Total Expenditures	6,568,366	6,353,075	215,291
Excess (Deficiency) of Revenues Over (Under) Expenditures	35,857	(446,582)	(482,439)
Other Financing (Uses):			
Transfers Out	(2,445)	(2,445)	
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	33,412	(449,027)	$ (482,439)
Fund Balances, October 1	(876,725)	(876,725)	
Add Encumbrances		46,261	
Fund Balances, September 30	$ (843,313)	$ (1,279,491)	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Advanced Transportation District Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
City Sales Tax	$ 9,802,543	$ 11,007,798	$ 1,205,255
Miscellaneous:			
Interest		513,017	513,017
Total Revenues	9,802,543	11,520,815	1,718,272
Expenditures:			
Public Works:			
Personal Services	611,206	609,641	1,565
Contractual Services	38,158	312,065	(273,907)
Commodities	12,904	27,486	(14,582)
Other Expenditures	30,792	80,531	(49,739)
Capital Outlay	210,336	221,139	(10,803)
Total Expenditures	903,396	1,250,862	(347,466)
Excess of Revenues Over Expenditures	8,899,147	10,269,953	1,370,806
Other Financing (Uses):			
Transfers Out	(20,057,243)	(11,203,640)	8,853,603
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(11,158,096)	(933,687)	$ 10,224,409
Fund Balances, October 1	10,695,227	10,695,227	
Add Encumbrances		4,953,092	
Fund Balances, September 30	$ (462,869)	$ 14,714,632	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Development and Planning Services
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 29,827,907	$ 24,034,664	$ (5,793,243)
Miscellaneous:			
Interest	39,307	56,134	16,827
Recovery of Expenditures	68,335	256,393	188,058
Other		29	29
Total Revenues	29,935,549	24,347,220	(5,588,329)
Expenditures:			
General Government:			
Development Services:			
Personal Services	15,117,875	14,849,100	268,775
Contractual Services	1,949,706	767,874	1,181,832
Commodities	815,175	427,665	387,510
Other Expenditures	2,904,615	3,892,443	(987,828)
Capital Outlay	216,000	232,523	(16,523)
Total Development Services	21,003,371	20,169,605	833,766
Planning:			
Personal Services	2,758,926	2,294,473	464,453
Contractual Services	129,353	116,745	12,608
Commodities	70,166	175,660	(105,494)
Other Expenditures	591,689	479,706	111,983
Total Planning	3,550,134	3,066,584	483,550
Total Expenditures	24,553,505	23,236,189	1,317,316
Excess of Revenues Over Expenditures	5,382,044	1,111,031	(4,271,013)
Other Financing Sources (Uses):			
Transfers In	1,115,348	1,115,348	
Transfers Out	(5,330,896)	(5,330,896)	
Total Other Financing Sources (Uses)	(4,215,548)	(4,215,548)	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	1,166,496	(3,104,517)	$ (4,271,013)
Fund Balances, October 1			
Add Encumbrances		187,048	
Fund Balances, September 30	$ 1,166,496	$ (2,917,469)	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
International Center Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 1,288,342	$ 1,200,777	$ (87,565)
Miscellaneous:			
Interest	10,470	63,797	53,327
Total Revenues	1,298,812	1,264,574	(34,238)
Expenditures:			
Convention and Tourism:			
Personal Services	405,737	378,677	27,060
Contractual Services	243,385	316,014	(72,629)
Commodities	32,719	63,925	(31,206)
Other Expenditures	364,121	354,231	9,890
Total Expenditures	1,045,962	1,112,847	(66,885)
Excess of Revenues Over Expenditures	252,850	151,727	(101,123)
Other Financing (Uses):			
Transfers Out	(277,648)	(18,497)	259,151
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	(24,798)	133,230	$ 158,028
Fund Balances, October 1	1,236,311	1,236,311	
Add Encumbrances		805	
Fund Balances, September 30	$ 1,211,513	$ 1,370,346	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Animal Care Services Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Animal Control Fees	$ 506,980	$ 407,723	$ (99,257)
Contribution from Other Agencies	350,607	364,241	13,634
Interest		24,017	24,017
Other		1,162	1,162
Total Revenues	857,587	797,143	(60,444)
Expenditures:			
Health Services:			
Personal Services	4,052,010	4,067,157	(15,147)
Contractual Services	474,945	535,967	(61,022)
Commodities	652,643	633,448	19,195
Other Expenditures	888,752	787,963	100,789
Capital Outlay		18,450	(18,450)
Total Expenditures	6,068,350	6,042,985	25,365
(Deficiency) of Revenues (Under) Expenditures	(5,210,763)	(5,245,842)	(35,079)
Other Financing Sources (Uses):			
Transfers In	5,342,666	5,322,666	(20,000)
Transfers Out	(182,218)	(182,218)	
Total Other Financing Sources (Uses)	5,160,448	5,140,448	(20,000)
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(50,315)	(105,394)	$ (55,079)
Fund Balances, October 1	161,573	161,573	
Add Encumbrances		52,703	
Fund Balances, September 30	$ 111,258	$ 108,882	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Better Jobs
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Interest	$ 86,800	$ 20,517	$ (66,283)
Total Revenues	86,800	20,517	(66,283)
Excess of Revenues Over Expenditures	86,800	20,517	(66,283)
Other Financing (Uses):			
Transfers Out	(1,500,000)	(1,500,000)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(1,413,200)	(1,479,483)	$ (66,283)
Fund Balances, October 1	2,027,885	2,027,885	
Fund Balances, September 30	$ 614,685	$ 548,402	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Child Safety Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Parking Fines	$ 257,282	$ 234,240	$ (23,042)
Moving Violations	208,170	176,059	(32,111)
Intergovernmental	1,488,267	1,542,199	53,932
Interest on Time Deposits		(240)	(240)
Total Revenues	1,953,719	1,952,258	(1,461)
Expenditures:			
Health Services:			
Personal Services	1,515,469	1,135,056	380,413
Contractual Services	3,467	12,823	(9,356)
Commodities	33,049	16,501	16,548
Other Expenditures	423,813	573,863	(150,050)
Total Expenditures	1,975,798	1,738,243	237,555
Excess (Deficiency) of Revenues Over (Under) Expenditures	(22,079)	214,015	236,094
Other Financing (Uses):			
Transfers Out	(426,600)	(214,015)	212,585
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(448,679)		$ 448,679
Fund Balances, October 1			
Fund Balances, September 30	$ (448,679)	$ -	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Municipal Courts Security Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Building Security	$ 394,358	$ 367,462	$ (26,896)
Interest		1,972	1,972
Total Revenues	394,358	369,434	(24,924)
Expenditures:			
General Government:			
Contractual Services	390,356	319,315	71,041
Total Expenditures	390,356	319,315	71,041
Excess of Revenues Over Expenditures	4,002	50,119	$ 46,117
Fund Balances, October 1	(14,990)	(14,990)	
Fund Balances, September 30	$ (10,988)	$ 35,129	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Municipal Court Technology Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Technology Improvements	$ 521,350	$ 488,771	$ (32,579)
Interest		14,304	14,304
Total Revenues	521,350	503,075	(18,275)
Expenditures:			
General Government:			
Personal Services	73,573	46,032	27,541
Contractual Services	310,969	3,870	307,099
Commodities		40,663	(40,663)
Other Expenditures	636	202	434
Total Expenditures	385,178	90,767	294,411
Excess of Revenues Over Expenditures	136,172	412,308	276,136
Other Financing (Uses):			
Transfers Out	(195)	(195)	
Excess of Revenues Over Expenditures and Other Financing (Uses)	135,977	412,113	$ 276,136
Fund Balances, October 1	108,533	108,533	
Fund Balances, September 30	$ 244,510	$ 520,646	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Official City Store Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Miscellaneous:			
Interest	$ -	$ 4,242	$ 4,242
Charges for Services:			
Sales	321,700	343,578	21,878
Total Revenues	321,700	347,820	26,120
Expenditures:			
Economic Development and Opportunity:			
Personal Services	235,569	213,265	22,304
Contractual Services	55,898	30,408	25,490
Commodities	196,305	205,243	(8,938)
Other Expenditures	31,016	31,771	(755)
Total Expenditures	518,788	480,687	38,101
(Deficiency) of Revenues (Under) Expenditures	(197,088)	(132,867)	64,221
Other Financing Sources (Uses):			
Transfers In	150,000	150,000	
Transfers Out	(1,300)	(1,300)	
Total Other Financing Sources (Uses)	148,700	148,700	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(48,388)	15,833	$ 64,221
Fund Balances, October 1	77,142	77,142	
Fund Balances, September 30	$ 28,754	$ 92,975	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Recreation Athletic Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Entry Fees	$ 485,195	$ 424,424	$ (60,771)
Interest	7,660	(20)	(7,680)
Other	7,800		(7,800)
Total Revenues	500,655	424,404	(76,251)
Expenditures:			
Culture and Recreation:			
Personal Services	230,116	209,314	20,802
Contractual Services	202,250	208,219	(5,969)
Commodities	38,140	38,046	94
Other Expenditures	13,001	13,145	(144)
Total Expenditures	483,507	468,724	14,783
(Deficiency) of Revenues (Under) Expenditures	17,148	(44,320)	(61,468)
Other Financing (Uses):			
Transfers Out	(56,160)	(56,160)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(39,012)	(100,480)	$ (61,468)
Fund Balances, October 1	36,980	36,980	
Fund Balances, September 30	$ (2,032)	$ (63,500)	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community Service Funds - South Texas Business Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Contributions from Other Agencies (SALDC)	$ 601,211	$ 805,395	$ 204,184
Total Revenues	601,211	805,395	204,184
Expenditures:			
Economic Development and Opportunity:			
Personal Services	559,469	628,961	(69,492)
Contractual Services	23,118	14,315	8,803
Commodities	6,372	18,954	(12,582)
Other Expenditures	25,569	26,300	(731)
Total Expenditures	614,528	688,530	(74,002)
(Deficiency) of Revenues (Under) Expenditures	(13,317)	116,865	130,182
Other Financing (Uses):			
Transfers Out	(1,561)	(1,561)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(14,878)	115,304	$ 130,182
Fund Balances, October 1	(41,190)	(41,190)	
Fund Balances, September 30	$ (56,068)	$ 74,114	

This fund is separate and distinct from the blended component unit.

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Starbright Industrial Development Corporation Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Interest	$ -	$ 6,145	$ 6,145
Total Revenues		6,145	6,145
Expenditures:			
Economic Development and Opportunity:			
Other Expenditures	1,662,867	1,633,405	29,462
Total Expenditures	1,662,867	1,633,405	29,462
(Deficiency) of Revenues (Under) Expenditures	(1,662,867)	(1,627,260)	35,607
Other Financing Sources (Uses):			
Transfers In	1,662,867	1,662,867	
Transfers Out	(465,933)		465,933
Total Other Financing Sources (Uses)	1,196,934	1,662,867	465,933
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(465,933)	35,607	$ 501,540
Fund Balances, October 1	44,914	44,914	
Fund Balances, September 30	$ (421,019)	$ 80,521	

In fiscal year 2005-2006, the Starbright Industrial Development Corporation Fund was established to account for the proceeds from CPS Energy to be used to repay the debt service associated with the Toyota plant land purchase. This fund is separate and distinct from the blended component unit.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Tax Increment Financing Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Administrative Fee	$ 474,971	$ 223,206	$ (251,765)
Processing Fee	56,000		(56,000)
Total Revenues	530,971	223,206	(307,765)
Expenditures:			
General Government:			
Personal Services	288,424	258,273	30,151
Contractual Services	7,991	3,372	4,619
Commodities	6,953	1,895	5,058
Other Expenditures	38,363	20,918	17,445
Total Expenditures	341,731	284,458	57,273
Excess (Deficiency) of Revenues Over (Under) Expenditures	189,240	(61,252)	(250,492)
Other Financing (Uses):			
Transfers Out	(1,561)	(11,882)	(10,321)
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	187,679	(73,134)	$ (260,813)
Fund Balances, October 1	(30,611)	(30,611)	
Fund Balances, September 30	$ 157,068	$ (103,745)	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Tree Preservation Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Tree Mitigation Fee	$ 532,455	$ 951,985	$ 419,530
Interest	42,530	97,284	54,754
Other		974	974
Total Revenues	574,985	1,050,243	475,258
Expenditures:			
Culture and Recreation:			
Personal Services	97,715	73,746	23,969
Contractual Services	462,723	174,261	288,462
Commodities	291,220	211,779	79,441
Other Expenditures	22,260	3,014	19,246
Capital Outlay	32,000	32,015	(15)
Total Expenditures	905,918	494,815	411,103
Excess (Deficiency) of Revenues Over (Under) Expenditures	(330,933)	555,428	$ 886,361
Fund Balances, October 1	1,618,765	1,618,765	
Add Encumbrances		59,501	
Fund Balances, September 30	$ 1,287,832	$ 2,233,694	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Discretely Presented Component Unit
Westside Development Corporation
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Expenditures:			
Economic Development and Opportunity:			
Personal Services	$ 126,432	$ 20,247	$ 106,185
Contractual Services	143,182	99,592	43,590
Commodities	10,641	7,410	3,231
Other Expenditures	4,745	1,289	3,456
Total Expenditures	285,000	128,538	156,462
(Deficiency) of Revenues (Under) Expenditures	(285,000)	(128,538)	$ 156,462
Fund Balances, October 1	595,964	595,964	
Fund Balances, September 30	$ 310,964	$ 467,426	

In fiscal year 2006-2007, Westside Development Corporation was created as a separate entity whose budget and initial funding are provided by the City.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual - (Budgetary Basis)
Permanent Fund
San Jose Burial Park Fund
Year Ended September 30, 2007

	2007		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Miscellaneous:			
Sales	$ 276,700	$ 367,038	$ 90,338
Interest on Investments	92,640	104,260	11,620
Total Revenues	369,340	471,298	101,958
Expenditures:			
Culture and Recreation:			
Personal Services	357,158	362,618	(5,460)
Contractual Services	11,367	27,365	(15,998)
Commodities	12,543	10,588	1,955
Other Expenditures	89,775	112,307	(22,532)
Capital Outlay	5,589	5,589	
Total Expenditures	476,432	518,467	(42,035)
(Deficiency) of Revenues (Under) Expenditures	(107,092)	(47,169)	59,923
Other Financing (Uses):			
Transfers Out	(36,051)	(1,756)	34,295
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(143,143)	(48,925)	$ 94,218
Fund Balances, October 1	2,244,927	2,244,927	
Add Encumbrances		482	
Fund Balances, September 30	$ 2,101,784	$ 2,196,484	

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year Ended September 30, 2007

City of San Antonio, Texas

Pension Schedules

Required Supplementary Information - (Unaudited)

Pension Schedules

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
10-01-06	$ 1,824,386	$ 2,028,761	$ 204,375	89.9%	$ 221,539	92.3%
10-01-05	1,676,075	1,910,789	234,714	87.7%	207,145	113.3%
10-01-04	1,540,286	1,838,371	298,085	83.8%	204,516	145.8%

TEXAS MUNICIPAL RETIREMENT SYSTEM - 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
12-31-06	$ 464,287	$ 642,808	$ 178,521	72.2%	$ 231,262	77.2%
12-31-05	475,325	642,202	166,877	74.0%	209,176	79.8%
12-31-04	464,345	621,034	156,689	74.8%	204,088	76.8%

CPS ENERGY - ALL EMPLOYEE PLAN

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
01-01-06	$ 955,300	$ 906,400	$ (48,900)	105.4%	$ 210,074	(23.3)%
01-01-05	902,100	837,600	(64,500)	107.7%	198,441	(32.5)%
01-01-04	839,800	795,100	(44,700)	105.6%	189,892	(23.5)%

(amounts are expressed in thousands)

(unaudited - see accompanying auditors' report)

Required Supplementary Information - (Unaudited)

Pension Schedules

Schedules of Funding Progress

Last Three Fiscal Years

SAN ANTONIO WATER SYSTEM - TMRS

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
12-31-06	$ 59,801	$ 75,652	$ 15,851	79.0%	$ 65,078	24.4%
12-31-05	55,902	70,703	14,801	79.1%	62,619	23.6%
12-31-04	52,985	66,465	13,480	79.7%	60,588	22.2%

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
01-01-06	$ 57,847	$ 75,097	$ 17,250	77.0%	$ 60,836	28.4%
01-01-05	52,412	63,064	10,652	83.0%	59,476	18.0%
01-01-04	47,249	57,241	9,992	83.0%	56,932	18.0%

(amounts are expressed in thousands)

(unaudited - see accompanying auditors' report)

Required Supplementary Information - (Unaudited)

Postemployment Schedules

Schedules of Funding Progress

Last Three Fiscal Years

CPS ENERGY - HEALTH PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) [1]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-06	$ 133,851	$ 228,446	$ 94,595	58.6%	$ 210,074	45.0%
01-01-05	121,700	233,280	111,580	52.2%	198,441	56.2%
01-01-04	109,486	199,076	89,590	55.0%	189,892	47.2%

CPS ENERGY - DISABILITY PLAN

ACTUARIAL VALUATION DATE [2]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-06	$ 4,109	$ 6,000	$ 1,891	68.5%	$ 210,074	0.9%

CPS ENERGY - LIFE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) [3]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-06	$ 46,662	$ 60,903	$ 14,241	76.6%	$ 210,074	6.8%
01-01-05	44,174	58,021	13,847	76.1%	198,441	7.0%
01-01-04	41,979	52,309	10,330	80.3%	189,892	5.4%

[1] The actuarial accrued liability consisted of the liability for both retired employees and active employees. The actuarial accrued liability for retired employees was $101.6 million for January 1, 2006; $104.5 million for January 1, 2005; and $80.5 million for January 1, 2004.

[2] Per GASB Statement 43, the Actuarial Accrued Liability is not being reported for the Actuarial Valuation Dates of 1/1/2005 and 1/1/2004 since they were not calculated in accordance with this Statement.

[3] The actuarial accrued liability consisted of the liability for both retired employees and active employees. The actuarial accrued liability for retired employees was $27.0 million for January 1, 2006; $25.0 million for January 1, 2005; and $21.8 million for January 1, 2004.

(amounts are expressed in thousands)

(unaudited - see accompanying auditors' report)