OFFICIAL STATEMENT DATED SEPTEMBER 21, 2006

NEW ISSUE - BOOK-ENTRY ONLY

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

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

$72,620,000
CITY OF SAN ANTONIO, TEXAS
HOTEL OCCUPANCY TAX SUBORDINATE LIEN
REVENUE REFUNDING BONDS, SERIES 2006

Dated Date: September 15, 2006 **Due: August 15, as shown herein**

The $72,620,000 "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006" (the "Bonds") are being issued by the City of San Antonio, Texas (the "City"), pursuant to the laws of the State of Texas, including Chapters 1207, Texas Government Code, as amended, and Chapter 351, Texas Tax Code, as amended (collectively, the "Applicable Law"); and an ordinance adopted by the City Council of the City (the "City Council") on September 21, 2006 (the "Ordinance"). (See "PLAN OF FINANCING – Authority for Issuance" herein.) Proceeds of the Bonds will be used to refund certain outstanding special obligations of the City and to pay costs of issuance of the Bonds.

Interest on the Bonds will accrue from the Dated Date shown above, will be payable on February 15 and August 15 of each year, commencing February 15, 2007, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. So long as the Securities Depository is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by The Bank of New York Trust Company, N.A., Jacksonville, Florida, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners. (See "THE BONDS – Book-Entry-Only System" herein.)

The Bonds maturing on or after August 15, 2014 are subject to optional redemption prior to stated maturity, in whole or in part, on August 15, 2013, or any date thereafter, at a price of par plus interest accrued from the most recent interest payment date to the redemption date for the Bonds. (See "THE BONDS – Redemption Provisions" herein.)

The Bonds are special obligations of the City, payable solely from and equally and ratably secured by a lien on and pledge of the Pledged Revenues (defined herein), which consist primarily of revenues derived by the City from its hotel occupancy tax and other sources and funds, the Debt Service Reserve Fund (defined herein), and the Debt Service Fund (defined herein), which pledge is made on a parity with the currently outstanding Parity Bonds (defined herein). (See "PLAN OF FINANCING – Security for the Bonds" herein.) No mortgage of or lien on any of the physical properties forming a part of the City's convention center facilities, or any lien thereon or security interest therein, has been given to secure the payment of the Bonds. The Bonds are limited obligations of the City payable solely from a lien on and pledge of the Pledged Revenues. Neither the ad valorem taxing power of the City, the State of Texas, nor any political subdivision thereof, nor any other funds of the City, are pledged to the payment of the Bonds other than the City's hotel occupancy tax. (See PLAN OF FINANCING – Security for the Bonds" herein.)

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

FSA

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

The Bonds are offered for delivery, when, as, and if issued and received by the initial purchasers thereof named below (the "Underwriters") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Fulbright & Jaworski L.L.P., San Antonio, Texas, and Escamilla & Poneck, Inc., San Antonio, Texas, as Co-Bond Counsel. (See "LEGAL MATTERS" herein.) Certain legal matters will be passed upon for the City by the City Attorney and for the Underwriters by Winstead Sechrest & Minick P.C., San Antonio, Texas, and Shelton & Valadez, P.C., San Antonio, Texas. It is expected that the Bonds will be available for delivery through the services of DTC on or about October 18, 2006.

JPMORGAN **A.G. EDWARDS & SONS, INC.**
JACKSON SECURITIES **CITIGROUP**

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

$72,620,000
Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006

Maturity (August 15)	Principal Amount	Interest Rate	Initial Yield	Initial CUSIP Number[1]
2007	$ 800,000	4.000%	3.530%	796261CT0
2008	245,000	4.000	3.560	796261CU7
2009	255,000	4.000	3.600	796261CV5
2010	265,000	4.000	3.630	796261CW3
2011	280,000	4.000	3.660	796261CX1
2012	290,000	4.000	3.710	796261CY9
2013	300,000	4.000	3.780	796261CZ6
2014	310,000	4.000	3.850 [2]	796261DA0
2015	325,000	4.000	3.910 [2]	796261DB8
2016	335,000	4.000	3.970 [2]	796261DC6
2017	350,000	4.000	4.020	796261DD4
2018	6,420,000	4.000	4.200	796261DE2
2019	6,680,000	4.350	4.360	796261DF9
2020	6,965,000	4.375	4.410	796261DG7
2021	7,275,000	4.375	4.450	796261DH5
2022	7,590,000	4.500	4.480 [2]	796261DJ1
2023	7,930,000	4.500	4.510	796261DK8
2024	8,290,000	4.500	4.540	796261DL6
2025	8,660,000	4.500	4.560	796261DM4
2026	9,055,000	4.500	4.580	796261DN2

Redemption

The City has, in the Ordinance, reserved the right to redeem the Bonds maturing on or after August 15, 2014, in whole or in part and in the principal amount of $5,000 or any integral multiple thereof, on August 15, 2013, or any date thereafter, at the redemption price of par plus accrued interest. (See "THE BONDS – Redemption Provisions" herein.)

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

(2) Yield calculated based upon the assumption that the Bonds designated and sold at a premium will be redeemed on August 15, 2013, the first optional redemption date for the Bonds, at a redemption price of par plus accrued interest to the redemption date.

(Remainder of this page is intentionally left blank.)

CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL:

Name	Years on City Council	Term Expires	Occupation
Phil Hardberger, Mayor	1 Year, 3 Months	May 31, 2007	Retired, Appellate Court Judge
Roger O. Flores, District 1	3 Years, 3 Months	May 31, 2007	Restaurant Owner
Sheila D. McNeil, District 2	1 Year, 3 Months	May 31, 2007	Self-Employed
Roland Gutierrez, District 3	1 Year, 3 Months	May 31, 2007	Attorney
Richard Perez, District 4	3 Years, 3 Months	May 31, 2007	Self-Employed
Patti Radle, District 5	3 Years, 3 Months	May 31, 2007	Agency Director and Teacher
Delicia Herrera, District 6	1 Year, 3 Months	May 31, 2007	Self-Employed
Elena Guajardo, District 7	1 Year, 3 Months	May 31, 2007	Retired
Art A. Hall, District 8	3 Years, 3 Months	May 31, 2007	Attorney, Investment Banker
Kevin Wolff, District 9	1 Year, 3 Months	May 31, 2007	Executive Vice President & C.O.O.
Christopher "Chip" Haass, District 10	3 Years, 3 Months	May 31, 2007	Educator

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Years in Current Position
Sheryl L. Sculley	City Manager	10 Months	10 Months
Jelynne L. Burley	Deputy City Manager	22 Years, 5 Months	7 Months
Pat DiGiovanni	Deputy City Manager	6 Months	6 Months
Michael Armstrong	Assistant City Manager/ Chief Information Officer	1 Year, 1 Month	1 Year, 1 Month
Frances A. Gonzalez	Assistant City Manager	21 Years, 11 Months	2 Years, 10 Months
Erik J. Walsh	Assistant City Manager	12 Years, 3 Months	7 Months
Penny Postoak Ferguson	Assistant City Manager	Appointed September 6, 2006	
Roland Lozano	Assistant to the City Manager	26 Years, 2 Months	5 Years, 5 Months
Michael D. Bernard	City Attorney	10 Months	10 Months
Leticia M. Vacek	City Clerk	2 Years, 3 Months	2 Years, 3 Months
Thomas G. Wendorf	Director of Public Works	7 Years, 5 Months	5 Years, 8 Months
Ben Gorzell	Director of Finance	15 Years, 10 Months	3 Months[(1)]
Peter Zanoni	Director of Management and Budget	9 Years, 5 Months	2 Years, 8 Months
Michael Sawaya	Director of Convention Facilities	2 Years, 9 Months	2 Years, 9 Months

(1) Appointed Director of Finance on June 12, 2006; previously served as Acting Director of Finance from January 10, 2006, until date of permanent appointment.

CONSULTANTS AND ADVISORS:

Co-Bond Counsel — Fulbright & Jaworski L.L.P., San Antonio, Texas and Escamilla & Poneck, Inc., San Antonio, Texas

Co-Certified Public Accountants* — KPMG L.L.P., San Antonio, Texas, Leal & Carter, P.C., San Antonio, Texas, and Robert J. Williams, CPA, San Antonio, Texas

Co-Financial Advisors — Coastal Securities, San Antonio, Texas and Estrada Hinojosa & Company, Inc., San Antonio, Texas

* KPMG L.L.P., Leal & Carter, P.C., and Robert J. Williams, CPA, the City's independent auditors, have not been engaged to perform and have not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG L.L.P., Leal & Carter, P.C., and Robert J. Williams, CPA, also have 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. Under no circumstances will this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Co-Financial Advisors or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

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

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

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

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

The Co-Financial Advisors have provided the following sentence for inclusion in this Official Statement. The Co-Financial Advisors have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to 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.

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

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

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and Exhibit F, "Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax-exempt status of the interest on the Bonds.

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OFFICIAL STATEMENT
Relating to the

$72,620,000
CITY OF SAN ANTONIO, TEXAS
HOTEL OCCUPANCY TAX SUBORDINATE LIEN
REVENUE REFUNDING BONDS, SERIES 2006

INTRODUCTION

This Official Statement of the City of San Antonio, Texas (the "City") provides certain information in connection with the sale by the City of its $72,620,000 "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006" (the "Bonds"). This Official Statement describes the Bonds, the Ordinance (defined herein), the City's Hotel Occupancy Tax (defined herein), and certain other information about the City and its Convention Center (defined herein). All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Defined terms used herein without definition are defined in the ordinance authorizing issuance of the Bonds adopted by the City Council of the City (the "City Council") on September 21, 2006 (the "Ordinance"). (See "APPENDIX B – Selected Provisions of the Ordinance".) Copies of such documents may be obtained from the City at the Office of the Director of Finance, City Hall Annex, 506 Dolorosa, San Antonio, Texas 78204 and, during the offering period, from the City's Co-Financial Advisors, Coastal Securities, 600 Navarro, Suite 350, San Antonio, Texas, 78205, or Estrada Hinojosa & Company, Inc., 1400 Frost Bank Tower, 100 West Houston Street, San Antonio, Texas 78205, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

THE BONDS ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE TOGETHER WITH THE CURRENTLY OUTSTANDING PARITY BONDS, SOLELY FROM A LIEN ON AND PLEDGE OF THE PLEDGED REVENUES, WITH ADDITIONAL SECURITY PROVIDED BY A PLEDGE OF AND LIEN ON THE DEBT SERVICE FUND AND THE DEBT SERVICE RESERVE FUND. NEITHER THE TAXING POWER OF THE CITY, THE STATE OF TEXAS, NOR ANY POLITICAL SUBDIVISION THEREOF, NOR ANY OTHER FUNDS OF THE CITY ARE PLEDGED TO THE PAYMENT OF THE BONDS EXCEPT FOR THE CITY'S HOTEL OCCUPANCY TAX. NO MORTGAGE OR LIEN HAS BEEN CREATED ON THE PHYSICAL PROPERTIES OF THE CONVENTION CENTER OR ANY OTHER CITY-OWNED PROPERTY TO SECURE PAYMENT OF THE BONDS.

PLAN OF FINANCING

Purpose

The City is issuing the Bonds for the purposes of refunding certain of its outstanding Prior Lien Bonds (defined herein) identified in Schedule I hereto (such identified Prior Lien Bonds, the "Refunded Bonds") and paying the costs of issuance of the Bonds.

(Remainder of this page is intentionally left blank.)

Sources and Uses

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

Sources of Funds	
Principal Amount of the Bonds	$72,620,000.00
Accrued Interest	292,343.79
Net Original Issue Discount	(384,741.80)
Total Sources of Funds	$72,527,601.99
Uses of Funds	
Escrow Fund Deposit	$70,895,885.41
Interest and Sinking Fund Deposit	292,343.79
Underwriters' Discount	461,112.80
Costs of Issuance (including Bond Insurance Premium)	878,259.99
Total Uses of Funds	$72,527,601.99

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates or the redemption date identified on Schedule I attached hereto (the "Redemption Date") from funds to be deposited with The Bank of New York Trust Company, N.A., Dallas, Texas (the "Escrow Agent"), pursuant to an escrow deposit letter, dated as of September 21, 2006 (the "Escrow Agreement"), between the City and the Escrow Agent.

The Ordinance provides that the City will deposit certain proceeds of the sale of the Bonds with the Escrow Agent in such amounts which are necessary, when combined with the interest earnings thereon, to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will be used to purchase certain obligations of the United States of America and obligations of agencies or instrumentalities of the United States, including obligations that are unconditionally guaranteed by the agency or instrumentality, that are noncallable and that were, on the date the Ordinance was adopted, rated as to investment quality by a nationally recognized rating firm not less than "AAA" (the "Federal Securities"). Under the laws of the State of Texas, particularly Section 1207.062(b), as amended, Texas Government Code, "AAA"-rated obligations of agencies or instrumentalities of the United States may be deposited with the Escrow Agent under the terms of the Escrow Agreement for the payment and defeasance of the Refunded Bonds issued after September 1, 1999. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service requirements on the Bonds.

Simultaneously with the issuance of the Bonds, the City will give irrevocable instructions to give the required notice to the owners of the Refunded Bonds that said bonds will be redeemed prior to their stated maturity on the Redemption Date, on which date the money held in the Escrow Fund will be made available to redeem the Refunded Bonds.

Grant Thornton LLP, Minneapolis, Minnesota (the "Verification Agent"), will verify from the information provided to them the mathematical accuracy, as of the date of the closing on the Bonds, of (1) the computations contained in the schedules provided by Coastal Securities, the Co-Financial Advisor to the City, to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest, and redemption premium payment requirements of the Refunded Bonds, and (2) the computations of yield on both the Federal Securities and the Bonds, contained in the aforementioned schedules, which were used by Co-Bond Counsel in their determination that the interest on the Bonds is excludable from gross income for federal income tax purposes. The Verification Agent will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds. (See "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein.)

The Escrow Agent will hold and administer the Escrow Fund and will apply the maturing principal of and interest on the Federal Securities to payments of principal of, redemption premium, and interest on the Refunded Bonds. By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, and in reliance upon

the report of the Verification Agent, Co-Bond Counsel is of the opinion that the City will have entered into firm banking and financial arrangements for the final payment and discharge of the Refunded Bonds pursuant to the terms of the ordinance authorizing their issuance and in accordance with applicable Texas law, and that the Refunded Bonds will be deemed to be no longer outstanding, except for the purpose of being paid from funds held in the Escrow Fund. (See APPENDIX D – Form of Co-Bond Counsel Opinion".)

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

Authority for Issuance

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

The City's Hotel Occupancy Tax

The City's hotel occupancy tax (the "Hotel Occupancy Tax" or "HOT"), currently levied by the City at the aggregate rate of 9% of the price paid for a room in a hotel, is imposed thereby pursuant to the HOT Act and Ordinance No. 78834 adopted by the City Council on September 30, 1993 and effective as January 1, 1994, and is comprised of the "Expansion HOT" and the "General HOT". The Expansion HOT is the HOT imposed by the City on the price paid for a room in a hotel at the rate of 2% more than 7% of the cost of such room. Pursuant to the HOT Act, the Expansion HOT can only be used for expansion of existing Convention Center facilities or the payment of obligations issued for such purpose.

The General HOT is the HOT imposed by the City at the rate of 7% of the price paid for a room in a hotel and is comprised of the "Pledged 5.25% HOT" and the "Pledged 1.75% HOT". The Pledged 5.25% HOT is equal to 75% of the General HOT (or 5.25%). The Pledged 1.75% HOT is equal to the remaining 25% of the 7% General HOT (or 1.75%). (See "THE HOTEL OCCUPANCY TAX - Funds and Flow of Funds" below.)

Outstanding City HOT Debt

The City has previously issued, and there are currently outstanding, the following series of obligations payable in whole or in part from the City's collection of HOT revenues: (i) the "City of San Antonio, Texas Hotel Occupancy Tax Revenue Bonds, Series 1996" (the "Prior Lien Bonds"); (ii) the "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A" (the "2004A Bonds"); (iii) the "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B" (the "2004B Bonds" and collectively with the 2004A Bonds, the "Parity Bonds"; and the Parity Bonds, together with the Bonds, the "Bonds Similarly Secured"); and (iv) the Hotel Bonds (defined below). The Prior Lien Bonds are payable from (i) a prior lien on the revenues from the Pledged 1.75% HOT, plus (ii) a prior lien on the revenues from the Pledged 5.25% HOT, plus (iii) a lien on the revenues from the Expansion HOT in such order or priority as hereinafter described (see "PLAN OF FINANCING – Issuance of the Hotel Bonds"), plus (iv) a prior lien on the earnings of the investment of the Pledged 1.75% Account and the Pledged 5.25% Account, the "Debt Service Fund" for the Prior Lien Bonds, and the Debt Service Reserve Fund (recognizing that the Debt Service Reserve Fund itself is a common reserve fund securing both the Prior Lien Bonds and the Bonds Similarly Secured). The Parity Bonds are payable from (i) a subordinate and inferior lien on the revenues from the Pledged 1.75% HOT, plus (ii) a subordinate and inferior lien on the revenues from the Pledged 5.25% HOT, plus (iii) a first and prior lien on the earnings on the investments of the Debt Service Fund, plus (iv) a subordinate and inferior lien on the earnings of the investment of the Pledged 1.75% HOT Fund and the Pledged 5.25% HOT Fund and the Debt Service Reserve Fund. (See "PLAN OF FINANCING – Security for the Bonds" herein.) The Hotel Bonds are payable from the sources and in the manner described below in "PLAN OF FINANCING – Issuance of the Hotel Bonds".

Issuance of the Hotel Bonds

As used throughout this Official Statement, these capitalized terms are defined as follows:

"6% State HOT" means the tax imposed by the State pursuant to Chapter 156, Texas Tax Code, for the use or possession or for the right to the use or possession of a room or space in a hotel costing $15 or more each day at a rate equal to 6% (or such higher rate that may be imposed in the future) of the price paid for a room at such hotel.

"6.25% State Sales Tax" means the sales and use tax imposed by the State pursuant to Chapter 151, Texas Tax Code, on taxable items at a rate of 6.25% (or such higher rate that may be imposed in the future) of the sale price of such taxable items.

"1996 Amendatory Ordinance" means the ordinance adopted by the City Council on June 3, 2004, which, among other items, added a first and prior lien pledge of the Pledged 1.75% HOT as additional security for the Prior Lien Bonds, and authorized the use of the Expansion HOT as additional security for the Hotel Bonds in the manner described below.

"Corporation" the City of San Antonio, Texas Convention Center Hotel Finance Corporation, a Texas nonprofit corporation created by the City for the purpose of issuing the Hotel Bonds on the City's behalf.

"Hotel Bonds" means, collectively, the $129,930,000 "City of San Antonio, Texas Convention Center Hotel Finance Corporation Contract Revenue Empowerment Zone Bonds, Series 2005A" and the $78,215,000 "City of San Antonio, Texas Convention Center Hotel Finance Corporation Contract Revenue Bonds, Taxable Series 2005B", issued for the purpose of providing proceeds for construction of the Hotel Project.

"Hotel Project" means the 1,000 room convention center hotel and related improvements currently being constructed on land located adjacent to the Convention Center Facilities.

"Hotel Project General HOTs" means all revenues derived from the General HOT collected at the Hotel Project for so long as any Hotel Bonds (or any refunding bonds therefor) are outstanding that remain after payment of debt service and other requirements relating to the Prior Lien Bonds and the Bonds Similarly Secured.

"Pledged Hotel Operating Revenues" means the net revenues derived from the operation of the Hotel Project that remain after making necessary monthly escrow payments for property taxes; insurance premiums; and furniture, fixtures, and equipment replacements.

"State HOTs" means all revenues received by the City from the State pursuant to Section 351.102(c), Texas Tax Code, which revenues are derived from the 6% State HOT collected at the Hotel Project during the first ten years after the Hotel Project is open for initial occupancy.

"State Sales Taxes" means all revenues received by the City from the State pursuant to Section 351.102(c), Texas Tax Code, which revenues are derived from the 6.25% State Sales Tax collected at the Hotel Project (including from all businesses located within the Hotel Project) during the first ten years after the Hotel Project is open for initial occupancy

In preparation for its issuance of the Hotel Bonds, the City took multiple proactive actions aimed at providing adequate credit support therefor, while also preserving the revenue streams supporting its existing HOT bond program. The City issued the Prior Lien Bonds on April 3, 1996, in the aggregate principal amount of $182,012,480.60, securing those bonds with a first and prior lien on both the Expansion HOT and the Pledged 5.25% HOT (at the time of issuance of the Prior Lien Bonds, State law prevented more than 75% of the General HOT to be used as security for debt). (See "THE HOTEL OCCUPANCY TAX – Allocation of Hotel Occupancy Tax".)

Anticipating the issuance of the Hotel Bonds, the City adopted the 1996 Amendatory Ordinance for the purpose of altering the security for the Prior Lien Bonds. The City added as additional security therefor a first and prior lien on the Pledged 1.75% HOT, as was then permitted by applicable Texas law as a result of a 2001 legislative amendment. (See "THE HOTEL OCCUPANCY TAX – Allocation of the Hotel Occupancy Tax".) The City also amended the first and prior lien status of the Expansion HOT as security for the Prior Lien Bonds, permitting instead a first lien on the Expansion HOT as additional security for bonds issued to provide proceeds for the Hotel Project if and only if other revenues pledged to the repayment thereof were insufficient for such purpose. The City then issued the Parity Bonds in part to provide

proceeds to refund 47% of the then-outstanding Prior Lien Bonds, thus reducing the amount of outstanding debt supported by the Expansion HOT.

On June 8, 2005, the City, acting through the Corporation, issued the Hotel Bonds. The Hotel Bonds are secured by a lien on and are payable from the following sources of revenue (in the order of priority given): first, the Pledged Hotel Operating Revenues; second, the State HOTs; third, the State Sales Taxes; fourth, the Hotel Project General HOTs; and fifth, the Expansion HOT revenues (collectively, the "Hotel Bonds Pledged Revenues"). If needed, the Hotel Bonds have a lien on the Expansion HOTs superior to that which secures the Prior Lien Bonds. Subsequent to the issuance of the Bonds, $18,112,411.50 in aggregate principal amount of Prior Lien Bonds (which bonds are premium capital appreciation bonds having an aggregate maturity value of $54,385,000 and are not subject to optional redemption) will remain outstanding.

Construction of the Hotel Project commenced on June 9, 2005, with completion thereof anticipated to occur in February 2008.

Security for the Bonds

The Bonds are special obligations of the City, payable from and equally and ratably secured by a lien on and pledge of the "Pledged Revenues", together with the currently outstanding Parity Bonds, which pledge and lien is subordinate and inferior to that securing the Prior Lien Bonds. The Bonds are additionally secured by a parity lien on the Debt Service Fund and the Debt Service Reserve Fund. "Pledged Revenues" consist of (i) a subordinate and inferior lien on the revenues from the Pledged 1.75% HOT, plus (ii) a subordinate and inferior lien on the revenues from the Pledged 5.25% HOT, plus (iii) a first and prior lien on the earnings of the Debt Service Fund, plus (iv) a subordinate lien on the earnings of the investment of the Pledged 1.75% HOT Fund and the Pledged 5.25% HOT Fund and the Debt Service Reserve Fund. No revenues received from the Expansion HOT are to be considered "Pledged Revenues"; however, the City may, in its discretion, make certain debt service payments on the Bonds Similarly Secured (which includes the Bonds) from the Expansion HOT (though it is under no obligation to do so).

The City, pursuant to the Ordinance, has granted a lien on the Pledged Revenues, the Debt Service Fund, and the Debt Service Reserve Fund, in the order of priority specified therein and described above, to secure the payment of principal of, redemption premium (if any), and interest on the Bonds Similarly Secured. The City has not granted any lien on or security interest in, or any mortgage of any of the physical properties of the City, including all or any part of the Convention Center Facilities.

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

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

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

DEBT SERVICE REQUIREMENTS

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

Debt Service Requirements **Table 1**

	Prior Lien Bonds			Subordinate Lien Bonds					
					Series 2006 Bonds				
Fiscal Year	Series 1996 Outstanding Debt Service	Series 1996 Refunded Bond Debt Service	Series 1996 Remaining Debt Service	Outstanding Parity Bonds Debt Service [1]	Principal	Interest	Total Debt Service	Subordinate Lien Debt Service	Combined Total Debt Service
2007	$ 3,926,975	$ 3,926,975	-0-	$ 8,241,750	$ 800,000	$ 2,923,438	$ 3,723,438	$ 11,965,188	$ 11,965,188
2008	3,926,975	3,926,975	-0-	8,767,000	245,000	3,157,205	3,402,205	12,169,205	12,169,205
2009	3,926,975	3,926,975	-0-	9,761,250	255,000	3,147,405	3,402,405	13,163,655	13,163,655
2010	3,926,975	3,926,975	-0-	10,390,250	265,000	3,137,205	3,402,205	13,792,455	13,792,455
2011	10,911,975	3,926,975	$ 6,985,000	4,190,375	280,000	3,126,605	3,406,605	7,596,980	14,581,980
2012	11,516,975	3,926,975	7,590,000	4,274,625	290,000	3,115,405	3,405,405	7,680,030	15,270,030
2013	11,841,975	3,926,975	7,915,000	4,305,375	300,000	3,103,805	3,403,805	7,709,180	15,624,180
2014	11,826,975	3,926,975	7,900,000	4,359,375	310,000	3,091,805	3,401,805	7,761,180	15,661,180
2015	12,136,975	3,926,975	8,210,000	4,035,750	325,000	3,079,405	3,404,405	7,440,155	15,650,155
2016	11,981,975	3,926,975	8,055,000	4,147,625	335,000	3,066,405	3,401,405	7,549,030	15,604,030
2017	11,656,975	3,926,975	7,730,000	4,480,125	350,000	3,053,005	3,403,005	7,883,130	15,613,130
2018	9,981,975	9,981,975	-0-	6,225,375	6,420,000	3,039,005	9,459,005	15,684,380	15,684,380
2019	9,983,813	9,983,813	-0-	6,183,500	6,680,000	2,782,205	9,462,205	15,645,705	15,645,705
2020	9,980,525	9,980,525	-0-	6,164,875	6,965,000	2,491,625	9,456,625	15,621,500	15,621,500
2021	9,984,635	9,984,635	-0-	7,168,625	7,275,000	2,186,906	9,461,906	16,630,531	16,630,531
2022	9,981,515	9,981,515	-0-	7,158,875	7,590,000	1,868,625	9,458,625	16,617,500	16,617,500
2023	9,980,310	9,980,310	-0-	7,119,750	7,930,000	1,527,075	9,457,075	16,576,825	16,576,825
2024	9,984,595	9,984,595	-0-	7,102,125	8,290,000	1,170,225	9,460,225	16,562,350	16,562,350
2025	9,982,660	9,982,660	-0-	7,105,125	8,660,000	797,175	9,457,175	16,562,300	16,562,300
2026	9,983,365	9,983,365	-0-	7,052,875	9,055,000	407,475	9,462,475	16,515,350	16,515,350
2027	-0-	-0-	-0-	9,647,125	-0-	-0-	-0-	9,647,125	9,647,125
2028	-0-	-0-	-0-	9,665,125	-0-	-0-	-0-	9,665,125	9,665,125
2029	-0-	-0-	-0-	9,627,625	-0-	-0-	-0-	9,627,625	9,627,625
2030	-0-	-0-	-0-	9,605,875	-0-	-0-	-0-	9,605,875	9,605,875
2031	-0-	-0-	-0-	9,572,375	-0-	-0-	-0-	9,572,375	9,572,375
2032	-0-	-0-	-0-	9,530,125	-0-	-0-	-0-	9,530,125	9,530,125
2033	-0-	-0-	-0-	9,479,125	-0-	-0-	-0-	9,479,125	9,479,125
2034	-0-	-0-	-0-	9,444,375	-0-	-0-	-0-	9,444,375	9,444,375
	$187,425,118	$133,040,118	$54,385,000	$204,806,375	$72,620,000	$50,272,004	$122,892,004	$327,698,379	$382,083,379

[1] Debt service on the 2004B Bonds is calculated at actual interest rates through August 15, 2008, and an estimated rate of 3.50% thereafter.

DEBT SERVICE COVERAGE

Debt Service Coverage **Table 2**

	Prior Lien Bond Debt Service Coverage			Subordinate Lien Debt Service Coverage			Combined Debt Service Coverage	
Fiscal Year	Available Pledged Revenue [1]	Outstanding Prior Lien Debt Service [2]	Coverage Ratio	Available Pledged Revenues [3]	Outstanding Subordinate Lien Debt Service [4]	Coverage Ratio	Combined Outstanding Debt Service [5]	Coverage Ratio
2007	$ 60,606,000	-0-		$ 47,138,000	$ 11,965,188	3.94	$ 11,965,188	5.07
2008	64,450,286	-0-		50,128,000	12,169,205	4.12	12,169,205	5.30
2009	68,662,286	-0-		53,404,000	13,163,655	4.06	13,163,655	5.22
2010	72,632,571	-0-		56,492,000	13,792,455	4.10	13,792,455	5.27
2011	76,831,714	$ 6,985,000	11.00	59,758,000	7,596,980	7.87	14,581,980	5.27
2012	77,984,190	7,590,000	10.27	60,654,370	7,680,030	7.90	15,270,030	5.11
2013	79,153,953	7,915,000	10.00	61,564,186	7,709,180	7.99	15,624,180	5.07
2014	80,341,262	7,900,000	10.17	62,487,648	7,761,180	8.05	15,661,180	5.13
2015	81,546,381	8,210,000	9.93	63,424,963	7,440,155	8.52	15,650,155	5.21
2016	82,769,577	8,055,000	10.28	64,376,338	7,549,030	8.53	15,604,030	5.30
2017	82,769,577	7,730,000	10.71	64,376,338	7,883,130	8.17	15,613,130	5.30
2018	82,769,577	-0-		64,376,338	15,684,380	4.10	15,684,380	5.28
2019	82,769,577	-0-		64,376,338	15,645,705	4.11	15,645,705	5.29
2020	82,769,577	-0-		64,376,338	15,621,500	4.12	15,621,500	5.30
2021	82,769,577	-0-		64,376,338	16,630,531	3.87	16,630,531	4.98
2022	82,769,577	-0-		64,376,338	16,617,500	3.87	16,617,500	4.98
2023	82,769,577	-0-		64,376,338	16,576,825	3.88	16,576,825	4.99
2024	82,769,577	-0-		64,376,338	16,562,350	3.89	16,562,350	5.00
2025	82,769,577	-0-		64,376,338	16,562,300	3.89	16,562,300	5.00
2026	82,769,577	-0-		64,376,338	16,515,350	3.90	16,515,350	5.01
2027	82,769,577	-0-		64,376,338	9,647,125	6.67	9,647,125	8.58
2028	82,769,577	-0-		64,376,338	9,665,125	6.66	9,665,125	8.56
2029	82,769,577	-0-		64,376,338	9,627,625	6.69	9,627,625	8.60
2030	82,769,577	-0-		64,376,338	9,605,875	6.70	9,605,875	8.62
2031	82,769,577	-0-		64,376,338	9,572,375	6.73	9,572,375	8.65
2032	82,769,577	-0-		64,376,338	9,530,125	6.76	9,530,125	8.69
2033	82,769,577	-0-		64,376,338	9,479,125	6.79	9,479,125	8.73
2034	82,769,577	-0-		64,376,338	9,444,375	6.82	9,444,375	8.76
	$2,234,830,606	$54,385,000		$1,738,201,580	$327,698,379		$382,083,379	

[1] Includes the Pledged 5.25% HOT, the Pledged 1.75% HOT, and the 2.00% Expansion HOT revenues; includes projected growth (i) as forecasted by the City for years 2007 through 2011 and (ii) at an annual rate of 1.5% in years 2012 through 2016.

[2] Excludes the Refunded Bonds.

[3] Includes the projected remaining Pledged 5.25% HOT and the Pledged 1.75% HOT revenue remaining after prior lien debt service.

[4] Includes the Bonds. Debt service on the 2004B Bonds is calculated at actual interest rates through August 15, 2008, and an estimated annual rate of 3.50% thereafter.

[5] Includes the remaining Prior Lien Bonds and the projected subordinate lien debt service, including the Bonds.

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

Bond debt service has been structured so that the Hotel Occupancy Tax will be sufficient in each year to cover debt service for the Bonds Similarly Secured assuming a 2% annual increase in Hotel Occupancy Tax receipts. (See "DEBT SERVICE REQUIREMENTS" above.) However, the City has historically applied the Hotel Occupancy Tax receipts to the ongoing activities of the Convention and Visitors' Bureau and the operating expenses of the Convention Center Facilities departments of the City and intends to continue to do so in the future, with actual payment of the Bonds Similarly Secured (to the extent funds are available) to be made from the Expansion HOT. Operating revenues of the Convention Center Facilities are not pledged to the payment of the Bonds Similarly Secured. See the City's CAFR, Required Supplementary Information (unaudited), for its fiscal year ending September 30, 2005, for the special revenue funds of the City relating to the Hotel Occupancy Tax and the operation of such departments.

THE BONDS

General Description

The Bonds will be dated September 15, 2006, and will bear interest from such date at the rates set forth on the inside cover page hereof (payable on February 15 and August 15 of each year, commencing February 15, 2007, until stated maturity or prior redemption). The principal of and interest on the Bonds are payable in the manner described herein under "THE BONDS – Book-Entry-Only System."

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

Record Date for Interest Payment

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

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

The principal of and interest on the Bonds will be payable in lawful money in the United States of America. In addition to accrued and unpaid interest thereon, the principal on each Bond will be payable on its Principal Payment Date, upon surrender thereof at the office of the Paying Agent/Registrar.

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Trust Company, N.A., Jacksonville, Florida (the "Paying Agent/Registrar"). In the Ordinance, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar at all times until the Bonds are duly paid, and the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, must be a bank, trust company, financial institution, or other entity duly qualified and legally

authorized to serve as a Paying Agent/Registrar for the Bonds. Upon a change in the Paying Agent/Registrar for the Bonds, the City is required to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid.

Redemption Provisions

Optional Redemption. The Bonds maturing on or after August 15, 2014 are subject to optional redemption in whole or in part and in the principal amount of $5,000 or any integral multiple thereof, on August 15, 2013, or any date thereafter, at the redemption price of par plus accrued interest.

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

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

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

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

Bond Provisions

Transfer, Exchange, and Registration. In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be registered, transferred, assigned, and exchanged on the 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 Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. The new Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New Bonds issued in an exchange or transfer of the Bonds will be delivered to the registered owner or

assignee of the registered owner, to the extent possible, within three business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in denominations of $5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount, series, and rate of interest as the Bonds surrendered for exchange or transfer. (See "Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds while the Bonds are issued under DTC's Book-Entry-Only System.)

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

Defaults and Remedies. If the City defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or Ordinance 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 Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition 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 of the Bonds. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 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 Bonds or the Ordinance. 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 Bonds. 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, a revenue pledge, such as that of the Pledged Revenues, 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 and any remedies available to the registered owners 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 Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

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

Additionally, the City has covenanted in the "Economic Development Agreement" (the "Economic Development Agreement"), between the City and the Corporation that while any Hotel Bonds, or bonds issued for the purpose of refunding all or any part thereof, remain outstanding it will not make certain amendments to any ordinance authorizing the issuance of any series of Bonds Similarly Secured without the prior written consent of the Ambac Assurance Corporation (the "Hotel Bonds Insurer"), the insurer of the Hotel Bonds. Such amendments affecting obligations payable from the Pledged Revenues or that relate to the respective ordinances authorizing the issuance of any Bonds Similarly Secured are described as follows.

Covenant Not to Issue Additional Bonds Under Certain Circumstances Without Consent of Hotel Bond Insurer. The City will not amend any ordinance authorizing the issuance of any series of Bonds Similarly Secured without the prior written consent of the Hotel Bonds Insurer that would permit the issuance of Additional Bonds under circumstances where the Pledged Revenues during the most recent complete fiscal year or for any consecutive 12-month period out of the most recent 18 months are less than 110% of the maximum annual debt service requirements on all Bonds Similarly Secured scheduled to occur in the then current fiscal year or any future fiscal year after taking into account the issuance of the Additional Bonds proposed to be issued.

Covenant Not to Amend Priority Pledge of the Expansion HOT Without Consent of the Hotel Bond Insurer. The City will not amend (i) Section 3.04(a) of the ordinance authorizing the issuance of the Prior Lien Bonds, (ii) Section 4.04(a) of the ordinance authorizing the issuance of the 2004A Bonds, or (iii) Section 5.3A of the ordinance authorizing the issuance of the 2004B Bonds, which sections all relate to the priority of transfers from the Expansion HOT Fund (see "THE HOTEL OCCUPANCY TAX – Flow of Funds" herein), without the prior written consent of the Hotel Bonds Insurer.

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

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

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

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

Additional Bonds. The City has, in the Ordinance, reserved the right to issue, for expansion of the Convention Center or any other purpose authorized by law, one or more installments of Additional Bonds payable from and secured by a subordinate and inferior lien on the Pledged Revenues on parity with the lien thereon securing the Bonds and the Bonds Similarly Secured; provided, however, that pursuant to the Ordinance, no such Additional Bonds will be issued unless:

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

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

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

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

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

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

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

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding or unpaid and shall no longer be entitled to the benefits and the rights afforded under the Ordinance, including (but not limited to) the pledge of the Pledged Revenues; provided, however, the City may reserve the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Book-Entry-Only System

General. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. The City may decide to discontinue the use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered and the Bonds will be subject to transfer, exchange, and registration provisions as set forth in the Ordinance and summarized under "THE BONDS – Bond Provisions – Registration, Transferability, and Exchange" above.

Appendix D hereto describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in Appendix D concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

Use of Certain Terms in Other Sections of this Official Statement. With respect to this Official Statement, readers should understand that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to "Registered Owners" should be read to include the person for which the Direct Participant or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry Only System and (ii) except as described above, notices that are to be given to registered owners under the Ordinance are required to be given only to DTC.

Payment Record

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

THE HOTEL OCCUPANCY TAX

General Description of Hotel Occupancy Tax

Pursuant to the provisions of Chapter 351, Texas Tax Code, as amended (the "HOT Act"), the City is authorized to impose the Hotel Occupancy Tax on persons for the use or possession, or right of use or possession, of rooms ordinarily used for sleeping at any hotel in the City based upon the price paid for such room. Currently, the Hotel Occupancy Tax may be imposed only for rooms for which the cost of occupancy is at the rate of $2 or more per day. The municipal HOT of the City currently equals 9% of the consideration paid to the hotel for the right to use or possess the room. Other provisions of the Texas Tax Code authorize the State and counties meeting certain specified qualifications to impose similar hotel occupancy taxes. The State, pursuant to the provisions of Chapter 156, Texas Tax Code, as amended (the "State HOT"), currently imposes a 6% hotel occupancy tax. Bexar County, Texas, pursuant to the provisions of Chapter 334, Texas Local Government Code, and Chapter 352, Texas Tax Code, as amended, currently imposes a 1.75% hotel

occupancy tax. Therefore, the total hotel occupancy tax in San Antonio for all entities, including the City, is 16.75%. Under the HOT Act, "hotel" means any building or buildings in which the public may, for consideration, obtain sleeping accommodations. The term includes hotels, motels, tourist homes, tourist houses, tourist courts, lodging houses, inns, rooming houses, bed and breakfasts, or other buildings where rooms are furnished for a consideration, but does not include hospitals, sanitariums, or nursing homes. The consideration paid for the room, for purposes of the HOT Act, includes the cost of the room only if the room is one ordinarily used for sleeping, and does not include the cost of any food served or personal services rendered to the occupant of such room not related to the cleaning and readying of such room for occupancy. To be subject to the HOT, the occupant's use, possession, or right to the use or possession of the sleeping room must be for a period of less than 30 consecutive days. Certain housing facilities owned or leased and operated by an institution of higher education are excluded. These amendments are not expected to have any significant impact on the amount of HOT received by the City. Hotels and other eligible vendors of sleeping accommodations are required to collect the HOT at the time the room charges are received from patrons. The collected HOTs are to be turned over to the City, with reporting forms, in the month next succeeding that in which they were collected. Penalties and interest are imposed by the City for delinquent payments; the HOT Act provides for enforcement of collection of the HOT.

Allocation of Hotel Occupancy Tax

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

The Texas Legislature amended the HOT Act in 2001 to remove the 75% restriction on the allocation of the General HOT, allowing the City to now allocate by ordinance the entirety of the General HOT. Pursuant to this new authority, the City has heretofore designated the remaining 25% of the General HOT (or 1.75% in total), known as the "Pledged 1.75% HOT", to the payment of the Prior Lien Bonds on a first and prior lien basis and to the Bonds Similarly Secured on a subordinate lien basis. In addition, the Hotel Bonds are secured in part by a lien on certain of the General HOTs (defined herein as the Hotel Project General HOTs), which lien is subordinate in priority to the lien thereon securing the Bonds Similarly Secured. (See "PLAN OF FINANCING – Issuance of the Hotel Bonds".)

Levy of Hotel Occupancy Tax

In the Ordinance, the City has levied, and has covenanted that it will continue to levy while any Bonds remain Outstanding, the Hotel Occupancy Tax on the cost of occupancy of any qualified hotel room at a rate of at least 9% of the consideration paid by the occupant thereof to the hotel, all as authorized by the HOT Act. The City has further covenanted that it will enforce the provisions of the Ordinance, or any other ordinance levying a HOT, concerning the collection, remittance, and payment of the HOT. Of the $0.09 City HOT: (i) $0.02 represents the Expansion HOT, pledged to the payment of the Prior Lien Bonds and the Hotel Bonds in such order of priority as described in "PLAN OF FINANCING – Issuance of Hotel Bonds" (and which may lawfully be utilized to pay the debt service requirements on the Bonds Similarly Secured but is <u>not</u> pledged for such purpose), the collection history of which is set forth below in Table 3; (ii) $0.0525 represents the Pledged 5.25% General HOT, pledged as a prior lien to the payment of the Prior Lien Bonds and as a subordinate lien to the payment of the Bonds Similarly Secured, the collection history of which is set forth in Table 4 below); and (iii) $0.0175 represents the Pledged 1.75% General HOT pledged as a prior lien to the payment of the Prior Lien Bonds and as subordinate lien to the payment of the Bonds Similarly Secured, the collection history of which is set forth in Table 5 below.

Historical Municipal Hotel Occupancy Tax Receipts

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

	Fiscal Year Ended September 30					
Months	2001	2002	2003	2004	2005	2006
October	$ 680,509	$ 453,164	$ 573,848	$ 545,694	$ 519,437	$ 877,962
November	798,201	796,313	817,218	767,592	999,530	857,751
December	695,830	583,761	612,502	678,680	692,712	1,036,926
January	717,884	629,571	591,602	555,197	547,422	767,164
February	504,621	521,747	539,972	679,369	617,210	778,861
March	847,657	929,206	774,913	790,353	979,467	1,052,668
April	1,347,855	1,354,203	1,193,058	1,260,666	1,367,004	1,475,125
May	1,009,621	1,114,500	1,050,796	1,271,436	1,324,661	1,505,624
June	817,572	950,074	889,456	890,658	1,172,990	1,318,848
July	958,356	939,963	951,731	853,764	1,185,765	1,250,000 [2]
August	969,876	951,707	1,053,012	1,064,134	1,242,272	956,175 [3]
September	887,969	777,459	870,407	941,564	802,259	757,550 [3]
	$10,235,951	$10,001,668	$9,918,515	$10,299,107	$11,450,729	$12,634,654

[1] The Expansion HOT consists of 2% more than 7% of the cost of a room and is currently pledged to payment of the Prior Lien Bonds and, in the event of insufficiency of the other Hotel Bonds Pledged Revenues, the Hotel Bonds. (See "PLAN OF FINANCING – Issuance of Hotel Bonds"). The proceeds from the Expansion HOT are not pledged to the payment of the debt service requirements on the Bonds Similarly Secured; however, the City is permitted by law to pay such debt service requirements from such source.

[2] For July 2006, actual based on HOT collections recorded for July; however, pending accrual and adjustments.

[3] For August and September 2006, projection based on HOT collections at 90% of three year average collections.

Source: City of San Antonio, Department of Finance.

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

Month	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
October	$ 1,538,758.49	$ 1,706,034.79	$ 1,961,532.35	$ 1,786,334.70	$ 1,189,584.52	$ 1,506,351.60	$ 1,432,438.64	$ 1,379,991.39	$ 2,299,889.49
November	2,361,168.22	2,323,014.48	1,680,740.43	2,094,754.24	2,090,365.52	2,145,198.33	2,014,898.33	2,654,528.07	2,253,659.60
December	1,444,832.20	1,223,425.62	1,780,792.71	1,827,798.34	1,532,379.65	1,607,818.26	1,779,431.74	1,819,190.60	2,720,567.54
January	1,260,766.48	1,204,667.91	1,790,757.89	1,884,444.19	1,652,623.65	1,552,930.68	1,457,390.61	1,425,767.76	2,013,628.95
February	1,396,694.46	1,623,468.92	1,402,813.24	1,324,629.41	1,369,586.10	1,417,577.11	1,783,342.75	1,463,786.75	2,043,867.76
March	2,229,082.60	2,180,042.84	2,396,767.26	2,225,097.55	2,439,166.49	2,034,145.82	2,074,683.45	2,453,410.58	2,764,067.69
April	3,094,149.00	3,072,815.05	2,998,217.35	3,538,208.05	3,555,088.02	3,131,657.95	3,309,245.71	3,588,386.47	3,872,249.60
May	1,934,396.95	2,285,725.81	2,819,826.77	2,650,255.70	2,925,693.78	2,758,337.54	3,337,449.38	3,476,213.26	3,952,112.12
June	1,844,668.74	2,058,141.67	2,266,924.91	2,146,126.24	2,493,943.82	2,334,819.15	2,337,974.83	3,079,099.12	3,461,981.50
July	1,982,878.18	2,097,735.24	2,290,183.47	2,515,695.24	2,467,400.42	2,498,291.54	2,241,127.83	3,112,635.45	3,300,000.00 [2]
August	2,437,767.30	2,234,998.64	2,483,877.47	2,548,024.29	2,498,089.06	2,764,154.21	2,793,349.23	3,260,962.93	2,509,950.00 [3]
September	1,369,888.33	1,422,770.09	1,855,681.95	2,330,919.01	2,040,820.33	2,284,845.40	2,471,602.39	2,353,594.78	1,988,565.00 [3]
	$22,895,050.95	$23,432,841.06	$25,728,115.80	$26,872,286.96	$26,254,741.36	$26,036,127.59	$27,032,934.89	$30,067,567.16	$33,180,539.25

[1] The 5.25% Hotel Occupancy Tax collections are the portion of the General HOT designated "Pledged 5.25% HOT" in the Ordinance and pledged as a first and prior lien for the payment of the Prior Lien Bonds and a subordinate and inferior lien for the payment of the Bonds and the other Bonds Similarly Secured. The Hotel Bonds are secured by a lien on and pledge of that portion of the Pledged 5.25% HOT collected at the Hotel Project (defined herein as Hotel Project General HOTs), which lien and pledge is subordinate and inferior to the one thereon securing the Bonds Similarly Secured.

[2] For July 2006, actual based on HOT collections recorded for July; however, pending accrual and adjustments.

[3] For August and September 2006, projection based on HOT collections at 90% of three year average collections.

Source: City of San Antonio, Department of Finance.

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

Month	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
October	$ 512,920.02	$ 568,678.60	$ 654,545.60	$ 595,456.09	$ 396,539.37	$ 502,126.60	$ 452,638.54	$ 442,126.38	$ 764,118.87
November	787,056.24	774,338.23	559,567.05	697,689.73	696,816.87	715,075.20	696,229.43	1,086,649.83	750,373.16
December	481,609.23	408,003.86	593,589.15	609,278.24	510,802.77	535,947.06	593,156.19	606,757.52	905,501.82
January	420,253.86	401,361.81	596,931.49	628,159.69	550,883.35	517,654.68	485,807.18	490,412.16	671,282.63
February	465,535.52	541,154.76	467,614.65	441,555.29	456,527.55	472,535.30	594,408.10	500,568.30	681,552.81
March	743,027.49	726,680.81	798,933.31	741,709.57	813,064.60	678,058.02	691,628.27	829,413.88	921,021.99
April	1,031,382.44	1,024,270.38	999,414.59	1,179,444.75	1,185,037.35	1,043,895.63	1,103,094.21	1,196,129.07	1,290,731.25
May	644,799.64	761,911.54	939,917.66	883,426.91	975,233.37	919,456.16	1,112,437.07	1,158,737.63	1,317,432.93
June	614,890.18	686,046.53	755,653.60	715,385.75	831,322.54	778,285.06	779,337.57	1,026,366.26	1,153,991.77
July	660,958.96	699,243.22	763,405.38	838,581.71	822,476.04	832,776.46	747,055.40	1,037,544.31	1,100,000.00 [2]
August	812,588.36	745,001.47	827,968.51	849,350.34	832,704.31	921,395.30	931,097.24	1,086,987.91	836,650.00 [3]
September	456,629.31	474,254.32	618,572.50	776,984.38	680,284.02	761,625.50	823,877.57	561,636.80	662,855.00 [3]
	$7,631,651.25	$7,810,945.53	$8,576,113.49	$8,957,022.45	$8,751,692.14	$8,678,830.97	$9,010,766.77	$10,023,330.05	$11,055,512.23

[1] The 1.75% Hotel Occupancy Tax collections are the portion of the Hotel Occupancy Tax designated "Pledged 1.75% HOT" in the Ordinance and pledged as a first and prior lien for the payment of the Prior Lien Bonds, and a subordinate and inferior lien for the payment of the Bonds and the other Bonds Similarly Secured. The Hotel Bonds are secured by a lien on and pledge of that portion of the Pledged 1.75% HOT collected at the Hotel Project (defined herein as the Hotel Project General HOTs), which lien and pledge is subordinate and inferior to the one thereon securing the Bonds Similarly Secured.

[2] For July 2006, actual based on HOT collections recorded for July; however, pending accrual and adjustments.

[3] For August and September 2006, projection based on HOT collections at 90% of three year average collections.

Source: City of San Antonio, Department of Finance.

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

	Fiscal Year Ended September 30									
	2001		2002		2003		2004		2005	
	Rooms	Total Tax Paid [2]	Rooms	Total Tax Paid [2]	Rooms	Total Tax Paid [2]	Rooms	Total Tax Paid [2]	Rooms	Total Tax Paid [2]
Marriott Rivercenter*	1,000	$ 4,044,415	1,000	$ 3,979,724	1,000	$ 4,174,290	1,000	$ 3,515,664	1,000	$ 3,844,758
Hyatt Regency *	633	2,184,608	633	2,067,109	633	2,099,108	633	1,823,393	633	2,296,844
Hyatt Hill Country Resort**	500	2,261,223	500	2,243,619	500	1,830,858	500	1,749,513	500	2,032,346
Marriott Riverwalk*	502	2,089,017	502	1,914,048	502	2,081,821	502	1,766,221	502	1,978,448
Westin Riverwalk*	474	1,595,330	474	1,589,857	474	1,670,289	474	1,660,244	474	1,945,161
Westin La Cantera Resort***	508	1,603,559	508	1,667,829	508	1,604,983	508	1,486,361	508	1,894,692
Hilton Palacio Del Rio*	481	1,747,272	481	1,742,380	481	1,537,874	481	1,634,833	481	1,784,479
La Mansion Del Rio*	337	1,276,047	337	1,330,527	337	1,354,798	337	1,351,560	337	1,520,555
Crowne Plaza Riverwalk*	410	952,689	410	915,353	410	867,775	410	772,270	410	954,768
Wyndham St. Anthony	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	352	868,293
Holiday Inn Riverwalk*	N/A	N/A	N/A	N/A	313	758,148	313	720,945	N/A	N/A
Marriott Plaza San Antonio*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Menger*	313	818,497	313	811,615	N/A	N/A	N/A	N/A	N/A	N/A
Totals	5,158	$18,572,657	5,158	$18,262,061	5,158	$17,979,944	5,158	$16,481,004	5,197	$19,120,344

* These hotels are within walking distance of the Henry B. Gonzalez Convention Center.
** This hotel is near the SeaWorld San Antonio Adventure Park.
*** This hotel is near the Six Flags Fiesta Texas Amusement Park.
[1] Represents approximately 17.34% of total rooms available in the City and approximately 41.06% of the Hotel Occupancy Tax Receipts for fiscal year 2005.
[2] Hotel Occupancy Tax is less a 1% discount for payment by the 20th of the following month and include any late charges.
Source: City of San Antonio, Department of Finance.

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

Calendar Year	Room Count	Increase/ (Decrease)	Average Daily Room Rate	Increase/ (Decrease)	Hotel Occupancy	Increase/ (Decrease)
1996	23,790	---%	$76.73	---%	65.1%	---%
1997	25,101	5.5%	$79.76	4.0%	63.0%	(3.3%)
1998	25.667	2.3%	$81.94	2.7%	64.8%	3.0%
1999	27,093	5.6%	$82.76	1.0%	64.3%	(0.9%)
2000	28,237	2.2%	$86.54	3.4%	64.7%	0.6%
2001	28,347	0.4%	$86.27	0.9%	62.7%	(3.1%)
2002	29,231	3.1%	$86.74	0.5%	63.9%	1.9%
2003	29,749	1.8%	$83.39	(3.8%)	63.9%	0.0%
2004	29,859	0.4%	$85.36	2.4%	64.6%	1.1%
2005	30,473	2.1%	$91.12	5.6%	69.1%	7.1%

[1] According to Smith Travel Research ("STR") custom trend report as of July 27, 2006. STR is the lodging industry's leading information and data provider and maintains the most comprehensive database of hotel performance information nationwide. Information is based on hotels in the City. Information is subject to adjustment as hotels submit adjusted data and/or additional hotels begin participating in the STR survey with actual data replacing estimated data. Room count is based on December of each year.

Funds and Flow of Funds

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

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

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

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

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

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

Notwithstanding the foregoing, as often as the City deems necessary, but at least once a month on or before the penultimate Business Day of each month, the City will determine the amounts necessary from the Expansion HOT to satisfy the foregoing transfers, taking into consideration the money accumulated as of such date in the Debt Service Fund and the amount necessary to be transferred to the Debt Service Reserve Fund as required in the Prior Lien Bonds Ordinance. After making the aforementioned determination, in the event the revenues from the Expansion HOT are not sufficient to satisfy the payment obligations set forth in clauses First through Third above, the City will retain in the Expansion HOT Fund any amount necessary (after taking into consideration any lawfully available revenues that may be utilized by the City to pay the debt service requirements on the Hotel Bonds) for the timely payment of the debt service requirements on the Hotel Bonds, and, to the extent funds are available in the Expansion HOT Fund, will first make transfers to the debt service fund and debt service reserve fund as required by the documents authorizing the issuance and securing the repayment of the Hotel Bonds. Any money remaining in the Expansion HOT Fund after such transfers and

the retention for the payment of the Debt Service Requirements on the Prior Lien Bonds and Bonds Similarly Secured not issued in relation to the Hotel may be transferred to the Facilities Fund to be used by the City for any lawful purpose.

Except as provided below, the City has covenanted in the Prior Lien Bonds Ordinance and in the Hotel Bonds Authorizing Documents to not issue additional bonds secured by a lien on the Expansion HOT revenues superior to that which secures the Hotel Bonds. In addition, the City has covenanted in the Hotel Bonds Authorizing Documents to not issue additional bonds secured by a lien on the Expansion HOT revenues on a parity to that which secures the Hotel Bonds without the prior consent of the insurer of those bonds. The effect of the foregoing is that upon retirement of outstanding Prior Lien Bonds, the lien on and pledge of the Expansion HOT revenues securing the Hotel Bonds will be elevated to first priority. Notwithstanding the foregoing, the City may issue bonds for the purpose of refunding outstanding Prior Lien Bonds, which bonds may be secured by a first and prior lien on the Expansion HOT revenues.

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

(i) Money in the Pledged 1.75% Account must be used as follows:

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

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

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

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

(5) Fifth, to transfer any necessary amounts to the Debt Service Fund and the Debt Service Reserve Fund required by an ordinance authorizing the issuance of any Subordinate Lien Obligations, including transfers at the discretion of the City from Excess 7% Local HOT Revenues held in the Pledged 1.75% Account, to transfer to the Convention Center Hotel 7% Local HOT Revenues Account the Hotel Project General HOTs in such amounts as required by the Hotel Bonds Authorizing Documents; provided, however, that any such transfers are expressly limited to General HOT revenues generated at the Hotel Project.

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

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

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

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

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

(5) Fifth, to transfer any necessary amounts to the Debt Service Fund and the Debt Service Reserve Fund required by an ordinance authorizing the issuance of any Subordinate Lien Obligations, including transfers at the discretion of the City from Excess 7% Local HOT Revenues held in the Pledged 5.25% Account, to transfer to the Convention Center Hotel 7% Local HOT Revenues Account the Hotel Project

General HOTs in such amounts as required by the Hotel Bonds Authorizing Documents; provided, however, that any such transfers are expressly limited to General HOT revenues generated at the Hotel Project.

As often as the City deems necessary, but at least once a month on or before the penultimate Business Day of each month the City must determine the amounts necessary from the Pledged Revenues to pay the Prior Lien Bonds and the amounts necessary to pay the Bonds Similarly Secured taking into consideration the money accumulated as of such date in the Debt Service Fund and the amount necessary to be transferred to the Debt Service Reserve Fund as required by the Ordinance. After making the aforementioned determination, the City will transfer the amounts so determined to be necessary to the debt service fund for the Prior Lien Bonds and will retain any amount necessary for the timely payment of the Debt Service Requirements on the Prior Lien Bonds in the Pledged 1.75% Account and the Pledged 5.25% Account, and, to the extent funds are available, will make transfers to the Debt Service Reserve Fund as required by the Prior Lien Bonds Ordinance. Any money remaining in the Pledged 1.75% Account and the Pledged 5.25% Account after such transfers and the retention for Debt Service Requirements on the Prior Lien Bonds may be transferred to the Debt Service Fund and the Debt Service Reserve Fund for the Bonds Similarly Secured to be used in the manner specified in the Ordinance. Any money retained in the Pledged 1.75% Account and the Pledged 5.25% Account for Debt Service Requirements on the Bonds Similarly Secured needed for such purpose on any Transfer Date are to be immediately transferred to the Debt Service Fund on such Transfer Date.

The City has also covenanted in the Economic Development Agreement that it will, on or before the last Business Day of each month, commencing with the month following the date of initial opening of the Hotel, determine the total amount of General HOTs collected at the Hotel during the preceding month and transfer such amount from Excess 7% Local HOT Revenues into the Convention Center Hotel 7% Local HOT Revenues Account. In the event Excess 7% Local HOT Revenues are insufficient to fully satisfy such required transfer to the Convention Center Hotel 7% Local HOT Revenues Account, the amount of such insufficiency will accrue to the following month or months and be paid in the same manner during subsequent months until such amount is fully transferred to the Convention Center Hotel 7% Local HOT Revenues Account.

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

(d) Debt Service Reserve Fund. The Ordinance requires that an amount equal to the Reserve Fund Requirement (defined below) be accumulated and maintained therein in accordance with the Ordinance. The Reserve Fund Requirement is required to be recomputed upon the issuance of each series of Common Reserve Fund Bonds. The City will establish and maintain as hereinafter provided a balance in the Debt Service Reserve Fund equal to the Reserve Fund Requirement for the Common Reserve Fund Bonds. The Reserve Fund Requirement for the Common Reserve Fund Bonds, after taking into account the issuance of the Bonds and the refunding of the Refunded Bonds, equals $17,710,194, which amount is presently on deposit therein.

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

The "Reserve Fund Requirement" means the amount required to be maintained in the Debt Service Reserve Fund. Such amount must be recomputed upon the issuance of each series of Common Reserve Fund Bonds to be the lesser of (i) 10% of the original principal amount of the Common Reserve Fund Bonds or (ii) the maximum annual Debt Service Requirements scheduled to occur in the then-current and each future Fiscal Year for all Common Reserve Fund Bonds then being issued or (iii) 125% of the average Debt Service Requirements scheduled to occur in the then-current and each future Fiscal Year for all Common Reserve Fund Bonds then Outstanding, including any series of additional Common Reserve Fund Bonds then being issued. Any Variable Rate Obligations issued as Common Reserve Fund Bonds will be assumed to

bear interest at a tax-exempt municipal bond index rate available at the time of determining the Reserve Fund Requirement that is selected by the City which is acceptable to the Insurer.

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

The Ordinance also provides for the use of a Debt Service Reserve Fund Surety Bond in lieu of a cash deposit under certain circumstances. Each increase in the Reserve Fund Requirement resulting from the issuance of Common Reserve Fund Bonds will be funded at the time of issuance and delivery of such series of Common Reserve Fund Bonds by depositing to the credit of the Debt Service Reserve Fund either (A) proceeds of such Common Reserve Fund Bonds or other lawfully appropriated funds, including the Facilities Fund, in not less than an amount to fund fully the Reserve Fund Requirement; (B) a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Reserve Fund Requirement; or (C) retaining revenues in the Debt Service Reserve Fund from the Expansion HOT over a period of time not to exceed 12 months from the date of delivery of such Common Reserve Fund Bonds. The City may not employ any Debt Service Reserve Fund Surety Bond unless the rating either for long term unsecured debt of the provider of such Debt Service Reserve Fund Surety Bond or for obligations insured, secured, or guaranteed by, such provider have a rating in the highest letter category by at least two major municipal securities evaluation services.

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

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

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

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

(e) Investment Proceeds. The investment of the funds created or confirmed by the Ordinance will be used as follows:

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

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

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

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

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

BOND INSURANCE

Bond Insurance Policy

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

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

Financial Security Assurance Inc.

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

At June 30, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,514,378,000 and its total net unearned premium reserve was approximately $1,937,740,000 in accordance with statutory accounting principles. At June 30, 2006, Financial Security's consolidated shareholder’s equity was approximately $2,889,984,000 and its total net unearned premium reserve was approximately $1,556,639,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

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

Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

THE CONVENTION CENTER FACILITIES

Existing Facilities

The Henry B. Gonzalez Convention Center is located in the downtown area of San Antonio on the River Walk. There are approximately 10,667 hotel rooms in the downtown area as well as retail shops, restaurants, and historic amenities. The Henry B. Gonzalez Convention Center was originally built as part of the 1968 World's Fair - HemisFair held in San Antonio. The last expansion and improvement of the Henry B. Gonzalez Convention Center was completed in 2001 (other expansions occurred in 1977 and 1987) and this facility contains 440,000 square feet of contiguous exhibit space. The existing Henry B. Gonzalez Convention Center complex consists of three ballrooms with over 90,000 total square feet and meeting space that is divisible 67 ways that totals over 101,000 square feet. The Convention Center also includes the Lila Cockrell Theatre – a 2,521-seat Performing Arts Theatre.

The Convention Center and the Convention and Visitors Bureau are separate departments of the City, each headed by a Director who reports to the Assistant City Manager. The employees of the Henry B. Gonzalez Convention Center and the Convention and Visitors Bureau are City employees.

Amendment to Master Plan and Convention Center Hotel

As an "eligible central municipality" under the HOT Act, the City adopted Ordinance 99285 on June 3, 2004, amending the capital improvement plan for the expansion of its existing Convention Center Facilities to include the Hotel Project, the Alamodome, an office building located within the Convention Center complex, and the Municipal Auditorium. The Alamodome, which opened in May 1993, is a facility used for large assembly groups and special events; this facility adds another 160,000 square feet of exhibit space to the Convention Center complex. The Municipal Auditorium is a 5,000 seat performing arts center and multi-purpose meeting facility. In addition, a portion of the General HOT is intended to be used for maintenance and operation of the Convention Center facilities.

Since adopting Ordinance No. 99285, the City has on June 8, 2005, in furtherance of its revised capital improvement plan for its Convention Center facilities, issued, through the Corporation, the Hotel Bonds to provide funds for constructing the Hotel Project, which bonds are secured by and payable from the sources of revenues described in "PLAN OF FINANCING – Issuance of the Hotel Bonds". Construction of the Hotel has since commenced and is expected to be completed by February 2008.

Upon completion, the Hotel Project will be a premier full-service convention center headquarters hotel consisting of at least 1,000 rooms and located in downtown San Antonio, Texas, bounded by Bowie and East Market Streets and the River Walk. The Hotel Project will be to the north of and immediately adjacent to the City's Convention Center and the River Walk. The interior of the Hotel Project will include approximately 81,268 square feet of meeting space, approximately 32,700 square feet of grand ballroom, and approximately 21,600 square feet of junior ballroom space. The Hotel Project will be operated by Hyatt Corporation, a Delaware corporation, as the Grand Hyatt San Antonio.

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Convention Activity

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 overall City performance, as well as convention activity booked by the San Antonio Convention and Visitors Bureau, for the years indicated.

Convention Statistics **Table 8**

Calendar Year	Hotel Occupancy [1]	Revenue per Available Room (RevPAR)[1,2]	Room Nights Sold [1]	Convention Attendance [2]	Convention Room Nights [2]	Convention Delegate Expenditures ($ Millions) [2,3]
1996	65.1%	$49.95	5,515,798	486,383	725,395	$398.3
1997	63.0%	$50.21	5,642,517	417,492	670,039	$341.9
1998	64.8%	$53.14	6,011,449	445,151	724,882	$401.0
1999	64.3%	$53.18	6,151,548	406,539	678,014	$366.2
2000	64.7%	$55.33	6,550,338	389,448	696,215	$350.8
2001	62.7%	$54.09	6,487,396	419,970	712,189	$378.3
2002	63.9%	$55.41	6,741,457	482,770	703,200	$434.9
2003	63.9%	$53.26	6,906,013	430,983	615,576	$388.3
2004	64.6%	$55.11	7,022,270	491,257	621,592	$510.5
2005	69.1%	$62.30	7,615,082	495,127	730,899	$514.5

[1] According to STR, based on hotels in the City from a custom trend report dated July 27, 2006.

[2] Reflects only those conventions booked by the Convention and Visitors Bureau. From 2002 forward, amounts based on meeting completion reports when available.

[3] For the years of 1996 and 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the International Association of Convention and Visitor Bureaus ("IACVB") which reflected the average expenditure of $818.82 per convention and trade show delegate. Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 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 $1,030.20 per convention and trade show delegate, according to a Veris Consulting, L.L.C. study for the DMAI.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Statistics

The most recent visitor statistics obtained by the Convention and Visitors Bureau showed 19.95 million visitors came to San Antonio in 2004, a 7% increase from 2002. The research, conducted by D.K. Schifflet & Associates, represents 7.91 million visitors were overnight leisure travelers and 2.65 million visitors were overnight business travelers. San Antonio's share of United States Overnight Leisure Travel volume is 0.81% which ranks San Antonio tenth in the top cities for overnight leisure travel in the United States. That is more than the City's competitors in Houston, Phoenix, Dallas, New Orleans, and Austin. San Antonio leads the United States and competing destinations in "satisfaction and value for the money".

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

The City's convention and group business is competitive with other strong destinations and is supported by the efforts of the Convention and Visitors Bureau sales staff who, in 2005, hosted 495,127 delegates utilizing 730,899 hotel rooms nights, which translates into an estimated $514.5 million in direct delegate expenditures.

Hotel Occupancy Taxes Revenues

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

San Antonio's HOT budgeted revenue for fiscal year 2006 is $41.0 million, and has been re-estimated at $44.2 million, which is a 10.2% increase from fiscal year 2005 actual revenues. Nationally recognized events such as the Alamobowl and the convention/group business, are contributing to the City meeting its HOT budgeted revenue projections.

Expenditures from Hotel Occupancy Taxes

By State statute, $0.07 out of the $0.09 HOT that the City collects may be allocated to various operational areas. These areas include a minimum of 50% for tourism, not more than 15% for arts, not more than 15% for history and preservation, and 20% may be used for tourism or project improvements; $0.02 (the Expansion HOT) is dedicated solely to the construction of convention center facility expansion or to the payment of debt service related to such capital improvements.

Terrorist Attacks' Financial Impact on Convention Business

An event similar to the September 11, 2001 terrorist attacks could adversely affect tourism. The collection of HOT is significantly dependent on the level of tourism in the City, and any such event could materially affect the statements in this Official Statement. (See Table 8 for a comparison of the City's convention statistics pre- and post-2001.)

INVESTMENTS

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

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) (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) and require the security 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 of Texas; (8) bankers' acceptances with the remaining term of 270 days or less from the date of issuance, 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 the remaining term of 270 days or less from the date of issuance that is rated at least "A-1" or "P-1" or the equivalent by at least (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (10) no-load money market mutual funds registered with and regulated by the 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; (11) no-load mutual fund registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invest exclusively in obligations described in the preceding clauses and clause (13), and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; (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 its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; and (13) bonds issued, assumed, or guaranteed by the State of Israel. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract subject to the limitations set forth in Chapter 2256, as amended, Texas Government Code.

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

Investment Policies

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

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

Additional Provisions

Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment

activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15 % of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in no-load mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Current Investments

At June 30, 2006, investable City funds, in the approximate amount of $982,825,863, were 91.56% invested in obligations of the United States, or its agencies and instrumentalities, and 7.58% invested in a money market fund, with the weighted average maturity of the portfolio being less than one year. The remaining 0.86% of the City's portfolio includes convention center debt service reserve funds of $8,499,915, which were invested in fully collateralized repurchase agreements that were fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and City's investment policy objectives are to preserve principal, limit risk, maintain diversification and liquidity, and maximize interest earnings.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 99.98% of their book value. No funds of the City are invested in derivative securities; *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

LITIGATION

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, the potential liability is approximated at $9 million as of September 30, 2005, which is included as a component of the reserve for claims liability in the amount of $19.2 million. 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 Footnote 11, entitled "Commitments and Contingencies" in Appendix C attached hereto, entitled "Selected Portions of the City's Comprehensive Annual Financial Report" for the year ended September 30, 2005. In addition, the City provides the following updated information related to the lawsuits not contained in this 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 alleges that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in child's contraction of acute lymphoblastic leukemia. Although the jury at trial entered against a judgment of more than $23 million against the City, the trial court immediately reduced this by $6 million. On appeal, the Fourth Court of Appeals subsequently 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 City has appealed this matter to the Texas Supreme Court and is set for oral argument on October 18, 2006.

Matthew Jackson et al. v. City of San Antonio. This is a Fair Labors Standards Act ("FLSA") lawsuit. It was brought as an opt-in class action, and 335 plaintiffs have opted in to the litigation. In general, they claim they were required to report for duty 15 minutes prior to their shift, that they had to work beyond the end of their shifts, and that they were not compensated for the time at the overtime rate, in violation of the FLSA. They claim that they were (and are) entitled to be paid at 1.5 times their regular hourly rate for off-duty assignments on City property, and they make several lesser allegations based on the FLSA as well. Plaintiffs made, and the City rejected, a settlement demand in excess of $15 million. The City drafted and filed a motion for summary judgment which, if successful, will significantly reduce the City's potential exposure. However, the Court has not yet ruled on the motion, so damages remain unquantifiable. If the Plaintiffs ultimately succeed on a preponderance of their claims, damages will most likely be well in excess of $1 million, plus reasonable and necessary attorney's fees.

El Dorado Amusement Company, Inc. v. City of San Antonio. This case involves a claim that the City's rezoning action essentially was a takings of Plaintiff's property. Plaintiff owned property which was leased out for use as a nightclub. Pursuant to the rezoning, alcohol could no longer be served on the premises. The case was tried to the bench in April 2004 and a verdict was entered against the City in a total amount of approximately $1,000,000. The Fourth Court of Appeals reversed in part and reduced base damages of $242,000. Both parties have now filed petitions for review with the Texas Supreme Court.

Rogers, et al. v. City of San Antonio. This case was filed by San Antonio Fire Fighters who are or were reservist members of the military. Plaintiffs allege they were denied various types of employment rights, benefits and pay because of their military status, in violation of the Uniformed Services Employment Rights Act. The City received adverse findings at the District Court level, but the City appealed to the Fifth Circuit Court of Appeals. The Fifth Circuit Court of Appeals overturned the adverse findings, ruled in favor of the City on the majority of the issues, and remanded the matter back to the District court on the remaining issues. The opinion significantly lowers the potential exposure ($600,000) but it may still exceed $200,000. This case is set for trial October 16, 2006.

University of Kansas v. City of San Antonio. On September 30, 1999, the City's Community Initiatives Department received a grant from the Department of Labor ("DOL") for the purpose of administering a new "Welfare-to-Work" project. On October 14, 1999, Plaintiff entered into a contract whereby Plaintiff would provide expertise with development of the "Advocates Striving to Create Edgewood Neighborhood Development" (ASCEND) Cooperative Program. The City agreed to make payments for an amount not to exceed $715,000. By letter dated July 30, 2001, the City notified the Plaintiff of its election to terminate the contract. Plaintiff sued for the amount of $387,325.50 allegedly due, plus any additional attorney's fees. In 2003, the DOL issued a finding that disallowed all costs sought by University of Kansas, to include the payment of $143,000 already made by the City. The City filed an appeal with respect to the $143,000 and settled the DOL claims for approximately $80,000. The City will seek to recoup those funds from Plaintiff in this litigation. It is expected that the matter will be set for trial in 2007.

Dorothy Burnley v. City of San Antonio. A City employee claimed a disability based on chronic allergies allegedly resulting from "sick building syndrome" and requested accommodation pursuant to the Americans with Disabilities Act. The City was unsuccessful in its motion for summary judgment and the case was tried to the jury. The jury awarded $165,000 in damages and the Court awarded approximately $31,000 in attorney's fees and costs. This matter is currently on appeal with the Fifth Circuit Court of Appeals and we are awaiting the decision.

Dolores Ytuarte v. City of San Antonio. On September 1, 2003, a San Antonio Police Department Officer was pursuing a suspect with the assistance of the helicopter unit. The suspect vehicle lost control, striking parked vehicle that struck another vehicle that hit Plaintiff who was standing near by. Plaintiff, a 53-year-old female, severely injured her left leg. The damages in this case are capped by the Texas Tort Claims Act at $250,000. The Plaintiff made a demand of $250,000.00 during July 2004. The City filed a Plea to the Jurisdiction which was denied. On appeal, the Fourth Court of Appeals upheld that denial. The matter is currently pending before the Texas Supreme Court.

Mark Hartman, Independent Executor of the Estate of Donna O'Bar, deceased and on behalf of her statutory beneficiaries; Mark Hartman, Personal Representative of the Estate of Richard Hartman, deceased, and on behalf of his statutory beneficiaries; Brenda Pivonka, Individually and as Administratrix of the Estate of Jennifer Allensworth, deceased, and Justin Hartman, Individually and as sole heir of the Estate of Mallori Hartman, deceased v. City of San Antonio. In 1998, the Plaintiffs' decedents, four individuals, drove into high water on Highway 87 (also known as Rigsby Avenue) at the Salado Creek bridge in San Antonio. The City contends that the trial court has no jurisdiction. The main issue in this case is the emergency doctrine and its application to this fact situation. The denial of the City's Plea to the Jurisdiction was upheld by the Fourth Court of Appeals and is currently on appeal to the Texas Supreme Court. Oral argument was heard on March 23, 2006 and the City is awaiting a decision.

Alfred Palacio et ux. Anna Palacio a/n/f for Stephen Anthony Barrera v. Martha Jeanette Palacio and Guillermina Rodarte d/b/a Rolando's Super Tacos #1, Maricela R. Bustos, City of San Antonio and Texas Department of Transportation. This case involves a pedestrian/bicyclist collision with a car. The Defendant is an adolescent boy with significant head injuries. There are multiple non-City defendants. The Plaintiffs have done nothing since filing the lawsuit. However, if this case becomes active, exposure could be in excess of $150,000 due to the severity of injuries.

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 Seguido, 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 lawsuits brought by the same developer/landowner under different entities. These lawsuits all raise complex issues of fact and law and collectively, challenge the City's authority to regulate land development, to include but not limited to challenging the City's vested rights determinations for the landowner's projects. There are approximately ten (10) related lawsuits. 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.

Donta Aubrety and Yolanda Williams v. City Of San Antonio and San Antonio Police Department Officers, Emmanuel Keith, Jr., T. Barrows, B. Serna, and Patrick J. Muriel, Individually and in their Official Capacities. This case involves claims of use of excessive force by police officers and paramedics. A 911 emergency call was received for a woman, Plaintiff Williams, lying in the street, apparently unconscious. Paramedics arrived on the scene and began to render aid. Plaintiff Aubrety appeared on the scene and interfered with the paramedics. The paramedics called for police back up. When the police arrived, Plaintiff Aubrety became violent and resisted arrest. The police used escalating levels of force to restrain him. At the same time, Plaintiff Williams became violent with the paramedics and was restrained. Both Williams and Aubrety were arrested and charged with assault on public servants. Williams and Aubrety filed suit in federal court alleging that the paramedics and police officers violated their civil rights by use of excessive force. Plaintiffs have demanded damages in excess of $7 million. This case is currently in discovery.

Lorianne Marie Nash v. City of San Antonio, Officer B. Campbell, Officer T. Burrows, in their individual capacities, unknown City of San Antonio Police Officers, and City of San Antonio. Plaintiff was arrested on a driving while intoxicated ("DWI") charge. Plaintiff worked her hands out of the handcuffs and resisted when the officers attempted to re-cuff her. Plaintiff and the officers ended up on the asphalt during this struggle. Plaintiff alleges that she was being burned by the hot asphalt and that she suffered severe burns to her chest, abdomen and thighs, requiring skin grafts. Plaintiff filed suit pursuant to 42 U.S.C. Section 1983, alleging civil rights violations through use of excessive force. Exposure could be greater than $200,000. This case is currently in discovery.

Borden Park D/B/A Star Storage-Downtown v. City of San Antonio. As a residential benefit of their lease of office space at the Borden Park facility, some of its tenants had the right to use the signs to advertise their on-premise businesses. Plaintiff claims that the City's creation of a special overlay district limiting use of signage on their property is a violation of their First Amendment Rights. This case is a highly disputed case and a complicated trial regarding allegations of violation of Constitutional Rights (land use, vested rights, use of discretion) and numerous other Torts. This case was tried in April 2006 and the jury found in favor of the Plaintiff. The Court has not yet ruled on the damages and attorney's fees portions.

Rios v. City of San Antonio et al. This case involves a claim of use of excessive force. Plaintiff arrived at a police scene and attempted to interfere. After being told to leave, Plaintiff continued to interfere and the officers placed him

under arrest. Plaintiff resisted. Plaintiff alleges that he was hog-tied and suffered a broken arm as a result of the officers' actions. This case has been brought in federal court and is currently set for trial on December 4, 2006.

CKW, Inc., et al. v. City of San Antonio, et al. In this case, multiple Plaintiffs claim damages for alleged inverse condemnation, takings, and "constitutional damages" due to a road-widening project. This case is related to several other cases arising out of the same project. The matter is in discovery. A dispositive motion is being prepared. The claims aggregate well over $100,000. This case is not yet set for trial.

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. Defendants 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. This case is set for trial on February 12, 2007.

Melinda Sanchez Savage, Individually and as Independent Executrix of the Estate of Robert P. Sanchez, deceased, Robert P. Sanchez, Individually; Diana Sanchez Cardenas, individually; Cande Trevino, individually and as Administrator of the Estate of Carmen Sanchez, deceased; and Martha Zoraida Trevino Salazar individually v. City of San Antonio. This case involves a double fatality/drowning case from the July 2002 flood. Extensive discovery is ongoing. This case has been brought under the Tort Claim Act and, based on the fact that there are two claimants, damages are capped at $500,000. This case is set for trial on October 16, 2006.

Carleen Johnson, Individually, and as Next Friend Of Cheyleen Johnson, A Minor Child, Deceased v. City of San Antonio - Emergency Response Services; M. Kelvin Broadnax, and Opal Quick. This case involves the provision of emergency medical services pursuant to a 9-1-1 dispatch call. Plaintiff, in her ninth month of pregnancy, was transported by EMS to the hospital. She claims that during transport, she was not properly strapped in and the unit hit a dip in the road at a high rate of speed. The fetus was stillborn. The City contends that Plaintiffs claims are barred by sovereign immunity; however, if the Court does not dismiss on that basis, due to the sympathetic nature of the case, damages could be up to the cap of $250,000.00. This case is set for trial October 16, 2006.

Martin Marietta Materials Southwest v. City of San Antonio. The City hired Service Station Constructors and Fuel Systems, Inc. for a public works improvement project on Higgins Road. Martin Marietta Materials Southwest furnished materials on the project. Both Service Station Constructors and the surety went bankrupt and Martin Marietta Materials Southwest was still owed $125,500.37. The surety was not on the United States Treasury's approved list and the re-insurance company denied coverage. Third party petition against the re-insurer has been filed. Martin Marietta Materials Southwest filed for summary judgment which was granted for the amount owed plus interest. The City has filed a notice of appeal.

Martin Wright Electric and A.D. Willis v. City of San Antonio, Sandoval Construction, Chris Sandoval and Montbatten Surety, Inc. The City contracted with Sandoval Construction Company for construction work on the Mexican Cultural Institute additions and alterations. Plaintiffs were subcontractors and were not paid by the Sandoval Construction Company. The surety took over and the Plaintiffs failed to timely file their claims and were not paid. Sandoval Construction Company cross-claimed against the City for outstanding contractual payments and a delay claim. This case is set for trial on November 6, 2006.

Honeywell International, Inc. v. The Clark Construction Group, Inc. d/b/a Clark Contractors, Inc., JT Construction Co., Inc. and Clark/JT Construction, a Joint Venture v. City of San Antonio. In May 1997, the City awarded a construction contract to Clark-JT Construction, a joint venture, as the prime contractor to perform labor and material for construction of the Henry B. Gonzalez Convention Center Expansion Project Phase 1B New Construction and Renovation Project. Clark-JT Construction subsequently entered into a subcontract agreement with Honeywell International, Inc. to provide labor, materials, equipment, and services for the Project. The Project was completed in 2001 and in March 2003, Honeywell International, Inc. filed a lawsuit against Clark-JT Construction for work and excess work allegedly performed during the Project. In December 2005, Clark-JT Construction filed this third party complaint in the amount of $8.2 million against the City for claims related to the complaint filed against the joint venture, namely contribution/indemnity, breach of contract, breach of implied warranties, unjust enrichment/quantum meruit. The parties are engaged in discovery and trial is set for May 2007.

San Antonio Building and Constructions Trades Council v. The City of San Antonio. The San Antonio Building and Construction Trades Council and its president Bob Salvatore filed suit April 14, 2005 in District Court in Bexar County, Texas against the City in connection with the construction of the privately owned Hotel Project on City property adjacent to the Henry B. Gonzalez Convention Center. Plaintiffs claim that the Hotel Project constitutes a public work paid for in whole or in part from public funds and therefore requires that construction workers on the Hotel Project be paid prevailing wage rates in accordance with the Texas Government Code. Plaintiffs seek a declaratory judgment that the Hotel Project constitutes the construction of a public work, which if undertaken by the City without requiring the payment of prevailing wages for construction labor, will violate provisions of the Texas Government Code. On June 29, 2005, the District Court denied Plaintiff's motion and entered judgment for the City, concluding that the City is not legally obligated by statute or otherwise, to require payment of a prevailing wage rate to any employee, contractor, or employee of a contractor working on the construction of the Hotel Project. Plaintiffs appealed to the Fourth Court of Appeals and oral arguments were heard on May 10, 2006. An opinion has yet to be issued by the Court. If Plaintiffs are successful in having the Fourth Court of Appeals declare that the Hotel Project is a public work which requires the payment of prevailing wages to construction workers, provisions have been included in the "Project Agreement" with the Hotel Project developer whereby the City will reimburse the developer for such costs up to $7.5 million from designated sources provided the developer is able to supply the required documentation.

Contract Negotiations

Collective Bargaining Agreement negotiations between the City of San Antonio and the San Antonio Police Officers' Association. The San Antonio Police Officers' Association ("SAPOA") and the City of San Antonio City Council approved a collective bargaining agreement ("Agreement") which provides for a term through September 30, 2006, with an evergreen clause through September 30, 2016. The parties opened negotiations on January 13, 2006 and are currently engaged in ongoing negotiations.

Collective Bargaining Agreement negotiations between the City of San Antonio and the International Association of Fire Fighters' Local 624. The International Association of Fire Fighters Local 624 ("Local 624") and the City of San Antonio City Council approved a collective bargaining agreement which provides for a term through September 30, 2005, with an evergreen clause through September 30, 2015. The City and Local 624 opened negotiations during their first meeting on Friday, October 7, 2005.

In December 2005, the Local 624 filed a declaratory judgment action against the City seeking an interpretation of Chapter 174 of the Texas Local Government Code. In particular, Local 624 seeks a declaration from the Court as to who can be a member of the City's bargaining team. Local 624 complained that the City's inclusion of an Assistant Fire Chief on its team creates a conflict for the Union, since it is required under Chapter 174 to represent all fire fighters, other than the Chief of the Department. On June 28, 2006, the parties appeared for a bench trial which resulted in a Judgment ruling in favor of the City, and dismissing Local 624's Petition in its entirety as to every claim for relief and finding that each party would bear its own costs and fees. Specifically the Judgment upholds the plain language of the Local Government Code, Section 174.106 stating that the parties "may designate one or more persons to negotiate or bargain on its behalf." The parties resumed negotiations on July 20, 2006. On July 28, 2006, Local 624 filed a Notice of Appeal to the Fourth Court of Appeals. The parties are scheduled to continue negotiations.

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 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, but the UAAL as of October 1, 2004 was $298.1 million. The Texas Municipal Retirement System's UAAL as of December 31, 2004 was $156.7 million.

City's Other 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. While the provisions of GASB Statement No. 45 do not become applicable to the City until Fiscal Year 2008, the City is actively reviewing 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. 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.

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. Historically, actuarial valuations of this program have been performed to determine the actuarial position of the program. The City engaged an actuarial consultant to conduct a study of the program as of October 1, 2004. This actuarial study indicated that the UAAL was $354.2 million 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, 2005, the plan had net assets available for postemployment health benefits of $147.5 million while benefits payments for FY 2005 were $13.6 million. (See "LITIGATION-Contract Negotiations", which discloses that the City has resumed negotiations with both the police and fire unions.)

Use of Assumptions and Estimates

As set forth herein, as well as in Notes 8 and 9, respectively, of the City's Comprehensive Annual Financial Report for its Fiscal Year ended September 30, 2005 (the "CAFR"; selected provisions of the CAFR 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 postemployment retirement benefits ("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 Bonds.

TAX MATTERS

Tax Exemption

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

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

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

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

Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

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

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

Tax Accounting Treatment of Premium Bonds

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

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This

disclaimer of responsibility for qualification for sale or other disposition of the Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

LEGAL MATTERS

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

Fulbright & Jaworski L.L.P. and Escamilla & Poneck, Inc. respectively, represent certain of the Underwriters from time to time on various legal matters; however, neither party is representing any of the Underwriters in connection with the issuance of the Bonds. Winstead Sechrest & Minick P.C. and Shelton & Valadez P.C. represents the City from

time to time on certain legal matters; however, they are not representing the City in connection with the issuance of the Bonds.

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

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

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's, a Division of The McGraw-Hill Corporation ("S&P"), and FitchRatings ("Fitch") are expected to rate the Bonds "Aaa", "AAA", and "AAA", respectively, based on final delivery of the Policy on the Closing Date. Underlying ratings given to the Bonds are "A2" by Moody's; "A+" by S&P; and "A" by Fitch. An explanation of the significance of such ratings may be obtained from Moody's, S&P, or Fitch. The rating of the Bonds by Moody's, S&P, and Fitch reflects only the views of said companies at the time the ratings are given, and the City makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's, S&P, and Fitch if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

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

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 1 through 8 and in the CAFR. The City will update and provide this information within six months after the end of each fiscal year commencing in 2006. The City will provide the updated information to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and to any State Information Depository ("SID") that is designated by the State of Texas and approved by the staff of the SEC.

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

accounting principles described in the CAFR or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Ordinance make any provision for liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

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

The Municipal Advisory Council of Texas has been designated by the State as a SID and approved by the SEC. The address of the Municipal Advisory Council is 600 West 8th Street, Austin, Texas, 78701, or Post Office Box 2177, Austin, Texas, 78768-2177 and its telephone number is (512) 476-6947. The Municipal Advisory Council of Texas has also received Securities and Exchange Commission approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information relating to the Bonds.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

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

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

Compliance with Prior Undertakings

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

CO-FINANCIAL ADVISORS

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

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

UNDERWRITING

The Underwriters, for which J.P. Morgan Securities, Inc. is serving as representative, have agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price of $71,774,145.40 (which represents the par amount of the Bonds, less a net original issue discount of $384,741.80 and less an Underwriters' discount of $461,112.80), plus accrued interest.

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

CERTIFICATION OF THE OFFICIAL STATEMENT

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

AUTHORIZATION OF THE OFFICIAL STATEMENT

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

* * *

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

/s/ Phil Hardberger
Mayor, City of San Antonio, Texas

ATTEST:

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

SCHEDULE I
TABLE OF REFUNDED BONDS

CITY OF SAN ANTONIO, TEXAS

Description of Issue	Amount to be Refunded	Maturities to be Refunded	Interest Rate	Redemption Date	Redemption Price
Hotel Occupancy Tax Revenue Bonds, Series 1996	$ 6,055,000	8/15/2018[1]	5.750%	11/22/2006	102%
	6,405,000	8/15/2019[1]	5.750	11/22/2006	102
	6,770,000	8/15/2020[2]	5.700	11/22/2006	102
	7,160,000	8/15/2021[2]	5.700	11/22/2006	102
	7,565,000	8/15/2022[2]	5.700	11/22/2006	102
	7,995,000	8/15/2023[2]	5.700	11/22/2006	102
	8,455,000	8/15/2024[2]	5.700	11/22/2006	102
	8,935,000	8/15/2025[2]	5.700	11/22/2006	102
	9,445,000	8/12/2026[2]	5.700	11/22/2006	102
	$68,785,000				

[1] Represents 2019 Term Bond mandatory sinking fund redemption date.
[2] Represents 2026 Term Bond mandatory sinking fund redemption date.

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APPENDIX A

CITY OF SAN ANTONIO – GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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CITY OF SAN ANTONIO
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

Population and Location

The Census 2000, prepared by the U.S. Census Bureau, found a City population of 1,144,646. The City's Department of Planning estimated the City's population at 1,306,900 for the calendar year ending December 31, 2005. 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 estimated Bexar County's population at 1,584,800 for the calendar year ending December 31, 2005. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo, respectively.

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

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 United States 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 8-county area.)

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

Area and Topography

The area of the City has increased through numerous annexations, and now contains approximately 521 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 451 square miles (full purpose annexations only) or 521 square miles (both full purpose and limited purpose annexations), and having a fiscal year 2007 total taxable value of $56.777 billion. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as well as an opportunity to enhance the City's fiscal position. Planned annexations by the City are currently under consideration.

At its November 20, 2002 meeting, the City Council annexed, effective December 31, 2002, five areas for inclusion within the City for full purposes, adding 19 square miles of land to the City's total area. At that same meeting, the City Council also annexed, effective January 5, 2003 six areas for limited purposes. Effective August 1, 2004, City Council annexed an additional area for limited purposes south of the Medina River. In addition, effective June 20, 2005, City Council annexed the 4,345-acre Timberwood Park area for limited purposes. The areas annexed for limited purposes account for a total of 70 square miles of land within the City's corporate limits. Limited purpose annexation areas, although included in the total calculation of the City corporate limits, are excluded in the calculation of property values. (See "Limited Purpose Annexation" below).

Effective December 2005, City Council annexed the following areas for full purpose annexation: QVC San Antonio, ten acres; Hunter's Pond, 98 acres; Helotes Park Terrace Park at French Creek, 146 acres; and Kyle Seale/Loop 1604, 1,312 acres. These annexations added 1,576 acres or 2.45 square miles to the City.

Limited Purpose Annexation

The City annexed for limited purposes, effective January 5, 2003, six areas south of San Antonio. An additional area south of the Medina River was annexed August 1, 2004 and the Timberwood Park area, immediately east of Camp Bullis, was annexed effective June 20, 2005. Limited purpose annexation allows the City to extend regulatory authority for the limited purposes of applying its planning, zoning, health, and safety ordinances to specified areas. The City may not impose a property tax in such areas until the property is annexed for full purposes, which generally occurs within three years after limited purpose annexation.

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

Annexation Plan

In 1999, the Texas Legislature passed Chapter 1167, Acts of the 76th Legislature, Regular Session, 1999 (the "Annexation Act"), changing the manner in which Texas municipalities can annex land. Under the Annexation Act (such requirement now codified at Section 43.052, Texas Local Government Code), municipalities must prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted.

The City Council, at its September 19, 2002 meeting, adopted a three-year annexation plan for the City. At its December 12, 2002 meeting, City Council amended the plan identifying 13 areas for full purpose annexation, as required by Section 43.052 of the Texas Local Government Code, two of these areas were annexed effective December 31, 2005, (along with two other voluntary annexations in December 2005) and two south side limited purpose annexation areas were annexed for full purposes on January 5, 2006. City Council approved an additional amendment to its annexation plan on July 22, 2004, to include the limited purpose annexation south of the Medina River, which is scheduled for full purpose annexation on July 31, 2007.

Form of Government and Administration

The City is a home rule municipality that operates pursuant to the Charter of the City of San Antonio City Charter (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. Pursuant to its provisions and subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets, and determines policies. The City Council is comprised of eleven (11) members, with ten (10) members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two (2) year terms, and each member is limited to a

maximum of two (2) full terms. The office of the Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2007 or as soon thereafter as a successor is appointed and qualified.

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

Since its adoption, the City Charter has been amended on five (5) separate occasions, November 1974, January 1977, May 1991, May 1997, and November 2001. Significant amendments to the City Charter include the amendment passed in May 1991, which limited the service by the Mayor and members of the City Council members to two full terms, each of which is two years in duration. Two (2) separate City Charter review committees sitting in the early and mid-1990's and charged with conducting a comprehensive review of the City Charter resulted in the passage of five propositions, each containing numerous amendments to the City Charter in May 1997. The most recent amendments to the City Charter occurred in 2001 and included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's confirmation and advice, respectively.

Services

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

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

Electric and gas services to the San Antonio area are provided by City Public Service ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 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, 2005 were $213,384,307.

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System ("SAWS"), another City-owned and operated utility. In addition to these services, SAWS contracted with the City to provide certain storm water services thereto and it manages and develops water resources in and around the San Antonio region. SAWS is in its 14th year as a separate, consolidated entity that addresses the City's water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City's fiscal year ended September 30, 2005 were $8,390,366.

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, agribusiness, manufacturing, financial services, telecommunications, telemarketing, insurance, and oil and gas refining. Support for these economic activities is demonstrated by the City's commitment to its on-going infrastructure improvements and development and its dedicated work force. Total employment in the

San Antonio MSA for June 2006 was 876,147, which is 16,574 or 1.93% more jobs than that of June 2005 total of 859,573. Services, trade, and government 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 wage of $52,612, considerably higher than the average wage of $33,911. 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 several other insurance headquarters such as Argonaut Group, Catholic Life, 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 World Savings, Chase, and Citicorp. Each of these companies has experienced substantial growth since arriving in San Antonio, and they continue to grow today. In addition to this growth, Washington Mutual has just opened a regional operations center that will result in the creation of 2,000 to 5,000 jobs over the next several years.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains 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's Antonio's Healthcare and Bioscience Industry Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the total economic impact from this industry sector totaled approximately $13.7 billion in 2004. The industry provided more than 109,000 jobs, or approximately 14.6 percent of the City's total employment. The healthcare and bioscience industry's annual payroll in 2004 approached $4.2 billion. The 2004 average annual wage of San Antonio workers was $33,911, compared to $38,531 for healthcare and bioscience employees. These 2004 economic impact figures represent growth of 4 percent over the previous year, or approximately $800 thousand.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has ten major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over $2.5 billion as of January 2005. Approximately 26,757 Medical Center employees provided care for over 3.92 million outpatients and over 102,000 inpatients. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represents approximately $1.854 billion, which is a $120 million increase in 2004 over the previous year. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects already in progress total $65 million. Capital projects planned for the years 2006 through 2010 will add an additional estimated $152 million to present physical plant and equipment values.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the "UT Health Science Center") with its five professional schools awarding more than 50 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UT Health Science Center oversees the new, federally-funded Regional Academic Health Center in the

Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. An extension campus is under construction in Laredo, Texas.

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

Military Health Care. San Antonio has three major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center ("BAMC") conducts treatment and research in a new, 1.5 million square foot facility at Fort Sam Houston United States Army Base, providing health care to nearly 600,000 military personnel and their families. BAMC is a level-one trauma center (the only one in the United States 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 United States Air Force. In addition to providing health care to military personnel and their families, Wilford Hall is also a level-one trauma center (the only one in the United States Air Force medical care system) that handles emergency medical care for approximately one-fourth of the City's emergency patients. Wilford Hall provides medical education for the majority of its physician and dental specialists and other health professionals, conducts clinical investigations, and offers bone marrow and organ transplantation.

Audie L. Murphy Memorial Veterans Hospital, located in the Medical Center, is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, the Audie L. Murphy Research Services (which is dedicated to medical investigations), and the new Frank Tejeda 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 $100 million invested in its facilities and equipment and generates more than $200 million in economic activity for the City each year. The Park is owned and operated by the Texas Research 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 Southwest Foundation for Biomedical Research, which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the United States, and is internationally renowned. The Southwest Foundation for Biomedical Research has a full time staff of 72 doctoral level employees, a technical staff of 115, and an administrative and supporting staff of 201 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities. The Foundation is also home to one of the few Biosafety Level 4 labs in the country, and its Genomics Computing is the world's largest computer cluster devoted to statistical genetic analysis.

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

The UT Health Science Center, along with the CTRC, forms the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

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

A number of highly successful private corporations, such as Mission Pharmacal, DPT Laboratories, Ltd., and 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 Federal Drug Administration.

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 found that in 2004 the hospitality industry had an economic impact of nearly $8.7 billion. The estimated annual payroll for the industry in 2004 was $1.58 billion, and the industry employed over 94,000. The updated economic impact study is tentatively scheduled in 2008.

In 2005, the City's overall performance for hotel occupancy increased by 7.1%, revenue per available room ("RevPAR") increased by 13.0%, and total room nights sold in the destination increased by 8.4%.

Tourism. During 2004, San Antonio attracted over 21.3 million visitors with direct spending across all industries of $4.3 billion and ranked tenth among U.S. destinations for overnight leisure travel, according to the National Performance Monitor survey conducted by D.K. Shifflet & Associates. This information is updated on a biennial basis with the next release scheduled for August 2007. 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:

Fiscal Year Ended 9/30	Hotel Occupancy [1]	Hotel RevPAR [1]	Room Nights Sold[1]	Convention Attendance[2]	Convention Room Nights [2]	Convention Delegate Expenditures ($ Millions) [2, 3]
1996	65.1%	$49.95	5,515,798	486,383	725,395	$398.3
1997	63.0%	$50.21	5,642,517	417,492	670,039	$341.9
1998	64.8%	$53.14	6,011,449	445,151	724,882	$401.0
1999	64.3%	$53.18	6,151,548	406,539	678,014	$366.2
2000	64.7%	$55.33	6,550,338	389,448	696,215	$350.8
2001	62.7%	$54.09	6,487,396	419,970	712,189	$378.3
2002	63.9%	$55.41	6,741,457	482,770	703,200	$434.9
2003	63.9%	$53.26	6,906,013	430,983	615,576	$388.3
2004	64.6%	$55.11	7,022,270	491,257	621,592	$510.5
2005	69.1%	$62.30	7,615,082	495,127	730,899	$514.5

[1] Data obtained from Smith Travel Research based on hotels in San Antonio as of July 27, 2006.

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

[3] For the years of 1996 and 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the International Association of Convention and Visitor Bureaus ("IACVB") which reflected the average expenditure of $818.82 per convention and trade show delegate. Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 IACVB Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP, which reflected the average expenditure of $900.89 per convention and trade show delegate. Calendar year 2004 is based on an average expenditure of $1,030.20 per convention and trade show delegate, according to a Veris Consulting, LLC study for the IACVB.

Military 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 United States Air Force (the "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 KellyUSA, which is the former Kelly Air Force Base that was closed in 2001.

KellyUSA. On July 13, 2001, Kelly Air Force Base ("Kelly AFB") officially closed and the land and facilities were transferred to the Greater Kelly Development Authority ("GKDA"), a City Council-created organization responsible for overseeing the redevelopment of the base into a business and industrial park. The new business park, known as KellyUSA, is focused on becoming the Port of San Antonio by: (1) establishing international air cargo operations; (2) developing a rail port for direct international rail operations including inland port distribution with the Port of Corpus Christi; (3) expanding aviation maintenance, repair, and overhaul ("MRO") operations into a renowned international center of excellence for MRO.

As of December 2005, there were over 63 tenants employing over 12,469 people with an average salary of over $38,000 and a total economic impact of $2.76 billion per year. Major commercial employers at KellyUSA include Boeing, Lockheed Martin, General Electric, General Dynamics, Standard Aero, Pratt & Whitney, Chromalloy, Gore Design Completions, and EG&G.

With 95% of the marketable 8.2 million square feet leased, GKDA is now focused on development of new Class A facilities leveraging public and private investment to create more jobs for San Antonio. In 2005, a total of 514,400 square feet of new hangar, distribution, and flex/office facilities were constructed at KellyUSA. GDKA's

development plan forecasts $336 million of new construction for buildings and infrastructure over the next 5 years. KellyUSA's economic impact to San Antonio is projected to increase to over $4.6 billion per year upon full build-out.

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 2005 Base Realignment and Closure (see "BRAC" herein) recommendations. The City is several years ahead in redevelopment over the other military installations across the United States facing the same relocations and closures from the BRAC. Despite the BRAC decision, Brooks City-Base is continuing its goal of sustainability by creating a Tax Increment Reinvestment Zone that encompasses the area inside and outside the Brooks City-Base as another tool to assist in its development. As a timeline is determined for the departure of Air Force missions, the BDA will have a better idea how best to redevelop the approximately 2 million square feet of current total space including lab, office and light industrial space.

Currently, there are over $170 million worth of projects planned for or are already underway. Some of these project highlights include:

In 2005, the BDA and a local pharmaceutical company, Dermatological Products of Texas ("DPT") Laboratories, approved an eighteen-year build-to-suit lease agreement for a combination research and development warehouse and production facility of nearly a quarter-million square feet at Brook-City Base. The project involves a capital investment of $24 million and construction is underway on the two new major buildings located at Brooks City-Base.

Vanguard Health Systems, Inc. and its affiliate Baptist Health System ("BHS") announced in 2005 that BHS has signed a letter of intent to acquire land 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. Groundbreaking is expected to occur in mid 2006 with a grand opening slated for late 2007 or early 2008. 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") is to be constructed at Brooks City-Base. The EOC, which will be financed through City and Bexar County proposed bond funds, will be the anchor of the planned Emergency Preparedness Institute, and will be a campus of City, County, Regional, State and Federal departments and/or personnel. The EOC is anticipated to be operational by December 2007.

The San Antonio Metropolitan Health District ("SAMHD") has completed renovation of a Brooks City-Base facility to establish a Biosafety Level 3 ("BSL3") Laboratory. SAMHD plans to institute additional public health capabilities at Brooks City-Base and is investigating plans to move the majority of its downtown resources to the BSL3 Laboratory at Brooks City-Base.

The Texas State Board of Education approved the charter school application filed by Somerset Academy in collaboration with the Brooks City-Base Foundation and the BDA, allowing for the development of a charter school at Brooks City-Base. Construction will be underway soon with classes set to start in September 2006. The school's curriculum will focus on science and engineering, 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.

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 United States Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center 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 United States 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.

Base Realignment and Closure ("BRAC"). On November 8, 2005, the recommendations of the BRAC Commission became law. As a result of BRAC, the San Antonio area will benefit from a net gain of about 3,600 jobs over the next three to five years. In addition, transformation is ongoing throughout the military services resulting in the reorganization of many military missions and units. For example, at Fort Sam, the Army transformation actions are expected to create an additional 4,000 jobs over the next few years in addition to the growth from BRAC discussed below. Furthermore, the Texas Cryptologic Center has announced an expansion of its activities in San Antonio and will be adding about 1,500 jobs over the next two years.

Key elements of BRAC include the creation of a the United States Department of Defense ("DoD") Regional Medical Center at the new BAMC and the establishment of Fort Sam Houston as the home for all DoD enlisted medical training. BAMC will be one of only two such DoD Regional Medical Centers in the country and will merge with the Wilford Hall at Lackland AFB. While the Wilford Hall facility at Lackland will close, the DoD intends to build a new 450,000 square foot medical care clinic at Lackland. In addition, a number of Army Agency Headquarters will also be relocating to Fort Sam from other bases around the country. As these changes occur over the next three to six years, Fort Sam Houston will grow by over 13,000 jobs to about 40,000. Based on the planned changes at Fort Sam and Lackland AFB, the community is also expecting to benefit from over $2 billion in new construction and renovation of facilities at both bases. Finally, the recommended BRAC enhancements to military medical care training and capacity will also greatly strengthen and grow the currently existing partnerships between the military and community institutions. These will facilitate continued growth in the community's number one targeted industry of bioscience and healthcare.

Defense Transformation Institute ("DTI"). DTI is a non-profit entity established by the Texas Research and Technology Foundation in partnership with the City. DTI's mission is to leverage the assets at active duty military installations to create value for the military and the community. These military assets can include land, facilities, education, technology, research, and training. DTI is also prepared to act as the community's lead agency for partnering with the military to help plan, coordinate, implement, and accelerate the results of BRAC 2005 to the benefit of the military and the community. DTI is also partnering with the State to conduct workshops on how communities can effectively partner with their military counterparts to achieve mutual benefit.

Other Major Industries

Aerospace. The aerospace industry's annual economic impact to the City is about $3.3 billion. This industry provides some 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, KellyUSA, Randolph AFB and Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta and Continental, FedEx, UPS, and others. The industry in San Antonio is much diversified with continued growth in air passenger service, air cargo, MRO, and general aviation.

Aerospace Research and Development. In May 2005, the National Sustainment Technology Center (NSTC) opened in San Antonio to research and develop solutions to address the challenges and requirements faced

by the DoD in the maintenance of aging weapon systems. The NSTC falls under the Defense Sustainment Consortium ("DSC") which is a collaboration of DoD and industry stakeholders involved in the acquisition and support for DoD weapon systems. The NSTC will conduct funded pilot projects involving DSC members, academia, and government partners to produce innovative solutions for unique problems associated with aging weapon systems. The NSTC will also promote technology transfer from small business to DoD customers and defense contractors. By having the NSTC in San Antonio, local businesses, educational institutions, and other public/private entities can collaborate to compete for these research and development opportunities.

San Antonio Technology Accelerator Initiative. San Antonio Technology Accelerator Initiative ("SATAI") is a targeted economic development initiative focused on developing an advanced technology economy in the San Antonio region. SATAI's mission is to accelerate the regional technological economy through providing hands-on development of advanced technology start-up companies and assisting established companies in accessing technology-based solutions through Enterprise Services. SATAI recently become the home of the South Texas Regional Commercialization and Innovation Center ("STRCIC"). The STRCIC was established in response to the creation of the Emerging Technology Fund by the State of Texas. Its purpose is to review funding requests submitted by technology startup companies who are seeking funding from the Emerging Technology Fund.

In this past legislative session, the State of Texas (the "State") created the $200 million Emerging Technology Fund ("ETF"). The ETF is to be used to help foster the development of the technology industries in San Antonio by providing another source of financial capital to entrepreneurs, providing matching grants for research, and allocating funds to be used to acquire research superiority at colleges and universities throughout the state. In order to participate in the ETF, the Bexar County region is establishing a Regional Center of Innovation and Commercialization ("RCIC"), as required by law. The RCIC will review potential commercialization opportunities presented by local entrepreneurs and make recommendations for possible funding to the Texas Emerging Technology Committee. The State has recognized the SATAI to serve as the RCIC for the San Antonio region. In the first two rounds in which money was granted, three San Antonio companies received a total of $2.8 million and UTSA received $3.5 million to help attract world-class information security professors and researchers.

In May 2005, the community also formed the Defense Technology Cluster (the "Cluster") in partnership with the SATAI. The Cluster is a collaboration of local companies currently doing business with the Department of Defense and/or the Department of Homeland Security. Through this collaboration, the Cluster expects to attract more defense technology work to San Antonio, create an awareness of the technical capabilities of local firms, and promote the growth and expansion of defense technology companies in the community. The Cluster seeks to become the recognized source for information and resources on the talent and capabilities of firms in the San Antonio region available to support defense technology requirements.

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

Telecommunications Industry. San Antonio became the headquarters for AT&T, Inc. ("AT&T") after SBC Communications, Inc. ("SBC") acquired the New Jersey-based company for $16 billion and took its name in 2005. The recently completed merger created one of the largest telecommunications and networking companies in the world and the largest national phone service provider. According to a published report, this will result in more than 100 AT&T employees relocating to San Antonio, including senior executives. The newly merged AT&T has approximately 189,950 employees worldwide as of December 2005.

Information Technology. The Information Technology ("IT") industry is one of the fastest- growing sectors of the local economy. A study conducted in 2001, cites that the IT industry in San Antonio registered an overall economic impact of approximately $3.4 billion which represents about seven percent of the San Antonio economy. The annual payroll among the IT industry's estimated 11,500 employees totals approximately $500

million. The IT industry is particularly strong in the areas of information security and government contracting. The Center for Infrastructure Assurance and Security at the University of Texas at San Antonio is one of the leading research and education institutions in the area of information security in the country. In 2005, the United States National Security Agency (the "NSA") re-designated the University of Texas at San Antonio a National Center of Excellence in Information Assurance for three academic years. San Antonio is also home to the Air Intelligence Agency, which is the premier IT agency for the Air Force and the DoD. Adding to the growth of this industry, the Texas Cryptologic Center recently announced they are investing $300 million in a new facility and adding at least 1,500 new jobs over the next few years in San Antonio.

Manufacturing Industry. The manufacturing industry of the City's economy has seen significant growth over the past two years, in large part due to the construction of the new Toyota Motor Manufacturing ("Toyota") facility and the development of the Toyota Supplier Park at its manufacturing site. Toyota will invest over $850 million in this manufacturing facility, located on 2,000 acres in south San Antonio, and at full production, the facility will produce 200,000 full-size Tundra trucks. At full operations, the payroll for the 2,000 workers at the facility will total between $90 and $100 million. The Toyota Supplier Park has attracted 21 Tier-One supplier companies resulting in an additional capital investment of over $300 million and 2,100 additional automotive manufacturing jobs.

In order to support the growth of the manufacturing sector, the Manufacturing Technology Academy was created in 2004. At this Academy, high school students learn many skills applicable to a variety of manufacturers, including manual and automated welding, machining, safety techniques, and total quality management.

Creative Industry. The creative industry in San Antonio registers a $1.2 billion economic impact, employs 11,888 people, and pays annual wages of $319 million. This industry consists of the following sectors, with economic impact in parentheses: performing arts ($475.3 million), design, and advertising ($401.1 million), museums and collections ($233.7 million), visual arts and photography ($84.0 million), and fine arts schools ($22.1 million). If the printing, publishing, and broadcasting sectors were included, the economic impact would be $3.5 billion. 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.

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.

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Growth Indices

San Antonio Electric and Gas Customers

For the Month of December	Electric Customers	Gas Customers
1996	528,302	299,140
1997	538,729	301,044
1998	548,468	301,842
1999	560,628	302,991
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503
2003	602,185	306,591
2004	617,261	308,681
2005	638,344	310,699

Source: CPS.

San Antonio Water System Average Customers per Fiscal Year

Fiscal Year Ended May 31 [1, 2]	Water Customers [3]
1996	269,405
1997	273,276
1998	270,897
1999	279,210
2000	285,887
2001	292,136
2002	298,215
2003	303,917
2004	311,554
2005	323,149

[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
1996	4,306	$ 261,540,367	171	$ 64,282,630	9,055	$ 578,225,607
1997	4,240	257,052,585	155	42,859,473	8,170	717,988,779
1998	5,630	363,747,169	85	23,194,475	8,193	892,766,648
1999	5,771	398,432,375	404	157,702,704	9,870	911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271
2003	6,771	521,090,684	141	2,738,551	13,813	1,041,363,980
2004	7,434	825,787,434	206	7,044,283	14,695	1,389,950,935
2005	8,207	943,804,795	347	5,221,672	20,126	1,772,959,286

[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				
	2005	2004	2003	2002	2001
Amarillo	$ 50,524,792	$ 48,155,445	$ 44,581,868	$ 44,201,183	$ 43,357,043
Arlington	61,983,154	49,344,578	46,483,314	42,493,256	65,948,096
Austin	118,853,520	112,515,478	105,044,871	110,208,923	117,393,240
Dallas	199,585,955	192,972,586	184,263,151	192,542,321	210,130,838
El Paso	54,217,823	51,461,838	48,949,656	47,465,776	46,876,210
Fort Worth	83,754,760	76,202,528	72,772,964	72,632,487	72,975,421
Houston	380,871,932	355,616,488	325,284,697	334,122,179	337,540,694
Irving	41,573,304	37,719,779	36,584,559	38,810,594	43,188,105
Plano	53,036,662	49,453,998	46,876,867	45,309,249	47,327,003
SAN ANTONIO	161,951,337	157,284,972	152,360,840	153,207,656	151,422,401

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 281,371 encompassing in the aggregate 41 high schools, 70 middle/junior high schools, and 247 elementary schools as of October 2005. There are an additional 25 charter school districts with 53 open enrollment charter schools at all grade levels. In addition, Bexar County has 94 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, and a law school, and four public community colleges, had combined enrollments of 96,943 for fall 2005.

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 June 2006, as compared to the prior periods of May 2006 and June 2005.

Employment by Industry

San Antonio MSA[1]	June 2006	May 2006	June 2005
Natural Resources, Mining and Construction	50,500	49,900	48,800
Manufacturing	47,000	46,800	45,900
Trade, Transportation, and Utilities	139,100	138,600	139,100
Information	20,200	20,000	20,800
Financial Activities	63,400	62,900	62,400
Professional and Business Services	101,500	100,700	97,800
Educational and Health Services	108,400	109,400	104,500
Leisure and Hospitality	97,000	94,700	95,100
Other Services	28,300	27,800	27,500
Government	144,000	147,300	143,000
Total Nonagricultural	799,400	798,100	784,900

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio MSA, Texas, and the United States for the period of June 2006, as compared to the prior periods of May 2006 and June 2005.

Unemployment Information *(all estimates are in thousands)*

San Antonio MSA [1]	June 2006	May 2006	June 2005
Civilian Labor Force	925.1	910.5	906.7
Number of Employed	876.1	868.9	859.6
Number of Unemployed	49.0	41.6	47.1
Unemployment Rate %	5.3	4.6	5.2

Texas (Actual) [1]	June 2006	May 2006	June 2005
Civilian Labor Force	11,542.2	11,382.1	11,382.1
Number of Employed	10,905.9	10,820.3	10,820.3
Number of Unemployed	636.3	561.8	561.8
Unemployment Rate %	5.5	4.9	4.9

United States (Actual) [2]	June 2006	May 2006	June 2005
Civilian Labor Force	152,557.0	150,696.0	148,878.0
Number of Employed	145,216.0	144,041.0	141,591.0
Number of Unemployed	7.341.0	6,655.0	7,287.0
Unemployment Rate %	4.8	4.4	4.9

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

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

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	World Savings	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
Foley's Department Stores	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.*

San Antonio Electric and Gas Systems

History and Management

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

Vacancies in membership on the CPS Board are filled by majority vote of the remaining members. New CPS Board appointees must be approved by a majority vote of the City Council. A vacancy, in certain cases, may be filled by the City Council. The members of the CPS Board are eligible for re-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.

Service Area

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

CPS is currently the exclusive provider of electric service within the service area, including the provision of electric service to some Federal military installations located within the service area that own their own distribution facilities. As discussed below under "Electric Utility Restructuring in Texas; Senate Bill 7", until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition (called "Texas Electric Choice" by the PUCT), CPS has the sole right to serve as the retail electric energy provider in its service area. On April 26, 2001, 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 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. (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 wholesale supply agreements have remaining terms ranging from one to twelve years until expiration, although some of the agreements provide for automatic extension or conditional early termination. 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. 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 has 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. The majority of these agreements expire in 2010; the others expire in December 2006, 2011, 2017, 2028, and 2029.

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 the 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.

Rate changes over the past 16 years have consisted of a 4.0% combined electric and gas base rate increase effective January 31, 1991; a Large Volume Gas rate effective July 31, 1992, which was offered to Large Gas Customers whose monthly gas usage exceeded 550 MCF per month and enabled them to reduce bills by approximately 8.8%; a Super Large Power ("SLP") electric rate effective January 4, 1994, which reduced the basic rates to customers having loads greater than 5,000 KW per month and annual load factors greater than 41% by approximately 10.1%; and a 3.5% electric base rate adjustment approved by City Council on September 30, 2004. The latter adjustment became effective on May 19, 2005, and a 12.15 gas base rate adjustment effective June 26, 2006. 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, to become 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 prevents recovery of increased line extension charges from developers of affordable housing and the City delayed implementation of certain miscellaneous charges until April 1, 2006 (fees for disconnection, reconnection, and field notification).

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. In general, the postage stamp method results in transmission payments to other

transmission owners by a compact urban utility like CPS that exceed its receipts from other utilities for use of its own transmission facilities. CPS' wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule, 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.

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 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 participate in retail electric competition. Provisions of SB 7 that apply to the CPS electric system, as well as provisions that apply only to IOUs and Electric Co-ops are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which 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 a non-discriminatory basis. 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.

SB 7 also provides a number of consumer protection provisions. Each service area within Texas that participates in retail competition has a designated "Provider of Last Resort"; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. The Provider of Last Resort is an REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each Municipal Utility and Electric Co-op that opts-in to retail competition may designate itself or another qualified entity as the Provider of Last Resort for its service territory. In such cases, the respective Municipal Utility or Electric Co-op, not the PUCT will set the electric rates for such respective Provider of Last Resort.

Beginning September 1, 1999, each IOU was required to freeze its then existing rates (except for a fuel factor pass through) and was required to continue to serve its retail customers at such rates until 2002. Beginning January 1, 2002, the unbundled REP of the IOU that held the certificate to provide retail service to an area ("Affiliated REP") was required to reduce electric rates by 6% below the frozen rates and offer that reduced rate ("price to beat") to all residential and small commercial retail customers in the area formerly served by the IOU. The Affiliated REP was not allowed to sell electricity to residential or small commercial customers at any other rate until the earlier of either 40% of the residential or small commercial customers in the area had chosen to be served by other REPs or until January 1, 2005. SB 7 does allow Affiliated REPs to compete for industrial customers and for certain aggregated commercial loads owned by a common entity. The price to beat provisions of SB 7 currently has no direct impact on CPS.

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

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

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.

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

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 Senate Bill 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. ERCOT has begun its process of design specification and implementation, which will be followed by design specification and implementation by market participants, including CPS. These activities will continue through early 2008, followed by integration testing and trials leading to the January 1, 2009 implementation date.

Environmental Restrictions of Senate Bill 7. SB 7 contains specified emissions reduction requirements for certain older electric generating units, which would otherwise be exempt from the Texas Commission on Environmental Quality ("TCEQ") permitting program by virtue of "grandfathered" status. Under SB 7, annual emissions of nitrogen oxides ("NOx") 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 NOx cap for the applicable units for the past three compliance years. CPS has final State permits from the TCEQ, for its five

CPS generating stations, comprising 12 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, including CPS' coal plants. These regulations required a 50% reduction in NOx emissions beginning May 1, 2005 system-wide on an annual basis. CPS' power plants are subject to the Chapter 117 cap for the compliance period of May 1, 2005 to April 2006. In addition, as a result of J.K. Spruce Plant Unit 2 ("JKS 2") air permitting process, CPS has committed to tighter NOx 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 has imposed even more NOx restrictions on CPS power plants. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission limits have been finalized by the Environmental Protection Agency ("EPA"), 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.

Response to Competition

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to make CPS more efficient and competitive, while delivering value to customers and the City. On August 22, 2005, the CPS Board approved a new strategic plan, developed by a cross functional team. The plan builds 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 plan focuses efforts on five areas – growth, organization development, business information, process improvement, and transition to competition. Each strategy has an executive leading the implementation.

Mission statements, strategic objectives, strategies and metrics and targets are an integral part of each business plan. Major initiatives and key action plans necessary to accomplish the objectives and meet or exceed the targets are also included in each plan. Status reports are provided to the Board and senior management on a regular basis. A new position, Strategic Planning Manager, has been created to lead the ongoing implementation and oversight of the strategic plan.

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. It is anticipated, however, that the variable rate exposure of CPS will not exceed 25% of total outstanding debt. The program also focuses on the use of unencumbered cash and available cash flow to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to lower interest costs, fund strategic initiatives, and increase net cash flow.

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 ("AEP TCC"), as of May 19, 2005, CPS has a 40.0% interest in STP's two nuclear generating units. When both units of STP operate as planned, they supply approximately one-third of CPS' annual electric load. The nuclear units supplied 33.9% of the electric system load during fiscal year 2005-2006.

On September 30, 2004, CPS received approval for a change in the amount it charges for retail and certain wholesale rates, which went into effect on May 19, 2005. This $41 million base rate adjustment was designed to support the issuance of the 2004 Junior Lien Obligations and CPS' increased share of operation and maintenance expenses at STP. (See "Retail Service Rates").

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

Participants	Ownership %	Ownership MW
NRG Energy	44.0	1,127.5
City Public Service	40.0	1,025.0
City of Austin - Austin Energy	16.0	410.0
	100.0	2,562.5

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. No firm decision has been made with respect to license extension; however, under NRC regulations, the STP owners may not make a license extension request until the plant licenses are within 20 years of the license expiration date.

During the twelve-months ended January 31, 2006, the STP Units 1 and 2 operated at approximately 90.1% and 90.6% of net capacities, respectively. Unit 1 completed a normal refueling outage in spring 2005. Unit 2 completed a normal refueling outage in fall of 2005.

Qualified Scheduling Entity. CPS and Texas Genco operated under the Joint Operating Agreement from July 1, 1996 until the termination of that agreement on January 25, 2006. The agreement provided that the two entities jointly dispatch their generating plants (other than STP) in order to take advantage of the most efficient plants and favorable fuel prices to serve the combined loads of both entities. Texas Genco acted as the Qualified Scheduling Entity ("QSE") for scheduling both its and CPS' generation schedules with ERCOT. CPS and Texas Genco shared equally the benefits achieved through joint dispatch of their combined portfolio of power plants.

Due to changes in market conditions and the ERCOT market structure, Texas Genco terminated the agreement. CPS and Texas Genco completed an amicable and planned separation. CPS is now operating as an independent Level 4 QSE representing all of CPS' assets and load.

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

Distribution System. The distribution system is supplied by 72 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 approximately 321 miles of three-phase distribution lines, 83 miles of three-phase Downtown Network distribution lines, and 3,738 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground distribution systems. At January 31, 2006, the number of street lights in service was 71,134. The vast majority of the lights are high-pressure, sodium vapor units.

Gas System

Supply Pressure System. The supply pressure system consists of a network of approximately 200 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 psig and 274 psig, and supplies gas to 269 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 4,400 miles of 2 to 16-inch steel mains and 1-1/4 to 6-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure. Critical areas of the distribution system are remotely monitored by SCADA.

Implementation of New Accounting Policies

For the fiscal year ended January 31, 2005, CPS adopted the provisions of the GASB Statement No. 40, Deposit and Investment Risk Disclosures. On January 31, 2005, the investment policies of CPS and the STP Decommissioning Trust were amended to include specific language requirements associated with GASB Statement No. 40, Deposit and Investment Risk Disclosures. Simultaneously, the guidelines of the Employee Benefit Plans were formalized in writing to also include the language requirements of GASB Statement No. 40. The adoption of this guidance did not affect CPS' financial position or results of operations. However, it did result in additional reporting disclosures that have been incorporated into the financial statements.

Recent Financial Transactions

On December 1, 2005, CPS remarketed $157,000,000 of its Series 2004 variable rate demand obligations for a two-year term with approval from the CPS Board and City Council. CPS will pay an interest rate of 3.55% through November 30, 2007 at which time these bonds will be remarketed again.

On January 1, 2006, CPS extended the 2003 Junior Lien Bonds, Standby Bond Purchase Agreement's ("SBPA") expiration date to January 31, 2008 for an annual savings of $112,500.

On August 9, 2006, CPS priced $384,185,000 in revenue bonds which will close on August 31, 2006. The bond proceeds will be used to finance costs associated with constructing capital improvements of the EG Systems.

On August 11, 2006, CPS cash defeased $106,440,000 in New Series 1997 revenue and refunding bonds. This allowed CPS to reduce its debt service by defeasing some of its higher cost debt.

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City Public Service Historical Net Revenues and Coverage[1]

(Dollars in Thousands)	Fiscal Years Ended January 31,					
	2001	2002	2003	2004	2005	2006
Gross Revenues[2]	$ 1,389,239	$ 1,249,869	$ 1,271,656	$ 1,526,904	$1,473,254	$1,754,927
Maintenance & Operating Expenses	754,146	688,876	740,161	942,471	882,508	1,057,035
Available For Debt Service	$ 635,093	$ 560,993	$ 531,495	$ 584,433	$ 590,746	$ 697,892
Actual Principal and Interest Requirements:						
Senior Lien Obligations[3]	$ 208,567	$ 212,274	$ 211,831	$ 230,250	$ 245,984	$ 256,442
Junior Lien Obligations[4]	$ 0	$ 0	$ 0	$ 2,111	$ 4,386	$ 10,964
Actual Coverage-Senior Lien	3.05x	2.64x	2.51x	2.54x	2.40x	2.72x
Actual-Senior and Junior Lien	3.05x	2.64x	2.51x	2.52x	2.36x	2.61x

1 Unaudited
2 Calculated in accordance with the ordinances.
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"), 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 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 9,100 miles of water and sewer mains.

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Historical Water Consumption (Million Gallons) [1]

Fiscal Year Ended	Daily Average	Peak Day	Peak Month	Metered Usage	Metered Water Revenue
05/31/2001	155	267	July	53,047	73,166,293
12/31/2001 [2]	159	274	July	53,077	74,541,211
12/31/2002	143	222	August	51,850	77,801,600
12/31/2003	150	303	August	50,576	76,913,150
12/31/2004	144	295	August	49,366	77,113,717
12/31/2005	172	278	July	55,005	98,869,037

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

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

	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002	December 31, 2001 [2]	May 31, 2001
Residential	31,114	27,173	27,760	28,372	29,003	28,694
Commercial	12,991	11,746	11,730	11,942	12,371	12,384
Apartment	8,004	7,663	7,794	7,791	7,718	7,783
Industrial	2,122	2,089	2,473	2,696	2,670	2,737
Wholesale	121	99	136	173	531	535
Municipal	652	596	683	876	784	914
	55,005	49,366	50,576	51,850	53,077	53,047

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

SAWS System

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

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

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of

SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS' service area currently extends over approximately 561 square miles, making it the largest water purveyor in Bexar County. SAWS serves more than 80% of the water utility customers in Bexar County and provides potable water service to approximately 326,000 customers, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 24 elevated storage tanks and 35 ground storage reservoirs, of which 9 act as both, with combined storage capacities of 164.28 million gallons. As of 2005, the waterworks system had in place 4,404 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between six and 12 inches), and 23,212 fire hydrants distributed evenly throughout the SAWS service area.

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

SAWS serves the residents of the City, 18 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 403 square miles. SAWS also coordinates with the City for wastewater planning for the City's total planning area, extra-territorial jurisdiction ("ETJ"), of approximately 956 square miles. The population for this planning area is approximately 1.2 million people. SAWS currently provides wastewater services to approximately 354,900 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 4,607 miles of mains; three major treatment plants (Dos Rios, Leon Creek and Salado Creek); and a smaller treatment plant (Medio Creek). The three major plants are activated sludge facilities and the small plant is an extended aeration plant. SAWS holds Texas Pollutant Discharge Elimination System wastewater discharge permits, issued by the TCEQ for each of these four plants which have a combined treatment capacity of 225.7 million gallons per day. In addition, SAWS operates and maintains several small satellite facilities that vary in number and are temporary, pending completion of interceptor sewers that will connect the flow treated at such facilities to the wastewater system. The permitted flows from the wastewater system's four regional treatment plants represent approximately 98% of the municipal discharges within the ETJ.

Recycling Water System. SAWS is permitted to sell Type I (higher quality) recycled water from its wastewater treatment plants, and has been doing so since 2000. The recycle system is comprised of two north/south transmission lines and an interconnecting line that will be operational in the spring of 2006. Current capacity is 35,000 acre-feet.

Chilled Water and Steam System. SAWS owns and operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water and/or steam service to 23 customers. Numerous City 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 KellyUSA industrial area on the City's west side. Additionally, under a Memorandum of Agreement with the Brooks Development Authority, SAWS provides operational and maintenance services for the Brooks City-Base central thermal energy facility and two small satellite sites. Together, chilled water and steam services produced $13,370,759 in revenues in fiscal year 2005.

Stormwater System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to EPA-mandated stormwater runoff and treatment requirements. The City,

along with SAWS, has the responsibility, pursuant to the "Authorization to Discharge under the National Pollutant Discharge Elimination System" (the "Permit"), for water quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for fiscal year 2006 is $3,447,599, for which SAWS is reimbursed $3,056,345 from the stormwater utility fee imposed by the City.

Water Supply

Until recently, 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 Bracketville, Kinney County, Texas, in the west and stretching to Kyle, Hays County, Texas, in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it.

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

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

Enhancing the City's Water Supply

The City has relied on the Edwards Aquifer as its sole source of water since the 1800s. Beginning in the 1980s and continuing today, however, the management of the water in the Edwards Aquifer has been the subject of intense scrutiny that has led to both extensive litigation and federal and state agency initiation of regulatory action. In 1993, the Texas Legislature adopted the Edwards Aquifer Authority Act, which created a new regulatory agency to manage withdrawals from the Edwards Aquifer and to protect springflows. This agency, known as the Edwards Aquifer Authority ("EAA"), is charged with preserving and protecting the Edwards Aquifer in an eight-county region including all of Uvalde, Medina, and Bexar counties, plus portions of Atascosa, Caldwell, Guadalupe, Comal, and Hays counties.

Based upon population and water demand projections, along with various regulatory and environmental issues, the City recognizes that additional water sources will be required to supplement withdrawals from the Edwards Aquifer to enable the City to meet its long-term water needs.

SAWS is charged with the responsibility of identifying additional water resources for the City and its surrounding areas. New water resource projects range from optimizing the City's current source through conservation measures, to identification and procurement of completely new and independent water sources. These efforts are guided by SAWS long-term water resource planning process, which commenced in 1998 with the adoption of a 50-year water resource plan. The 1998 plan established mechanisms for formulating and implementing programs to enhance the City's water supply. In October 2000, the City Council created a permanent funding mechanism (the "Water Supply Fee") to be used for water supply development and water quality protection.

The Water Supply Fee is based upon a uniform rate per 100 gallons of water used and is applied to all SAWS customers.

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.

Year	Fee Assessed Per 100 Gallons
2006	$ 0.1487

In August 2005, the 1998 plan was updated to incorporate changes in population forecasts, to reflect the achievements gained through SAWS conservation program, and to identify the best portfolio of water supply projects for meeting San Antonio's future needs. Through this process, SAWS determined that the City's water needs can be met through an array of programs, including a critical period management plan, conservation, reuse, non-Edwards Aquifer groundwater, enhanced recharge capabilities, and aquifer storage and recovery among others. Based on the results of this analysis, the SAWS Board of Trustees approved the 2005 update on August 16, 2005 and directed the SAWS staff to:

a. Planning Scenario 2: Service as the regional water provided and contact every independent water retailer in Bexar County to see how SAWS can work with them on their long-term water supply needs.

b. Edwards Supply: Solidify the Edwards Aquifer inventory by converting the approximately 25,000 acre-feet now under lease to permanent ownership, and where possible, seeking an additional 35,000 acre-feet of water rights through either acquisitions or other supply sources.

c. Recharge Initiatives: Actively participate in the Nueces River Basin Feasibility Study and Cibolo Creek Watershed Feasibility Study. Both studies are on-going and contain local and federal partners. In addition, a continued effort will be made with the Edwards Aquifer Authority to activate the recharge credit rules. This project is further described in the section entitled "Edwards Aquifer Recharge Initiatives."

d. Brackish Groundwater: Accelerate the brackish groundwater desalination project. This project will assist in diversifying overall supplies in the medium-term. The project will generate up to a 22,000 acre-feet facility, with the potential to offset summer "peaks." This project is further described in the section entitled "Brackish Groundwater Desalination Project."

e. Regional Carrizo: Accelerate the Regional Carrizo project. Staff should reduce the time for a consultant to perform an independent evaluation of the routing and phasing of this project to three (3) months, quickly reapply for the initial permit, and continue to pursue leases. This project is further described in the section entitled "Regional Carrizo Aquifer Projects."

f. Lower Colorado River Authority-San Antonio Water System: Continue analysis of the feasibility of the Lower Colorado River Authority-San Antonio Water System ("LCRA-SAWS") project. This project is an important option for meeting long-term water needs. However, renegotiation of the existing contract within the project's statutory constraints is necessary to more competitively address cost, control, yield, and the timing of the water delivery. This project is further described in the section herein entitled "Lower Colorado River Authority Project."

g. Simsboro: Withdraw SAWS' participation in the Simsboro project. Terminate the existing contract with Alcoa in accordance with its terms and use. With respect to the SAWS-owned water rights, the staff should explore the possible use or disposition of these rights, as opportunity allows.

h. Lower Guadalupe Water Supply Project: End SAWS' participation in the Lower Guadalupe Water Supply Project due to the continued uncertainty with the surface water and groundwater regulatory environment of the project area.

i. Recycle Water: Develop a recycle water business plan. The business plan will address how to increase our contractual usage, obtain additional contracts, and evaluate the implication of an ordinance what would require mandatory connections for certain customer classes. This project is further described in the section entitled "Water Reuse Program."

j. Aquifer Storage & Recovery: Maximize SAWS' Edwards Aquifer storage and the allowable acreage of SAWS' local Carrizo production. This project is further described in the section entitled "Bexar County Aquifer Storage and Recovery."

k. Other Potential Projects: Continue evaluations of other potential water supply projects, including by not limited to: Coastal Desalination, Recharge and Recirculation, Mesa Water Supply Project, Trinity Aquifer, and the Western Edwards Aquifer water projects.

Combined, these actions enable SAWS to provide affordable, diversified, and sufficient water supplies to meet demand in Planning Scenario 2.

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, 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 System is planning on a sustained yield of 13,400 acre-feet per year.

Oliver Ranch and BSR Projects

The System reached a milestone in February 2002 with the introduction of the first non-Edwards Aquifer drinking water supply from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in northern Bexar County. The System has contracted for delivery of approximately 5,000-acre feet per year of non-Edwards Aquifer 5groundwater from the Trinity Aquifer from two properties located in northern Bexar County. The construction cost to produce and deliver this water supply is approximately $5.8 million. Initial delivery of water from the Oliver Ranch project began in February 25, 2002 with BSR production in July 2003. The project was fully operational in June 2004 with the connection of BSR wells 3 and 4 to the System's distribution system.

Western Canyon Project

The System, the San Antonio River Authority ("SARA"), Guadalupe-Blanco River Authority ("GBRA"), and Bexar Metropolitan Water District ("Bexar Met") are working together on the Western Canyon Project for the delivery of water from Canyon Lake. The System will initially receive approximately 8,500 acre-feet per year for service to northern Bexar County. The long-term minimum yield will be 3,950 acre-feet per year. GBRA is required under the contract to divert, treat, and deliver the water to a certain point into the System's delivery system. The permit was issued by the state's regulatory agency, the TCEQ. The project design work has been completed and notice to proceed on construction of various project components took place during the fourth quarter 2004 and first quarter of 2005. Construction of this project is nearing completion, and it is expected that the System will begin receiving water in early 2006.

Brackish Groundwater Desalination Project

The 2005 Update of the System's fifty-year Water Resource Plan includes a recommendation that the System develop a brackish groundwater desalination project. This project involves the development of a moderately sized (up to 22,000 acre-feet) water supply facility with the potential to offset summer "peaks." Hydrologic research on the feasibility of locating this facility in southern Bexar County will begin in December 2005. This analysis will be accompanied by an evaluation of the potential benefit and feasibility of applying innovative procurement methods, such as Design Build Operate and Build Own Operate Transfer strategies to bring this project to on line by 2010.

Regional Carrizo Aquifer Projects

The System is refining plans for delivery and treatment of approximately 20,000 through 56,200 acre-feet of ground water from the Carrizo Aquifer in Gonzales and Wilson Counties. The System is currently undertaking a review process to determine the preferred routing of pipeline associated with the delivery and integration of the Carrizo water into the existing distribution system. Upon completion of this evaluation, which is expected in early 2006, additional construction on this project is scheduled to commence. The project will be developed in phases. The delivery of water from the first phase (22,600 AF) is anticipated in early 2009. Phase II and Phase III are scheduled to be delivered in 2012 and 2016, respectively.

Lower Colorado River Authority Project

The LCRA-SAWS project would conserve and develop up to 330,000 acre-feet of water per year. Of that, approximately 180,000 acre-feet per year of agricultural and other rural water needs would be met in the Colorado basin through conservation of agricultural irrigation water, storage of river water, and supplemental groundwater for agricultural use. Up to 150,000 acre-feet per year of river water would be transferred to the San Antonio area for an eighty-year period.

In February 2001, a Memorandum of Agreement with LCRA outlining the terms for a future binding contract for up to 150,000 acre feet of surface water per year from the Lower Colorado River Basin 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 have now executed a definitive agreement outlining LCRA's and the System's obligations consistent with the memorandum of Agreement. The System and LCRA are now entering the third year of an estimated seven-year study period to assess the environmental, engineering, and cost impacts.

Bexar County Aquifer Storage and Recovery

An Aquifer Storage and Recovery ("ASR") project involves injecting ground water into an aquifer, storing it and later retrieving it for use. Essentially this is storage that is additionally provided through surface water reservoirs. The System began study of an ASR project in 1996, acquired approximately 3,200 acres in southern Bexar County and has essentially completed the construction of Phase I of the ASR Project. This phase of the project, with a total cost of approximately $125 million, gives the System the capability of injecting and recovering 30 million gallons per day of Edwards Aquifer water and integrating it into SAWS' existing distribution system, Phase II of the ASR Project is designed to increase the injection, storage, and recovery capacity of the project to 60

million gallons per day and extend the integration into SAWS' existing distribution system. This phase of the project is currently underway and is anticipated to be complete by the end of 2007.

This project is primarily designed to optimize use of water from the Edwards Aquifer and reduce frequency and duration of critical periods. Additionally, the ASR project may produce "native" groundwater from the project area for use throughout the service areas. 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 in to the district, manages groundwater production, and commits the System to monitoring water levels and mitigation of potential negative impacts. As of December 2005, approximately 17,000 acre-feet of water has been stored in the ASR facility.

Water Reuse Program

The System has developed a water reuse program utilizing high quality effluent from the wastewater treatment process. 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 water reuse system can provide up to 35,000 acre-feet per year for non-potable uses including large scale irrigation and industrial purposes. Once developed to its maximum planned capacity, the System could convert approximately 20% of SAWS current demand for Edwards aquifer water to non-potable uses, thereby making more Edwards water available for potable use. Currently, approximately 19,000 acre-feet of water is under commitment.

In addition to the 35,000 acre-feet per year for irrigation and industrial non-potable uses, the System currently has a contract through 2030 to provide 45,000 acre-feet per year of reuse water to CPS Energy for cooling of electrical generation systems at Braunig and Calaveras lakes. The combined availability of 80,000 acre-feet per year makes this the largest water reuse system in the country. Under the terms of the contract, CPS Energy holds contingent option rights on an additional 10,000 acre-feet of reuse water. These option rights are broken down into two 5,000 acre-feet increments, with the first such option to be exercised no later than June 30, 2007 and the second such option to be exercised no later than June 30, 2011. The revenues derived from the CPS Energy contract have been excluded from the calculation of Gross Revenues and not included in any transfers to the City.

Conservation

Beginning in 1994, the System progressively implemented aggressive water conservation programs, which have reduced total water production and use by 43.2%, from 213 gallons per person per day ("gaped") in 1994 to approximately 130 gaped 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 that we reduce per capital consumption to 116 gpcd during normal-year conditions and 122 gpcd during dry-year conditions by 2016. This will be accomplished through a variety of means including implementation of the City's water conservation ordinance (Ordinance 100322, passed January 20, 2005), pricing, education, and rebates for water efficient technologies; and system improvements to prevent water loss and other measures.

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. One example is the Season to Save Community Challenge, which started as an experimental program to test the idea that non-profit organizations would be effective at motivating ratepayers to participate in toilet distribution programs. An incentive is paid to non-profit organizations for finding qualified customers who pick up free toilets during a distribution event. Non-profit groups also receive a bonus for the conservation achieved by customers they helped qualify for the program. The bonus provides incentives for non-profit representatives to ask their participants to install the new toilets quickly.

Another example of the System's conservation program is Plumbers to People, which provides leak repairs and retrofits to qualified low-income homeowner customers. The System, in cooperation with the City of San Antonio's Community Action Division (CAD), qualifies applicants based on the current Federal Assistance Guidelines. Only leaks that result in a loss of potable water are eligible for repair under this 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 one of our most effective at conserving water at a reasonable cost per unit.

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.

Outdoor Residential Conservation

The System's residential outdoor programs focus on the 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 use annually. Education programs help ratepayers understand how following best practices can save water and money.

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.

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.

WaterSaver Landscape Rebate guidelines were changed in 2003 to address concerns that the old program was not maximizing water conservation opportunities. Program changes included the requirement that the entire landscape be drought tolerant, a maximum 50% of landscape in grass, and a mandatory irrigation system check if an irrigation system was present. Higher rebates were given to customers who preserved native landscape during home construction or who did not install a permanent irrigation system. An incentive to meet water conservation expectations was included in the program as well. Customers using a reasonable amount of water during the first year after getting their rebate will receive a small nursery gift certificate. This program is marketed through neighborhood associations, local nurseries, the Garden Volunteers of South Texas and through the Greater San Antonio Builder's Association.

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.

Agricultural Conservation and Irrigation Efficiency

The System has been successful in developing partners throughout the region as well as with federal agencies through cost-share programs. The amount of $500,000 for fiscal year has been appropriated by the United States Department of Agriculture ("USDA") for the Edwards Aquifer region to assist landowners with agricultural irrigation efficiencies. The System has partnered with the USDA and farmers to acquire efficient irrigation systems in exchange for Edwards Aquifer water rights. The System is also currently working with the United States 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.

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 2006:

- $2 million is budgeted for the wastewater treatment program to repair, replace, upgrade, or expand treatment facilities;
- $28 million is budgeted for the wastewater collection program to fix deteriorated components of the collection system ;
- $19 million is budgeted to replace sewer and water mains;
- $44 million is budgeted for the governmental replacement and relocation program;
- $2 million is budgeted to construct new production facilities; and
- $79 million is budgeted for water supply development, water treatment, and water transmission projects for new sources of water.

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

	Fiscal Year Ended December 31,					
	2006	2007	2008	2009	2010	Total
Heating and Cooling	$ 250,000	$ 950,000	$ 800,000	$ 900,000	$ 300,000	$ 3,200,000
Water Delivery	51,059,000	52,920,475	54,508,090	56,143,332	57,827,632	272,458,529
Wastewater	65,306,641	63,778,525	65,691,880	67,662,637	69,692,516	332,132,199
Water Supply	82,269,000	73,480,000	101,640,000	88,106,700	98,734,900	444,230,600
Total	$ 198,884,641	$ 191,129,000	$ 222,639,970	$ 212,812,669	$ 226,555,048	$ 1,052,021,328

Source: SAWS. Project Funding Approach

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

	Fiscal Year Ended December 31,					
	2006	2007	2008	2009	2010	Total
Revenues	$ 26,538,876	$ 50,262,978	$ 24,160,707	$ 28,296,775	$ 38,560,669	$ 167,820,005
Impact Fees	16,708,486	9,899,773	10,048,270	10,198,994	10,351,979	57,207,502
Debt Proceeds	155,637,279	130,966,249	188,430,993	174,316,900	177,642,400	826,993,821
Total	$ 198,884,641	$ 191,129,000	$ 222,639,970	$ 212,812,669	$ 226,555,048	$ 1,052,021,328

Source: SAWS.

Recent Financial Transactions

In December 2005, SAWS issued $298,220,000 "City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2005", to advance refund the "City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 1999" and certain outstanding commercial paper notes.

On May 15, 2006, SAWS refunded $68,000,000 "City of San Antonio, Texas Water System Revenue Improvement and Refunding Bonds, Series 1996" with the issuance of Tax-Exempt Commercial Paper. The refunding effectively converted the $68,000,000 of fixed rate bonds into lower coupon variable-rate debt. Total savings from the refunding will depend on future interest rates.

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

	Fiscal Year Ended December 31, 2005	Fiscal Year Ended December 31, 2004	Fiscal Year Ended December 31, 2003	Fiscal Year Ended December 31, 2002	12 Months Ended December 31, 2001[2]
Revenues					
Water System	$ 93,419,939	$ 72,888,054	$ 65,163,910	$ 58,873,352	$ 79,451,701
Water Supply	108,045,245	78,546,461	76,044,416	76,167,052	36,684,084
Wastewater System	113,333,959	99,224,713	87,683,794	89,312,338	87,438,542
Chilled Water and Steam	13,370,759	12,027,528	12,193,646	10,871,599	12,899,862
Non Operating Revenues	11,167,861	7,060,677	7,308,979	7,547,353	15,103,714
Adjustments for Pledged Revenues	(6,668,991)	(5,437,557)	(5,591,341)	(7,583,370)	(5,911,934)
Total Revenues	$332,668,772	$264,309,876	$242,803,404	$235,188,324	$225,665,969
Maintenance and Operating Expenses	$173,489,890	$153,859,964	$152,742,554	$138,212,615	$134,616,252
Net Available for Debt Service	$159,178,882	$110,449,912	$ 90,060,850	$ 96,975,709	$ 91,049,717
Maximum Annual Debt Service Requirements - Total Debt[3]	$ 94,992,353	$ 84,941,122	$ 76,075,114	$ 66,267,591	$ 65,767,934
Maximum Annual Debt Service Requirements - Senior Lien Debt[3]	$ 78,372,649	$ 67,203,188	$ 61,511,375	$ 61,511,375	$ 55,236,354
Coverage of Total Debt	1.68 X	1.30 X	1.18 X	1.46 X	1.38 X
Coverage of Senior Lien Debt	2.03 X	1.64 X	1.46 X	1.58 X	1.65 X

[1] Unaudited.

[2] On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the twelve (12) months ending December 31, 2001.

[3] As of the end of the fiscal year shown, excludes Tax Exempt Commercial Paper.

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 and U.S. Highway 281, is approximately eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, domestic air carriers providing service to San Antonio are America West, American, American Eagle, Atlantic Southeast, Chautauqua, Comair, Continental, Delta, Frontier, Mesa, Midwest, Northwest, Skywest, Southwest, and United. Mexicana and Aerolitoral are Mexican airlines that provide passenger service to Mexico. 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 88% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses, including nine rental car companies, which lease facilities at the International Airport and Stinson Municipal Airport.

Stinson, located on a 300-acre site that is approximately five miles southeast of the City's downtown business district was established in 1915 and is one of the country's first municipally-owned airports. An Airport Master Plan for Stinson was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the International Airport. The Texas Department of Transportation accepted the Master Plan in 2002 and has recommended $16.0 million in grant funding for capital improvements over the next ten to fifteen years. The expansion of Stinson's facilities is also needed to take advantage of new, complimentary business opportunities evolving with the synergy between Brooks City Base, KellyUSA, and the Stinson Airport. A Targeted Industries Study was completed in 2003 as part of the master planning process. The study will help facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at the Stinson Municipal Airport.

Capital Improvement Plan

General. In order to meet future airport capacity requirements, an Airport Master Plan was completed in 1998. This plan made recommendations to expand terminal and airfield capacity in an orderly manner to coincide with projected growth in passengers and aircraft operations. In fiscal year 2002, the City commenced implementation of a ten-year Capital Improvement Plan (the "CIP"). The CIP is scheduled to conclude in fiscal year 2011; however, due to the terrorist attacks of September 11, 2001, the timing of some projects has been adjusted and the ultimate completion of the plan is expected to extend beyond that date. The CIP addresses both terminal and airfield improvements. The CIP includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement to runways along with supporting taxiways and aircraft apron. The capital program over the five-year period from 2005 through 2009 addresses primarily terminal-related improvements, parking roadway improvements, and airfield improvements.

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The anticipated sources of funding for the next five years are as follows:

Funding Sources	Anticipated Funding
Federal Grants	
Entitlements	$ 27,054,000
General Discretionary	45,105,000
Noise Discretionary	20,867,000
Passenger Facility Charges ("PFCs")	
Pay-As-You-Go	23,301,000
PFCs Secured Bonds	103,156,000
Other Funding	
Airport Funds	29,596,000
Airport Revenue Bonds	91,526,000
Total – All Sources	$340,605,000

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

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

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

The FAA issued a Record of Decision on August 29, 2001 approving the City's initial PFC application. The City, as the owner and operator of the Airport, received authority to impose a $3.00 PFC and to collect approximately $102.5 million in PFCs. On February 15, 2005, the FAA approved an application amendment which increased PFC funding by a net amount of $13,893,537. In addition, on February 22, 2005 the FAA approved the City's application for an additional $50,682,244 in PFCs for 11 new projects.

The City began on November 21, 2001, collecting a $3.00 PFC (less the $0.11 air carrier collection charge) per paying passenger enplaned. A total of approximately $167.1 million in PFC revenues will be required to provide funding for these projects included in the Airport CIP. The City has received PFC "impose and use" authority on all approved projects. The estimated PFC expiration date is April 1, 2016.

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

Replace RON (remain overnight) Apron
Implement Terminal Modifications
Reconstruct Perimeter Road
Construct New Concourse B
Implement Acoustical Treatment Program
Construct Elevated Terminal Roadway
Upgrade Central Utility Plant
Construct Apron
Install Utilities – Terminal Expansion
Replace Two ARFF Vehicles
Conduct Environmental Impact Statement
Reconstruct Terminal Area Roadway
Install Noise Monitoring Equipment
Terminal and Airfield Security
Install Airfield 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 San Antonio 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 program that provided high-quality retail and food establishments offering a mix of regional and national brands at street prices. Concession space was expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets are now at airside locations. In total, 42 retail, food, and passenger service contracts were awarded. The new concessions program increased revenues to the Airport from $3.1 million in fiscal year 2002 to $4.3 million in fiscal year 2004. This represented a 39% gain in two years. On a per-boarding passenger basis, concession revenue went from $0.86 in fiscal year 2002 to $1.26 for fiscal year 2004. Following the Airport's implementation of its new concessions program, it was recognized by the *Airport Revenue News'* "Best Concessions Poll." The Airport's concession program was voted for by a panel of judges in the Airport category with less than 4 million enplanements. San Antonio won three first place awards over the last two years. The Airport was honored for having the Terminal with the "Most Unique Services" and "Best Overall Concessions Program" in 2004 and "Best Overall Concessions Program" for 2005. The publication noted the Airport's high-tech business services, such as high-speed fax and Internet, wireless capabilities and conference rooms. The Best Overall Concessions Program award is given to airports with a convenient customer-friendly layout, good visibility, attractive storefronts, and interesting themes. Also in 2004, *J. D. Power and Associates* announced through its Global Airport Satisfaction Index Study, San Antonio International Airport tied for the highest ranking in customer satisfaction among airports with less than 10 million passengers per year.

Terminal Improvements. The terminal expansion project will include a seven-gate Terminal B and a five-gate Terminal C (expandable up to eleven gates). Terminal B will replace Terminal 2 which is obsolete and will be demolished to make way for Terminal C, as well as further terminal development. Terminal C will be constructed in phases, as passenger growth and demand for gate facilities occur. Site work for the new Terminal has begun, while ground breaking for the building is expected to take place in the spring of 2007. The present Terminal will become Terminal A.

Airfield Improvements. To implement the Master Plan airfield recommendations an Environment Impact Statement ("EIS") will be required to assess the environmental impacts associated with the capacity enhancing runway/taxiway projects. The EIS process was started by the FAA in 2003; however, depending on the type and timing of the airfield improvements, the initial environmental work may be accomplished through an Environmental Assessment. Public involvement throughout the process is essential to the successful completion of these projects. Airport Master Plan projects to be studied as part of the EIS include extension of Runway 3/21 and Taxiways N and 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.

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

Parking Improvements. The International Airport operates and maintains approximately 5,810 parking spaces and 1,230 employee parking spaces for a total of 7,040 parking spaces. A parking study was developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicated that projected peak period demand for airport parking will exceed the available supply by the end of 2006. It is estimated that 2,400 additional parking spaces will be required to satisfy projected demand over the next ten years. Future requirements for vehicle parking are currently being addressed with the design of a new garage. The design work is underway with groundbreaking for a new five-story garage, with approximately 2,260 long-term spaces and 660 short-term spaces, planned for early 2007. The associated costs are included in the CIP.

Cargo Improvements. The International Airport has two designated cargo areas: The West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992 and expanded in 2003. The East Cargo Area is specifically designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics 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. A new belly freight facility is currently under design. 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 2004 totaled 133,383 tons.

Airport Operations

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

The International Airport has its own police and fire departments on premises. The firefighters are assigned to duty at the Airport from the City's 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 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 300 individuals at the International Airport to meet the new federal security requirements.

The International Airport's explosive detection screening equipment is currently located in the ticket lobby areas of the two terminals. However, the Department is working with the TSA to relocate all baggage screening equipment behind the terminals in new baggage handling systems planned as part of the upcoming Terminal Expansion Project. The City entered into an agreement with the TSA for reimbursements up to $425,800 for the

costs associated with the use of Airport police officers at the Airport security screening checkpoints in each terminal. The Department also utilizes four Explosive Detection Canine teams. The police officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in the baggage pickup areas, concourses, parking, cargo, and aircraft. This program is supported by the TSA with reimbursement to the Airport System at $160,500. The International Airport's coverage is provided in addition to canine support received from the City's Police Department and the Bexar County Sheriff's Office.

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

Stinson is the second oldest continuously operating airport in the United States, and is the FAA's designated general aviation reliever airport to the International Airport. During 2001, a process was initiated to develop a new Airport Master Plan for Stinson, which was completed in 2002. The Master Plan provides recommendations for airfield and facility improvements needed to meet growing operational demands. The planning effort will facilitate the development of Stinson to expand its role as a general aviation reliever to the International Airport. The Texas Department of Transportation Aviation Division 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, complimentary business opportunities evolving with the synergy between Brooks City-Base, KellyUSA, and Stinson. A "Targeted Industries Study" was completed in 2003 as part of the master planning process. The study will help facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at the Stinson.

Financings. On May 5, 2005, the City issued $38,085,000 Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005.

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

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

	Fiscal Year Ended September 30				
	2001	2002	2003	2004	2005
Gross Revenues[1]:	$42,928,794	$42,377,654	$43,930,687	$44,763,848	$47,136,691
Airline Rental Credit	5,209,037	4,468,199	2,612,609	3,486,271	5,423,420
Adjusted Gross Revenues	$48,137,831	$46,845,853	$46,543,296	$48,250,119	$52,459,206
Expenses	(23,612,635)	(22,296,698)	(25,363,607)	(24,463,616)	(26,411,106)
Net Income	$24,525,196	$24,549,155	$21,179,689	$23,786,503	$25,048,100

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

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Total Domestic and International Enplaned Passengers - San Antonio International Airport

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

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1996	3,568,328	----	----
1997	3,484,141	(84,187)	(2.36)
1998	3,505,372	21,231	0.61
1999	3,538,070	32,698	0.93
2000	3,647,094	109,024	3.08
2001	3,444,875	(202,219)	(5.54)
2002	3,349,283	(95,592)	(2.78)
2003	3,250,911	(98,372)	(2.94)
2004	3,498,972	248,061	7.63
2005	3,708,351	209,379	5.99

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 basis, along with year-to-year percentage change are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1996	193,843	----	----
1997	200,965	7,122	3.67
1998	246,902	45,937	22.86
1999	229,397	(17,505)	(7.09)
2000	243,525	14,128	6.16
2001	219,352	(24,173)	(9.93)
2002	201,274	(18,078)	(8.24)
2003	159,576	(41,698)	(20.72)
2004	190,254	31,678	19.86
2005	185,992	(5,262)	(2.76)

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
1996	5,555,613	----	----
1997	5,530,247	(25,366)	(0.46)
1998	5,601,616	71,369	1.29
1999	5,778,407	176,791	3.16
2000	5,838,185	59,778	1.03
2001	5,546,561	(291,624)	(5.00)
2002	5,559,018	12,457	0.22
2003	5,390,981	(168,037)	(3.02)
2004	5,416,555	25,574	0.47
2005	5,642,188	225,633	4.17

Source: City of San Antonio, Department of Aviation.

* * *

APPENDIX B

SELECTED PROVISIONS OF THE ORDINANCE

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SELECTED PROVISIONS OF THE BOND ORDINANCE

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

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

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

Bond Act – together, the Act and Chapter 351, as amended, Texas Tax Code.

Bond Year - the period of time that commences on the day following the interest payment date on the Bonds Similarly Secured occurring on August 15 of any year and ending on the interest payment date on the Bonds Similarly Secured occurring on August 15 of the following year.

Bonds - the "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006", authorized by this Ordinance.

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

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

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

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

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

Debt Service Requirements - means as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, redemption premium, if any, and interest (to the extent not capitalized) on or other payments due under such obligation, assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest or other payment obligations calculated by assuming (1) that such non-fixed interest rate for every future 12-month period is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the most recently reported yield, as of the time of calculation, at which United States Treasury obligations of like maturity have been sold; provided, however, that such assumed interest rate shall not exceed 10% per annum, and (2) that, in the case of bonds not subject to fixed scheduled mandatory sinking fund redemptions, that the principal of such bonds is amortized such that

annual debt service is substantially level over the remaining stated life of such bonds, and in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity according to a fixed schedule, the principal amounts thereof will be redeemed prior to stated maturity in accordance with the mandatory redemption provisions applicable thereto (in each case notwithstanding any contingent obligation to redeem bonds more rapidly). For the term of any interest rate hedge agreement entered into in connection with any such obligations, Debt Service Requirements shall be computed by netting the amounts payable to the City under such hedge agreement from the amounts payable by the City under such hedge agreement and such obligations.

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

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

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

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

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

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

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

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

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

General HOT - the HOT imposed by the City pursuant to the HOT Act, not to exceed 7% of the price paid for a room in a hotel, or such additional amount permitted by applicable law, less any discount for early payment and plus all penalties and interest on delinquent payments in amounts determined by the City Council, but in no event may the General HOT include the Expansion HOT.

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

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

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

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

Insurer - Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

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

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

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

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

Parity Bonds - the (i) "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A", dated as of June 1, 2004 , and (ii) "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B", dated as of June 1, 2004.

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

Plan - the capital improvement plan for the expansion of the Convention Center adopted by the City Council on September 30, 1993 by Ordinance Number 78834, as amended by the City Council on September 4, 1997, as amended and restated by the City Council on June 3, 2004 and as may be further amended or supplemented from time to time by the City Council.

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

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

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

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

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

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

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

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

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

Reimbursement Obligation - any obligation entered into by the City in connection with any Bonds Similarly Secured pursuant to which the City obligates itself to reimburse a bank, insurer, surety or other entity for amounts paid or advanced by such party pursuant to a letter of credit, line of credit, standby bond purchase agreement, credit facility, liquidity, facility, insurance policy, surety bond, interest rate swap agreement, or other similar credit agreement, guaranty or liquidity agreement to secure any portion of principal of, interest on, or purchase price of any Bonds Similarly Secured or reserves in connection therewith or otherwise relating to any Variable Rate Obligation. Reimbursement Obligations may be payable from and secured by a lien on Pledged Revenues which must be subordinate and inferior to the lien securing the Prior Lien Bonds but may be on a parity with, or subordinate to, the lien on Pledged Revenues securing the Bonds Similarly Secured.

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

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

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

Transfer Date - each business day on or before February 14, May 14, August 14, and November 14, beginning November 14, 2006.

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

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

Section 4.01. Pledge and Source of Payment. The Bonds shall constitute special obligations of the City and shall be payable from, and, together with the Parity Bonds, equally and ratably secured by a lien on the Pledged Revenues. Such Pledged Revenues or other lawfully available funds of the City shall, in the manner herein provided, be set aside for and pledged to the payment of the Bonds Similarly Secured, and all expenses of providing for their full and timely payment in accordance with their terms, in the Debt Service Fund and the Debt Service Reserve Fund as hereinafter provided. The City hereby grants a lien on the Pledged Revenues and further grants a lien on the Debt Service Fund and the Debt Service Reserve Fund to secure the payment of principal of and redemption premium, if any, and interest on the Bonds Similarly Secured. All Bonds Similarly Secured shall be in all respects on a parity with and of equal dignity with one another. The owners of the Bonds Similarly Secured shall never have the right to demand payment of the principal of, interest on or any redemption premium from funds raised or to be raised by ad valorem taxation, other than the Pledged Revenues.

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

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

Section 4.03. Special Funds. The following special funds and accounts created, established and to be maintained under the ordinances authorizing the issuance of the Prior Lien Bonds or the Parity Bonds, as appropriate, are hereby reaffirmed for the benefit of the Bonds while any of the Bonds remain Outstanding. Such funds and accounts may also include any additional accounts or subaccounts as may

from time to time be designated by the City, including specifically rebate accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, provided such accounts or subaccounts are not inconsistent with this Ordinance:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iii) Third, to the payment of the Bonds Similarly Secured and any Subordinate Lien Obligations (including Reimbursement Obligations incurred in connection therewith), and reserve funds

related thereto, as may be required by any ordinance authorizing the issuance of such Bonds Similarly Secured and Subordinate Lien Obligations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Facilities Fund earnings shall be retained in the Facilities Fund;

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

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

Section 4.05. Debt Service Fund. In addition to the deposits to the Debt Service Fund for the payment of the Parity Bonds, the City covenants and agrees that prior to each interest payment date, stated maturity date and mandatory redemption date for the Bonds there shall be deposited into the Debt

Service Fund an amount equal to one hundred percentum (100%) of the amount required to fully pay the amount then due and payable on the Bonds, and such deposits to pay the Bonds at maturity or redemption, as the case may be, and accrued interest thereon shall be made in substantially equal quarterly installments (based on the total annual Debt Service Requirements to be paid on the Bonds divided by the number of Transfer Dates to occur during the period covered by such calculation) on or before each Transfer Date, beginning on the first Transfer Date to occur after the delivery of the Bonds.

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

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

Section 4.06. Debt Service Reserve Fund.

(a) The City shall establish and maintain as hereinafter provided a balance in the Debt Service Reserve Fund equal to the Reserve Fund Requirement for the Common Reserve Fund Bonds. The Reserve Fund Requirement for the Common Reserve Fund Bonds is $17,710,194 and such amount is currently on deposit. The Reserve Fund Requirement shall initially be funded at the time of issuance and delivery of each series of Common Reserve Fund Bonds from proceeds of the such bonds. The City may, however, substitute a Debt Service Reserve Fund Surety Bond for cash in the Debt Service Reserve Fund upon written notice to the Insurer, if any.

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

(c) If the Debt Service Reserve Fund contains less than the Reserve Fund Requirement for the Common Reserve Fund Bonds (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Common Reserve Fund Bonds as above provided) or in which the City is obligated to repay or reimburse any provider of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), then such amounts as shall be necessary to reestablish in the Debt Service Reserve Fund the Reserve Fund Requirement and satisfy any repayment obligations to the issuer of any Debt Service Reserve Fund Surety Bond shall be transferred from the Pledged Revenues, or any other lawfully available funds, in 12 equal

monthly installments. After such amount has been accumulated in the Debt Service Reserve Fund, and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond provider and so long thereafter as the Debt Service Reserve Fund contains the Reserve Fund Requirement and all such repayment obligations have been satisfied, no further transfers shall be required to be made, and any earnings on Debt Service Reserve Fund shall be transferred to the Debt Service Fund. But if and whenever the balance in the Debt Service Reserve Fund is reduced below the Reserve Fund Requirement or any Debt Service Reserve Fund Surety Bond repayment obligations arise, transfers to the Debt Service Reserve Fund shall be resumed and continued in the manner provided above to restore the Reserve Fund Requirement and to pay such reimbursement obligations.

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

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

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

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

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

(iv) The use of any Debt Service Reserve Fund Surety Bond pursuant to this Section shall be subject to receipt of an opinion of counsel acceptable to the Insurer and in form and substance satisfactory

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

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

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

monthly basis or (B) replace such instrument with a surety bond, insurance policy, or letter of credit meeting the requirements in any of (i), (ii), or (iii) above within six months of such occurrence.

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

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

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

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

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

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

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

Section 4.08. Construction Fund. From the proceeds of each series of Bonds Similarly Secured issued to provide for authorized projects there shall be deposited into a construction fund such amounts as shall be provided in the ordinance authorizing such series of Bonds Similarly Secured. Such amounts may be applied to pay costs of establishing, improving, enlarging, extending and repairing an authorized

project, to reimburse advances made by the City for such costs, to pay costs of issuance of the Bonds Similarly Secured and to pay any other capital costs of authorized projects as provided in the ordinance authorizing such series of Additional Bonds. Any surplus amounts not required for the foregoing purposes shall, at the direction of the City, be transferred to the Debt Service Fund.

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

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

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

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

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

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

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

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

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

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

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

Section 5.03. Reimbursement Obligation. The City may enter into a Reimbursement Obligation in connection with any Bonds Similarly Secured only if the aggregate principal amount of the City's obligations under any such Reimbursement Obligation, as measured at the time that the City must make a payment thereunder, would satisfy the test for the issuance of Bonds Similarly Secured contained in Section 5.01 of this Ordinance as if such Reimbursement Obligation was being issued as a Bond Similarly Secured under this Ordinance.

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

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

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

Section 6.04. Discharge by Deposit. The City may discharge its obligation to the Owners of any or all of the Bonds to pay principal, interest and redemption premium (if any) thereon by depositing with the Paying Agent/Registrar cash in an amount equal to the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption, or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of $100,000,000, pursuant to an escrow or trust agreement to which the Paying Agent/Registrar is a party, cash and/or Government Obligations (as defined below) in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption. Upon such deposit, such Bonds shall no longer be regarded to be Outstanding. In case any Bonds are to be redeemed on any date prior to their maturity, the City, shall give to the Paying Agent/Registrar irrevocable instructions to give notice of redemption of Bonds to be so redeemed in the manner required in the ordinance or ordinances authorizing such Bonds. For any Bonds not to be redeemed or paid in full within the next succeeding sixty (60) days from the date of deposit provided for in this Section 6.04, the City shall give the Paying Agent/Registrar in form satisfactory to it irrevocable instructions to mail, by United States mail, first class, postage prepaid, a notice to the Owner of each such Bond that the deposit required by this Section 6.04 has been made and that said Bonds are deemed paid in accordance with this Section and stating such maturity or redemption date upon which money are to be available for the payment of the principal amount and redemption premium if any on such Bonds plus interest thereon to the date of maturity or redemption. Any failure, error or delay in giving such notices shall not affect the defeasance of such Bonds.

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

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

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

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

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

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

Section 7.04. Unclaimed Funds Held by the Paying Agent/Registrar. Funds held by the Paying Agent/Registrar which represent principal of and interest and any redemption premium on the Bonds

remaining unclaimed by the owner after the expiration of three years from the date such funds have become due and payable shall be reported and disposed of by the Paying Agent/Registrar in accordance with the provisions of Texas law including, to the extent applicable, Title 6 of the Texas Property Code, as amended.

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

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

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

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

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

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

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

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

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

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

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

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

Section 8.04. Consent of Owners. Any consent required by Section 8.03 hereof by any Owner shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by such Owner or his duly authorized attorney. Proof of the execution of any such consent or of the writing appointing any such attorney and of the ownership of Bonds Similarly Secured, if made in the following manner, shall be sufficient for any of the purposes of this Ordinance, and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

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

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

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

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

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

Similarly Secured Outstanding as in this Ordinance defined have, prior to the attempted revocation, consented to and approved the amendment.

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APPENDIX C

SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2005

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CITY OF SAN ANTONIO

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

June 29, 2006

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, 2005. This report is published to provide the City Council, City staff, our citizens, and other readers with detailed information concerning the financial position and activities of the City.

This document was prepared and is presented by the City's Finance Department. Accordingly, City management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures.

It should be noted that the public accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA, have audited the financial statements contained herein. As reflected in the independent auditors' report, the City's financial statements are presented fairly in all material respects in accordance with U.S. generally accepted accounting principles.

The audit of the aforementioned independent auditors was also designed to meet the requirements of the Single Audit Act Amendments of 1996, Office of Management and Budget (OMB) Circular A-133, and the State of Texas Single Audit Circular. The Independent Auditors' Report on the basic financial statements, MD&A (required supplementary information), and required disclosures and schedules are included in the Financial Section of this CAFR. Required reports and schedules mandated by the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular are in separate documents.

THE REPORT

The CAFR is presented in three sections: introductory, financial, and statistical.

- The introductory section contains the transmittal letter, a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, and a list of principal officials.
- The financial section includes the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), the basic financial statements, which consist of government-wide and fund financial statements and notes to the financial statements, required supplementary information other than MD&A, Combining Financial Statements and other supplementary information.
- The statistical section consists of selected financial and demographic information presented on a multi-year basis.

As noted above, included in the Financial Section of the CAFR is the MD&A, which presents a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter complements the MD&A and should be read in conjunction with it. The City of San Antonio's MD&A can be found immediately following the report of the independent auditors.

AN EQUAL OPPORTUNITY EMPLOYER

THE REPORTING ENTITY AND CITY SERVICES

The City of San Antonio is a home rule city that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two-year terms, limited to two consecutive terms. San Antonio is located in South Central Texas, approximately 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 November 30, 2005, the City's geographic area was approximately 519 square miles making it one of the largest cities in the United States. The United States Census Bureau cites the City as the second most populated city in the state of Texas and eighth most populated city in the country. The estimated population grew from 1,278,300 in fiscal year 2004 to 1,299,200 in fiscal year 2005, an increase of 1.63%.

Below are further details regarding the City as a reporting entity and public service provider.

Reporting Entity

Pursuant to the reporting standards contained in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*, other related entities are included in the CAFR as blended or discretely presented component units. Blended component units are those entities that are considered as part of the City's operations but are legally separate entities. Those entities are the City of San Antonio Health Facilities Development Corporation, the City of San Antonio Industrial Development Authority, the San Antonio Fire and Police Pension Fund, the San Antonio Fire and Police Retiree Healthcare Fund, the City of San Antonio Texas Municipal Facilities Corporation, the City of San Antonio Texas Starbright Industrial Development Corporation, and the City of San Antonio Texas Convention Center Hotel Finance Corporation.

Entities that require discrete presentation are the San Antonio Development Agency (SADA), the City of San Antonio Education Facilities Corporation (SAEFC), the Greater Kelly Development Authority (GKDA), the San Antonio Housing Trust Foundation, Inc. (SAHTF), the San Antonio Local Development Company, Inc. (SALDC), dba South Texas Business Fund and Brooks Development Authority (BDA), San Antonio Water System (SAWS), and City Public Service (CPS). SAWS and CPS are independently managed, municipally owned utility systems that operate under quasi-independent boards of trustees. For additional details on each of these entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, Note No. 1, entitled, "Reporting Entity."

Services

The City provides a vast array of municipal services. These services include, but are not limited to, fire and police protection, street and sidewalk maintenance, libraries, parks, water and electric 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 taxes, grants, user fees, revenues from municipally owned utilities, and bond proceeds.

City services are augmented through non-City agencies and local foundations such as SADA, SAEFC, SAHTF, and SALDC.

ECONOMIC CONDITIONS AND OUTLOOK

As a community, San Antonio has positioned itself for long-term growth and prosperity by successfully following a strategy to diversify its economy and improve quality-of-life for all citizens. City government has played an integral part by implementing "A Strategic Plan for Enhanced Economic Development" through the collaborative efforts of San Antonio, Inc., a group of economic development organizations within San Antonio.

The City's economic plan promotes further development of San Antonio's major industries, which include biomedical research and health services, international trade and distribution, information technology and security, telecommunications, aerospace, tourism, financial services, automotive manufacturing, and the military. Untapped economic opportunities are also a part of the City's economic development plan.

The City is also undertaking ongoing infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as providing assistance and attraction programs that are geared to businesses of all sizes. Both government and citizens are 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 San Antonio.

The North American Free Trade Agreement (NAFTA) has enabled the City to capitalize on international trade opportunities by becoming a distribution point and center for companies doing business in Mexico. San Antonio is the closest major U.S. city to Mexico's biggest markets and enjoys close cultural and business ties to that nation.

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

Business Climate and Local Economy

San Antonio's healthy economy and positive business climate are enhanced by elements key to continued economic growth, such as an advanced telecommunications system, enhanced 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.

KellyUSA

KellyUSA, a former U.S. Air Force Base, Greater Kelly Development Authority is transforming the base into an inland port with highway, rail and air access, and positioning the development authority as a multi-modal international port. As of December 2005, there were 63 tenants (commercial companies and federal agencies), employing over 12,469 people with an average salary of over $38,000, and a total economic impact of $2.76 billion per year. Major commercial employers at KellyUSA include Boeing, Lockheed Martin, General Electric, General Dynamics, Standard Aero, Pratt & Whitney, Chromalloy, Gore Design Completions, and EG&G.

With 95 percent of the marketable 8.2 million square feet leased, GKDA is now focused on development of new Class A facilities leveraging public and private investment to create more jobs for San Antonio. In 2005, a total of 514,400 square feet of new hangar, distribution and flex/office facilities were constructed at KellyUSA. GKDA's development plan forecasts $366 million of new construction for buildings and infrastructure over the next five years. KellyUSA's economic impact to San Antonio is projected to increase to over $4.6 billion per year upon full build-out.

Brooks City-Base

Brooks City-Base remains open for business, although the military missions will be relocated over the next three to five years as a result of the 2005 Base Realignment and Closure (BRAC) process. As it stands, San Antonio is at least three years ahead in redevelopment over other installations across the nation facing the same news from

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Brooks City-Base (Continued)

BRAC. Despite the BRAC outcome, Brooks City-Base is moving toward sustainability starting with Brooks Technology & Business Park, which was officially established on July 22, 2002.A Tax Increment Reinvestment Zone has been created that encompasses the area inside and outside of Brooks City-Base, providing for yet another tool to assist in the development of Brooks City-Base and the surrounding area. Currently, there are over $170 million worth of projects planned for or already under way at Brooks City-Base.

In 2005, the BDA and local major pharmaceutical company, DPT Laboratories, approved an 18-year build-to-suit lease agreement for a combination research and development (R&D) warehouse and production facility of nearly a quarter-million square feet at Brooks City-Base. The project involves a capital investment of $24 million and construction is under way on the two new major buildings at Brooks City-Base. Additionally, Vanguard Health Systems, Inc., and its affiliate Baptist Health System (BHS), announced in 2005 that BHS has signed a letter of intent to acquire land to relocate Southeast Baptist Hospital to Brooks City-Base. The new hospital will bring 700 to 800 jobs to the South Side and represents a significant economic investment in the community. The City and County are also planning to construct a $24.5 million new Emergency Operation Center at Brooks. Also, San Antonio Metropolitan Public Health has completed renovation of a Brooks City-Base facility to establish a BioSafety Level 3 Laboratory. Additionally, the State Board of Education approved the charter school application filed by Somerset Academy in collaboration with the Brooks City-Base Foundation (BCBF) and the BDA, allowing for the development of a charter school at Brooks City-Base. Brooks City-Base is on the move, gaining momentum and generating new energy to attract science and technology tenants and fully develop the area in and around Brooks City-Base.

Fort Sam Houston

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 United States Army (the Army) entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. (FSHRP), for the redevelopment of the former Brooke Army Medical Center (BAMC) and two other buildings at Fort Sam. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, had been vacant for some time and were in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants.

In September 2003, the Army relocated Army South Headquarters from Puerto Rico to Fort Sam, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. The Army negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the 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, and promoting economic development opportunities. The Army intends to extend the public-private partnership initiative to include other properties at Fort Sam currently available for redevelopment.

Base Realignment and Closure (BRAC)

The recommendations of the BRAC Commission became law on November 8, 2005. As a result of BRAC, the San Antonio area will benefit from a net gain of about 3,600 jobs over the next three to five years. Transformation is ongoing throughout the military services resulting in the reorganization of many military missions and units. The Army's transformation actions at Fort Sam are expected to create approximately 1,000 jobs over the next couple of years, in addition to the increase in jobs from BRAC. The National Security Agency has also announced an expansion of its activities in San Antonio and will be adding about 1,500 jobs over the next couple of years.

Key elements of BRAC include the creation of a Department of Defense (DOD) Regional Medical Center at the new Brooke Army Medical Center (BAMC) and the establishment of Fort Sam Houston as the home of DOD enlisted medical training. BAMC will be one of only two such DOD Regional Medical Centers in the country and will merge with the Wilford Hall Medical Center (WHMC) at Lackland Air Force Base. While the WHMC

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Base-Realignment and Closure (BRAC) (Continued)
facility at Lackland will close, the DOD intends to build a new 450,000 square foot medical care clinic at Lackland. A number of Army Agency Headquarters will also be relocating to Fort Sam from other bases around the country. As these changes occur over the next three to five years, Fort Sam Houston will grow by over 10,000 jobs to about 45,000. Based on the planned changes at Fort Sam and Lackland, the community is also expecting to benefit from over $2 billion in new construction and renovation of facilities at both bases. Finally, the recommended BRAC enhancements to military medical care training and capacity will also greatly strengthen and grow the currently existing partnerships between the military and community institutions that will facilitate continued growth in the community's targeted industry of bioscience and healthcare.

San Antonio Technology Accelerator Initiative (SATAI)
SATAI is a targeted economic development initiative focused on developing an advanced technology economy in the San Antonio region. SATAI's mission is to accelerate the regional technological economy through providing hands-on development of advanced technology start-up companies and assisting established companies in accessing tech-based solutions through Enterprise Services. One of the largest SATAI projects is the coordination of several homeland security initiatives through its leadership of the Southwest Enterprise for Regional Preparedness. SATAI's efforts in this area will lead to several state of the art technologies that will be commercialized through new start-up technology companies. SATAI has been very successful in becoming a key component in the development of San Antonio's advanced technology economy.

Aerospace Industry Development
The aerospace industry's annual economic impact to the City is approximately $2.9 billion. This industry provides over 8,200 jobs, with employees earning annual wages totaling over $320 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Brooks City Base, Randolph AFB, Lackland AFB, and various training institutions. Many of the major aerospace industry leaders have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace –a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta, Continental, FedEx, UPS, and others. The industry in San Antonio is very diversified with continued growth in air passenger service, air cargo, maintenance repair and overhaul (MRO), and general aviation.

San Antonio International Airport (SAT) added four new non-stop passenger routes during Fiscal Year 2005 for a total of 31 destinations, which does not include seasonal charter service to Mexico available during the spring and summer. Seven additional new non-stop flights have been announced to start during the first quarter of 2006. SAT is currently developing construction plans for a new 3,000 space parking garage and Terminals B and C, with groundbreaking expected, respectively, in the spring and summer of 2006. SAT is also in the process of an Environmental Assessment for implementation of proposed airfield capacity enhancement projects recommended in the Airport Master Plan. Stinson Municipal Airport is at 100.0% occupancy rate and has a tenant waiting list for the facilities. A Master Plan for Stinson was approved by the City Council in October 2002. Implementation of the Master Plan recommendations is currently in process pending the successful completion of an Environmental Assessment for certain airfield improvements. Groundbreaking is planned during the first quarter of 2006 for the Expanded Terminal and Office Facility Project. At KellyUSA, the MRO business is strong as tenants such as Boeing and Lockheed Martin continue to secure long-term government contracts. KellyUSA is also working to add air cargo activity as recommended by the Air Cargo Study and Strategic Plan completed in June 2002. This study also provided San Antonio International Airport with an Air Cargo Strategic Plan that includes recommendations on expanding the existing integrator service primarily provided by UPS, FedEx, and Airborne Express. 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.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Downtown Development Projects
2005 was a landmark year for downtown development. La Cascada, a 150-unit high-end condominium project opened its door and is near capacity. Construction has begun on a second tower adjacent to the first. In November, a new 265 all-suites hotel, La Contessa, opened its doors on the Riverwalk.During 2005, renovation of the Alamo Bank Building began on the flagship Drury Plaza Hotel. Financing of the hotel was partially funded by Empowerment Zone Facility Bonds. In addition to the hotel, Drury Southwest has partnered to renovate the Aztec Theatre building into a state of the art multimedia theatre experience. Drury is also providing, at its own expense, the final linkage to complete the downtown Riverwalk on the main channel of the San Antonio River. The Riverwalk linkage has an expected completion date of summer of 2006. The 300-room, limited service hotel is expected to open in the fall of 2006.

Earlier in the year, construction was completed on a 350-room La Quinta hotel near the convention center. In the summer ground was broken for a new 1,000-room convention center hotel adjacent to the recently remodeled Henry B. Gonzalez Convention Center. The amount of $130 million in Empowerment Zone Facility Bonds were used to help finance the project. In addition to the hotel, 120 condominiums and an underground parking facility will also be included in the project.

Adjacent to the convention center on the Hemisfair property, a Master plan was approved to develop the area with more green space and encourage neighborhood utilization. Response from stakeholders was very positive. In accordance with the Plan, a land swap was completed with UTSA, which gave up ownership of the property that houses the Institute of Texas Cultures for space near their downtown campus to develop additional instructional buildings.

International Trade
The International Affairs Department was created to provide a clear entrance or "front door" to City programs and services in order to attract and promote trade and foreign investment, and to establish San Antonio as the "Center of the Americas." In doing so, it has identified and interfaced with over 500 local companies that do business internationally.

During fiscal year 2005, the International Affairs Department worked with 75 protocol delegations and 78 business/trade delegations that included a total 1,881 delegates that visited San Antonio. This accounted for $1.7 million in direct expenditures by official guests in San Antonio. The department also assisted more than 600 business clients, generating over $34 million in bilateral trade between San Antonio and Mexico.

As of November 30, 2005, the North American Development Bank (NADB) is participating in the development and financing of 90 environmental infrastructure projects with approximately $703.8 million in loans and grants. These projects are estimated to cost a total of $2.35 billion to build, and will benefit an estimated 7.8 million border residents throughout the 10 states that comprise the U.S.-Mexico border region.

NADB has been the catalyst to significant and unprecedented levels of investment in environmental infrastructure along the U.S.-Mexico border. NADB participation represents about 30% of the total investment in these projects. Of these, 35 have been completed, 50 are currently under construction or in various stages of completion and 13 are in the design or bidding stage. In the area of local capacity building, NADB to date has authorized technical assistance for 192 projects in 92 communities on both sides of the border.

The Free Trade Alliance San Antonio, through its International Business Development Center is an incubator program for foreign companies. As of the fourth quarter of 2005, they had 29 companies enrolled in their program. The economic impact of these companies is over $1.5 million for the year.

International Outlook
The International Affairs Department continues to develop the Export Leaders Program that focuses on San Antonio companies with a high potential and strong commitment to develop and expand international markets. The San Antonio Export Leaders Program offers the tools, training, consultation, and coaching necessary for

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

International Outlook (Continued)
companies to be successful in exporting, and offers the participants the availability to grow their company internationally. This cutting edge program has graduated 66 companies and generated $24 million in trade in 2004.San Antonio continues to develop itself as an INLAND PORT for imports and exports to/from Mexico, China, Japan, Spain, Latin America and other regions of the world. This encompasses transportation, manufacturing and logistics facilities, professional services and value-added services involved in producing, marketing, and moving freight within the San Antonio region. In 2004-2005, the International Affairs Department worked through their foreign offices in Mexico on a logistic survey that focused on potential foreign investment prospects in San Antonio. It has identified over 50 potential leads. Over the past 13 years, the City of San Antonio has operated three commercial trade offices in Mexico; Mexico City, Guadalajara, and Monterrey which has generated over $100 million in bilateral trade since its inception. For over 20 years, the International Affairs Department has operated a trade representative in Japan attracting 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 and Toyota, to name a few.

The City's commitment to international trade is evidenced in the City's International Center which houses the North American Development Bank, International Conference Center, The Trade Commission of Mexico, Foreign Commercial State Offices for Mexico and Spain, the Free Trade Alliance San Antonio, the U.S. Department of Commerce, the City's International Affairs Department, and the Convention & Visitors Bureau.

Hospitality Industry
The City's diversified economy includes a significant sector relating to the hospitality industry, which ranks second in its local economic impact. A recent study by the Greater San Antonio Chamber of Commerce found that the hospitality industry had an economic impact of nearly $7.2 billion. The estimated annual payroll for the industry was $1.2 billion, and the industry employed over 80,000. The economic impact study is scheduled for update in 2006.

San Antonio tourism attracts over 21.3 million visitors with direct spending across all industries in the City of $4.3 billion and 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 River Walk, 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.

In 2004, the City's overall performance for hotel occupancy increased by 1.5%. Revenue per available room ("REVPAR") increased by 4.4%, and total room nights sold in the destination increased by 2.1%. In 2005, from January through November, hotel occupancy increased by 6.5%, REVPAR increased by 12.3%, and total room nights sold in the destination increased by 7.8%, as compared to the same prior period in 2004.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

The City's accounting system supports an adequate internal control structure. The structure helps to safeguard the City's assets against loss, theft, or misuse. The accounting system provides reliable financial records for preparing financial statements in conformity with U.S. generally accepted accounting principles. The internal control structure provides reasonable, but not absolute, assurance that the City's assets are safeguarded. The concept of reasonable assurance first recognizes that the cost of a control should not exceed the benefits likely to be derived. Secondarily, the evaluation of costs and benefits require estimates and judgments by management.

FINANCIAL INFORMATION (Continued)

Accounting System and Budgetary Control (Continued)

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end, these same, encumbrances are generally appropriated as part of the following year's budget. For the fiscal year ending September 30, 2004, the Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Budget Presentation to the City.

As demonstrated by the statements and schedules in the Financial Section of this report, the City continues to meet its responsibility for sound financial management. As in the Financial Section, all monetary amounts presented in the remainder of this letter are expressed in thousands, except where noted.

Fiscal Management and Administrative Topics

Pension and Postemployment Retirement Benefits
The City provides pension retirement benefits for its eligible employees through two plans. For uniformed Fire and Police employees, retirement benefits are provided through the Fire and Police Pension Fund, a single-employer defined benefit retirement plan. Contribution and benefit levels are established under State statute. For fiscal year 2005, active members contributed 12.3% of covered payroll, or $24.9 million and the City contributed 24.6% or $49.7 million.

The City provides all other eligible employees, exclusive of fire and police employees, retirement benefits through the Texas Municipal Retirement System (TMRS), a nontraditional, joint contributory, hybrid defined benefit plan. TMRS is a statewide agent multiple-employer public employee retirement system. Contributions to the system are actuarially determined. The required contribution from City employees is 6.0%, while the City matches at a rate of approximately 12.5%. Both the City and its covered employees made the required contributions of $25.13 million and $12.32 million, respectively. For additional information on the City's pension plans, see Note 8 in the notes to the financial statements.

With respect to postemployment health benefits, the City provides benefits for all non-uniformed City retirees and for all pre-October 1, 1989 uniformed fire and police retirees. The cost of the program is reviewed annually and actuarially determined costs of medical claims are funded jointly on a pay-as-you-go basis with the City contributing 2/3 and the retirees contributing 1/3 of the cost. As of September 30, 2005, there were 1,301 retirees participating in the program and currently there are 6,060 active civilian employees who may become eligible for this program in the future.

The second postemployment health benefit program provides retirement healthcare benefits for eligible fire and police retirees under the Fire and Police Retiree Healthcare Fund (Fund). Contribution and benefits levels are established under the City's collective bargaining agreements with the Fire and Police Unions, respectively. The benefits of this plan are financed on a prefunded basis. For fiscal year 2005, the City contributed $17.2 million to the Fund and active employees and retirees contributed $3.3 million. For additional information on the City's post-employment health benefits, see Note 9 of the notes to the financial statements.

Employee Benefits Program
The City's Self-Insurance Fund continues to experience increased expenses due to rising healthcare costs, increased prescription drug costs, increased claims volume, and changing employee demographics. The City continues to focus on cost containment programs such as hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, disease management and a preferred provider organization to assist in managing the rising cost of medical care. Such strategies have been effective for the City

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Employee Benefits Program (Continued)
in managing medical costs in a changing healthcare industry. In addition to continuing the enhancement of these cost containment programs, the City engaged in a contract with a benefit consultant, The Hay Group, in 2005 to perform a comprehensive review of the Employee Benefits Program. The Hay Group, with the assistance of City staff, developed approaches to further reduce cost by developing a partnership-strategy between the City, employees, and retirees to manage healthcare costs with the goal of lowering healthcare spending by maintaining premium levels while increasing deductibles and out-of-pocket (OPP) maximums in conjunction with the funding of flexible spending accounts. Maintaining 2005 premiums and co-insurance levels through 2006 allows time to engage in the upcoming negotiations with the Police & Fire associations. The total cost savings projected for fiscal year 2006, as a result of the program changes with no premium increase for civilian active and retirees, is estimated at $1.1 million. In fiscal year 2005, the Employee Benefits Fund had cash and investment in reserve of $3.5 million and a negative net assets balance of $20.69 million. For additional information on the City's risk and employee benefit programs, see Note 12 of the notes to the financial statements.

Risk Management Programs
For fiscal year 2005, the Insurance Reserve Fund maintained a positive net assets balance of $3.61 million. The Workers' Compensation Fund reflected a negative net assets balance of $4.25 million for fiscal year 2005. The Insurance Reserve and Workers' Compensation Funds carried cash reserves as of September 30, 2005 in the amount of $16.42 million and $9.76 million, respectively.

The City's Liability and Workers' Compensation Self-Insurance 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 and 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 polices 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 estimated 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, Commercial Paper, Repurchase Agreements, Money Market Funds, and Investment Pools. The City's investment portfolio does not include callable obligations or any derivative products. It is not the City's policy to use derivative products in its portfolio, nor does the City leverage its investments. At September 30, 2005, at fair

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Cash and Investment Management (Continued)
value, City investment funds were 92.0% invested in obligations of the United States, or its agencies and instrumentalities, and 6.9% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 1.1% of the City's portfolio includes the Convention Center Debt Service Reserve Fund of $8.5 million, which was invested in a fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and the City's investment policy. For additional information on Cash and Investments, see Note 3 of the notes to the financial statements.

Debt Administration
The City utilizes a comprehensive debt management financial planning program (The Debt Management Plan), which is updated annually. The Debt Management Plan is a major component of the City's financial planning. The model projects financing needs while measuring and assessing the cost and timing of each debt issuance. It involves comprehensive financial analysis which utilizes computer modeling, and incorporates variables such as interest rate sensitivity, assessed values changes, annexations, and current ad valorem tax collection rates. Use of this financial management tool has assisted the City in meeting its financing needs by facilitating timely and thorough planning which has allowed the City to capitalize on market opportunities.

Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "Aa2", "AA+" and "AA+" bond rating by Moody's Investors Service, Inc. (Moody's), Standard & Poor's Public Ratings Services, a division of McGraw-Hill Corporation (S&P), and Fitch Ratings, Inc. (Fitch), respectively. For additional information on the City's long-term debt, see Note 6 of the notes to the financial statements.

OTHER INFORMATION

Independent Audit

State statutes require that an annual audit by an independent certified public accountant be conducted. The City selected the accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA in 2002. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and related OMB Circular A-133. The Independent Auditors' Report on the basic financial statements, management's discussion and analysis (required supplementary information), required disclosures and schedules are included in the Financial Section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996 and OMB Circular A-133 and the State of Texas Audit Circular are in a separate document.

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, 2004. This was the 29th 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 must satisfy 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 comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

OTHER INFORMATION (Continued)

Awards (Continued)

The San Antonio Planning Department has recently received both national and state recognition. The International City/County Management Association recognized the Community Building and Neighborhood Planning Program in 2005 for Excellence in Citizen Involvement. In 2004, the Texas Chapter of the American Planning Association also honored the City of San Antonio's Planning Department with two awards: the Current Planning Award for the Flex Zoning Districts in conjunction with the Southside Initiative, and the Project Planning Award for the River Improvement Overlay District.

The City of San Antonio Development Services Department was recognized by Hansen as its Outstanding Power User Survey Award for the department's use of online permitting and inspection scheduling which is one of the highest in the nation.

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2005, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division. Each member of the Department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Managers, Assistant City Managers, Assistant to the City Manager, and their staff, for their continued support.

Respectfully Submitted,

Ben Gorzell, Jr., CPA
Director
Finance Department

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio, Texas

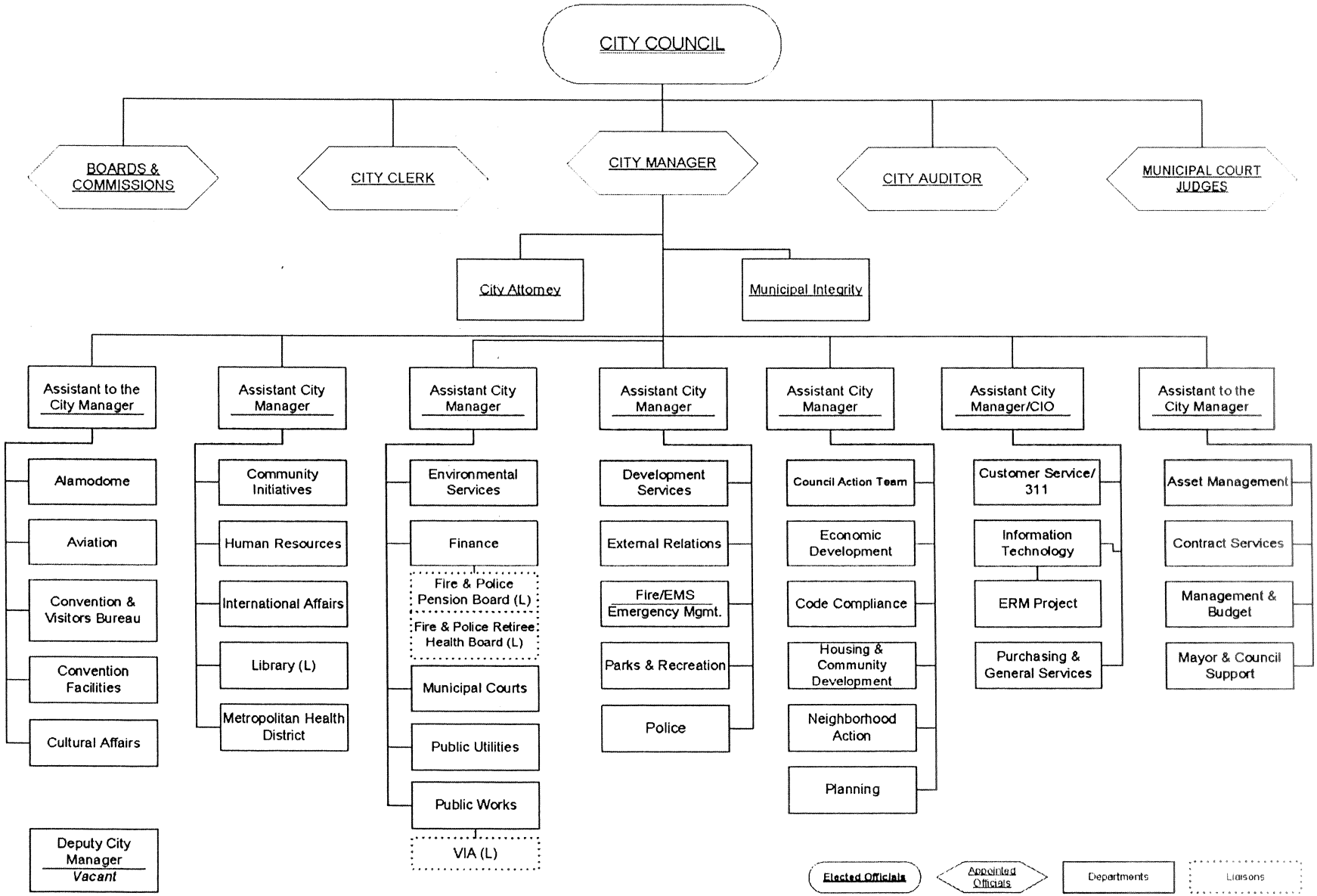
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

CITIZENS OF SAN ANTONIO



City of San Antonio interim reorganization effective October 1, 2005

CITY OF SAN ANTONIO, TEXAS

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

CITY COUNCIL
Phil Hardberger, Mayor

Roger O. Flores
Sheila D. McNeil
Roland Gutierrez
Richard Perez
Patti Radle
Delicia Herrera
Elena Guajardo
Art A. Hall
Kevin A. Wolff
Christopher "Chip" Haass

CITY MANAGER
Sheryl L. Sculley

DEPUTY CITY MANAGER
Jelynne LeBlanc Burley

DEPUTY CITY MANANGER
Pat DiGiovanni

ASSISTANT CITY MANAGER
Michael Armstrong

ASSISTANT CITY MANAGER
Frances A. Gonzalez

ASSISTANT CITY MANAGER
Erik J. Walsh

ASSISTANT TO THE CITY MANAGER
Roland A. Lozano

MEMBER OF THE GOVERNMENT FINANCE OFFICERS
ASSOCIATION OF THE UNITED STATES & CANADA

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City of San Antonio
Texas

Financial Section

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City of San Antonio
Texas

Independent Auditors' Report

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KPMG
300 Convent, Suite 1200
San Antonio, TX 78205

RJW
Robert J. Williams
Certified Public Accountant
1100 N.W. Loop 410, Suite 700
San Antonio, TX 78213

LEAL & CARTER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
11122 Wurzbach Rd. / Suite 200
San Antonio, TX 78230-2573

Independent Auditors' Report

The Honorable Mayor
and Members of City Council
City of San Antonio, Texas:

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of and for the year ended September 30, 2005, which collectively comprise the City of San Antonio, Texas' basic financial statements as listed in the accompanying table of contents under "Basic Financial Statements." These financial statements are the responsibility of the City of San Antonio, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain discretely presented component units and blended component units included in the governmental and fiduciary funds of the City of San Antonio, Texas, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP, Robert J. Williams, CPA, and Leal & Carter, P.C., acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, are based solely on the reports of the other auditors.

	Percent not jointly audited	
	Total assets	Total revenue
Government-wide		
Governmental activities	0%	0%
Business-type activities	0%	0%
Discretely presented component units	100%	100%
Fund statements		
Major funds	0%	0%
Aggregate remaining fund information	75%	35%

	Percent audited by KPMG separately		Percent audited by Leal & Carter separately		Percent audited by Robert J. Williams separately	
	Total assets	Total revenue	Total assets	Total revenue	Total assets	Total revenue
Government-wide						
Discretely presented component units	71%	79%	1%	2%	71%	79%
Fund statements						
Aggregate remaining fund information	0%	0%	6%	4%	0%	0%

KPMG LLP KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss cooperative

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 of San Antonio, Texas' 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The City of San Antonio, Texas adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment to GASB Statement No. 3*, as of September 30, 2005.

The Management's Discussion and Analysis on pages 1 through 12, the Budgetary Comparison Schedule on page 129, and Schedules of Funding Progress on page 130 are not required parts of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We, and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we, and the other auditors, did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of San Antonio, Texas' basic financial statements. The introductory section, the combining financial statements, schedules and other supplementary information, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining financial statements and schedules and other supplementary information have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP Robert J. Williams CPA Leal & Carter, P.C.

June 28, 2006

City of San Antonio
Texas

Management's Discussion and Analysis

(Required Supplementary Information)

(Unaudited)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2005. 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 $2,517,663 (net assets). Of this amount, $134,771 (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 $772,954, an increase of $236,226 compared to the fiscal year 2004 fund balance. The total unreserved fund balance of $573,286 is available for spending at the government's discretion. Of this amount, $40,860 is designated and $532,426 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $107,490 or 18.5% 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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business financial presentation.

The *statement of net assets* is a presentation of the City's assets and liabilities, including capital and infrastructure assets, and long-term liabilities. This statement reports the difference between assets and liabilities as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information 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, conservation, urban redevelopment and housing, welfare and economic development opportunity. The business-type activities of the City include the airport system, parking system, and environmental services.

In addition, the basic financial statements provide information regarding the City's legally separate discretely presented component units. Component unit financial information is reported separately from the primary government in the government-wide financial statements.

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are used to present financial information detailing resources that have been identified for specific activities. The focus of the fund financial statements is on the City's major funds, although non-major funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into three 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 of San Antonio 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, Convention Center Hotel Finance Corporation Fund and the debt service funds, all of which are considered to be major funds. Data from the other funds is combined into a single, aggregated presentation labeled "Nonmajor Governmental Funds." Individual fund data for each non-major governmental fund is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the functions presented in business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its airport, parking, and environmental services funds. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions, including, self-insurance programs, other internal services and information technology services. The services provided by these funds predominantly support the governmental rather than the business-type functions. They have been included within the governmental activities in the government-wide financial statements that are reported alongside the business activities.

Proprietary fund financial statements provide separate and more detailed information for the airport, parking, and environmental services funds. The airport and parking funds are considered major funds of the City while internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. Fiduciary funds are not reflected in the government-wide financial statements as the resources of those funds are not available to support the City's programs and operations. The accounting for fiduciary funds is much like that used for the proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information on the City's General Fund budget, which is adopted on an annual basis, and schedules of funding progress related to pension and retirement plans. A budgetary comparison statement has been provided for this fund in order to demonstrate budgetary compliance with this budget.

Government-wide Financial Analysis

GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, requires that the City provide a comparative analysis of government-wide data. Below is a comparative summary of the governmental activities and business-type activities as required by GASB Statement No. 34:

City of San Antonio, Texas
Net Assets
Year Ended September 30, 2005
(With Comparative Totals for September 30, 2004)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	$ 990,155	$ 708,633	$ 236,980	$ 202,559	$ 1,227,135	$ 911,192
Capital assets	3,068,559	3,047,629	307,740	296,394	3,376,299	3,344,023
Total assets	4,058,714	3,756,262	544,720	498,953	4,603,434	4,255,215
Current and other liabilities	168,847	135,687	30,074	11,900	198,921	147,587
Long-term liabilities	1,613,274	1,312,631	273,576	259,433	1,886,850	1,572,064
Total liabilities	1,782,121	1,448,318	303,650	271,333	2,085,771	1,719,651
Net assets:						
Investment in capital assets, net of related debt	2,042,288	2,118,418	212,715	197,929	2,255,003	2,316,347
Restricted	101,253	89,867	26,636	23,720	127,889	113,587
Unrestricted	133,052	99,659	1,719	5,971	134,771	105,630
Total net assets	$ 2,276,593	$ 2,307,944	$ 241,070	$ 227,620	$ 2,517,663	$ 2,535,564

For the year ended September 30, 2005, total assets exceeded liabilities by $2,517,663. The largest portion of the City's net assets, $2,255,003 (89.6%) 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, $127,889 (5.1%) represents resources that are subject to external restrictions on how they may be used. The remaining $134,771 (5.3%) represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

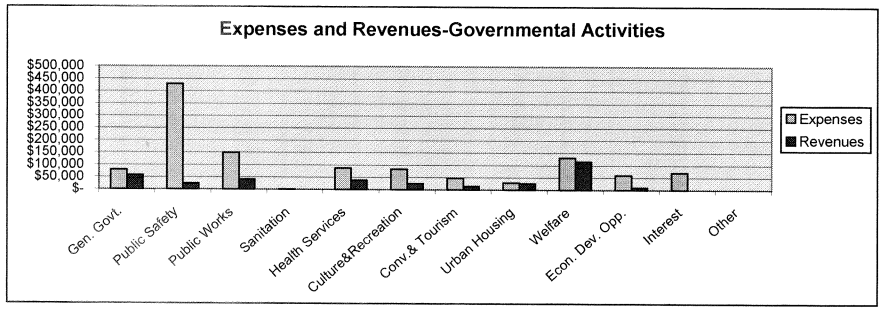
City of San Antonio, Texas
Changes in Net Assets
Year ended September 30, 2005
(With Comparative Totals for September 30, 2004)

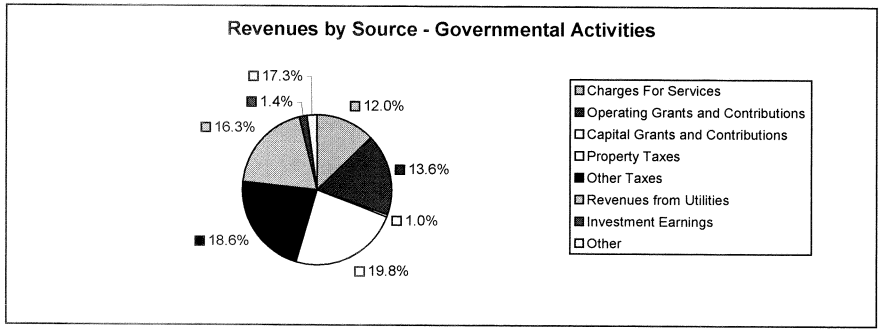
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	$ 147,109	$ 133,709	$ 107,869	$ 103,739	$ 254,978	$ 237,448
Operating grants and contributions	198,185	168,120			198,185	168,120
Capital grants and contributions	8,256	16,614	2,223	27	10,479	16,641
General revenues:						
Property taxes	269,138	257,514			269,138	257,514
Other taxes	253,239	238,700			253,239	238,700
Revenues from utilities	222,162	196,793			222,162	196,793
Investment earnings	19,931	7,189	5,434	2,046	25,365	9,235
Miscellaneous	22,431	28,542	9,962	10,378	32,393	38,920
Gain on sale of capital assets	1,507	611	96		1,603	611
Capital contributions		1,585				1,585
Total revenues	$ 1,141,958	$ 1,049,377	$ 125,584	$ 116,190	$ 1,267,542	$1,165,567
Expenses:						
Primary government:						
Governmental activities:						
General government	80,018	63,610			80,018	63,610
Public safety	428,582	428,607			428,582	428,607
Public works	149,476	116,629			149,476	116,629
Sanitation	2,731	2,787			2,731	2,787
Health services	89,011	82,233			89,011	82,233
Environmental protection and control		36				36
Culture and recreation	84,555	80,051			84,555	80,051
Convention and tourism	48,364	50,100			48,364	50,100
Conservation	2				2	
Urban redevelopment and housing	29,764	23,981			29,764	23,981
Welfare	131,840	116,701			131,840	116,701
Economic development opportunity	60,461	21,277			60,461	21,277
Interest on long-term debt	70,655	55,855			70,655	55,855
Business-type activities:						
Airport			46,868	49,427	46,868	49,427
Parking facilities			8,413	6,264	8,413	6,264
Environmental services			54,703	51,227	54,703	51,227
Total expenses	1,175,459	1,041,867	109,984	106,918	1,285,443	1,148,785
Increase (decrease) in net assets before transfers	(33,501)	7,510	15,600	9,272	(17,901)	16,782
Transfers	2,150	2,443	(2,150)	(2,443)		
Net increase in net assets	(31,351)	9,953	13,450	6,829	(17,901)	16,782
Beginning, net assets	2,307,944	2,297,991	227,620	220,791	2,535,564	2,518,782
Ending, net assets	$ 2,276,593	$ 2,307,944	$ 241,070	$ 227,620	$ 2,517,663	$2,535,564

Governmental Activities

The City's total revenues were $1,267,542 for fiscal year ended September 30, 2005. Revenues from governmental activities totaled $1,141,958 and revenues from business-type activities totaled $125,584. General revenues represented 63.4% of the City's total revenue, while program revenues provided 36.6% of revenue received in fiscal year 2005.

Expenses for the City totaled $1,285,443. Governmental activity expenses totaled $1,175,459, or 91.4% of total expenses.





Governmental Activities decreased the City's net assets by $31,351. The reason for the change is as follows:

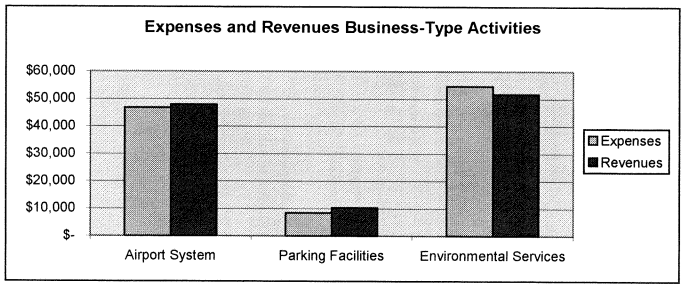
- Revenues from utilities increased by $25,369 because of rate increases and because of an unusually hot and dry year.
- General Government expenses increased by $16,408 because of budgeted increases in salaries and benefits and increases in other expenditures.
- Interest on Long Term Debt increased $14,800 because of increased bond activity.
- The increase of Public Work expenses was primarily attributed to a $7,261 increase for street maintenance and improvement projects and $12,694 was related to expenses incurred for Hurricane Katrina.
- Expenditures for Economic Development increased by $39,184 was related to construction costs of the Convention Center Hotel Project

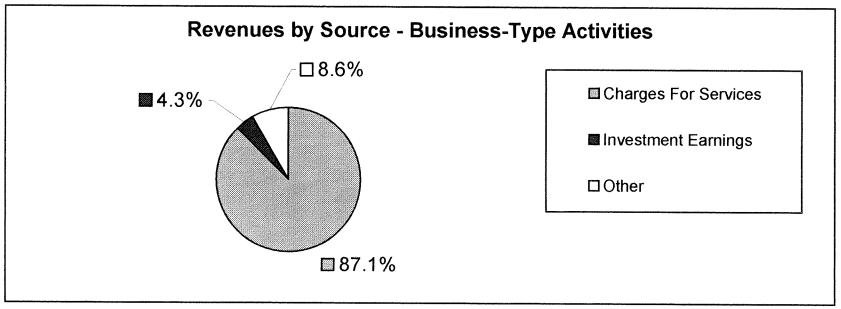
Business-Type Activities/Proprietary Funds

Program revenues for the City's business-type activities totaled $107,869, which is $4,130 higher than the previous fiscal year. Expenses for business-type activities were $109,984 compared to prior year's expenses of $106,918. The current year's increase in expenses is attributed to increased expenses incurred in the Parking and Environmental Services funds over the prior year. The remaining revenue was a result of interest and other miscellaneous items.

Business-Type Activities increased the City's net assets by $13,450 primarily because of the following:

- Charges for Services increased $4,130 because of an increase in customers served as well as various fee increases implemented in FY 2005.
- Investment earnings increased by $3,388 when compared to FY 2004.
- A $2,196 increase in Capital Grant Contributions in the Airport System Fund.





Financial Analysis of Governmental Funds

Activities of the Primary Government's General Fund, Special Revenue Funds, Debt Service Funds, and Convention Center Hotel Finance Corporation 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 Convention Center Hotel Finance Corporation Fund, established in 2005, is used to account for finance and costs associated with the design, development, and construction of the Hotel Project.

Revenues from taxes increased by $26,163 which is primarily attributable to: (1) a $11,624 or 4.5% increase in property tax revenue in the General Fund, (2) a $14,294 or 9.6% increase in sales tax revenue in the General Fund, and (3) a $4,867 or 4.9% increase in property tax revenue for the Debt Service Fund as a result of increased property valuation, new construction, and annexation. Revenues for the utilities category, which is represented in the City's General Fund increased by $25,369 or 12.9%. This is primarily attributed to an increase of $23,878 in the City's payment from CPS, which is based on CPS' gross revenues. CPS revenues are impacted by a number of variables such as fuel costs, weather, types of electric generation used as well as other factors. In this first year of operation, the Convention Center Hotel Finance Corporation received revenues from the sale of revenue bonds in the amount of $208,145 and interest of $2,022.

The total fund balance of the General Fund at year-end was $118,413, an increase of $19,903 from the total fund balance of $98,510 for the close of fiscal year 2004. The total unreserved general fund balance for fiscal year 2005 is $107,491, which represents $31,950 in designated and $75,540 in undesignated fund balance. The undesignated fund balance, which represents amounts available for additional appropriations, in the General Fund at the close of the fiscal year increased by $14,305 from the previous year.

The total fund balance of the Debt Service Fund at year-end was $85,127; an increase of $1,405 from the total fund balance for the close of fiscal year 2004. The entire fund balance is reserved for payment of debt service.

The Convention Center Hotel Finance Corporation has a total fund balance of $173,286, which is available for the payment of costs associated with the design, development, and construction of the Convention Center Hotel Project.

General Fund Budgetary Highlights

Significant Variances in Budget Appropriations
(Budgetary Basis)

General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 79,513	$ 87,406	$ 66,747
Public Safety	400,696	405,154	404,491
Public Works	10,698	10,698	10,478
Health Services	13,948	14,245	14,379
Sanitation	2,886	2,886	2,583
Welfare	20,837	22,019	21,578
Culture and Recreation	66,032	66,727	63,479
Economic Development and Opportunity	4,054	4,525	4,553
Transfers to Other Funds	75,210	87,057	86,649
Total	$ 673,874	$ 700,717	$ 674,937

(amounts are expressed in thousands)

Changes in original budget appropriations to the final amended budget appropriations were a $26,843 increase in appropriations. This increase can be summarized by the following discussion.

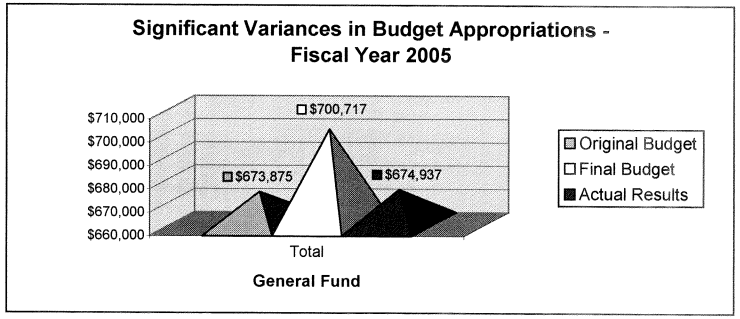
- General Government has a $7,893 increase composed of $8,247 of budget carry forwards and a $354 budget decrease. Of the $8,247 of budget carry forwards, $5,079 is for Special Projects and $2,007 is non-departmental carry forwards. The $354 budget decrease is made up of decreases in special projects and non-departmental of $2,635 and $324, respectively, offset by budget increases in various departments of $2,607.
- Of the $4,458 increase in Public Safety, $2,227 is due to budget carry forwards and $2,231 of budget increases. Major increases to budget carry forwards include $1,276 within the Police Department and $462 for the Fire Department. The $2,231 budget increase is attributable to increases to the Police and Fire Departments of $618 and $1,569 respectively.
- Health Services had a $297 budget increase, which consists of $26 of budget carry forwards and $271 of budget increases.
- All of the $1,182 increase in Welfare is due to a budget increase.
- Culture and Recreation's $695 increase is due to a $1,340 increase for budget carry forwards and $645 as a decrease in budget. The increase in budget carry forwards is due to increases in the Library and Parks and Recreation departments of $851 and $489, respectively. The $645 decrease in budget is within the Parks and Recreation department.
- The $471 increase in Economic Development and Opportunity is due to a $294 increase in budget carry forwards and a $177 budget increase.
- The $11,847 increase in transfers is due to amounts funded from various government functions.

Final budgeted appropriations for the General Fund were $700,717 while actual expenditures were $674,937, creating a positive variance of $25,780. Significant variances are as follows:

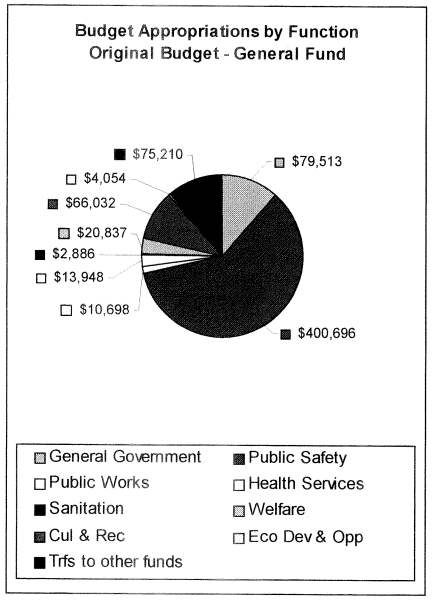
- General Government had a $20,659 positive variance, which is composed of $11,819 of budgeted personnel expenditures, $1,226 of improvements to computers to include software licenses, $5,582 in various contractual services, and $1,888 in unrealized expenditures for commodities such as supplies, repair and maintenance, and $34 in unrealized capital expenditures.

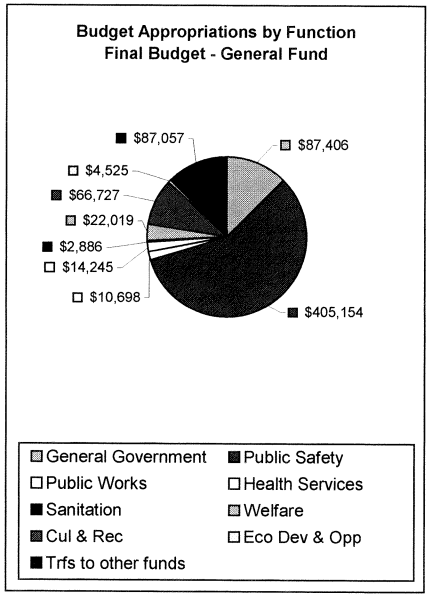
- Culture and Recreation had a positive variance of $3,248, which is due to a negative variance of ($1,921) of budgeted salaries, $4,751 in contractual services, $657 in expenditures for commodities, $112 in other expenses and negative variance of ($351) in capital expenditures.

The following charts provide a comparison of the City's budget appropriations.



(amounts are expressed in thousands)





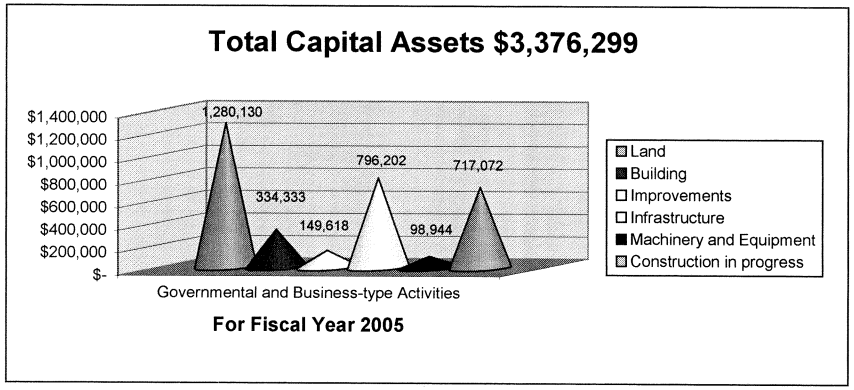
Capital Assets

The City of San Antonio's investment in capital assets for its governmental and business-type activities as of September 30, 2005, amounts to $3,376,299 (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 0.9%, which is comprised of a 0.7% increase for governmental activities and a 3.9% increase for business-type activities.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Land	$ 1,268,142	$ 1,259,362	$ 11,988	$ 11,988	$ 1,280,130	$ 1,271,350
Buildings	228,284	220,650	106,049	72,140	334,333	292,790
Improvements	65,579	40,379	84,039	88,052	149,618	128,431
Infrastructure	796,202	788,894			796,202	788,894
Machinery and Equipment	95,589	92,823	3,355	3,594	98,944	96,417
Construction in Progress	614,763	645,521	102,309	120,620	717,072	766,141
Totals	$ 3,068,559	$ 3,047,629	$ 307,740	$ 296,394	$ 3,376,299	$ 3,344,023

(amounts are expressed in thousands)

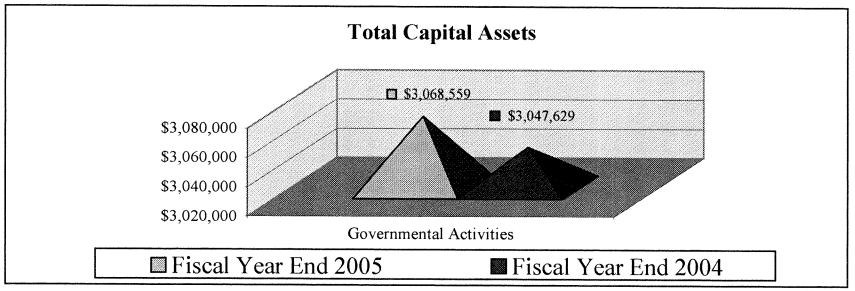
The following schedule provides a summary of the City's capital assets:



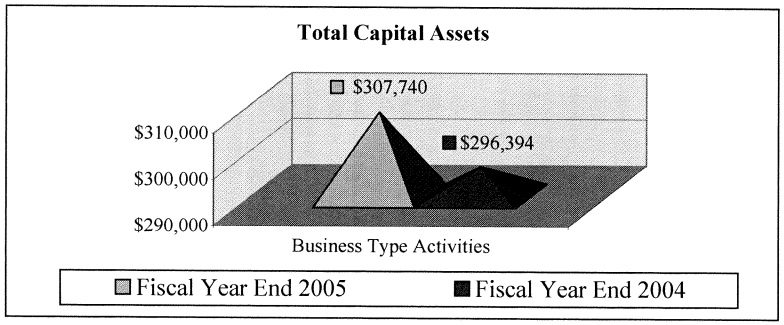
Change in Capital Assets
September 30, 2005

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$ 3,047,629	$ 296,394	$ 3,344,023
Additions	119,455	60,178	179,633
Deletions	(9,441)	(39,018)	(48,459)
Accumulated Depreciation	(89,084)	(9,814)	(98,898)
Ending Balance	$ 3,068,559	$ 307,740	$ 3,376,299

The following charts provide a summary of the changes in capital assets:



(amounts are expressed in thousands)



Additional information on the City's capital assets can be found in Note 4 of the notes to the financial statements.

Debt Administration

Long-term Debt

At the end of the current fiscal year, the City of San Antonio had a total of $1,700,342 in bonds, certificates, and revenue bonds, an increase of 21.9% over last year. Additional information on the City of San Antonio's long-term debt, including descriptions of the new issues, can be found in Note 6 in the Notes to the Financial Statements.

City of San Antonio's Outstanding Debt
September 30, 2005 and 2004

	Governmental Activities	
	2005	2004
Bonds Payable:		
General Obligation Bonds	$ 658,450	$ 655,141
Tax-Exempt Certificate of Obligation	194,675	214,470
Taxable Certificates of Obligation	6,850	4,580
Revenue Bonds	556,152	264,697
Total	$ 1,416,127	$ 1,138,888

	Business-Type Activities	
	2005	2004
Bonds Payable:		
General Obligation Bonds	$ 12,115	$ 13,245
Revenue Bonds	272,100	242,855
Total	$ 284,215	$ 256,100

(amounts are expressed in thousands)

On September 30, 2005, outstanding bonds and certificates debt totaled $1,416,127. In 2005, the City issued additional indebtedness for a total of $129,605. The $129,605 is comprised of $13,435 in certificates of obligation and $116,170 in general obligation bonds. The general obligation bonds will be utilized to refund a portion of the City's outstanding tax-supported debt, fund capital improvements to include streets and pedestrian improvements; drainage improvements; park and recreation facilities improvements; library improvements; public health and safety improvements. In April 2005, the City issued $10,535 in tax-exempt certificates of obligation bonds that will be utilized to fund capital improvements to include public safety, consisting of constructing, renovating, and improving existing fire stations; street, sidewalk, bridge, and drainage improvements; improvements and renovations to existing municipal facilities; acquiring, constructing, renovating the City's park facilities; constructing improvements for flood control, dams, landscaping, amenities along the San Antonio River; the purchase of materials, supplies, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, street, parks, and public works purposes; and professional services related to the construction and financing of the aforementioned projects. In May 2005, the City issued $2,900 in taxable certificates of obligations, which were used to fund improvement projects to the Alamodome. Also, in April 2005, the City issued $61,060 of Municipal Drainage Utility System Revenue Bonds, Series 2005. Proceeds of the 2005 Municipal Drainage Utility System Revenue Bonds will be used to finance the costs of drainage improvements, including the acquisition, construction, and repair of structures, equipment, and facilities for the City's Municipal Drainage Utility System. The City issued the following; $129,930 Contract Revenue Empowerment Zone Bonds, Series 2005A and $78,215 Contract Revenue Bonds, Series 2005B for Texas Convention Center Hotel Finance Corporation. Hotel Investments, L.P. will be loaned the proceeds from the Series 2005 bonds by the Texas Convention Center Hotel Finance Corporation. Hotel Investments, L.P. will use the proceeds of the Series 2005 Bonds to finance a portion of the costs to design, develop, construct, equip, furnish, and open a full-service hotel.

Standard & Poor's, Moody's and Fitch's underlying rating for City obligations are as follows:

	Standard & Poor's	Moody's	Fitch
General Obligation/ Certificates of Obligation	AA+	Aa2	AA+
Airport	A+	A1	A+
Airport PFC	A-	A2	A+
Convention Center – Prior Lien	A+	A1	A+
Convention Center – Subordinate Lien	A+	A2	A
Parking	A+	A2	A+
Drainage	AA-	A1	A+

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2005 was $51,824,208, which provides a debt ceiling of $5,182,421.

Requests for Information

This financial report is designed to provide a general overview of the City's position for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, P.O. Box 839966, San Antonio, TX 78283-3966.

(amounts are expressed in thousands)

City of San Antonio
Texas

Basic Financial Statements

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STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2005
(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets				
Cash and Cash Equivalents	$ 242,753	$ 1,450	$ 244,203	$ 67,158
Investments	531,510	14,647	546,157	310,854
Receivables, net	125,559	6,771	132,330	213,500
Due from Fiduciary Funds	700		700	
Due from Other Governmental Agencies, net	55,397		55,397	3,530
Internal Balances	4,392	(4,392)		
Materials and Supplies, at Cost	5,948	718	6,666	119,859
Prepaid Expenses	731	17	748	34,501
Deposits	542		542	
Restricted Assets:				
Cash and Cash Equivalents		22,622	22,622	141,614
Investments		189,072	189,072	1,244,247
Receivables - Accrued Interest		1,315	1,315	7,591
Capital Assets:				
Non-depreciable	1,882,905	114,297	1,997,202	868,665
Depreciable, net	1,185,654	193,443	1,379,097	6,167,103
Assets Held for Resale				8,210
Prepaid Rent Long-Term - Leaseback				516,182
Unamortized Debt Expense	22,623	4,760	27,383	37,661
Total Assets	4,058,714	544,720	4,603,434	9,740,675
Liabilities				
Accounts Payable and Other Current Liabilities	131,558	12,407	143,965	228,412
Unearned Revenues	20,178	596	20,774	1,897
Accrued Interest	11,960	1	11,961	
Liabilities Payable from Restricted Assets		13,465	13,465	19,294
Accrued Bond and Certificate Interest		3,605	3,605	150,911
Due To:				
Other Governmental Agencies	5,151		5,151	1,108
Noncurrent Liabilities:				
Due Within One Year	108,862	334	109,196	1,416,157
Due in More Than One Year	1,504,412	273,242	1,777,654	3,767,143
Total Liabilities	1,782,121	303,650	2,085,771	5,584,922
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,042,288	212,715	2,255,003	2,976,175
Restricted for:				
Debt Service	88,219	26,636	114,855	17,254
Capital Projects				579,546
Equipment Renewal and Replacement				175,396
Perpetual Care:				
Expendable	10,209		10,209	
Nonexpendable	2,825		2,825	
Unrestricted	133,052	1,719	134,771	407,382
Total Net Assets	$ 2,276,593	$ 241,070	$ 2,517,663	$ 4,155,753

The accompanying notes are an integral part of these basic financial statements.

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STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2005
(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	$ 80,018	$ 57,660	$ -	$ -	$ (22,358)	$ -	$ (22,358)	$ -
Public Safety	428,582	7,861	12,535	3,130	(405,056)		(405,056)	
Public Works	149,476	34,201	3,421	3,862	(107,992)		(107,992)	
Sanitation	2,731		193	7	(2,531)		(2,531)	
Health Services	89,011	10,252	27,459	76	(51,224)		(51,224)	
Culture and Recreation	84,555	19,583	4,588	965	(59,419)		(59,419)	
Convention and Tourism	48,364	14,740			(33,624)		(33,624)	
Conservation	2		2		-			
Urban Redevelopment and Housing	29,764		26,761	7	(2,996)		(2,996)	
Welfare	131,840	327	114,822	209	(16,482)		(16,482)	
Economic Development Opportunity	60,461	2,485	8,404		(49,572)		(49,572)	
Interest on Long-Term Debt	70,655				(70,655)		(70,655)	
Total Governmental Activities	1,175,459	147,109	198,185	8,256	(821,909)		(821,909)	
Business-Type Activities:								
Airport System	46,868	45,791		2,223		1,146	1,146	
Parking Facilities	8,413	10,325				1,912	1,912	
Environmental Services	54,703	51,753				(2,950)	(2,950)	
Total Business-Type Activities	109,984	107,869		2,223		108	108	
Total Primary Government	$ 1,285,443	$ 254,978	$ 198,185	$ 10,479	(821,909)	108	(821,801)	
Component Units:								
San Antonio Water System	265,029	262,687		59,742				57,400
City Public Service	1,465,600	1,422,405		47,666				4,471
Other Component Units	53,747	14,039		38,409				(1,299)
Total Component Units	$ 1,784,376	$ 1,699,131	$ -	$ 145,817				60,572
General Revenues:								
Taxes:								
Property Taxes					269,138		269,138	
General Sales and Use Taxes					167,332		167,332	
Selective Sales and Use Taxes					4,473		4,473	
Gross Receipts Business Taxes					26,274		26,274	
Occupancy Taxes					51,726		51,726	
Penalties and Interest on Delinquent Taxes					3,434		3,434	
Revenues from Utilities					222,162		222,162	
Investment Earnings					19,931	5,434	25,365	57,352
Miscellaneous					22,431	9,962	32,393	13,345
Gain on Sale of Capital Assets					1,507	96	1,603	5,262
Transfers (Net)					2,150	(2,150)		
Total General Revenues, Special Items, and Transfers					790,558	13,342	803,900	75,959
Change in Net Assets					(31,351)	13,450	(17,901)	136,531
Net Assets, Beginning					2,307,944	227,620	2,535,564	4,014,155
Prior Period Adjustment								5,067
Net Assets, Ending					$ 2,276,593	$ 241,070	$ 2,517,663	$ 4,155,753

The accompanying notes are an integral part of these basic financial statements.

-14-

CITY OF SAN ANTONIO, TEXAS

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

The accompanying notes are an integral part of these basic financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2005
(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	CONVENTION CENTER HOTEL FINANCE CORPORATION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets					
Cash and Cash Equivalents	$ 1,928	$ 21,946	$ 177,355	$ 36,817	$ 238,046
Investments	26,057	60,080		395,030	481,167
Receivables	103,948	9,416	466	50,683	164,513
Allowance for Uncollectibles	(19,827)	(937)		(19,991)	(40,755)
Prepaid Expenditures	2				2
Due from Other Funds	44,687	1,539		22,149	68,375
Due from Other Governmental Agencies	83			54,698	54,781
Materials and Supplies, at Cost	2,712			1,190	3,902
Deposits				261	261
Total Assets	$ 159,590	$ 92,044	$ 177,821	$ 540,837	$ 970,292
Liabilities and Fund Balances					
Liabilities:					
Vouchers Payable	$ 4,000	$ -	$ 4,535	$ 4,901	$ 13,436
Accounts Payable - Other	4,620			41,466	46,086
Accrued Payroll	8,974			5,056	14,030
Accrued Leave Payable	5,031			1,261	6,292
Unearned Revenues	16,888	6,917		19,073	42,878
Due To:					
Other Funds	1,664			68,512	70,176
Other Governmental Agencies				4,440	4,440
Total Liabilities	41,177	6,917	4,535	144,709	197,338
Fund Balances:					
Reserved:					
Reserved for Encumbrances	8,209		3,698	99,067	110,974
Reserved for Materials and Supplies, at Cost	2,712			853	3,565
Reserved for Prepaid Expenditures	2				2
Reserved for Debt Service		85,127			85,127
Unreserved:					
Designated	31,950				31,950
Designated: Special Revenue Funds				6,085	6,085
Designated: Permanent Funds				2,825	2,825
Undesignated	75,540				75,540
Undesignated: Special Revenue Funds				85,644	85,644
Undesignated: Capital Projects Funds			169,588	191,532	361,120
Undesignated: Permanent Funds				10,122	10,122
Total Fund Balances	118,413	85,127	173,286	396,128	772,954
Total Liabilities and Fund Balances	$ 159,590	$ 92,044	$ 177,821	$ 540,837	$ 970,292

The accompanying notes are an integral part of these basic financial statements.

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
AS OF SEPTEMBER 30, 2005
(In Thousands)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund Balances - Total Governmental Funds		$ 772,954
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets:		
Land and Land Improvements	1,268,142	
Construction In Progress	614,763	
Buildings	396,373	
Improvements	106,838	
Infrastructure Assets	2,054,838	
Machinery and Equipment	96,481	
Less: Accumulated Depreciation	(1,514,558)	
Total Capital Assets		3,022,877
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current periods expenditures and, therefore, are not reported in the governmental funds (See Footnote 14).		23,958
Internal service funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.		50,741
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds (See Footnote 14).		
Governmental Bonds Payable	(1,438,372)	
Premium on Bonds	(49,799)	
Deferred Amount on Refunding	13,839	
Leases Payable	(6,079)	
Amounts received from notes & loans	(1,369)	
Unamortized Debt Expense	22,623	
Accrued Interest	(11,960)	
Arbitrage Rebate	(1,688)	
Compensated Absences	(121,132)	
		(1,593,937)
Net assets of Governmental Activities		$ 2,276,593

The accompanying notes are an integral part of these basic financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	CONVENTION CENTER HOTEL FINANCE CORPORATION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues					
Taxes:					
Property Taxes	$ 171,229	$ 98,923	$ -	$ 1,338	$ 271,490
General Sales and Use Taxes	162,786			4,546	167,332
Selective Sales and Use Taxes	4,473				4,473
Gross Receipts Business Taxes	26,274				26,274
Occupancy Taxes				51,717	51,717
Penalties and Interest on Delinquent Taxes	2,268	1,137		29	3,434
Licenses and Permits	20,716				20,716
Intergovernmental	3,055			187,196	190,251
Revenues from Utilities	221,775				221,775
Charges for Services	33,622			73,642	107,264
Fines and Forfeits	12,025				12,025
Miscellaneous	11,841		16	14,991	26,848
Investment Earnings	2,445	3,970	2,022	10,107	18,544
In-Kind Contributions				24,872	24,872
Total Revenues	672,509	104,030	2,038	368,438	1,147,015
Expenditures					
Current:					
General Government	64,020			5,312	69,332
Public Safety	402,544			17,090	419,634
Public Works	10,478			75,462	85,940
Health Services	13,995			74,538	88,533
Sanitation	2,576			192	2,768
Welfare	19,757			111,255	131,012
Culture and Recreation	63,010			16,576	79,586
Convention and Tourism				48,315	48,315
Conservation				2	2
Urban Redevelopment and Housing				25,557	25,557
Economic Development and Opportunity	4,392			11,945	16,337
Capital Projects			36,963	109,887	146,850
Debt Service:					
Principal Retirement		57,581			57,581
Interest		60,202			60,202
Issuance Costs		1,027			1,027
Total Expenditures	580,772	118,810	36,963	496,131	1,232,676
Excess (Deficiency) of Revenues Over (Under) Expenditures	91,737	(14,780)	(34,925)	(127,693)	(85,661)
Other Financing Sources (Uses)					
Long-Term Debt Issued		86,010		106,319	192,329
Payments to Refunded Bond Escrow Agent		(93,163)			(93,163)
Amounts from Notes and Loans			208,145	2,462	210,607
Premium on Long-term Debt		6,914	66	5,924	12,904
Transfers In	14,122	16,423		129,276	159,821
Transfers Out	(85,956)			(74,655)	(160,611)
Total Other Financing Sources (Uses)	(71,834)	16,184	208,211	169,326	321,887
Net Change in Fund Balances	19,903	1,404	173,286	41,633	236,226
Fund Balances, October 1	98,510	83,723		354,495	536,728
Fund Balances, September 30	$ 118,413	$ 85,127	$ 173,286	$ 396,128	$ 772,954

The accompanying notes are an integral part of these basic financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in Fund Balances - Total Governmental Funds		$ 236,226
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Donated capital assets	364	
Expenditures for Capital Assets	99,821	
Less Current Year Deletions	(201)	
Less Current Year Depreciation	(84,483)	15,501
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(11,194)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments (See Footnote 14).		
Bond and Loan Amounts	(440,525)	
Payments to Escrow Agent	93,163	
Amortization of Bond Premiums and Deferred Charges (Net)	14,721	
Principal Payments	57,581	(275,060)
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 Footnote 14).		(9,990)
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.		13,166
Change in Net Assets of Governmental Activities		$ (31,351)

The accompanying notes are an integral part of these basic financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2005
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 968	$ 213	$ 269	$ 1,450	$ 4,707
Investments	12,170	1,749	728	14,647	50,343
Receivables:					
Other Accounts	2,018	114	17	2,149	967
Less: Allowance for Uncollectibles	(440)			(440)	(125)
Accrued Interest	75	20	19	114	391
Accrued Revenue	788		4,160	4,948	3
Due From Other Funds	543	2,724	10	3,277	13,630
Due From Other Governmental Agencies					759
Less: Allowance for Uncollectibles					(143)
Materials and Supplies, at Cost	500	209	9	718	2,046
Prepaid Expenses	17			17	729
Deposits					281
Total Current Assets	16,639	5,029	5,212	26,880	73,588
Noncurrent Assets:					
Restricted Assets:					
Debt Service Accounts:					
Cash and Cash Equivalents	9,184	2,849		12,033	
Investments	17,477	5,421		22,898	
Receivables-Accrued Interest	68	15		83	
Due From Other Funds		4,845		4,845	
Construction Accounts:					
Cash and Cash Equivalents	7,622	151	18	7,791	
Investments	122,181	1,653	269	124,103	
Receivables-Accrued Interest	713	50	23	786	
Due From Other Funds	2,224	6,035		8,259	
Improvement and Contingency Accounts:					
Cash and Cash Equivalents	2,272	93	5	2,370	
Investments	34,165	1,398	81	35,644	
Receivables-Accrued Interest	376	9	3	388	
Due from Other Funds			409	409	
Other Restricted Accounts:					
Cash and Cash Equivalents	323	105		428	
Investments	4,851	1,576		6,427	
Receivables-Accrued Interest	47	11		58	
Due From Other Funds	4,938			4,938	
Total Restricted Assets	206,441	24,211	808	231,460	
Capital Assets:					
Land	2,970	8,125	893	11,988	
Buildings	144,248	29,192	46	173,486	464
Improvements Other Than Buildings	156,110	1,283	3,025	160,418	195
Machinery and Equipment	10,866	579	3,840	15,285	119,580
Construction in Progress	98,382	3,329	598	102,309	
Total Capital Assets	412,576	42,508	8,402	463,486	120,239
Less: Accumulated Depreciation	142,056	10,236	3,454	155,746	74,557
Net Capital Assets	270,520	32,272	4,948	307,740	45,682
Unamortized Debt Expense	4,017	743		4,760	
Total Noncurrent Assets	480,978	57,226	5,756	543,960	45,682
Total Assets	$ 497,617	$ 62,255	$ 10,968	$ 570,840	$ 119,270

The accompanying notes are an integral part of these basic financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2005
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES					
Current Liabilities:					
Vouchers Payable	$ 397	$ 59	$ 1,169	$ 1,625	$ 3,966
Accounts Payable-Other	6,439	111	2,142	8,692	52,996
Accrued Payroll	487	109	646	1,242	1,044
Accrued Leave Payable	174	16	144	334	616
Unearned Revenues	596			596	693
Accrued Interest			1	1	
Lease Purchase Agreement					355
Due to Other Funds		6,895	409	7,304	13,277
Total Current Liabilities Payable from Current Assets	8,093	7,190	4,511	19,794	72,947
Current Liabilities Payable from Restricted Assets:					
Vouchers Payable	484	362	2	848	
Accrued Bond and Certificate Interest	3,311	294		3,605	
Current Portion of Bonds and Certificates	9,615	1,930		11,545	
Due to Other Funds	5,477	6,799		12,276	
Lease Purchase			148	148	96
Other Payables	1,565	7	200	1,772	
Total Current Liabilities Payable from Restricted Assets	20,452	9,392	350	30,194	96
Total Current Liabilities	28,545	16,582	4,861	49,988	73,043
Noncurrent Liabilities:					
Revenue Bonds (Net of Current Portion)	238,490	23,395		261,885	
General Obligation Bonds and Certificates (Net of Current Portion)		10,785		10,785	
Unamortized Premium/Discount on new Series	3,773	(761)		3,012	
Less: Deferred Amount on Refunding	(3,502)	(1,551)		(5,053)	
Accrued Leave Payable	868	82	718	1,668	613
Lease Purchase			115	115	702
Due to Other Governmental Agencies					711
Other Payables			830	830	
Total Noncurrent Liabilities	239,629	31,950	1,663	273,242	2,026
Total Liabilities	268,174	48,532	6,524	323,230	75,069
NET ASSETS					
Invested In Capital Assets, Net of Related Debt	198,354	9,413	4,948	212,715	44,528
Restricted:					
Debt Service	23,411	3,225		26,636	
Unrestricted	7,678	1,085	(504)	8,259	(327)
Total Net Assets	$ 229,443	$ 13,723	$ 4,444	$ 247,610	$ 44,201

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. (6,540)

Net assets of business-type activities. $ 241,070

The accompanying notes are an integral part of these basic financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues					
Charges for Services	$ 45,791	$ 10,325	$ 51,753	$ 107,869	$ 183,422
Total Operating Revenues	45,791	10,325	51,753	107,869	183,422
Operating Expenses					
Personnel Services	17,421	3,885	22,508	43,814	32,364
Contractual Services	2,881	686	19,558	23,125	12,073
Commodities	745	148	1,878	2,771	4,727
Materials					16,740
Other	5,303	999	10,935	17,237	100,482
Depreciation	8,874	780	369	10,023	12,351
Total Operating Expenses	35,224	6,498	55,248	96,970	178,737
Operating Income (Loss)	10,567	3,827	(3,495)	10,899	4,685
Nonoperating Revenues (Expenses)					
Interest and Other	4,788	461	185	5,434	1,387
Other Nonoperating Revenue	9,145	24	793	9,962	3,491
Gain (Loss) on Sale of Capital Assets	10		86	96	1,507
Interest and Debt Expense	(11,262)	(1,981)	(20)	(13,263)	(46)
Other Nonoperating Expense	(549)			(549)	
Total Nonoperating Revenues (Expenses)	2,132	(1,496)	1,044	1,680	6,339
Change in Net Assets Before Contributions and Transfers	12,699	2,331	(2,451)	12,579	11,024
Capital Contributions	2,223			2,223	
Transfers In (Out)					
Transfers In		499	515	1,014	5,886
Transfers Out	(615)	(1,027)	(1,522)	(3,164)	(2,946)
Total Transfers	(615)	(528)	(1,007)	(2,150)	2,940
Change In Net Assets	14,307	1,803	(3,458)	12,652	13,964
Net Assets, Beginning	215,136	11,920	7,902		30,237
Net Assets, Ending	$ 229,443	$ 13,723	$ 4,444		$ 44,201

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	798
Change in net assets of business-type activities.	$ 13,450

The accompanying notes are an integral part of these basic financial statements.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities					
Cash Received from Customers	$ 45,114	$ 10,213	$ 51,672	$ 106,999	$ 183,877
Cash Payments to Suppliers for Goods and Services	(6,470)	(1,748)	(31,827)	(40,045)	(131,953)
Cash Payments to Employees for Service	(17,359)	(3,865)	(22,364)	(43,588)	(32,100)
Net Cash Provided by (Used for) Operating Activities	21,285	4,600	(2,519)	23,366	19,824
Cash Flows from Noncapital Financing Activities					
Other Nonoperating Revenues	9,145	24	793	9,962	3,492
Transfers In from Other Funds		(1,027)	515	(512)	5,886
Transfers Out to Other Funds	(615)	499	(1,522)	(1,638)	(2,946)
Due to Other Funds	4,956	12,909	(419)	17,446	(9,058)
Due from Other Funds	(6,207)	(13,604)	409	(19,402)	10,218
Net Cash Provided by (Used for) Noncapital Financing Activities	7,279	(1,199)	(224)	5,856	7,592
Cash Flows from Capital and Related Financing Activities					
Acquisitions and Construction of Capital Assets	(18,615)	(1,259)	(481)	(20,355)	(19,244)
Proceeds from Issuance of Long-Term Debt	39,388	226		39,614	
Principal Payments on Long-Term Debt	(8,390)	(1,580)	(143)	(10,113)	(91)
Interest Paid on Long-Term Debt	(10,890)	(1,694)	(21)	(12,605)	
Debt Issuance Costs	(971)			(971)	
Principal Payments on Notes					662
Interest Paid on Notes					(46)
Proceeds from Sale of Assets	10		109	119	2,971
Net Cash Provided by (Used for) Capital and Related Financing Activities	532	(4,307)	(536)	(4,311)	(15,748)
Cash Flows from Investing Activities:					
Purchases of Investment Securities	(394,347)	(24,765)	(2,218)	(421,330)	(82,820)
Maturity of Investment Securities	373,376	26,222	4,898	404,496	69,181
Investment Earnings	3,847	391	150	4,388	1,112
Net Cash Provided by (Used for) Investing Activities	(17,124)	1,848	2,830	(12,446)	(12,527)
Net Increase (Decrease) in Cash and Cash Equivalents	11,972	942	(449)	12,465	(859)
Cash and Cash Equivalents, October 1	8,397	2,469	741	11,607	5,566
Cash and Cash Equivalents, September 30	$ 20,369	$ 3,411	$ 292	$ 24,072	$ 4,707

The accompanying notes are an integral part of these basic financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities					
Operating Income (Loss)	$ 10,567	$ 3,827	$ (3,495)	$ 10,899	$ 4,685
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:					
Depreciation	8,874	780	370	10,024	12,351
Changes in Assets and Liabilities:					
(Increase) Decrease In Other Accounts Receivable	(376)	(55)	(15)	(446)	(53)
(Increase) Decrease In Allowance for Uncollectibles	3	(57)		(54)	9
(Increase) Decrease In Accrued Revenues	(32)		(66)	(98)	553
(Increase) In Due from Other Gov'tl. Agencies					(81)
(Increase) Decrease In Materials and Supplies	(165)	(10)	3	(172)	(434)
(Increase) Decrease In Prepaid Expenses	1			1	(726)
(Increase) In Deposits					(124)
Decrease In Vouchers Payable	397	59	1,169	1,625	3,966
Increase (Decrease) In Other Payables	2,226	36	(629)	1,633	(586)
Increase In Accrued Payroll	66	29	104	199	223
Increase (Decrease) In Accrued Leave Payable	(4)	(9)	40	27	41
(Decrease) In Unearned Revenue	(272)			(272)	
Net Cash Provided by (Used for) Operating Activities	$ 21,285	$ 4,600	$ (2,519)	$ 23,366	$ 19,824
Noncash Investing, Capital and Financing Activities:					
Acquisitions and Construction of Capital Assets from Capital Contributions	$ 2,223	$	$	$ 2,223	$

The accompanying notes are an integral part of these basic financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF FIDUCIARY NET ASSETS/BALANCE SHEET
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2005
(In Thousands)

ASSETS	FIRE AND POLICE PENSION AND HEALTHCARE FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Current Assets			
Cash and Cash Equivalents	$ 110,707	$ 2	$ 7,186
Security Lending Collateral	177,712		
Investments, at Fair Value:			
U.S. Government and Agency Issues	205,413	29	947
Corporate Bonds	85,628		
Preferred Common Stock	68,448		
Other	1,381,748		
Total Investments, at Fair Value	1,741,237	29	947
Receivables:			
Other Accounts	4,571		384
Accrued Interest	4,785		7
Accrued Revenue	1,441		
Prepayments	13		
Total Current Assets	2,040,466	31	8,524
Capital Assets			
Computer Equipment	76		
Buildings	590		
Total Capital Assets	666		
Less: Accumulated Depreciation	344		
Net Capital Assets	322		
Total Assets	2,040,788	31	$ 8,524
LIABILITIES			
Vouchers Payable	4,724		1
Accounts Payable- Other	4,296		7,823
Accrued Payroll	76		
Due to Other Funds			700
Unearned Revenue	355		
Securities Lending	177,712		
Total Liabilities	187,163		$ 8,524
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	$ 1,853,625	$ 31	

The accompanying notes are an integral part of these basic financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTHCARE FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS:		
Contributions:		
Employer	$ 69,602	$ -
Employee	25,422	
Other Contributions		3
Total Contributions	95,024	3
Investment Earnings:		
Net Increase in Fair Value of Investments	189,534	
Real Estate Income, Net	2,160	
Interest and Dividends	39,256	1
Securities Lending	4,606	
Other Income	795	
Total Investment Earnings	236,351	1
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(8,852)	
Securities Lending Expenses:		
Borrower Rebates	(4,052)	
Lending Fees	(194)	
Net Investment Income	223,253	1
Total Additions	318,277	4
DEDUCTIONS:		
Benefits	82,800	
Refunds of Contributions	510	
Administrative Expense	1,690	5
Salaries, Wage, and Employee Benefits	535	
Total Deductions	85,535	5
Change in Net Assets	232,742	(1)
Net Assets, Beginning	1,620,883	32
Net Assets, End	$ 1,853,625	$ 31

The accompanying notes are an integral part of these basic financial statements.

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2005
(In Thousands)

ASSETS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Assets:				
Cash and Cash Equivalents	$ -	$ 50,920	$ 16,238	$ 67,158
Investments	43,542	258,406	8,906	310,854
Receivables, net:				
Notes			12,200	12,200
Other Accounts	32,037	161,419	3,947	197,403
Accrued Interest	1,211	2,629	57	3,897
Materials and Supplies, at Cost	4,538	115,272	49	119,859
Due from Other Governmental Agencies			3,530	3,530
Prepaid Expenses	3,035	30,951	515	34,501
Total Current Assets	84,363	619,597	45,442	749,402
Noncurrent Assets:				
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	73	738		811
Investments	18,785			18,785
Construction Accounts:				
Cash and Cash Equivalents	15,738	93,255		108,993
Investments	205,161	44,851		250,012
Repair and Replacement Account:				
Investments		572,057		572,057
Receivables-Accrued Interest		4,948		4,948
Conservation Accounts:				
Investments	2,503			2,503
Other Restricted Accounts:				
Cash and Cash Equivalents		26,300	5,510	31,810
Investments	21,966	378,924		400,890
Receivables-Accrued Interest		2,643		2,643
Total Restricted Assets	264,226	1,123,716	5,510	1,393,452
Capital Assets:				
Land	82,339	56,482	12,534	151,355
Infrastructure			42,580	42,580
Buildings			167,449	167,449
Utility Plant in Service	2,293,502	7,005,400		9,298,902
Machinery and Equipment	103,052		2,247	105,299
Construction in Progress	509,362	180,594	14,755	704,711
Utility Property Leased		18,785		18,785
Nuclear Fuel - Net		319,186		319,186
Non-utility Property - Land		12,599		12,599
Total Capital Assets	2,988,255	7,593,046	239,565	10,820,866
Less: Accumulated Depreciation	798,457	2,947,052	39,589	3,785,098
Net Capital Assets	2,189,798	4,645,994	199,976	7,035,768
Assets Held for Resale	8,210			8,210
Prepaid Rent Long Term-Leaseback		516,182		516,182
Unamortized Debt Expense	10,660	27,001		37,661
Total Noncurrent Assets	2,472,894	6,312,893	205,486	8,991,273
Total Assets	$ 2,557,257	$ 6,932,490	$ 250,928	$ 9,740,675

The accompanying notes are an integral part of these basic financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2005
(In Thousands)

LIABILITIES	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Liabilities:				
Accounts Payable and Other Current Liabilities	$ 28,384	$ 184,238	$ 12,580	$ 225,202
Sewer Collections Payable	256			256
Unearned Revenues			1,897	1,897
Notes Payable	627		2,327	2,954
Due to Other Governmental Agencies			1,108	1,108
Total Current Liabilities (Payable from Current Assets)	29,267	184,238	17,912	231,417
Current Liabilities (Payable from Restricted Assets):				
Accrued Bond and Certificate Interest	7,151			7,151
Current Portion of Bonds and Certificates	16,505	127,255		143,760
Other Payables	16,949		2,345	19,294
Total Current Liabilities (Payable from Restricted Assets)	40,605	127,255	2,345	170,205
Total Current Liabilities	69,872	311,493	20,257	401,622
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	1,145,905	2,533,970		3,679,875
Commercial Paper	238,400	350,000		588,400
Unamortized Premium on New Series Bonds	9,078	89,149		98,227
Plus: Unamortized Discount on New Series Bonds	(14,382)			(14,382)
Deferred Amount on Refunding	(22,727)	(134,227)		(156,954)
Long-Term Lease/Notes Payable	1,388	588,455	87,268	677,111
Other Payables	1,879	308,049	1,095	311,023
Total Noncurrent Liabilities	1,359,541	3,735,396	88,363	5,183,300
Total Liabilities	1,429,413	4,046,889	108,620	5,584,922
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,041,888	1,821,531	112,756	2,976,175
Restricted for Renewal and Replacement		577,005	2,400	579,405
Restricted for Debt Service	11,706	738	4,810	17,254
Restricted for Conservation	2,504	172,752	140	175,396
Temporarily Restricted			141	141
Unrestricted	71,746	313,575	22,061	407,382
Total Net Assets	$ 1,127,844	$ 2,885,601	$ 142,308	$ 4,155,753

The accompanying notes are an integral part of these basic financial statements.

STATEMENT OF ACTIVITIES
COMPONENT UNITS
YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

		Program Revenues		Net (Expense) Revenue and Changes In Net Assets			
	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTALS
San Antonio Water System	$ 265,029	$ 262,687	$ 59,742	$ 57,400	$	$	$ 57,400
City Public Service	1,465,600	1,422,405	47,666		4,471		4,471
Nonmajor Component Units	53,747	14,039	38,409			(1,299)	(1,299)
Total	$ 1,784,376	$ 1,699,131	$ 145,817	57,400	4,471	(1,299)	60,572
General Revenues:							
Investment Earnings				7,060	49,327	965	57,352
Miscellaneous					2,427	10,918	13,345
Gain on Disposal of Capital Assets				131		5,131	5,262
Total General Revenues				7,191	51,754	17,014	75,959
Change in Net Assets				64,591	56,225	15,715	136,531
Net Assets, Beginning				1,058,186	2,829,376	126,593	4,014,155
Prior Period Adjustment				5,067			5,067
Net Assets, Ending				$ 1,127,844	$ 2,885,601	$ 142,308	$ 4,155,753

The accompanying notes are an integral part of these basic financial statements.

TABLE OF NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2005

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of San Antonio (City) have been prepared in conformance with 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.

A. Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*. The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials, and accordingly, the definition of the financial reporting entity is based on accountability.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable (blended), and (c) component units, which the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statement No. 39 and Statement No. 14 outlined below, potential component units were evaluated for inclusion in or exclusion from the reporting entity, whether the organizations were financially accountable or not, and were further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others only discretely presented.

The following criteria (as set forth in GASB Statement No. 14 and Statement No. 39) were used in the evaluation of potential component units of the City:

1) Legally separate

2) Financial accountability
   a) Appointment of a voting majority
   b) Imposition of will
   c) Financial benefit to or burden on the City
   d) Fiscal dependency

3) The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete.

4) Service rendered by the potential component unit is provided entirely or almost entirely to the City.

5) The City, or its component units, are entitled to, or have the ability to access, the majority of the resources received or held by the separate organization.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The criteria outlined above were excerpted from GASB Statement No. 14 and Statement No. 39. For a more detailed explanation of the criteria established by the statements, the reader is referred to the Codification of Governmental Accounting and Financial Reporting Standards, as of June 30, 2004, published by GASB, Section 2600. GASB Statement No. 39 further clarifies that a not-for-profit may not be financially accountable to the City, but may be considered a component unit based on the nature and significance of their relationship with the City. Predicated upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity:

Blended with the Primary Government (the relationship among the following component units and the City meet the criteria, as set forth in GASB Statement No. 14 and Statement No. 39, for inclusion in the Reporting Entity and is such that the financial statements are blended in with those of the City):

As set forth in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the City excludes fiduciary funds and component units that are fiduciary in nature from the government-wide financial statements. The City's component units that are fiduciary in nature are the San Antonio Fire and Police Pension Fund and the San Antonio Fire and Police Retiree Health Care Fund. These component units are presented in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

City of San Antonio Health Facilities Development Corporation

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of the City as a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The HFDC is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

City of San Antonio Industrial Development Authority

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979, in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of the City as an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects that may further the promotion and development of commercial, industrial, and manufacturing enterprises to advance and encourage employment and the public welfare. The IDA is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

San Antonio Fire and Police Pension Fund

The San Antonio Fire and Police Pension Fund (Pension Fund) is a Single Employer Defined Benefit Plan established in accordance with state law. The Pension Fund is administered by a nine-member Board of Trustees, including three City Council members. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state law. Benefit levels are also set by state law. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers upon retirement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Fire and Police Retiree Health Care Fund

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide postemployment healthcare benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these postemployment healthcare benefits for eligible uniformed employees of the City. The Health Fund is administered by a nine-member board of trustees, including three City Council Members, and is funded primarily by contributions from the City and contributions made by active employees and retirees on behalf of their dependents. The City and active employee and retiree contribution rates are established pursuant to the Fire and Police collective bargaining agreements.

City of San Antonio Texas Municipal Facilities Corporation

The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in fiscal year 2001 in accordance with state law for the purposes of, and to act on behalf of the City in 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 the City of San Antonio.

City of San Antonio Texas Starbright Industrial Development Corporation

The City of San Antonio Texas Starbright Industrial Development Corporation (TSIDC) was established in fiscal year 2003 in accordance with state law for the purposes of, and to act on behalf of the City in the promotion and development of commercial, industrial, and manufacturing enterprises, to advance and encourage employment and the public welfare, including but not limited to the acquisition of land. The TSIDC is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

City of San Antonio Texas Convention Center Hotel Finance Corporation

The City of San Antonio, Texas Convention Center Hotel Finance Coporation (TCCHFC) was established in fiscal year 2005 in accordance with the state law for the purposes of, and to act on behalf of City local economic development and stimulate business and commercial activity in the City. The TCCHFC is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

Discretely Presented With the Primary Government (the relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statement No. 14 and Statement No. 39, for inclusion in the reporting entity, and accordingly are included; however, are such that the financial statements are discretely presented alongside, but not blended with those of the City):

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Water System

On February 13, 1992, the City Council determined it was in the best interest of the citizens of San Antonio and the customers served by the water and wastewater utilities to consolidate all water utilities, agencies, and activities into one institution. It was determined that the best mechanism for effecting the consolidation of all water systems, agencies, and activities into a single institution was through a refunding of all the then outstanding water and sewer bonds. The consolidation was consummated on May 19, 1992, with the creation of the San Antonio Water System (SAWS) that included the former City Water Board, Alamo Water Conservation and Re-use District, and the City's Sewer and Stormwater system.

It was further determined by the City Council that the interests of the citizens and 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 user rates for user charges and bond issuance authorizations are approved by the City Council.

City Public Service

City Public Service (CPS), a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS is governed by a Board of Trustees, which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. The user rates for user charges and bond issuance authorizations are approved by the City Council.

San Antonio Development Agency

The San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the State of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate for urban renewal such areas as it deems advisable, subject to approval by the City Council and the Federal Agency, which administers the overall program. SADA receives a majority of its operating funds from the City as pass-through grant funds and is governed by a seven-member Board of Commissioners appointed by the City Council.

San Antonio Education Facilities Corporation

The City of San Antonio Higher Education Authority (SAHEA) was established in 1984, in accordance with state laws for the purpose of aiding non-profit institutions of higher education in providing educational, housing, and other related facilities in accordance with and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and as its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to the San Antonio Education Facilities Corporation (SAEFC). The Act authorizes the SAEFC to issue revenue bonds for these purposes on behalf of the City, but the bonds are not obligations of the City. SAEFC is governed by an eleven-member Board of Directors appointed by the City Council for two-year terms. Board members are subject to removal by the City Council for cause or at will, and the City reserves the right to terminate and dissolve the SAEFC at any time.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Greater Kelly Development Authority

The Greater Kelly Development Corporation (GKDC) was established in 1996 as the local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base (Kelly). In November 1999, the City established the Greater Kelly Development Authority (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA 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. The GKDA is a special district and political subdivision of the State of Texas and was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The GKDA is governed by an eleven-member Board of Directors, appointed by the City Council. The City Council also has the ability to remove appointed members of the organization's governing board at will. The GKDA is authorized to issue bonds to finance any project as permitted by Texas Law, but said bonds are not obligations of the City.

San Antonio Housing Trust Foundation, Inc.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) is a non-profit corporation incorporated in 1990 under the laws of the State of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, 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. SAHTF administers The San Antonio Housing Trust Finance Corporation. The City has the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the SAHTF as it authorizes a contract for the administration and management of the operations on an annual basis.

San Antonio Local Development Company, Inc. dba South Texas Business Fund (STBF)

The San Antonio Local Development Company Inc. (SALDC) is a non-profit corporation organized in 1978 under the laws of the State of Texas and the auspices of the City. In 2004, SALDC changed its name to the San Antonio Local Development Company dba South Texas Business Fund (STBF). The STBF also expanded the area served from twelve counties to all of the counties in the State of Texas. STBF was formed to participate in the Neighborhood Business Revitalization Program (NBRP), which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration, and the U.S. Department of Housing and Urban Development (HUD). STBF is governed by a thirty-three member Board of Trustees, appointed by the City Council, and an eleven-member Board of Directors appointed from the Board of Trustees. STBF, under agreement with the City, administers and operates a revolving loan fund, NBRP, that provides qualifying local businesses with loans under economic development programs administered by the SBA. STBF also administers, by agreement with the City, a U.S. Department of Commerce Title IX Revolving Loan Fund, SBA MicroLoan Program, and a HUD 108 Fund. Currently, STBF has an outstanding note payable to HUD, which is guaranteed by the City.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Brooks Development Authority

The Brooks Development Authority (BDA) is a special district and political subdivision of the State of Texas. It was established on September 27, 2001, as a defense base development authority in accordance with state law for the purposes of, and to act on behalf of the City in improving mission effectiveness, reducing the cost of providing quality installation support through improved capital asset management, and promoting economic development on Brooks Air Force Base and in the surrounding community. An eleven-member Board of Directors appointed by the City Council, governs the BDA for two-year terms and will oversee the Brooks Technology and Business Park in support of the Brooks City-Base Project. The City has the ability to impose its will on this organization as the City Council has the power to remove board members by adopting a resolution.

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office. The addresses are as follows:

Discretely Presented Component Units

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298-2449
Contact Person: Doug Evanson
Telephone No. (210) 233-3803

San Antonio Development Agency
P. O. Box 831386
San Antonio, Texas 78283-1386
Contact Person: Felix Lopez
Telephone No. (210) 207-5444

Greater Kelly Development Authority
143 Billy Mitchell Blvd., Ste 6
San Antonio, Texas 78226-1816
Contact Person: Bruce Miller
Telephone No. (210) 362-7800

San Antonio Local Development Company Inc.
dba South Texas Business Fund
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

City Public Service
P.O. Box 1771
San Antonio, Texas 78296-1771
Contact Person: Richard E. Williamson
Telephone No. (210) 353-2397

San Antonio Education Facilities Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Housing Trust Foundation, Inc.
2515 Blanco Rd.
San Antonio, Texas 78212-2796
Contact Person: John Kenny
Telephone No. (210) 735-2772

Brooks Development Authority
8030 Challenger Drive
Brooks City-Base, Texas 78235-5355
Contact Person: Bart Sanchez
Telephone No. (210) 536-6710

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended Component Units

San Antonio Health Facilities Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Industrial Development Authority
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Fire and Police Retiree Health Care Fund
300 Convent Street, Suite 2500
San Antonio, Texas 78205-3716
Contact Person: James Bounds
Telephone No. (210) 220-1385

San Antonio Fire and Police Pension Fund
311 Roosevelt
San Antonio, Texas 78210-2700
Contact Person: Warren Schott
Telephone No. (210) 534-3262

San Antonio Texas Convention Center
Hotel Finance Corporation
100 Military Plaza
4th Floor, City Hall
San Antonio, Texas 78205-2425
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Texas Municipal
Facilities Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact Person: Ben Gorzell Jr.
Telephone No. (210) 207-8620

San Antonio Texas Starbright Industrial
Development Corporation
P.O. Box 839966
San Antonio, TX 78283-3966
Contact Person: Ben Gorzell Jr.
Telephone No. (210) 207-8620

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS and SAWS would be misleading. CPS and SAWS have been identified as major discretely presented component units both as they relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements. Discretely presented component units with different fiscal year ends from the City are the San Antonio Water System with a fiscal year-end of December 31, and City Public Service with a fiscal year-end of January 31.

Related Organizations

The City Council appoints the members to the Board of Directors for the San Antonio Housing Authority; however, the City's accountability for this entity does not extend beyond making appointments to the Board of Directors and the coordination and approval of strategic plans.

B. Basic Financial Statements – GASB Statement No. 34

Effective October 1, 2001, the City implemented the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In fiscal year 2003, the City implemented the portion of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, relating to the disaggregation of receivable and payable balances. These statements comply with the requirements of the new reporting model.

Government-wide and Fund Financial Statements

The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, the City has early implemented requirements for infrastructure reporting. GASB Statement No. 34 requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of the capital assets, as well as the related depreciation, to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

The Statement of Net Assets reflects both short-term and long-term assets and liabilities. In the Government-wide Statement of Net Assets governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by fees and charges for services. Long-term assets, such as capital assets, infrastructure assets, and long-term obligations are now reported with the assets of governmental activity. The components of net assets, previously shown as fund balances, are presented in three separate components; 1) Invested in Capital Assets, net of related debt, 2) Restricted, and 3) Unrestricted. Interfund receivables and payables between governmental and business-type activities have been eliminated in the government-wide Statement of Net Assets, which minimizes the duplication of assets and liabilities within the governmental and business-type activities. Component units are also reported in the Statement of Net Assets.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements – GASB Statement No. 34 (Continued)

Government-wide and Fund Financial Statements (Continued)

The Statement of Activities reflects both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales tax, intergovernmental revenues, etc.). Direct (gross) expenses of a given function or segment are offset by program revenue, and operating and capital grants. Program revenues must be directly associated with the function of business-type activity. The presentation allows users to determine which functions are self-supporting, and which rely on the tax base in order to complete their mission. Internal service fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental and business-type activities of the Statement of Activities.

A reconciliation, detailing the change in net assets between the government-wide financial statements and the fund financial statements, is presented separately for governmental funds. In order to achieve a break-even result in the internal service fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the internal service funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets. The only reconciling item is the internal service fund allocation.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: Governmental Funds, Proprietary Funds, and Fiduciary Funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported separately in the Fund Financial Statements. Nonmajor funds are independently presented in the combining statements.

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund is a follows: The total assets, liabilities, revenues, or expenditure/expenses of that individual governmental or enterprise fund are at least 10.0% 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 enterprise fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

The following is a brief description of the major governmental funds that are each presented in a separate column in the fund financial statements:

The General Fund is always presented as a major fund.

The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs except that which is accounted for in proprietary-type funds.

The City of San Antonio Texas Convention Center Hotel Fund accounts for the selling of debt to finance the Convention Center Hotel building project.

The following is a brief description of the major enterprise funds that are each presented in a separate column in the fund financial statements:

The Airport System accounts for the operation of the San Antonio International Airport and Stinson Municipal Airport. Financing for the Airport System operations is provided by user fees.

The Parking System accounts for the operations of the City's parking facilities. Financing for the Parking Facilities operations is provided by user fees.

Governmental Funds

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than private-purpose trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

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

The governmental funds, which 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, Community Services, Advanced Transportation District, and Capital Project Funds), Official City Store Fund, San Jose Burial Fund, and the Debt Service Funds.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

Proprietary Funds (Continued)

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in these funds.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include Pension Trust, Retiree Health Care Trust, Private Purpose Trust Funds, and Agency Funds. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The Statement of Net Assets and the Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The City recognizes revenue from property taxes 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 period end, along with related interest and penalties. For additional disclosure related to property taxes, see Note 2. Other taxes and fees are recognized as revenue in the year they are earned. 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 also reported as program revenues.

1) Charges for services are revenues that are generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, golf course fees, and food establishment licenses. Fines and forfeitures are also reported under charges for services.

2) Operating grants and contributions are those revenues that are restricted in the way they may be spent - either for operations of a particular program or to purchase a capital asset for a particular program.

3) Capital grants and contributions are also restricted revenues; the funds may only be spent to purchase capital assets for specified programs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. Revenues are recognized in the accounting period in which they become available and measurable. For this purpose, the City considers revenues, other than grants, to be available if the revenues are collected within sixty days after year-end. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider are met. Grant funds received in advance and delinquent property taxes are recorded as unearned revenue until earned and available. Gross receipts and sales taxes are considered available when in the hands of intermediary collecting governments, and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain. Expenditures are recognized in the accounting period in which the fund liability is incurred; however, compensated absences, debt service expenditures, claims and judgments, and arbitrage 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 inventories and prepaid expenditures to indicate that they do not represent "current financial resources," since they do not represent net current assets. Such amounts are generally offset by fund balance reserve accounts.

Proprietary, Pension Trust, Private Purpose Trust, and Retiree Health Care Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred. These funds are accounted for on a cost of services or "economic resources" measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. The reported Proprietary Fund net assets are segregated into three components: 1) invested in capital assets, net of related debt, 2) restricted net assets, and 3) unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

Proprietary funds report both operating and non-operating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and street lot fees are operating revenues of the Parking Fund. This definition is consistent with GASB Statement No. 9, *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, non-capital financing or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered non-operating.

The City's enterprise funds, pension trust, private purpose trust and retiree health care funds and business-type activities, as well as its discretely presented component units, apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The City and its discretely presented major proprietary component units, CPS and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

CPS' operating revenue includes receipts from energy sales and miscellaneous revenue related to the electric and gas systems operations. Miscellaneous revenue includes late payment fees, rental income, jobbing and contract work, ancillary services, and merchandise sales. Operating expenses include those expenses that result from the ongoing operations of the electric and gas systems. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues consist primarily of investment income, including the changes in fair value of investments. The amortization of net gains from the lease-leaseback and the sale of water rights in prior years are also included. Some miscellaneous income from renting general property and miscellaneous service is also recorded in non-operating when it is not directly identified with the electric or gas systems.

SAWS' principal operating revenues are charges to customers for water and wastewater services. Operating expenses include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues consist primarily of investment income, including the changes in fair value of investments. Some miscellaneous income from renting general property and miscellaneous service is also recorded in non-operating when it is not directly identified with the water or wastewater services.

E. Future GASB Implementations

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for the service utility of an asset which has declined significantly and unexpectedly. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2004.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and supersedes the interim guidance included in Statement No. 26. GASB Statement No. 43 follows a similar approach to GASB Statement No. 25 with modifications to reflect differences between pension plans and OPEB plans. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2005.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, an amendment of NCGA Statement 1, addresses new standards to improve the understandability and usefulness of the information that state and local governments present as supplementary information in the statistical section. The provisions of this Statement are effective for fiscal periods beginning after June 15, 2005.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2006.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, helps governments determine when net assets have been restricted to a particular use by the passage of enabling legislation, and specifies how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The provisions of this Statement are effective for fiscal periods beginning after June 15, 2005.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Future GASB Implementations (Continued)

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 has not fully determined the effect that implementation of Statements No. 42-47 will have on the City's financial statements.

F. Cash and Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's Investment Policy. City cash is required to be deposited in FDIC-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized which enables the City to have one central depository. Investments are pooled into two primary categories: operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount, with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. As of September 30, 2005, the City's investment portfolio did not contain any derivative products nor was it leveraged in any way, except as noted in the Fire and Police Pension Fund. For a listing of authorized investments, see Note 3.

The City, CPS, and SAWS account for and report investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The Fire and Police Pension Plan and the Fire and Police Health Care Fund report investments at fair value in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The City's policy with respect to money market investments, which had a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, SAWS, and CPS consider all highly liquid investments with an original maturity of approximately ninety days or less to be cash equivalents.

G. 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 materials and supplies. Under the consumption method, these acquisitions are recorded in material and supply accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

Prepaid items are goods and services that are paid for in advance. These payments reflect costs applicable to future accounting periods, and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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 on the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. With the implementation of GASB Statement No. 34, the City has established capitalization thresholds for infrastructure and machinery and equipment that includes computer equipment. All infrastructure assets are reported in the financial statements, and the estimated useful lives and capitalization thresholds applied are as follows:

Assets	Useful Life Years	Capitalization Threshold
Buildings	15-40	$ 100
Improvements (Other than buildings)	20-40	100
Machinery and Equipment	2-20	5
Furniture and Office Equipment	5-10	5
Infrastructure	15-100	250

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

City Public Service (CPS)

The CPS utility plant is stated at the cost of construction, including costs of contracted services, direct equipment, material and labor, indirect costs, including general engineering, labor, equipment, material overheads, and an allowance for funds used during construction (AFUDC). CPS computes AFUDC using rates that approximate the cost of borrowed funds or the short-term investment rate for other funds used for construction. AFUDC is applied to projects estimated to require 30 days or more to complete.

CPS computes depreciation using the straight-line method over the estimated service lives of the depreciable property using specifically identified service lives for each asset type. In 2003, a depreciation study was conducted to determine if existing depreciation rates remained applicable to the depreciable property groups. New rates were applied beginning in 2003. Total depreciation and depletion as a percentage of total depreciable assets net of nuclear fuel was 3.4% for both 2005 and 2004.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS' share of the STP generation that is available for sale to CPS customers. The charge is included in fuel expense monthly. For further discussion regarding the STP, see Note 10.

The estimated useful lives of capital assets are as follows:

Buildings and structures	15-60 years
Systems and improvements:	
Generation	8-45 years
Transmission and distribution	20-55 years
Gas	50-65 years
Machinery and equipment	4-30 years
Lignite mineral rights and other	20-40 years
Nuclear fuel	1-2 years

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

San Antonio Water System (SAWS)

The SAWS' capital assets in service are recorded on the unit cost equal to or greater than $1. Assets acquired through capital leases are recorded on the cost basis and are included in utility plant in service. Assets acquired through contributions, such as those from land developers, are capitalized and recorded in the plant accounts at estimated fair value at date of donation. SAWS capitalizes certain interest costs on revenue bonds and commercial paper associated with newly constructed utility plant additions. Maintenance, repairs, and minor renewals are charged to operating expense, while major plant replacements are capitalized.

SAWS' capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully depreciate the costs of the asset group over their estimated average useful lives. The table below shows estimated average useful lives used in providing for depreciation of the SAWS' capital assets:

Structures and improvements	50 years
Pumping and purification equipment	10-50 years
Distribution and transmission system	25-50 years
Collection system	50 years
Treatment facilities	25 years
Equipment and machinery	5-20 years
Furniture and fixtures	10 years
Computer equipment	5 years
Software	3 years

I. General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, interest earned within the Debt Service Fund, and transfers from other funds.

J. Compensated Absences

In the governmental fund financial statements, the City accrues annual leave and associated employee-related costs when matured (payable from available resources) for City non-uniformed employees and uniformed fire and police employees. In addition, the City accrues the matured portion of the City's uniformed fire and police employees accrued sick leave pay, holiday pay, and bonus pay. Compensatory time is also accrued for the matured portion of the City's non-uniformed, non-exempt employees as well as uniformed police officers.

For governmental fund types, the matured current portion of the liability resulting from the accrual of these compensated absences is recorded in the respective governmental fund and reported in the fund financial statements, while the entire vested liability is reported in the government-wide financials. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Insurance

Activity for the City's self-insurance programs is recorded in the Internal Service Funds. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, extended sick leave, and employee wellness are included.

The City is insured for property and casualty liability. As of the fiscal year end, Allianz Insurance Company and RSUI Indemnity Company insured the City's property, while the State National Insurance Company provided excess liability coverage. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported prior to the end of the fiscal year.

The City also provides employee health, workers' compensation, and unemployment benefits under its self-insured programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund and uses this fund as a mechanism for administering workers' compensation claims for employees that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third-party administrators. In addition, the City has excess workers' compensation coverage through the State National Insurance Company, as of September 30, 2005. The City records all workers' compensation loss contingencies, including claims incurred but not reported.

Employee health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits. Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent." A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 12.

L. Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund equity represent tentative plans identified by management and are subject to change. Designations are utilized in the City's governmental funds for amounts that have been designated for subsequent years' expenditures and amounts allocated to making future improvements and replacements. Such designations will be reflected on the fund financial statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Revenue Recognition

Governmental fund types record revenues on the modified accrual basis of accounting and are reported as such in the fund financial statements. That is, revenues are recorded when they are both measurable and available to finance current operations or when they are considered susceptible to accrual. Revenues from property taxes, sales taxes, municipal court fines and fees, licenses, interest revenue, and charges for services are recorded on the modified accrual basis of accounting, and therefore, are considered susceptible to accrual. The City's availability period is no more than 60 days beyond the end of the fiscal year. When collections are delayed beyond the normal time of receipt due to unusual circumstances, the amounts involved are still recognized as revenues of the current period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider have been met. Proprietary-type funds record revenues when earned. In the government-wide financial statements, all revenues are recorded when earned.

CPS revenues are recorded when earned. Customers' meters are read, and bills are rendered monthly. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned under the accrual basis.

N. Allocation of Indirect Expenses

The City recovers indirect costs in the General Fund through the application of departmental indirect cost rates. These rates are developed and documented in the City's departmental indirect cost rate plan. In this plan, each department is classified by function. Indirect costs are budgeted by department and are used as a basis for the City's actual indirect cost allocation. Base rates are then applied to actual indirect costs recovered, and indirect costs are reclassified to reduce general government expenditures. For fiscal year 2005, general government expenditures were reduced by $7,963, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of $4,968 and $2,995, respectively.

O. Nuclear Decommissioning

CPS, together with the other owners of the STP, filed with the Nuclear Regulatory Commission (NRC) a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1999, the owners conducted a review of decommissioning costs. The results estimated CPS' 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' share of decommissioning costs is now approximately $397,000 in 2004 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At December 31, 2004, CPS had accumulated approximately $222,400 of decommissioning funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' Decommissioning Trust balance exceeded the calculated financial assurance amount of $77,300 at December 31, 2004. Based upon the 1998 and 1994 decommissioning cost studies, the annual level funding into the trust of $6,900 for 2005 was expensed by CPS.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts and debt issuance costs are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the funds in which proceeds of debt issuances are recorded.

Q. Elimination of Internal Activity

Eliminations of internal activity, particularly those related to internal service fund transactions, are needed to make the transition from governmental funds to government-wide activities. The overriding objective in "eliminating the effects of internal service fund activity" is to adjust the internal charges to cause a break-even result. Eliminating the "effect" of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. Net income derived from internal service fund activity would cause a pro rata reduction in the charges made to the participating funds/functions. Conversely, an internal service fund net loss would require a pro rata increase in the amounts charged to the participating funds/functions. Therefore, eliminations made to the statement of activities remove the "doubling up" effect of internal service fund activity. The residual internal balances between the governmental and business-type activities are reported in the Statement of Net Assets and the internal balance amounts that exist within the governmental funds or within business-type funds are eliminated. The City reports internal service fund balances in both governmental and business-type activities based on the pro rata share of the amounts charged to the participating funds/functions.

The City has three internal service funds: Other Internal Services, Information Technology Services, and Self-Insurance Funds. Other Internal Services and Information Technology Services charges users fees for requested goods or services. Building maintenance charges, a component of the Other Internal Services Fund, are based on the space occupied by departments. Through the tracking of these charges to the applicable departments, the net income or loss will be allocated back to the user department based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year. The net income or loss generated by the Self-Insurance Funds is allocated back based on the same allocation by which the revenues are received.

R. Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditure is restricted to certain allowable costs. In situations where both restricted and unrestricted net assets are expended to cover allowable expenses, the City will first expend the restricted net assets and cover additional costs with unrestricted net assets. The City reserves the right to selectively defer the use of restricted assets.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Other Budget Disclosures

Excess of expenditures, transfers, and encumbrances over appropriations occurred as follows:

Excess of Expenditures, Transfers, and Encumbrances Over Appropriations			
Fund/Expenditures	Appropriations	Expenditures, Transfers, and Encumbrances	Excess of Expenditures, Transfers, and Encumbrances over Appropriations
General Fund:			
Health Services	14,245	14,379	134
Economic Development and Opportunity	4,525	4,553	28
Debt Service Fund:	$ 117,916	$ 118,810	$ 894
Special Revenue Funds:			
Stormwater Operations	$ 22,005	$ 28,413	$ 6,408
Job Training, Neighborhood Revitalization and Economic Development	110	159	49
International Center	865	876	11
Capital Improvements Reserve	2,359	4,640	2,281
Nelson Wolff Stadium	667	703	36
Public Health Support Revenue	3,341	4,053	712
Official City Store	425	589	164
Permanent Funds:			
San Jose Burial	$ 360	$ 475	$ 115

With the exception of the Public Health Support Revenue Fund, the excess expenditures over appropriations were fully offset by excess actual revenues or fund balances.

T. Prior Period Adjustments

SAWS' prior year net assets have been restated due to a reclass of 2002 stock dividends in the amount of $96, settlement payment for a bankruptcy case in the amount of $7, recording of a prior year payroll expense in the amount of $26, recording of stock received from Principal Life and MetLife in the amount of $4,708, and the correction of the capital assets beginning balance in the amount of $296.

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2. PROPERTY TAXES

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1, and become delinquent the following February 1. In fiscal year 1999, the City executed an inter-local agreement with the Bexar County Tax Assessor/Collector's Office to provide property tax billing and collection services at the same level of service to its citizens as previously provided by the City.

Property tax revenues are recognized when they become available, which means when due, or past due and receivable within the current period or expected to be collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. Property tax receivable, net of allowances for uncollectible amounts, are offset by deferred revenues. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation (please note amounts are not reflected in thousands). The tax rate approved by City ordinance for the year ended September 30, 2005, 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 amounts are not reflected in thousands). This could raise an additional $893,133 per year based on the net taxable valuation of $46,481,975 before the limit is reached.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

A. 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 share of highly liquid investments, including U.S. Treasury securities, U.S. government agency securities, and repurchase agreements with original maturities of ninety days or less, summarized by fund type and included in the combined Statement of Net Assets as Cash and Cash Equivalents. Overdrafts which result from a fund overdrawing its share of pooled cash are reported as inter-fund payables by the overdrawn fund and as inter-fund receivables of the General Fund.

Collateral is required for demand deposits and certificates of deposit at 100.0% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities, school districts, and district corporations. Collateral pledged for demand 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.

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 non-pooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. government agency securities, and are reported as investments in the combined statement of net assets, as of September 30, 2005.

The City accounts for and reports investments in accordance with the 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 decrease in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $167 for the year ended September 30, 2005. 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, 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 conclusion of this note with a comparison to the Statement of Net Assets and Statement of Fiduciary Net Assets.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Primary Government (City) (Continued)

City Investments

	Carrying 1 Amount	Fair 1 Value	Allocation 2	Rating 3	WAM
U.S. Government Agency Securities	$ 356,935	$ 356,768	36.4%	AAA	.35 years
U.S. Treasuries	379,436	379,436	38.8%	AAA	.24 years
Money Market Mutual Fund	58,879	58,879	6.0%	AAA	N/A
Repurchase Agreement	184,053	184,053	18.8%	N/A	N/A
Total City Investments	$ 979,303	$ 979,136	100.0%		

1 The Carrying Amount and Fair Value include investments for the Starbright Industrial Development Corporation; Municipal Facilities Corporation, and Convention Center Hotel Finance Corporation which total $178,960.
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 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 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 in the City's name.

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. 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 a 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. A weighted-average maturity in terms of years for the money market mutual funds and the repurchase agreements is not applicable.

Credit Risk – As of September 30, 2005, 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, and Federal Home Loan 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% 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, 2005 the U.S. government agency securities allocation was as follows: Federal Home Loan Mortgage Corporation 18.6%, Federal National Mortgage Association 16.2%, and Federal Home Loan Bank 1.6 %.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. 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. As of September 2005, the Pension Fund had the following investments:

	2005
Cash and short-term investments	$ 98,847
Securities lending collateral-cash and cash equivalents:	
U.S. government agencies	11,214
Corporate Bonds	18,909
Common Stock	90,244
U.S. Treasury Bonds	28,264
GLOBAL equities	13,881
Corporate Bonds	78,780
Government and agency issues	201,868
Preferred Stock	622
Common Stock	853,687
Hedge Funds	161,968
Notes, mortgages, and contracts	81,912
Venture capital, partnerships, and other alternative investments	106,690
Real Estate	117,962
Total	$ 1,864,848

Custodial Credit Risk (Deposits) - Cash and short term investments include demand deposits accounts, equity in pooled cash of the City, and short-term U.S. government and other investments. As of September 30, 2005, cash in demand deposit accounts and the pooled cash of the City were fully collateralized.

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, 2005, the Pension Fund had investment in foreign currency in the amount of $338 that were uninsured and uncollateralized.

Credit Risk - Using Standard and Poor's rating system for fixed-income securities as of September 30, 2005, 73.0% of the Pension Fund's bonds were rated AAA, 0.8% were rated AA, 6.6% were rated A, 3.5% were rated BBB, 3.7% were rated BB, 8.2% were rated B, 1.8% were rated below B, and 2.4% were not rated.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Fire and Police Pension Fund (Continued)

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. Total interest rate sensitive securities amount to $267,130 and have a Weighted Average Maturity of 7.73 years. Securities that are subject to Interest Rate Risk are shown in the following table:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Corporate Bonds	$ 72,710	7.54
Government Agencies	56,680	9.72
Government Bonds	54,935	5.99
Short Term Bills and Notes	26,689	0.23
Asset-Backed Securities	20,964	8.96
Government Mortgage-Backed Securities	17,146	16.68
Municipal/Provincial Bonds	10,736	4.8
Corporate Convertible Bonds	4,269	9.49
Non-Government Backed C.M.O.s	2,420	17.43
Commercial Mortgage-Backed	581	37.78
Total Interest Rate Sensitive Securities	$ 267,130	
Portfolio Weighted Average Maturity		7.73

Foreign Currency Risk - The Pension Fund's investments include investments in stocks and bonds in foreign currency denominations. Stocks denominated in foreign currencies as of September 30, 2005 amounted to $752 in cash and $77,679 in common stock. Bonds denominated in foreign currencies amounted to $65,031.

Stocks denominated in foreign currencies as of September 30, 2005 are as follows:

	Cash	Common Stock
Austrailian dollar	$ 46	$ 3,470
Swiss franc	18	5,159
Danish krone		939
Euro	287	26,808
British pound sterling	145	18,705
Hong Kong dollar	25	1,247
Japanese yen	106	18,192
Norwegian krone	1	861
Swedish krona	112	1,848
Singapore dollar	12	450
	$ 752	$ 77,679

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Fire and Police Pension Fund (Continued)

Bonds denominated in foreign currencies are as follows:

Investment	Currency	Maturity	Fair Values
New South Wales TSY	Australian Dollar	05/01/12	$ 4,064
New South Wales TSY	Australian Dollar	12/01/10	4,329
Queensland TSY CP	Australian Dollar	09/14/07	4,284
UK Treasury	British Pound Sterling	09/07/15	4,634
Canada Government	Canadian Dollar	06/01/11	5,257
Canada T-Bills	Canadian Dollar	01/26/06	10,647
Linsey Modern	Canadian Dollar	06/18/08	156
Rogers Cantel Mobi	Canadian Dollar	06/01/06	228
Germany (Fed Rep)	Euro	07/04/10	3,949
Germany (Fed Rep)	Euro	07/04/09	4,627
Germany (Fed Rep)	Euro	07/04/09	4,125
Ontario Provincial	New Zealand Dollar	06/16/15	2,139
New Zealand (Govt)	New Zealand Dollar	04/15/15	2,125
Poland (Rep Of)	Polish Zloty	06/24/08	8,336
Singapore Govt	Singapore Dollar	10/15/05	2,058
Singapore Govt	Singapore Dollar	03/01/07	1,756
Singapore Govt	Singapore Dollar	10/01/07	2,317
			$ 65,031

Guaranteed Contract - One investment, a contract with Pacific Life Insurance Company, guarantees a return of the Lehman Brothers Aggregate Bond Index plus 15 basis points. The market value of this investment as of September 30, 2005, was $81,912, which is approximately 5.0% of the invested assets of the fund at September 30, 2005. This investment, although not directly invested in bonds, is also sensitive to changes in interest rates and credit risk. The sensitivity and risk would be approximately the same as the index. As of September 30, 2005, the index had a weighted average maturity of seven years. 78.1% of the index is rated AAA, 4.9% of the index is rated AA, 8.8% is rated A and 8.3% is rated BBB.

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 and irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due, and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote. Cash open collateral is invested in a short-term investment pool with an average weighted maturity of 27 days at September 30, 2005.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Fire and Police Pension Fund (Continued)

As of September 30, 2005, the Pension Fund had lending arrangements outstanding with a total market value of $165,158 which were fully collateralized, with cash and securities. Of this amount, cash collateral of $162,512 is recorded in the accompanying Statements of Plan Fiduciary Net Assets. Net income for the year ended September 30, 2005 under the securities lending arrangement was $360.

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, 2005, was approximately $2,420.

A summary of the Pension Fund's Cash and Cash Equivalents is provided at the conclusion of this note with a comparison to the Statement of Fiduciary Net Assets

C. Fire and Police Retiree Health Care Fund

The Health Care Fund periodically participates in options and futures to hedge the value of a portion of its investments. Financial options and futures are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. However, at September 30, 2005, there was no exposure to options or futures.

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 Fund or Funds, real estate investment trusts and alternative investments are held in the form of Limited Partnership investments. The fair valuation of these investments is set by the Limited Partnerships and/or by independent appraisers.

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 assets classes (e.g. stocks, bonds, cash) within the 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 custodian bank, Frost National Bank of San Antonio, Texas.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Fire and Police Retiree Health Care Fund (Continued)

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, 2005 is $164,808.

Cash	$	535
Securities lending collateral-cash and cash equivalents		15,200
Cash equivalents and money market funds		11,325
U.S. Government and agency issues		3,545
Corporate Bonds		6,848
Common Stock		67,826
Bond mutual funds		10,665
Real estate investment trusts (REIT)		12,057
Mutual funds-Invest in Common stock		18,987
Hedge Fund of Funds		12,935
Alternative Investments		4,885
Total	$	164,808

Custodial Credit Risk (Deposits) – The Health Care Fund's deposits held with the custodian 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, 2005, is $712. The Health Care Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2005. 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 Bank's name, and Frost 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 30,2005:

Government Bonds	$	3,545
Corporate Bonds		6,848
Common Stock		67,826
Mutual Fund		18,987
Money Market Mutual Fund		11,325

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 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/Aaa for the Money Market Mutual Fund, AA- for Corporate Bonds, AAA for Bond Mutual Funds and U.S. Government and Agency Issues are not provided or required to have their rating disclosed.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Fire and Police Retiree Health Care Fund (Continued)

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 Weighted Average Maturity at September 30, 2005 is 7.99 years for Corporate Bonds, 24.62 years for U.S. Government and Agency issues and 6 years for Bond mutual funds. The respective fair value of each investment type is $6,848, $3,545 and $10,665. The Money Market Mutual Fund had a fair value of $11,324 at year-end and is payable on demand.

As of September 30, 2005, the Health Care Fund held a Collateralized Mortgage Obligation (CMO) position and mortgage-backed securities in the form of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and similar pass-through obligations. Because mortgage borrowers have the option of prepaying their mortgages, asset-backed securities such as mortgage pass-through securities issued by GNMA, FNMA, and FHLMC are considered to be highly sensitive investments. The overall return or yield on CMOs and asset-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the Health Care Fund will receive the full amount of principal, if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment, is lost. The fair value of the CMO and mortgage-backed securities held by the Fund was approximately $3,545 as of September 30, 2005.

Securities Lending - Securities Lending assets are reported at fair value. 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 custodian bank in June 2003 to lend the 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 non-government or agency securities loaned be maintained by the custodian bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. If the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the 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, 2005.

A summary of the Retiree Health Care Funds Cash and Cash equivalents is provided at the conclusion of this note with a comparison to the Statement of Fiduciary Funds.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

D. City Public Service (CPS)

The investment policy of CPS, a major discretely presented component unit, is governed by state statute, local ordinance, and CPS Board Resolution and Policy. CPS' allowable investments include U.S. government or government agency or U.S. government guaranteed obligations, collateralized mortgage obligations issued by the U.S., fully secured certificates of deposit issued by a state, national bank, or savings bank domiciled in the State of Texas, direct repurchase agreements, reverse repurchase agreements, defined bankers acceptances and commercial paper, no-load money market mutual funds, and other types of specific secured or guaranteed investments.

CPS cash deposits at January 31, 2005, were entirely insured by federal depository insurance or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. government or government agency or U.S. government guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS' name.

CPS' investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. Fair value is determined by using generally accepted financial reporting services and publications and approved dealers and brokers as necessary. The specific identification method is used to determine costs in computing gain or loss on sales of securities.

CPS' cash, cash equivalents, and investments can be separated by those that are directly managed by CPS, those managed through the Decommissioning Trust and those managed through the Employee Benefit Plans. For financial reporting purposes, cash, cash equivalents and investments managed directly by CPS have been consistently measured as the end of the applicable fiscal years as well as the results of the Decommissioning Trust and the Employee Benefit Plans. For fiscal year 2005, consolidation practices were modified whereby the results of the Decommissioning Trust and the Employee Benefit Plans were included as of their separately audited calendar year ends.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

D. City Public Service (CPS) (Continued)

The following is a summary of CPS total Investments by types as well as detailed risk analysis and disclosures in accordance with GASB statement No 40. *Deposit and Investment Risk Disclosures.*

Summary of Investments by Type
Fiscal Year Ending January 31, 2005

Total Investments By Category	2005
CPS Investments:	
U.S. Treasuries, Government Agency Security & Money Market Funds	$ 1,020,104
Decommissioning Trust:	
U.S. Treasuries, Government Agency Securities & Money Market Funds	$ 220,526
Employee Benefit Plans	
Money Market Mutual Fund	20,442
Corporate Bonds	20,401
Common Stock	102,575
U.S. Treasury & Government Agency Securities	24,412
Global bonds	9,147
Total Employee Benefit Plans	$ 176,977
Grand Total - All Investments	$ 1,417,607

Cash equivalents and investments are exposed to interest rate risk, credit risk (including custodial credit risk and concentrations of credit risk), and foreign currency risk. Interest risk is the exposure to fair value losses arising 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 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 identifies and manages all of these risks by following an appropriate investment oversight strategy, establishing and monitoring compliance with investment policies and procedures, and continual monitoring of prudent risk controls. All investments follow the "prudent person" concept.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

D. City Public Service (CPS) (Continued)

CPS Direct Investments

In accordance with CPS' year end adoption of GASB Statement No. 40 the following table and narrative addresses interest rate risk exposure by investment type using the weighted average maturity (WAM) method, credit risk, and concentration of credit risk. Since CPS does not hold foreign instruments in its direct investments foreign currency risk is not applicable.

CPS Direct Investments	Carrying Amount	Fair Value	Allocation	Rating	WAM
U.S. Government Agency Securities	$ 967,955	$ 967,885	94.9%	AAA	.59 years
U.S. Treasuries	7,980	7,980	0.8%	AAA	.22 years
Money Market Mutual Fund	44,169	44,169	4.3%	AAA	N/A
Total CPS Direct Investments	$ 1,020,104	$ 1,020,034	100.0%		

Interest Rate Risk - CPS manages exposure to fair value losses resulting from rising interest rates by limiting the portfolios weighted-average maturity to two years. 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. CPS invests in money market mutual funds that have no fixed maturities. Accordingly, a weighted-average maturity in terms of years for money-market funds is not applicable.

Credit Risk - CPS manages exposure to credit risk by limiting its fixed income investments to a rating of "A" or better. As of January 31, 2005, CPS held no direct investments with a rating below AAA.

Concentration of Credit Risk - CPS manages exposure to credit risk through diversification and by limiting its investment in each government-sponsored entity to 50.0% and its investment in any other non-government issuer to 5.0% of the total fixed income portfolio. Investments in U.S. Government Agencies were allocated as follows: Federal Farm Credit Banks (FFCB) 3.8%; Federal Home Loan Bank (FHLB) 36.0%; Federal Home Loan Mortgage Corporation (FHLMC) 23.5%; and Federal National Mortgage Association (FNMA) 31.6%.

Decommissioning Trust - CPS' investments in the Decommissioning Trust are held by an independent trustee. Trust investments are limited to U.S. government or government agency or U.S. government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement, and State law. These investments are subject to market risk, and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded. Decommissioning Trust investments are reported at fair value.

The following table and narrative addresses interest rate risk exposure by investment type using the weighted average maturity (WAM) method, credit risk, and concentration of credit risk. Since the Decommissioning Trust does not hold foreign instruments, foreign currency risk is not applicable.

Decommissioning Trust Investments	Carrying Amount	Fair Value	Allocation	Rating	WAM
U.S. Government Agency Securities	$ 206,088	$ 206,088	93.5%	AAA	5.97 years
U.S. Treasuries	8,935	8,935	4.1%	AAA	6.12 years
Money Market Mutual Fund	5,503	5,503	2.4%	AAA	N/A
Total Decommissioning Trust	$ 220,526	$ 220,526	100.0%		

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

D. City Public Service (CPS) (Continued)

Interest Rate Risk - The Trust manages exposure to fair value losses resulting from rising interest rates by ensuring the total portfolio's weighted-average maturities do not extend beyond the final decommissioning, which is currently scheduled for 2047. The Decommissioning Trust invests in money market mutual funds that have no fixed-income maturities. Accordingly, a weighted-average maturity in terms of years for money market funds is not applicable.

Credit Risk - The Trust manages its exposure to credit risk by limiting its fixed-income investments to a rating of "A" or better. As of this plan's year-end, the Trust held no investments with a rating below AAA.

Concentration of Credit Risk - The Trust manages exposure to credit risk through diversification and by limiting its investment in each government-sponsored entity to 50.0% and its investment in any other non-government issuer to 5.0% of the total fixed income portfolio. Investments in U.S. government agencies were allocated as follows: FFCB 16.7%; FHLB 43.8%; FHLMC 6.2%; and FNMA 26.8%.

CPS Employee Benefit Plans - Investments in the Employee Benefit Plans are also held by an independent trustee. These investments are limited to those authorized by the plans' Administrative Committees, the Trust Agreements, and State law. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded. These investment policies follow the "prudent person" concept. CPS reports Employee Benefit Plan investments at fair value.

CPS employee benefit plans consist of three separate plans. The plans include the City Public Service of San Antonio Group Health Plan (the "Health Plan"), the Disability Income Plan (the "Disability Plan") and the Life Insurance Plan (the "Life Plan"). The following tables and narrative address interest rate risk exposure by investment type using the weighted average maturity (WAM) method, credit risk, and concentration of credit risk.

Weighted Average Maturity of Investments	Health Plan		Disability Plan		Life Plan	
	Fair Value	WAM	Fair Value	WAM	Fair Value	WAM
U.S. Treasuries and Government Agency Notes and Bonds	$ 6,190	6.5 years	$ 491	5.6 years	$ 2,417	6.1 years
STRIPS					190	24.7 years
Collateralized Mortgage Obligations	4,191	6.0 years	110	5.2 years	2,786	5.1 years
Mortgage Pass-through Securities	4,295	2.9 years	140	2.3 years	2,096	2.5 years
Total U.S. Government Agency Securities	$ 14,676		$ 741		$ 7,489	
Commercial Mortgage-backed Securities	$ 1,347	7.2 years	$ 79	8.4 years	$ 375	8.9 years
Asset-backed Securities	2,259	3.9 years	140	.5 years	1,269	5.4 years
Corporate Bonds	12,572	.2 years	327	3.8 years	3,540	4.3 years
Foreign Bond Fund	6,679	NA			2,468	5.3 years
Money Market Mutual Funds	16,779		593	NA	3,180	NA
Total Employee Benefit Plans	$ 54,312	3.4 years	$ 1,880	3.0 years	$ 18,321	6.4 years

Interest Rate Risk – The table above reflects each Employee Benefit Plans' weighted average maturity (WAM) of the fixed-income classes. In accordance with its historical guidelines and investment policy the Administrative Committee manages exposure to fair value losses arising from rising interest rates by limiting the average maturity date of each manager's portfolio to no more than ten years. Each Employee Benefit Plan invests in money market mutual funds that have no fixed maturities. Accordingly, a weighted average maturity in terms of years for money market mutual funds is not applicable.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

D. City Public Service (CPS) (Continued)

Investments Allocated by Credit Rating

	Health Plan		Disability Plan		Life Plan	
	Fair Value	Allocation	Fair Value	Allocation	Fair Value	Allocation
Credit Rating						
Government	$ 2,209	4.1%	$ 226	12.0%	$ 918	5.0%
AAA	32,508	59.9%	1,327	70.6%	11,528	62.9%
AA	1,208	2.2%	55	2.9%	772	4.2%
A	5,074	9.3%	168	8.9%	2,295	12.5%
BBB	658	1.2%	104	5.6%	340	1.9%
Less than BBB	5,976	11.0%				
Navarro Investments, L.L.C.	6,679	12.3%			2,468	13.5%
Total Employee Benefit Plans	$ 54,312	100.0%	$ 1,880	100.0%	$ 18,321	100.0%

Credit Risk - The table above presents the Employee Benefits Plans' percentage of fixed-income investments allocated by credit rating. In accordance with its historical guidelines and investment policy, the Administrative Committee manages exposure to credit risk by limiting investments rated below BBB to 7.5% of total fixed income investments. Excluding Navarro Investments, L.L.C. that were not evaluated as a fund by a rating agency, at December 31, 2004, investments with a rating below a BBB rating amounted to 11.0%. Policy constraints on less than BBB rated bonds will be reviewed in light of enhanced yields obtained during periods of low interest rates. Even though the Health Plan holds approximately 12.3% and the Life Plan holds approximately 13.5% of the fixed-income investments in funds that are not rated by a rating agency, the majority of the underlying securities are rated. Weighing the securities by market value (U.S. Dollars) and evaluating the corresponding rating of the underlying securities indicate that 1.9% of the investments are unrated or have a rating of less than BBB.

Fair Value of Issuer 5.0% or Greater

	Health Plan		Disability Plan		Life Plan	
	Fair Value	Allocation	Fair Value	Allocation	Fair Value	Allocation
Top Issuers						
AIM Short-Term Investment	$ 16,669	30.7%	$ 593	31.5%	$ 3,180	17.4%
FNMA	7,207	13.3%	202	10.8%	3,251	17.7%
Navarro Investments L.L.C.	6,679	12.3%			2,468	13.5%
FHLMC	4,327	8.0%	211	11.2%	2,081	11.4%

Concentration of Credit Risk – The table above presents the Employee Benefit Plans' fair values of investments by issuer representing 5.0% or more of the fixed-income investments. In accordance with historical guidelines and 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, the Committee manages exposure to credit risk through diversification and by limiting the amount, which may be invested in any one corporate bond issuer to 10.0% of the corporate bond investment portfolio of each investment manager. There is no limit, which may be invested in U.S. Treasury securities, government-guaranteed, or government sponsored entity securities, other than the maximum of 50.0% in any one government-sponsored entity issuer.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

D. City Public Service (CPS) (Continued)

Foreign Currency Risk – The Health Plan and the Life Plan have $6,679 and $2,468, respectively, invested in the Navarro Investments L.L.C Foreign Bond Fund at December 31, 2004. The historical guidelines and new investment policy place a 6.5% of total investment portfolio limit on the amount, which may be invested, in foreign currency-denominated securities. The foreign currency risk is further mitigated by the investment guidelines in the fund.

A summary of the CPS Cash and Cash Equivalents is provided at the conclusion of this note with a comparison to the Statement of Net Assets.

E. 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 United States 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 and affect the value at which these investments are recorded.

Under the provisions of GASB Statement No. 31, SAWS reports money market investments with a remaining maturity at time of purchase of one year or less at amortized cost, which approximates fair values. The net decrease during fiscal year 2004 in the fair value of the money market investments with an original maturity of greater than one year was $1,400. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year-end was $357.

Credit Risk (Deposit) - All funds are deposited at JP Morgan/Chase Bank One 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. The collateral pledged is being held by the Federal Reserve Bank of New York under SAWS' name on December 31, 2004. As of December 31, 2004, the bank balance of demand and savings account was $9,583, and the reported amount was $7,404, which includes $191 of cash on hand.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

E. San Antonio Water System (SAWS) (Continued)

Credit Risk (Investment) - All investments, with the exception of those held in escrow, are in securities of the U.S. Treasury or Agencies of the United States and are held in safekeeping by the general depository bank, registered as accounts of SAWS. Funds held in escrow, are money market funds managed by Wachovia Bank and JP Morgan Chase/Bank One and are invested in U.S. Treasury obligations.

As of December 31, 2004, SAWS had the following investments and maturities:

Investments and Maturities

		Investment Maturities (in Days)				
Investment Type	Fair Value	Less than 90	91 to 180	181 to 365	Greater Than 365	Reported Amount
U.S. Treasury Bills	$ 27,876	$ 6,396	$ 13,295	$ 8,185		$ 27,892
U.S. Treasury Notes	69,735		5,540	50,836	13,359	69,853
U.S. Agency Discount Notes	91,994		4,874	87,120		92,125
U.S. Agency Coupon Notes	93,796		2,936	23,273	67,587	93,872
Money Market Funds:						
Wachovia Bank	7,877	7,877				7,877
JP Morgan Chase/Bank One	2,926	2,926				2,926
	$ 294,204	$ 17,199	$ 26,645	$ 169,414	$ 80,946	$ 294,545
Percentage of Portfolio	100%	6%	9%	58%	27%	

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, more than half (73.0%) of SAWS' investment portfolio is invested in maturities less than one year.

Credit Risk - SAWS manages its exposure to credit risk by limiting its fixed-income investments to a rating of "A" or better. Investments in government sponsored entities such as Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation,and Federal Farm Credit Bank were rated Aaa by Moody's Investor Service and AAA by Standard & Poor's and Fitch's Ratings. The investments in money market funds were rated Aaa by Moody's Investor Service and AAA by Standard and Poor's.

Concentration of Credit Risk - There are no restrictions in SAWS' investment policy on the amount it may invest in any one issuer. Therefore, SAWS has invested more than five percent of its investments in government sponsored entities, in the form of discount or coupon notes. The percentage invested in each issuer as a percent of the total portfolio is as follows: 13.6% in the Federal Home Loan Bank, 10.0% in the Federal National Mortgage Association, and 37.8% in the Federal Home Loan Mortgage Corporation.

Pay-Fixed, Receive-Variable Interest Rate SWAP - Objective of the 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 the SAWS than traditional long term fixed rate bonds.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

E. San Antonio Water System (SAWS) (Continued)

Terms, Fair Values, and Credit Risk - The terms, including the counterparty credit ratings of the outstanding swap, as of December 31, 2004, are included in the table below. The System's 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 stucture and dates of the Series 2003 Bonds. The couterparty to the swap is Bear Stearns Financial Products, Inc. ("Bear Stearns").

Related Bonds	Maturity	Couterparty	CP Rating by Moody's/S&P /Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Series 2003	May 1, 2003	Bear Stearns	Aaa/ AAA/ AAA	BMA	4.18%	$ (3,125)

The combination of variable rate bonds and a floating-to-fixed swap create a synthetic fixed-rate issue for the SAWS. The synthetic fixed-rate protects against the potential of rising interest rates in conjunction with the SAWS Series 2003 Bonds issues in a weekly mode and achieves 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, 2004 of $(3,125). 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 anticipated 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, 2004, 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, 2004. 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 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.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

E. San Antonio Water System (SAWS) (Continued)

Termination Risk - SAWS may terminate for any reason. Bear Stearns may terminate a 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 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.

Swap payments and associated debt - As of December 31, 2004, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same are below. 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			
Year	Principal	Interest	Interest Rate Swap, net	Total
2005	$ 2,080	$ 2,335	$ 2,609	$ 7,024
2006	2,170	2,293	2,562	7,025
2007	2,275	2,249	2,513	7,037
2008	2,375	2,203	2,462	7,040
2009	2,485	2,155	2,408	7,048
2010-2014	14,235	9,975	11,146	35,356
2015-2019	17,780	8,401	9,387	35,568
2020-2024	22,220	6,435	7,190	35,845
2025-2029	27,770	3,977	4,443	36,190
2030-2033	27,125	1,004	1,122	29,251
Total	$ 120,515	$ 41,027	$ 45,842	$ 207,384

Stock Investment - The demutualization of Metropolitan Life Insurance on April 7, 2000 made SAWS, a policyholder, eligible to receive compensation for the membership interest for the dental plan provided as a benefit for employees. The demutualization compensation consisted of a distribution of 7,567 shares of MetLife, Inc. Common Stock. On the date of issue, the stock was priced at $14.25 per share for a total value of $108.

On October 26, 2001, with the demutualization of Principal Financial Group, Inc. SAWS received compensation for the membership interest for the life insurance provided as a benefit for employees and retirees. The demutualization compensation consisted of a distribution of 134,652 shares of Principal Financial Group, Inc. Common Stock. On the date of issuance, the stock was priced at $23.35 per share for a total value of $3,144. These two stock transactions have been recorded on the financial records of SAWS and in accordance with GASB Statement No. 31, an unrealized gain has been recorded in the amount of $1,060 for Principal Financial Group, Inc. and $52 for Metlife, Inc.

A summary of the SAWS Cash and Cash equivalents is provided at the conclusion of this note with a comparison to the Statement of Net Assets.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

F. Summary of Cash and Cash Equivalents and Investments

A summary of cash and cash equivalents and investments are presented below as of year-end for the City, Fire and Police Pension, Retiree Health Care and its significant discretely presented Component Units, SAWS and CPS. The information is provided to give an indication of the proportionate amount of cash and investments held by each respective entity and to facilitate reconciliation to the statement of net assets.

Combined Cash, Cash Equivalents, and Investments

	City [1]	SAWS[2]	CPS[3]
Cash and Cash Equivalents	$ 384,720	$ 15,811	$ 171,213
Security Lending Collateral Cash and Cash Equivalents	177,712		
Investments	2,720,373	300,364	1,417,607
Less: Investments with original maturities of less than ninety days included in cash and cash equivalents	(242,931)	(8,407)	(163,369)
Total	$ 3,039,874	$ 307,768	$ 1,425,451

Totals from Statement of Net Assets and Statement of Fiduciary Net Assets

	City [1]	SAWS[2]	CPS[3]
Unrestricted:			
Cash and Cash Equivalents	$ 362,098	$ -	$ 50,920
Security Lending Collateral	177,712		
Investments	2,288,370	43,542	258,406
Total Unrestricted	2,828,180	43,542	309,326
Restricted:			
Cash and Cash Equivalents	22,622	15,811	120,293
Investments	189,072	248,415	995,832
Total Restricted	211,694	264,226	1,116,125
Total Cash and Cash Equivalents and Investments	$ 3,039,874	$ 307,768	$ 1,425,451

[1] The following amounts were held by the City in a fiduciary capacity and are excluded from the Statement of net assets: Cash and Cash Equivalents of $117,895; Security Lending Collateral- and Cash Equivalents of $177,712; Investments of $1,742,213.
[2] For the fiscal year ended December 31, 2004.
[3] For the fiscal year ended January 31, 2005.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

F. Summary of Cash and Cash Equivalents and Investments (Continued)

The composition of Cash and Cash Equivalents included in the financial statements for the City and its major discretely presented Component Units as of each respective year-end is presented below.

	City	SAWS[1]	CPS[2]
Deposits with Financial Institutions	$ 30,220	$ 7,213	$ 6,979
Investments with Original Maturities of Less than Ninety Days	242,931	8,407	163,369
Cash with Pension/Retiree Healthcare Fiscal Agents	111,195		
Cash with Other Financial Agents	24		735
Petty Cash Funds	169	191	130
Cash On Hand	181		
Total Cash and Cash Equivalents	$ 384,720	$ 15,811	$ 171,213

[1] For the fiscal year ended December 31, 2004.
[2] For the fiscal year ended January 31, 2005.

Cash with fiscal agents of the Fire and Police Pension Fund of the City of San Antonio have been approved by the Fund's Board of Directors and are invested as authorized by Texas State Statutes. Cash with fiscal agents of the Fire and Police Retiree Healthcare Fund of San Antonio have been approved by the Fund's Board of Directors and are invested as authorized by the Investment Policy Statement and Guidelines of the San Antonio Fire and Police Retiree Health Care Fund, San Antonio.

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4. CAPITAL ASSETS

Capital asset activity for governmental activities, to include Internal Service Funds, for the year ended September 30, 2005, is as follows:

Capital Assets - Governmental Activities

Governmental Activities:	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land	$ 1,259,362	$ 8,780	$ -	$ -	$ 1,268,142
Construction in Progress	645,521	82,119		(112,877)	614,763
Total Non-Depreciable Assets	1,904,883	90,899	-	(112,877)	1,882,905
Depreciable Assets:					
Buildings	387,826	1,155		7,856	396,837
Improvements	77,732			29,301	107,033
Infrastructure	1,979,118			75,720	2,054,838
Machinery and Equipment	198,101	27,401	(9,441)		216,061
Total Depreciable Assets	2,642,777	28,556	(9,441)	112,877	2,774,769
Accumulated Depreciation:					
Buildings	(167,176)	(1,377)			(168,553)
Improvements	(37,353)	(4,101)			(41,454)
Infrastructure	(1,190,224)	(68,412)			(1,258,636)
Machinery and Equipment	(105,278)	(22,944)	7,750		(120,472)
Total Accumulated Depreciation	(1,500,031)	(96,834) [1]	7,750		(1,589,115)
Total Depreciable Assets, net	1,142,746	(68,278)	(1,691)	112,877	1,185,654
Total Capital Assets, net [2]	$ 3,047,629	$ 22,621	$ (1,691)	$ -	$ 3,068,559

[1] **Depreciation expense was charged to governmental functions as follows:**

General Government	$ 6,323
Public Safety	5,654
Public Works	61,682
Health Services	365
Welfare	717
Culture and Recreation	5,477
Convention and Tourism	25
Urban Redevelopment and Housing	4,240
Depreciation on capital assets held by the City's internal service funds are charged to various functions based on asset usage	12,351
Total Depreciation Expense for Governmental Activities	$ 96,834

[2] The capital assets of internal service funds are included in governmental activities. In fiscal year 2005, internal service funds capital assets increased by $19,270, decreased by $8,790, resulting in an ending balance of $120,239. Depreciation expense of $12,351 resulted in an ending accumulated depreciation balance of $74,557, to arrive at net book value of $45,682.

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4. CAPITAL ASSETS (Continued)

The City capitalizes interest incurred on construction projects, in accordance with Statement of Accounting Standard No. 62 issued by the Financial Accounting Standards Board. In fiscal year 2005, the City capitalized construction period interest for the Aviation and Parking funds in the amount of $1,258 and $95, respectively. Capital asset activity for business-type activities for the year ended September 30, 2005, is as follows:

Capital Assets - Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets:				
Land:				
Aviation Fund	$ 2,970	$ -	$ -	$ 2,970
Parking Fund	8,125			8,125
Non-Major Fund	893			893
Total	11,988			11,988
Construction in Progress:				
Aviation Fund	107,750	19,224	(28,592)	98,382
Parking Fund	12,434	1,102	(10,207)	3,329
Non-Major Fund	436	162		598
Total	120,620	20,488	(38,799)	102,309
Total Non-Depreciable Assets	132,608	20,488	(38,799)	114,297
Depreciable Assets:				
Buildings:				
Aviation Fund	115,656	28,592		144,248
Parking Fund	18,985	10,207		29,192
Non-Major Fund	46			46
Total	134,687	38,799		173,486
Improvements:				
Aviation Fund	156,110			156,110
Parking Fund	1,283			1,283
Non-Major Fund	3,025			3,025
Total	160,418			160,418
Machinery and Equipment:				
Aviation Fund	10,299	587	(20)	10,866
Parking Fund	571	8		579
Non-Major Fund	3,743	296	(199)	3,840
Total	14,613	891	(219)	15,285
Total Depreciable Assets	309,718	39,690	(219)	349,189
Accumulated Depreciation:				
Buildings:				
Aviation Fund	(53,907)	(4,153)		(58,060)
Parking Fund	(8,412)	(736)		(9,148)
Non-Major Fund	(228)	(1)		(229)
Total	(62,547)	(4,890)		(67,437)
Improvements:				
Aviation Fund	(71,569)	(3,870)		(75,439)
Parking Fund	(478)	(41)		(519)
Non-Major Fund	(319)	(102)		(421)
Total	(72,366)	(4,013)		(76,379)
Machinery and Equipment:				
Aviation Fund	(7,718)	(851)	12	(8,557)
Parking Fund	(565)	(4)		(569)
Non-Major Fund	(2,736)	(267)	199	(2,804)
Total	(11,019)	(1,122)	211	(11,930)
Total Accumulated Depreciation	(145,932)	(10,025)	211	(155,746)
Total Depreciable Assets, net	163,786	29,665	(8)	193,443
Total Capital Assets, net	$ 296,394	$ 50,153	$ (38,807)	$ 307,740

4. CAPITAL ASSETS (Continued)

CPS and SAWS capitalize interest incurred on construction projects, in accordance with Statement of Accounting Standard No. 62 issued by the Financial Accounting Standards Board. CPS and SAWS capitalized construction period interest in the amount of $2,427 and $15,918, respectively. Capital asset activity for CPS and SAWS is as follows:

Capital Assets - City Public Service [1]

City Public Service:	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets:				
Land	$ 55,196	$ 1,286	-	$ 56,482
Land held for future use				
Nonutility property - land	12,599			12,599
Construction in Progress	248,585	222,134	(290,125)	180,594
Total Non-Depreciable Assets	316,380	223,420	(290,125)	249,675
Depreciable Capital Assets:				
Utility Plant in Service	6,709,503	324,623	(28,726)	7,005,400
Utility Property Leased	18,785			18,785
Nuclear Fuel	302,379	16,933	(126)	319,186
Total Depreciable Assets	7,030,667	341,556	(28,852)	7,343,371
Accumulated Depreciation:				
Utility Plant in Service	(2,458,254)	(236,686)	32,021	(2,662,919)
Utility Property Leased	(336)			(336)
Nuclear Fuel	(266,893)	(16,904)		(283,797)
Total Accumulated Depreciation	(2,725,483)	(253,590)	32,021	(2,947,052)
Total Depreciable Assets, net	4,305,184	87,966	3,169	4,396,319
Total Capital Assets, net	$ 4,621,564	$ 311,386	$ (286,956)	$ 4,645,994

Capital Assets - San Antonio Water System [2]

San Antonio Water System:	(Restated) Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets:				
Land	$ 68,977	$ 8,815	$ (14,255)	$ 63,537
Acquistion of Water Rights	18,077	725		18,802
Construction in Progress	428,226	224,216	(143,080)	509,362
Total Non-Depreciable Assets	515,280	233,756	(157,335)	591,701
Depreciable Assets:				
Utility Plant in Service	2,145,315	150,255	(2,068)	2,293,502
Machinery and Equipment	99,236	8,847	(5,031)	103,052
Total Depreciable Assets	2,244,551	159,102	(7,099)	2,396,554
Accumulated Depreciation:				
Utility Plant in Service	(683,594)	(53,092)	1,131	(735,555)
Machinery and Equipment	(60,098)	(7,554)	4,750	(62,902)
Total Accumulated Depreciation	(743,692)	(60,646)	5,881	(798,457)
Total Depreciable Assets, net	1,500,859	98,456	(1,218)	1,598,097
Total Capital Assets, net	$ 2,016,139	$ 332,212	$ (158,553)	$ 2,189,798

Beginning balances have been restated per SAWS December 31, 2004, CAFR

[1] For the fiscal year ended January 31, 2005
[2] For the fiscal year ended December 31, 2004

4. CAPITAL ASSETS (Continued)

Construction-in-progress relating to the Capital Assets is comprised of the following:

Construction-In-Progress: Assets-Governmental Activities

	Project Authorization	Expended to Sept. 30, 2005	Committed	Required Future Financing
Buildings	$ 56,761	$ 26,023	$ 30,738	None
Streets and Bridges	378,060	297,530	80,530	None
Storm Drainage and Flood Prevention	157,681	117,120	40,561	None
Improvements Other Than Buildings	420,885	174,090	246,795	None
Total	$ 1,013,387	$ 614,763	$ 398,624	

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5. RECEIVABLES AND PAYABLES

A. Disaggregation of Receivables and Payables

Receivables

Net receivables at September 30, 2005, were as follows:

	Accounts	Taxes	Notes and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities:						
General Government	$ 34,814	$ 60,979	$ -	$ 3,430	$ 680	$ 99,903
Public Safety	23			88		111
Public Works	3,086			608		3,694
Health Services	9,321			4		9,325
Environmental Protection and Control	220			8		228
Culture and Recreation	544			355		899
Convention and Tourism	5,348			212		5,560
Urban Redevelopment and Housing	112			28		140
Welfare	17		5,347	23		5,387
Economic Development Opportunity	253			59		312
Total - Governmental Activities	$ 53,738	$ 60,979	$ 5,347	$ 4,815	$ 680	$ 125,559
Business-Type Activities:						
Airport System	$ 2,366	$ -	$ -	$ 75	$ -	$ 2,441
Parking Facilities	114			20		134
Non-Major Fund	4,177			19		4,196
Total - Business-Type Activities	$ 6,657	$ -	$ -	$ 114	$ -	$ 6,771

The receivable balances for General Government, Public Health Services, Environmental Protection and Control, and Convention and Tourism have been reduced by the estimated allowance for doubtful accounts of $17,132, $19,898, $15, $79, respectively, and General Government Taxes of $3,632. The receivable balance for Business-Type Activities has been reduced by the estimated allowance for doubtful accounts of $440.

The only receivables not expected to be collected within one year are $4,727 of notes and loans receivable in Welfare.

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5. RECEIVABLES AND PAYABLES (Continued)

A. Disaggregation of Receivables and Payables (Continued)

Payables

Payables at September 30, 2005, were as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities:			
General Government	$ 80,443	$ 4,216	$ 84,659
Public Safety	1,603	7,042	8,645
Public Works	14,437	690	15,127
Sanitation	1,282	764	2,046
Health Services	23	44	67
Culture and Recreation	3,033	941	3,974
Convention and Tourism	4,861	544	5,405
Urban Redevelopment and Housing	559	414	973
Welfare	9,097	870	9,967
Economic Development Opportunity	603	92	695
Total - Governmental Activities	$ 115,941	$ 15,617	$ 131,558
Business-Type Activities:			
Airport System	$ 7,320	$ 487	$ 7,807
Parking Facilities	532	109	641
Non-Major Fund	3,313	646	3,959
Total - Business-Type Activities	$ 11,165	$ 1,242	$ 12,407

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5. RECEIVABLES AND PAYABLES (Continued)

B. Interfund Receivable and Payable Balances

The following is a summary of interfund receivables and payables for the City as of September 30, 2005:

Summary Table of Interfund Receivables and Payables
As of September 30, 2005

	Due From Other Funds	Due To Other Funds
General Fund:		
Fiduciary Funds	$ 700	$ -
Nonmajor Governmental Funds	43,987	
Nonmajor Enterprise Fund		1,664
Total General Fund	44,687	1,664
Debt Service Funds:		
Nonmajor Governmental Funds	1,539	
Total Debt Service Funds	1,539	
Airport System Fund:		
Airport Operating Fund from the Airport I&C Fund	539	
Airport Debt Service Fund from the Airport I&C Fund	4,938	
Airport I&C Fund to the Airport Operating Fund		539
Airport I&C Fund to Airport Construction Fund		4,938
Nonmajor Governmental Funds	2,228	
Total Airport System Fund	7,705	5,477
Parking Fund:		
Parking Debt Service from Parking Operating	4,171	
Parking Debt Service from Parking Debt Service	641	
Parking Debt service from Parking Construction	33	
Parking Facilities from Parking Operating	2,724	
Parking Construction from Parking Debt Service	6,035	
Parking Operating to Parking Debt Service		4,171
Parking Debt Service to Parking Construction		6,035
Parking Debt Service to Parking Debt Service		641
Parking Construction to Parking Debt Service		33
Parking Operating to Parking Facilities		2,724
Nonmajor Governmental Funds		90
Total Parking Fund	13,604	13,694
Fiduciary Agency Funds:		
General Fund		700
Total Fiduciary Agency Funds		700
Internal Service Funds:		
Nonmajor Governmental Funds	353	
Internal Service Funds	13,277	13,277
Total Internal Service Funds	13,630	13,277
Nonmajor Governmental Funds:		
General Fund	1,664	43,987
Airport Fund		2,228
Debt Service Fund		1,539
Internal Service Funds		353
Parking Fund	90	10
Nonmajor Governmental Funds	20,395	20,395
Total Nonmajor Governmental Funds	22,149	68,512
Nonmajor Enterprise Fund:		
Nonmajor Governmental Funds	10	
Environmental Services Operating Fund from the I&C Fund	409	
Environmental Services I&C Fund to Operating Fund		409
Total Nonmajor Enterprise Fund	419	409
Total	$ 103,733	$ 103,733

5. RECEIVABLES AND PAYABLES (Continued)

B. Interfund Receivable and Payable Balances (Continued)

As of September 30, 2005, the balances represent short-term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year-end. Of the $44,687 due from other funds in the General Fund, $43,598 is a result of overdraws of pooled cash. All amounts are expected to be paid within one year.

6. LONG-TERM DEBT

A. Primary Government (City)

1. Governmental Activity Long-Term Debt

The City's on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2005. In April 2005, the City issued the following: $116,170 in General Improvement Bonds and Refunding Bonds, Series 2005 and $10,535 Combination Tax and Revenue Certificates of Obligations, Series 2005. The 2005 Obligations are payable from ad valorem taxes. The bonds are secured by a pledge of ad valorem taxes while the certificates are secured by a pledge of ad valorem taxes and revenues from certain revenues generating operations.

The net proceeds from the sale of the 2005 General Improvement Refunding Bonds, which included an original premium of $9,031, were applied, together with a cash contribution from the City, to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2005 refunding, the City will realize a total reduction of $10,430 in debt service payments. Through the transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $3,680.

The General Improvement Bond, Series 2005 will be utilized to refund a portion of the City's outstanding tax supported debt, fund capital improvements to include streets and pedestrian improvements; drainage improvements; park and recreation facilities improvements; library improvements; public health and safety improvements. The Series 2005 General Improvement Bonds are retired serially in the years 2010 through 2025 and bear interest rates ranging from 3.5% to 5.3%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2005 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; improvements and renovations to existing municipal facilities; acquiring, constructing, and renovating park facilities; constructing improvements for flood control, dams, landscaping, amenities along the San Antonio River; the purchase of materials, supplies, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, street, parks, and public works purposes; and professional services related to the construction and financing of the aforementioned projects. The certificates are retired serially in the years 2005 through 2025 and bear interest rates ranging from 4.0% to 5.3%.

In May 2005, the City issued $2,900 Taxable Combination Tax and Revenue Certificates of Obligation, Series 2005A. The certificates will be utilized to fund Alamodome improvement projects. The series 2005A certificates are retired serially in the year 2007 and bear the interest rate 4.6%.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Additionally in April 2005, the City issued $61,060 of Municipal Drainage Utility System Revenue Bonds, Series 2005. Delivery of the bonds occurred on April 15, 2005. Pursuant to authority conferred by the Municipal Drainage Utility System Act, the City Council adopted an ordinance in 1997 declaring the drainage of the City to be a public utility, enabling the City to bill, along with other municipal utility system billings, a separate charge against lots and tracts of benefited property in the City for drainage services. Revenues are pledged to the payment of the Bonds to the extent and in the manner specified in the ordinance. The obligations bear interest ranging from 2.600% to 4.620% and will be retired in the years 2006 through 2030.

Proceeds of the 2005 Municipal Drainage Utility System Revenue Bonds will be used to finance the costs of drainage improvements, including the acquisition, construction, and repair of structures, equipment, and facilities for the City's Municipal Drainage Utility System.

The City of San Antonio issued the following; $129,930 Contract Revenue Empowerment Zone Bonds, Series 2005B for Texas Convention Center Hotel Finance Corporation. Hotel Investments, L.P. will be loaned the proceeds from the Series 2005 bonds by the Texas Convention Center Hotel Finance Corporation. Hotel Investments, L.P. will use the proceeds of the Series 2005 Bonds to finance a portion of the costs to design, develop, construct, equip, furnish, and open a full-service hotel. The bonds are secured by pledged Hotel Occupancy Tax revenues and are payable solely from payments made by the City sufficient to pay principal and interest on the bonds. As of September 30, 2005, the Texas Convention Center Hotel Finance Corporation Empowerment Zone Bonds and Contract Revenue Bonds outstanding balances are $129,930 and $78,215.

The Starbright Industrial Development Corporation was created to act on behalf of the City in the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and public welfare, including but not limited to the acquisition of land. The City of San Antonio, Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003 were issued to finance the acquisition and conveyance of land to Toyota Motor Manufacturing North America, Inc. for the construction of a training facility. The bonds are pledged by dedicated revenues transferred to the City by the City Public Service (CPS) Board and are payable solely from payments made by the City sufficient to pay principal and interest on the bonds. As of September 30, 2005, the Starbright Industrial Development Corporation contract Revenue Bonds outstanding totaled $24,685.

Prior Years Defeased Debt

In preceding years, the City refunded, prior to maturity, certain General Obligation Bonds, Revenue Bonds, and Certificates of Obligation. The refunding bonds were utilized to purchase securities, which are direct obligations of United States of America (the Purchase Securities). The Purchased Securities plus cash were deposited into irrevocable escrow funds in amounts scheduled to mature in principal amounts that, when added to interest earned on the Purchased Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment 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 a liability of the City, therefore, they are not included in the City's financial statements. On September 30, 2005, $261,173 of previously defeased bonds were outstanding.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year ended September 30, 2005, for Governmental Activity Debt:

Governmental Activity Long-Term Debt (Ad Valorem Tax Pledge)							
Issue	Original Amount	Final Principal Payment[1]	Interest Rates (%)[1]	Balance Outstanding October 1, 2004	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2005
General Obligation Bonds[1]							
1988 Refunding	$ 132,978	2006	7.250-7.400	$ 3,681	$	$ 1,946	$ 1,735
1996	35,330	2005	5.100	1,585		1,585	
1996A Refunding	82,235	2016	4.800-6.000	49,750		3,510	46,240
1996B Refunding	6,030	2008	6.700	2,790		640	2,150
1998 Refunding	30,855	2018	4.500-5.000	26,715		9,325	17,390
1998 Forward Refunding	53,950	2008	5.500-6.000	20,755		2,960	17,795
1998A Refunding	47,955	2019	4.000-5.250	40,625		10,345	30,280
1999	12,000	2011	5.500	10,860		7,720	3,140
2000	27,565	2020	4.500-5.000	24,715		6,140	18,575
2000A	15,615	2021	5.250-5.375	14,680		7,045	7,635
2001	84,945	2022	3.000-5.250	83,370		35,160	48,210
2002 Forward Refunding	239,910	2013	5.000-5.250	200,525		22,185	178,340
2002	55,850	2023	3.000-5.500	51,565		2,025	49,540
2003	40,905	2014	2.750-5.000	34,290		2,275	32,015
2003A	55,710	2016	3.500-5.000	55,665			55,665
2004	33,570	2024	2.375-4.750	33,570			33,570
2005	116,170	2025	3.500-5.250		116,170		116,170
Subtotal	$ 1,071,573			$ 655,141	$ 116,170	$ 112,861	$ 658,450
Tax -Exempt Certificates of Obligation							
Series 1996	$ 8,415	2005	5.200	$ 440	$	$ 440	$ 0
Series 1996A	12,515	2006	4.650-4.750	1,125		550	575
Series 1998	4,315	2018	4.700-5.000	2,715		960	1,755
Series 1998A	36,535	2019	4.000-5.250	28,555		12,615	15,940
Series 1999	4,230	2011	5.750	3,830		2,720	1,110
Series 2000	8,490	2020	4.500-5.000	7,610		1,890	5,720
Series 2000A	8,810	2021	5.250-5.375	8,285		3,980	4,305
Series 2000C	6,415	2020	5.000-5.500	6,310		245	6,065
Series 2001	65,195	2014	4.000-5.250	58,490		4,810	53,680
Series 2002	69,930	2023	3.000-5.500	67,585		1,680	65,905
Series 2004	29,525	2024	2.000-5.000	29,525		440	29,085
Series 2005	10,535	2025	4.000-5.250		10,535		10,535
Subtotal	$ 264,910			$ 214,470	$ 10,535	$ 30,330	$ 194,675
Taxable Certificates of Obligation							
Series 1996	$ 6,160	2009	6.550-6.050	$ 1,575	$	$ 275	$ 1,300
Series 1996B	7,375	2008	6.8	1,345		305	1,040
Series 2000B	1,755	2021	7.450-7.550	1,660		50	1,610
Series 2005A	2,900	2007	4.61		2,900		2,900
Subtotal	$ 18,190			$ 4,580	$ 2,900	$ 630	$ 6,850
Revenue Bonds[2]							
Series 1996 Occupancy Tax	$ 182,012	2026	5.100-6.020	$ 86,897	$	$	$ 86,897
2003 Drainage	44,150	2028	3.500-5.000	43,115		1,065	42,050
2005 Drainage	61,060	2030	3.500-5.250		61,060		61,060
Series 2001 Municipal Facility Corp.	14,465	2020	3.800-5.200	12,870		570	12,300
Series 2004A	10,390	2029	5.000	10,390			10,390
Series 2004B	111,425	2020	2.000-5.000	111,425		800	110,625
Convention Center 2005A	129,930	2039	5.000		129,930		129,930
Convention Center 2005B	78,215	2028	4.500-5.310		78,215		78,215
Starbright Industrial Dev Corp	24,685	2033	2.180-5.110		24,685		24,685
Subtotal	$ 656,332			$ 264,697	$ 293,890	$ 2,435	$ 556,152
Total	$ 2,011,005			$ 1,138,888	$ 423,495	$ 146,256	$ 1,416,127

[1] Accretion of interest on 1988 General Improvement Refunding Bonds for Fiscal Year 2005 has resulted in an increase of $8,709 in General Obligation Bonds Payable. This increase is reflected on the Statement of Net Assets but is not shown on above table.

[2] A portion of the Hotel Occupancy Tax Revenue Bonds, Series 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from date of delivery and will be payable only at maturity or redemption. Interest accreted through Fiscal Year 2005 has resulted in an increase of $13,536 in Revenue Bonds Payable. This increase is reflected on the Statement of Net Assets but is not shown on above table.

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all General Obligation Bonds, Tax Exempt Commercial Paper, Certificates of Obligation, and Hotel Occupancy Tax Revenue Bonds outstanding as of September 30, 2005, are as follows:

Principal and Interest Requirments

Year Ending September 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Revenue Bonds Hotel Occupancy Tax Principal	Revenue Bonds Hotel Occupancy Tax Interest	Total Annual Requirements
2006	$ 44,850	$ 37,146	$ 11,900	$ 9,600	$ 4,385	$ 26,975	$ 134,856
2007	49,875	30,551	17,085	8,886	5,930	26,825	139,152
2008	53,370	28,037	16,370	8,112	6,665	26,621	139,175
2009	55,015	23,261	16,445	7,333	9,505	24,200	135,759
2010	59,055	20,958	15,340	6,609	12,630	23,878	138,470
2011-2015	214,995	68,478	70,910	21,018	53,043	113,756	542,200
2016-2020	123,725	29,878	32,610	9,482	81,744	102,064	379,503
2021-2025	57,565	4,789	20,865	1,928	118,880	77,650	281,677
2026-2030					116,050	47,720	163,770
2031-2035					92,180	24,802	116,982
2036-2039					55,140	7,056	62,196
Total	$ 658,450	$ 243,098 [1]	$ 201,525	$ 72,968	$ 556,152 [2]	$ 501,547	$ 2,233,740

Total Principal & Interest Payable Within One Year

Principal	$ 44,850	$ 11,900	$ 4,385	$ 61,135
Interest	37,146	9,600	26,975	73,721
Total	$ 81,996	$ 21,500	$ 31,360	$ 134,856

[1] Accretion of interest on the 1998 General Improvement Bonds through the year ended September 30, 2005, has resulted in an increase of $8,709 in General Obligation Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

[2] A portion of the Hotel Motel Occupancy Tax Revenue Bonds (Series 1996) was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accretes from the date of delivery and will be payable only at maturity or redemption. The interest accreted through September 30, 2005, has resulted in an increase of $13,536 in Revenue Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Authorized But Unissued General Obligation Debt

Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized But Unissued
1-26-80 [1]	Drainage and Flood Control	$ 21,637	$ 17,413	$ 4,224
1-26-80 [1]	Fire Protection	4,257	2,125	2,132
1-26-80 [1]	Libraries	4,978	3,926	1,052
1-26-80 [1]	Street, Bridge, and Related Improvements	43,287	34,035	9,252
5-07-94	Street Improvements	25,600	25,600	
5-07-94	Drainage Improvements	34,400	34,400	
5-07-94	Parks and Recreation	41,600	41,600	
5-01-99	Streets and Pedestrian Improvements	41,300	41,300	
5-01-99	Drainage	19,000	19,000	
5-01-99	Flood Control	12,200	12,200	
5-01-99	Parks and Recreation	24,200	24,200	
5-01-99	Library System	13,200	13,200	
5-01-99	Public Safety	30,300	30,300	
11-04-03 [2]	Street & Pedestrian	29,398	18,828	10,570
11-04-03 [2]	Drainage	18,913	15,492	3,421
11-04-03 [2]	Parks and Recreation	27,224	24,522	2,702
11-04-03 [2]	Library System	3,965	3,065	900
11-04-03 [2]	Public Health & Safety	35,500	4,768	30,732
Total		$ 430,959	$ 365,974	$ 64,985

[1] In addition to the debt authorized on May 1, 1999, and November 2003, the City has authority pursuant to an election held on January 26, 1980, to issue $16,660 in bonds. The City does not currently intend to issue the bonds authorized in 1980.
[2] An additional $115,000 was authorized November 4, 2003, of which $48,325 remains to be issued.

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10.0% of the total assessed valuation. The total assessed valuation for the fiscal year 2005 was $51,824,208, which provides a debt ceiling of $5,182,420. The total outstanding debt that is secured by an ad valorem tax pledge is $872,090.

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.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Leases

The City leases property and equipment from others. Leased property having elements of ownership are recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property, not having elements of ownership, are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when matured in the governmental fund financial statements. Total expenditures for operating leases for the fiscal year ended September 30, 2005, were approximately $2,886.

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high-capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for governmental activities are as follows:

Asset:	
Machinery and Equipment	$ 21,157
Less: Accumulated Depreciation	(6,718)
Total	$ 14,439

As of September 30, 2005, the City (excluding discretely presented component units) had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

Leases - Governmental Activities

	Capital Leases	Operating Leases	Total
Governmental Activities:			
Fiscal year ending September 30:			
2006	$ 2,602	$ 2,581	$ 5,183
2007	2,153	1,457	3,610
2008	1,571	967	2,538
2009	771	943	1,714
2010	560	728	1,288
2011-2015		3,512	3,512
2016-2020		3,222	3,222
2021-2025		1,126	1,126
Future Minimum Lease Payments	7,657	$ 14,536	$ 22,193
Less: Interest	(425)		
Present Value of Future Minimum Lease Payments	7,232		
Less: Current Portion	(2,406)		
Capital Leases, net of current portion	$ 4,826		

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt

Business-Type long-term debt applies to those City operations that relate to business and quasi-business activities where net income and capital maintenance are measured (Enterprise and Internal Service Funds). Long-term debt, which is to be repaid from proprietary funds resources, is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

Airport System – The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt is equally and ratably secured solely by a first lien on and pledge of the Gross Revenues of the Airport System. Gross Revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the System and its facilities.

On April 15, 2005, the City issued $38,085 of System Revenue Improvement Bonds, Series 2005. Delivery of the bond occurred on May 24, 2005. The proceeds of the bonds will be utilized to acquire and construct improvements to the San Antonio International Airport. The bonds are special obligations of the City payable from gross revenues of the City's Airport System. Proceeds will be combined with a cash contribution from the City and used to refund other Airport System obligations. The bonds are retired serially in years 2006 to 2030 and bear interest rates ranging from 3.375% to 5.250%.

Parking System – The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters, and retail/office space. Long-term debt is allocated to the Parking System on a pro-rata basis from proceeds received from the issuance of general obligation and certificate of obligation debt and is paid from revenues derived from the operation of the Parking System. This allocated debt is additionally secured by an ad valorem tax pledge. The bonds are payable from and secured by a first lien on and a pledge of the gross revenues derived from the ownership and operation of the City's Parking System.

Capitalized Interest Costs

Interest costs incurred on revenue bonds, general obligation bonds, and other borrowings totaled $14,616. For fiscal year 2005, the amounts of $1,258 and $95 were capitalized for the Airport and Parking systems, respectively, as part of the cost of additions to the Airport and Parking systems.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt (Continued)

The following table is a summary of changes in revenue bonds, general obligation bonds, and tax-exempt certificates of obligation for the fiscal year ended September 30, 2005.

Business-Type Long-Term Debt

Issues	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2004	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2005
Airport System							
Revenue Bonds:							
Series 1996	$ 38,000	2014	5.700-5.750	$ 18,325	$ -	$ 350	$ 17,975
Series 2001	17,795	2016	5.375	17,795			17,795
Series 2002	92,470	2027	5.000-5.750	92,470		1,095	91,375
Series 2002 PFC	37,575	2027	4.000-5.750	35,995		845	35,150
Series 2003 Refunding	50,230	2013	5.500-6.000	46,360		4,080	42,280
Series 2003-A	8,175	2006	2.000-2.250	4,210		2,020	2,190
Series 2003-B	3,255	2009	2.300-3.000	3,255			3,255
Series 2005	38,085	2030	3.375-5.250		38,085		38,085
Subtotal	$ 285,585			$ 218,410	$ 38,085	$ 8,390	$ 248,105
Parking System							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 24,445	$ -	$ 450	$ 23,995
General Obligation Bonds:							
Series 2004A Refunding	13,245	2016	1.400-4.650	13,245		1,130	12,115
Subtotal	$ 38,090			$ 37,690	$ -	$ 1,580	$ 36,110
Total	$ 323,675			$ 256,100	$ 38,085	$ 9,970	$ 284,215

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to revenue bonds, general obligations, and certificates of obligation outstanding at September 30, 2005, are as follows:

Business-Type Long-Term Debt

Year End Sept. 30:	Airport System			Parking System		
	Principal	Interest	Total	Principal	Interest	Total
2006	$ 9,615	$ 13,246	$ 22,861	$ 1,930	$ 1,747	$ 3,677
2007	9,605	12,819	22,424	1,720	1,692	3,412
2008	10,155	12,342	22,497	1,790	1,632	3,422
2009	11,595	11,831	23,426	1,950	1,565	3,515
2010	12,210	11,237	23,447	1,050	1,492	2,542
2011-2015	68,930	44,773	113,703	11,140	7,746	18,886
2016-2020	45,480	27,520	73,000	8,675	3,625	12,300
2021-2025	49,445	15,848	65,293	7,855	1,162	9,017
2026-2030	31,070	3,215	34,285			
Total	$ 248,105	$ 152,831	$ 400,936	$ 36,110	$ 20,661	$ 56,771

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Business-Type Long-Term Debt (Continued)

Leases

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high-capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for business-type activities are as follows:

Asset:	
Machinery and Equipment	$ 709
Less: Accumulated Depreciation	(375)
Total	$ 334

As of September 30, 2005, the City (excluding discretely presented component units) had future minimum payments under capital leases with a remaining term in excess of one year for business-type activities as follows:

Leases - Business-Type Activities: Nonmajor Enterprise Fund

	Capital Leases
Proprietary Activities	
Fiscal year ending September 30:	
2006	$ 156
2007	117
Future Minimum Lease Payments	273
Less: Interest	(10)
Present Value of Future Minimum Lease Payments	263
Less: Current Portion	(148)
Capital Leases, net of current portion	$ 115

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Business-Type Long-Term Debt

Long-Term Obligations and Amounts Due Within One Year

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 655,141	$ 116,170	$ 112,861	$ 658,450	$ 44,850
Tax-Exempt Certificates of Obligation	214,470	10,535	30,330	194,675	11,900
Taxable Certificates of Obligation	4,580	2,900	630	6,850	
Revenue Bonds	264,697	293,890	2,435	556,152	4,385
	1,138,888	423,495	146,256	1,416,127	61,135
Unamortized (Discount)/Premium	40,343	12,904	3,448	49,799	3,766
Deferred Amount on Refunding	(15,863)	(5,058)	(7,082)	(13,839)	(6,538)
Total Bonds Payable	1,163,368	431,341	142,622	1,452,087	58,363
Other Liabilities:					
Accrued Arbitrage Rebate Payable	968	720		1,688	695
Capital Leases	7,126	3,236	3,130	7,232	2,406
Compensated Absences	121,536	57,059	49,942	128,653	46,029
Notes Payable		1,664	295	1,369	1,369
Total Other Liabilities	129,630	62,679	53,367	138,942	50,499
Total Governmental Activities Long-term Liabilities	$ 1,292,998	$ 494,020	$ 195,989	$ 1,591,029	$ 108,862
Business-Type Activities:					
Bond Payable:					
General Obligation Bonds	$ 13,245	$ 0	$ 1,130	$ 12,115	$ 1,330
Revenue Bonds	242,855	38,085	8,840	272,100	10,215
	256,100	38,085	9,970	284,215	11,545
Unamortized (Discount)/Premium	1,984	1,310	282	3,012	
Deferred Amount on Refunding	(5,685)		(632)	(5,053)	
Total Bonds Payable	252,399	39,395	9,620	282,174	11,545
Other Payables:					
Aviation	3,084	1,453	2,972	1,565	1,565
Parking	519		512	7	7
Nonmajor Fund	1,051		21	1,030	200
Total Other Payables	4,654	1,453	3,505	2,602	1,772
Capital Leases-Nonmajor Fund	406		143	263	148
Compensated Absences	1,974	1,697	1,669	2,002	334
Total Other Liabilities	7,034	3,150	5,317	4,867	2,254
Total Business-Type Activities Long-term Liabilities	$ 259,433	$ 42,545	$ 14,937	$ 287,041	$ 13,799

The accreted interest through Fiscal Year 2005 has resulted in an increase of $13,536 in Hotel Tax Revenue Bonds Payable in governmental activites and an increase of $8,709 in General Obligation Bonds Payable. The accreted interest in the amount of $22,245 is reflected on the Statement of Net Assets, but is not reflected in this table.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Business-Type Long-Term Debt (Continued)

Compensated Absences

The following is a summary of compensated absences for the year ended September 30, 2005:

Governmental Activities					
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 6,292	$ 39,532	$ 45,824	$ 81,600	$ 127,424
Internal Service Funds		205	205	1,024	1,229
Total Governmental Activities	$ 6,292	$ 39,737	$ 46,029	$ 82,624	$ 128,653

The General Fund, which houses 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 employee's salary is charged to throughout the year.

Business-Type Activities			
Fund	Short-Term	Long-Term	Total
Airport	$ 174	$ 868	$ 1,042
Parking	16	82	98
Non-Major Fund	144	718	862
Total Business-Type Activities	$ 334	$ 1,668	$ 2,002

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Business-Type Long-Term Debt (Continued)

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation, and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction, or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2005, there were 36 series of Industrial Revenue Bonds, 16 series of Health Facilities Development Bonds, and 13 series of Education Facility Revenue Bonds outstanding. The aggregate principal amount payable for the one series of Industrial Revenue Bonds, the one series of Health Facilities Development Bonds, and the four series Education Facility Revenue Bonds issued after October 1, 1997 was $5,500, $7,700, and $60,940, respectively.

The City also facilitates the issuance of tax-exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from and secured by a pledge of rental receipts. As of June 30, 2005, 27 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of $204,772 and an aggregate principal amount issued of $224,775.

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Facilities Airport Revenue Bonds, Series 1995 and Special Airport Facilities Revenue Refunding Bonds, Series 1999. The bonds are payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third-party trustee in-lieu of lease payments to the City. These payments are sufficient to pay when due the principal, premium, interest on, and purchase price of the bonds. The aggregate principal amount payable for the Special Facilities Airport Revenue Bonds, Series 1995 and for the Special Airport Facilities Revenue Refunding Bonds, Series 1999 at September 30, 2005, was $0 and $4,000, respectively.

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 or loans. Accordingly, the bonds and loans are not reported as liabilities in the accompanying financial statements.

The City entered into an agreement with the Greater Kelly Development Authority (GKDA) to fund renovations at Kelly Air Force Base, in the amount of $20,000. The funding for the loan is provided by the Department of Housing and Development (HUD) through a section 108 Loan. The loan is secured by pledged GKDA revenues and property and are payable solely from payments received by the GKDA. As of September 30, 2005, the aggregate amount of the outstanding loan totaled $17,660.

B. City Public Service (CPS)

As of January 31, 2005, the Bond Ordinances for New Series Bonds issued on and after August 6, 1992, contain, among others, the following provisions:

Funds in CPS' General Account shall be pledged and appropriated to be used in the following priority: (a) for maintenance and operating expenses of the systems, (b) for payments of the New Series Bonds, (c) for the payment of any obligations inferior in lien to the New Series Bonds which may be issued, (d) for an amount equal to 6.0% of the gross revenues of the systems to be deposited in the Repair and Replacement Account, (e) for cash payments and benefits to the City not to exceed 14.0% of the gross revenues of the systems, and (f) any remaining net revenues in the General Account to the Repair and Replacement Account.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

The maximum amount in cash to be transferred or credited to the General Fund of the City from the net revenues of the systems during any fiscal year shall not exceed 14.0% of the gross revenues of the systems less the value of gas and electric services of the systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system. The percentage of gross revenues of the systems to be paid over or credited to the General Fund of the City each fiscal year shall be determined (within the 14.0% limitation) by the governing body of the City.

The net revenues of the systems are pledged to the payment of principal and interest on the New Series Bonds. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the systems.

The City agrees that it will at all times maintain rates and charges for the sales of electric energy, gas, or other services furnished, provided, and supplied by the systems to the City and all other consumers 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, as amended, Texas Government Code;
(b) the interest on and principal of all New Series Bonds, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the New Series Bonds;
(c) the interest on and principal of the Prior Lien Bonds, including the Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued (all as defined in the New Series Bond Ordinances); as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Junior Lien Obligations and any Additional Junior Lien Obligations;
(d) to the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the Commercial Paper), the interest on and principal of all Notes (as defined in said ordinance), and the credit agreement (as defined in said ordinance); and
(e) a legal debt or obligation of the systems as and when the same shall become due.

Revenue Bonds

A summary of revenue bonds is as follows:

City Public Service Revenue Bonds

Bond Series	Weighted-Average Interest Rate on Outstanding Bonds	2005
Tax Exempt New Series Bonds, 1992-2003; 2006-2021	5.0%	$ 2,116,345
Taxable New Series		
Taxable New Series Bonds, 1998 & 2000; 2006-2021	6.7%	134,880
	5.1%	2,251,225
Tax-exempt Variable Rate Series Bonds, 2003, 2029-2033		410,000
Total Revenue Bonds outstanding		2,661,225
Less: Current maturities of bonds		127,255
Total Revenue Bonds, net of current maturities		$ 2,533,970

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

Principal and interest amounts due for the next five years and thereafter to maturity are:

City Public Service
Principal and Interest Requirements

Year	Principal	Interest	Total
2006	$ 127,255	$ 127,008	$ 254,263
2007	135,155	120,387	255,542
2008	142,155	113,407	255,562
2009	148,570	106,167	254,737
2010	154,790	98,485	253,275
2011-2015	824,195	360,383	1,184,578
2016-2020	657,315	165,914	823,229
2021-2025	101,790	44,013	145,803
2026-2030	220,000	27,693	247,693
2031-2033	150,000	5,640	155,640
Totals	$ 2,661,225	$ 1,169,097	$ 3,830,322

In May 2003, CPS issued $250,000 of variable rate Junior Lien Revenue Bonds. The bonds were issued initially in a weekly interest mode at par value. Of the proceeds, $111,900 was issued to reimburse the Repair and Replacement Account for prior capital improvements. The mode for Junior Lien Revenue Bonds or any portion thereof may be converted to a different mode, or to an auction rate with an interest rate period of different duration, at the direction of the City. Following such a conversion, the Junior Lien Revenue Bonds or portion thereof, will bear interest at the corresponding daily rate, weekly rate auction rate, commercial paper rate, term rate, or fixed rate.

In June 2003, CPS entered into a Forward Delivery Bond Purchase Agreement to issue $350,500 of New Series 2003 Refunding Bonds in November 2003. The bonds sold at a premium of $37,600 were issued to refund $375,500 of 1994-A New Series Bonds. The refunding transaction resulted in cash flow savings of $32,900, which equated to a present value savings of $24,000, or approximately 6.4% of the par amount of refunded bonds. This transaction resulted in a loss for accounting purposes of $10,600, which has been deferred and will be amortized over the shorter of the life of the refunded or refunding bonds.

In July 2003, CPS issued $93,900 of New Series 2003A Revenue Refunding Bonds. The bonds were sold at a premium of $11,000 and were issued to advance refund $24,400 of 1994-A New Series Bonds, and $71,600 of 1995 New Series Bonds. The refunding transaction resulted in a cash flow savings of $15,900, which equated to a present value savings of $5,800, or 6.1% of the par amount of the refunded bonds. This transaction resulted in a loss for accounting purposes of $7,900, which has been deferred and will be amortized over the shorter of the life of the refunded or refunding bonds.

In November 2004, CPS issued $160,000 of variable-rate, Junior-Lien Revenue Bonds. The bonds were issued initially in a term mode at par value. Of the proceeds, approximately $132,500 was issued to acquire an additional 300 megawatts of electric generating capacity in STP with the remaining proceeds to be used for system improvements and to pay costs and expenses relating to the issuance of the bonds.

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

On March 9, 2005, CPS issued $535,300 of tax-exempt New Series 2005 Bonds. Included were par amounts of $294,600 of Revenue Refunding Bonds and $240,700 of Revenue Bonds. The true interest cost of these bonds was approximately 4.5%. CPS expects to receive net proceeds of $250,000 from the issuance of the Revenue Bonds. Proceeds will be used to partially fund Transmission, Electric Distribution, Information Technology & Communication, and General Property construction. The bonds to be refunded are expected to result in net present value ("NPV") debt service savings of $19,700, or approximately 6.7% of the par amount of the refunded bonds. Closing of the bond transaction is scheduled for April 13, 2005.

Long-Term Debt Activity

Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2004	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2005
Revenue and Refunding Bonds							
1992 Tax-exempt	$ 700,805	2006	6.048	$ 68,860	$	$ 31,985	$ 36,875
1994-A Tax-exempt	684,700	2012	5.008	68,965			68,965
1994-C Tax-exempt	56,000	2006	5.008	42,710			42,710
1995 Tax-exempt	125,000	2007	5.500	14,800		3,500	11,300
1997 Tax-exempt	350,000	2020	5.738	169,715			169,715
1997 Tax-exempt	311,170	2014	5.509	103,055		340	102,715
1998A Tax-exempt	785,515	2021	4.918	619,030		36,065	582,965
1998B Taxable	99,615	2020	6.343	91,815		1,945	89,870
2000A Tax-exempt	170,770	2010	5.374	19,465		3,670	15,795
2000B Taxable	50,425	2021	7.403	46,495		1,485	45,010
2001 Tax-exempt	115,280	2011	3.843	106,430			106,430
2002 Tax-exempt	436,090	2017	4.055	436,090			436,090
2002 Tax-exempt	140,615	2020	4.751	140,615			140,615
2003 Tax-exempt Junior Lien	250,000	2033	Variable	250,000			250,000
2003A Tax-exempt	93,935	2014	3.675	93,935		4,165	89,770
2003 Tax-exempt	350,490	2013	3.081	350,490		38,090	312,400
2004 Tax-exempt Junior Lien	160,000	2027	Variable		160,000		160,000
				2,622,470	160,000	121,245	2,661,225
Less Bond current maturities				121,245	6,010		127,255
Less Bond discount/(premium)				(103,956)		(14,807)	(89,149)
Less Bond acquisition costs				158,721		24,494	134,227
Revenue Bonds, Net				2,446,460	153,990	111,558	2,488,892
Tax-Exempt Commercial Paper (TECP)				350,000			350,000
Long-term Debt, Net				$ 2,796,460	$ 153,990	$ 111,558	$ 2,838,892

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS)

On April 30, 1992, City Ordinance No. 75686 was adopted. This ordinance authorized the issuance of $635,925 Water System Revenue Refunding Bonds, Series 1992, dated April 15, 1992. These bonds were issued to refund in advance of maturity $253,065 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 52091, $330,125 of Sewer Revenue Bonds authorized and outstanding under terms of City Ordinance No. 51975, $14,500 of other bonded debt of annexed water districts, and $49,200 of Sewer System Commercial Paper. The purpose of this advance refunding was to release and discharge the covenants contained in City Ordinance No. 52091 and No. 51975 in order to permit the City to consolidate the operations of the water-related utilities.

The System – City Ordinance No. 75686 defines SAWS as all properties, facilities, plants owned, operated and maintained by the City and/or the Board of Trustees, for the supply, treatment, transmission, and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS; however, the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code. See "Stormwater" below.

Funds Flow – City Ordinance No. 75686 requires that Gross Revenues of SAWS be applied in sequence to: (1) current maintenance and operating expenses including a two-month reserve based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) Payment of amounts required on Inferior Lien Obligations; and (7) Transfers to the City's General Fund and to the Renewal and Replacement Fund.

Reuse Contract – SAWS has a contract with City Public Service, the City owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities, and are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this contract were $2,167 during the twelve months ended December 31, 2004.

SAWS is developing a recycled water system that will provide non-potable water to various customers now using Edwards Aquifer water. During the twelve months ended December 31, 2004, SAWS generated an additional $2,669 in revenue from sales of recycled water. Revenue from recycled water sales is recorded as revenue of SAWS and has the same restrictions as the reuse contract.

Stormwater – In addition to the water related utilities which the Board has under its control, the City Council approved Ordinance No. 77949 on May 13, 1993, which established initial responsibilities over the Stormwater Program with the System and adopts a schedule of rates to be charged for stormwater services and programs. The Stormwater Program is deemed to not be a part of SAWS as the term is defined in City Ordinance No. 75686. Accordingly, operations of the Stormwater Program are not considered when determining compliance with debt covenants contained in City Ordinance 75686 or in calculating payments to be made to the City. In fiscal year 1997, the City Council placed the administrative responsibility with its own staff and entered into an interlocal agreement with SAWS for the provision of services related to certain water quality monitoring functions.

No Free Service – City Ordinance No. 75686 also provides for no free services except for municipal fire-fighting purposes.

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds

On June 30, 2004, SAWS issued $84,700 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004. The proceeds from the sale of the Bonds were used to (i) provide funds for the purpose of acquiring, purchasing, constructing, improving, renovating, enlarging, and equipping SAWS, (ii) refund $5,000 in outstanding commercial paper notes, and (iii) pay the cost of issuing the bonds. The bonds are secured together with other outstanding Senior Lien Obligations solely by a lien on and pledge of net revenues.

On July 7, 2004, SAWS issued $10,635 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004 with the Texas Water Development Board. The Bonds were sold under the Federal Cross Cutter Program with interest rates ranging from 0.00% - 3.20%. 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 $4,800 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 of outstanding Senior Lien Obligations.

On July 7, 2004, SAWS issued $26,365 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004-A with the Texas Water Development Board. The bonds were sold under the State Revolving Fund (SRF) Program, with interest rates ranging from 0.75% - 4.20%. 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 $20,800 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.

All three issues resulted in the conversion of debt from short-term to long-term. As a result, there was no economic gain or loss associated with the refunding.

Senior Lien Water System Revenue Bonds, comprised of Series 1996, Series 1997, Series 1999, Series 2001, Series 2002, Series 2002-A, and Series 2004, outstanding in the amounts of $822,860 at December 31, 2004, 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. At December 31, 2004, these bonds are due in varying amounts, from a low of $5,275 in 2033 to a high of $62,485 in 2028.

Junior Lien Water System Revenue Bonds, comprised 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 amount of $219,035 at December 31, 2004, are collateralized by a junior lien and pledge of the Gross Revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS maintaining an operating reserve for operating and maintenance expenses, and debt service on senior lien debt. At December 31, 2004, the Junior Lien bonds are due in varying amounts, from a low of $3,120 in 2024 to a high of $17,885 in 2019.

Subordinate Lien Water System Revenue Bonds, comprised of Series 2003-A and 2003-B, outstanding in the amount of $120,515 at December 31, 2004, 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 maintaining an operating reserve for operating and maintenance expenses, and debt service on senior lien and junior lien debt. At December 31, 2004, the Subordinate Lien bonds are due in varying amounts, from a low of $2,080 in 2005 to a high of $7,240 in 2033.

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

Revenue bonds currently outstanding are as follows:

San Antonio Water System

Purpose	Interest Rates	Amount
Build, improve, extend, enlarge, and repair the System	0.00-6.25%	$ 1,162,410

The following summarizes transactions of the revenue bonds for the year ended December 31, 2004:

	Beginning Balance Jan. 1, 2004	Additions	Reductions	Ending Balance Dec. 31, 2004	Due Within One Year
Bonds Payable	$ 1,048,445	$ 121,700	$ 7,735	$ 1,162,410	$ 16,505
Deferred Amounts For issuance discounts/ premiums/losses	(29,802)		1,771	$ (28,031)	
Total Bonds Payable, net	$ 1,018,643	$ 121,700	$ 9,506	$ 1,134,379	$ 16,505

Annual debt service requirements are shown as follows:

San Antonio Water System
Annual Debt Service Requirements
Revenue Bonds

Year Ended December 31,	Subordinate Lien Revenue and Refunding Bonds		Junior Lien Revenue and Refunding Bonds		Senior Lien Revenue and Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 2,080	$ 5,037	$ 4,945	$ 7,407	$ 9,480	$ 42,807
2006	2,170	4,951	5,100	7,247	15,145	42,178
2007	2,275	4,860	7,850	7,044	14,755	41,361
2008	2,375	4,765	8,085	6,796	18,705	40,475
2009	2,485	4,665	10,285	6,520	19,585	39,476
2010-2014	14,235	21,671	67,130	26,782	105,095	181,824
2015-2019	17,780	18,413	80,430	14,047	132,650	149,685
2020-2024	22,220	14,343	35,210	2,598	216,980	104,316
2025-2029	27,770	9,255			240,050	39,408
2030-2034	27,125	2,897			50,415	5,290
Total	$ 120,515	$ 90,857	$ 219,035	$ 78,441	$ 822,860	$ 686,820

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Capitalized Interest Costs

Interest costs incurred on revenue bonds and short-term commercial paper debt totaled $55,851 during the twelve months ended December 31, 2004, of which $15,918 was capitalized as part of the cost of SAWS' utility plant additions.

Leases

SAWS entered into various lease agreements for financing the acquisition of computer equipment and heavy equipment. These lease agreements meet the requirements of capital leases for accounting purposes and, therefore, are recorded at the present value of the future minimum lease payments as of the inception date. The annual percentage rate of the leases ranges from 5.5% to 7.5%. At the end of the respective lease terms, the ownership of the equipment transfers to SAWS or SAWS has the option to purchase the equipment. SAWS recorded capital leases related to computer equipment and heavy equipment in the amount of $273.

The future minimum lease obligations as of December 31, 2004, are as follows:

San Antonio Water System
Minimum Lease Obligation

Year Ending Decemeber 31	Principal	Interest	Total Annual Requirements
2005	$ 265	$ 11	$ 276
2006	8		8
Total	$ 273	$ 11	$ 284

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6. LONG-TERM DEBT (Continued)

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Note Payable

During fiscal year 2000, a contract was entered into between SAWS and CPS whereby SAWS acquired water rights from certain CPS properties. A note was signed for 116 payments of $40 at an interest rate of 7.5%. Total payments on this note are $4,640 including interest. The liability as of December 31, 2004, is included in the statement of net assets for both the current portion of $362 and long-term amount of $1,380. The annual principal and interest requirements are as follows:

San Antonio Water System
Principal and Interest Requirements

Year Ending Decemeber 31	Principal	Interest	Total Annual Requirements
2005	$ 362	$ 118	$ 480
2006	390	90	480
2007	420	60	480
2008	452	28	480
2009	118	2	120
Total	$ 1,742	$ 298	$ 2,040

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS

A. Primary Government (City)

Revolving Line of Credit

The City uses a revolving line of credit for the Housing Asset Recovery Program. The line of credit is used to preserve housing stock and to revitalize neighborhoods by renovating and rehabilitating property owned by the City that is acquired through various programs (i.e. flood buyouts, facilities expansion, etc.). The City intends to finance their repayment with the proceeds received from the sale of the renovated houses. The amount of the line of credit is $1,250, of which $301 was outstanding as of September 30, 2005.

Revolving Line of Credit

Beginning Balance	Increases	Decreases	Ending Balance
$ 301	$ -	$ -	$ 301

B. City Public Service (CPS)

Commercial Paper

In 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in Tax-Exempt Commercial Paper (TECP). This ordinance, as amended in June 1997, provides for funding to assist in the financing of eligible projects, in an aggregate amount not to exceed $450,000. Eligible projects include fuel acquisition, capital improvements to the utility systems (the Systems), and refinancing or refunding any outstanding obligations that are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The program's scheduled maximum maturities will not extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $350,000 for the purpose of paying principal due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 2007, and may be renewed for additional periods.

To date, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and any to be issued in the future.

As of January 31, 2005, a summary of TECP is as follows:

TECP Outstanding	$ 350,000
Weighted-average interest rate of outstanding TECP, approximate	0.90%
Average life of outstanding TECP (approximate number of days)	70

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

C. San Antonio Water System (SAWS)

Commercial Paper

SAWS maintains a Commercial Paper Program that is used to provide funds for the interim financing of a portion of capital improvements to the System.

On January 11, 2001, the City Council approved the expansion of the TECP Program (Tax Exempt Commercial Paper) from $175,000 to $350,000. The increase in the program provides interim financing for the increased level of future expenditures on water resource projects. Notes payable under the program cannot exceed maturities of 270 days and scheduled maturities of the short-term borrowing under the Commercial Paper Program may not extend past May 14, 2032.

The City has covenanted in the ordinance authorizing the Commercial Paper Program (the "Note Ordinance") to maintain at all times credit facilities with banks or other financial institutions that would provide available borrowing sufficient to pay the principal of the Commercial Paper Program. The credit facility is maintained under the terms of a revolving credit agreement.

To further support the issuance of the Commercial Paper Program, on June 2, 2001, the City entered into the agreements with the following 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 Bank One, National Association Chicago, Illinois.

The borrowings under the Commercial Paper Program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the Commercial Paper Program and (ii) borrowing under and pursuant to the revolving credit agreement.

Commercial paper notes of $238,400 are outstanding as of December 31, 2004. The proceeds of the notes have been used solely for financing of capital improvements of SAWS. The tax-exempt commercial paper notes have been classified as long-term in accordance with the refinancing terms of the Credit Agreement, and since management intends to continue the remarketing of the tax-exempt commercial paper notes to maintain a portion of its debt in variable rates. Interest rates on the notes outstanding at year-end range from 1.7% to 1.9% and from 34 to 96 days in maturity. (The outstanding notes at December 31, 2004, had an average rate of 1.8% and averaged 67 days to maturity.)

The following summarizes transactions of the commercial paper program for the year ended December 31, 2004.

	Beginning Balance Jan. 1, 2004	Additions	Reductions	Ending Balance Dec. 31, 2004	Due Within One Year
Commercial Paper Notes	$ 269,000	$ -	$ 30,600	$ 238,400	$ -

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8. PENSION AND RETIREMENT PLANS

A. General Plan Information

The City of San Antonio, SAWS, and CPS participate in several contributory retirement plans. These are funded plans covering substantially all full-time employees. Payroll and contribution information as of the year-end for each entity is presented below:

Contributory Pension and Retirement Plans

Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contributions
City	Fire and Police Pension Fund	Single Employer Defined Benefit Plan	$ 200,904	$ 24,896	$ 49,665	$ 74,561
	Texas Municipal Retirement System (TMRS)	Non Traditional Hybrid Defined Benefit Agent Plan	$ 205,876	$ 12,325	$ 25,131	$ 37,456
Component Units:						
SAWS	[1]Texas Municipal Retirement System (TMRS)	Non Traditional Defined Contribution Agent Plan	Not Available	$ 1,830	$ 2,013	$ 3,843
	[2]PMLIC Contract	Agent Multiple Employer Defined Benefit Plan	$ 56,932	$ -	$ 3,486	$ 3,486
CPS	[3]CPS All Employees Plan	Single Employer Defined Benefit Plan	$ 189,892	$ 9,215	$ 8,160	$ 17,375

[1] Plan year ended December 31, 2004
[2] Plan year ended December 31, 2004
[3] Fiscal year ended January 31, 2005

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8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The City provides retirement benefits for all eligible full-time Fire and Police employees through the Pension Fund. Employees who terminate, having five to twenty years of service, may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for twenty years or more shall, upon application to the Board of Trustees of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest three years of pay of the last five years of service. The retirement annuity for employees retiring after September 30, 2003, is computed at the rate of 2.3% of this average for each of the first twenty years of service, plus 4.5% of the member's average total salary for each of the next seven years, plus 3.0% of the member's average total salary for each of the next three years of service, plus 0.5% of the member's average total salary for each of the next four years of service, with fractional years of service prorated based on full months served as a contributing member. In 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 twenty years and one month of actual service credit, may at the time of retirement elect a Backward Deferred Retirement Option Plan (Back DROP). The Back DROP election results in a lump sum payment equal to the number of full months of service elected by an employee that does not exceed the lesser of the number of months of service credit the employee had in excess of twenty years or thirty-six months and a reduced annuity payment.

There is also a provision for a 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 prorated check, and no check will be paid to members who retired after the end of the fiscal year).

If service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, based on the same number of years of the member's pay as used to compute normal retirement benefits. If a member is killed in the line of duty, the member's surviving spouse and dependent children are entitled to a pension based upon actual base salary at time of death.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

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8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Contribution requirements of plan members and the City are established and may be amended by State statute. In the current year, the City contributed 24.64% of covered payroll, and employees contributed 12.32% of covered payroll. The employer's required contribution of $49,665 and the employee's required contribution of $24,896 were made to the Pension Fund. (See summary of contribution information at Part A of this footnote). New fire fighters and police officers are immediately eligible for membership after they receive state certification and complete all other requirements. For the fiscal year ended September 30, 2005, the City does not begin matching contributions until the member has completed the probationary period (currently two months after a member becomes eligible). The City will match the contributions of new fire fighters and police officers during the probationary period beginning October 1, 2005.

Effective October 1, 2001, in addition to the changes for credited service and the fourteenth check as mentioned previously, other new provisions include allowing the surviving spouse of an active member to elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a Back DROP election made by a retiring member, increasing the maximum benefit for surviving spouses and dependent children equal to a 27-year pension, and increasing cost-of-living increases for all retirees who retired between August 30, 1971 and October 1, 1991.

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, 1991, 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, 1991, receive an increase equal to 75.0% of the increase in the CPI.

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 post-retirement surviving spouse, (iii) providing for an increased death benefit payment by the 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 from 27 to 30 years.

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 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.

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with five or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after five years, but must leave accumulated contributions in the plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

The plan provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints contained in the statutes.

Contribution requirements are actuarially determined by TMRS' actuary (See summary of TMRS Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the City's employees is 6.0% and the matching percent is currently 12.5%, both as adopted by the governing body of the City. (See summary of contribution information in Part A of this footnote.) Under the state law governing TMRS, the Employer's Contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's twenty-five year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is amortized over a constant twenty-five year period as a level percent of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

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8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System, a contract with Principal Mutual Life Insurance Company, and Social Security.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

1. 20 Years of credited service regardless of age, or
2. 25 Years of credited service and at least age 50, or
3. 10 Years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of credited service. Average Compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31, out of the latest ten compensation years prior to normal retirement date which gives the highest average.

The normal retirement benefit under the Principal Mutual contract is equal to:

1. 1.2% of the Average Compensation, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.375% of the Average Compensation, times years of credited service in excess of 35 years.

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits. The following information related to the Texas Municipal Retirement System and Principal Mutual Life Insurance has been prepared as of January 1, 2004.

Texas Municipal Retirement System (TMRS)

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The TMRS was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas, and is administered in accordance with the Texas Municipal Retirement System Act. It is the opinion of the TMRS management that the plans in the TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

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8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the SAWS-financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100.0%, 150.0%, and 200.0%) of the employee's accumulated contributions. In addition, SAWS may grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and SAWS matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. A member is vested after five years. The plan provisions and contribution requirements are adopted by SAWS within the options available in the state statutes governing TMRS and within the actuarial constraints contained also in the statutes.

Contribution requirements are actuarially determined by TMRS' actuary (see Summary of TMRS' Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the employees is 3.0% of salary, and SAWS matching rate approximates 100.0% of the employee rate, both as adopted by the SAWS. Under the state law governing TMRS, SAWS' contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to SAWS' matching percent, which are the obligation of SAWS as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of SAWS to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

When SAWS periodically adopts updated service credits and increases the annuities in effect, the increased unfunded actuarial liability is to be amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is to be amortized over the twenty-five year period. The unit credit actuarial cost method is used for determining SAWS contribution rate.

Contributions are made monthly by both the employees and SAWS. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. Significant assumptions used in the actuarial valuation of annual required contributions include a rate of return on the investment of present and future assets of 8.0% per year. Additionally, there is no need to project salary increases since the benefit credits earned for service to date are not dependent on future salaries. Likewise, inflation and cost-of-living adjustments are not accounted for in the actuarial study. Assets are valued at amortized cost.

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8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Principal Mutual Life Insurance Company

The contract with Principal Mutual Life Insurance Company (PMLIC) serves as a supplement to the TMRS and Social Security benefits. SAWS' covered payroll at January 1, 2004, under this contract was $56,932.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit plan. Employees are eligible to participate in the plan on January 1 of the calendar year following date of hire. An employee covered by the plan may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. The plan allows an employee to accrue vesting benefits as follows:

Years of Service	Vested Percentage
Less than 5	0%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

An employee is automatically 100.0% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

Benefits for retired employees are fully guaranteed at retirement. The pension plans unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Life Insurance Co. The plan provisions and contribution requirements are governed by SAWS, which may amend plan provisions and is responsible for the management of plan assets.

Significant assumptions used by PMLIC's actuary to compute the actuarially determined contribution requirements include: (a) a rate of return on the investment of present and future assets of 8.3% per year, and (b) a salary scale from Table S-5 of the Actuary's Pension Handbook, plus 3.4%.

The PMLIC contract funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method spreads the total cost of the projected pension benefits for each employee evenly from the date the employee is first eligible for the plan to the employee's assumed retirement date. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. Thus, as of the plan effective date, there are some accumulated Normal Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

In subsequent years, the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by 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, 2003, reflects an unfunded frozen initial liability of $10,643.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Principal Mutual Life Insurance Company (Continued)

The PMLIC issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Life Insurance Company, Pension Diversified Retirement Services, Des Moines, Iowa 50392-0001 or by calling (515) 247-5111.

D. City Public Service (CPS)

All Employee Plan

The CPS Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service and to those employees who are ages 55 or older with at least 10 years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service, or age 62 with less than 25 years of service.

The Plan and contribution requirements are sponsored by and may be amended by CPS, acting by and through the General Manager and Chief Executive Officer of CPS. The Plan assets are held in a separate trust that is annually audited and for which financial statements include historical trend information. Additional information may be obtained by writing the Employee Benefits Division of CPS, P.O. Box 1771, San Antonio, Texas 78296 or by calling (210) 978-2484.

Funding levels are established through annual actuarial evaluations and recommendations of an Administrative/Investment Committee, using both employee and employer contributions. Participating employees contribute 5.0% of their total compensation and are fully vested after completing seven years of credited service or at age 40. The balance of contributions made amounted to 4.3% and is the responsibility of CPS, considering actuarial information, budgetary compliance, and the need to amend the Plan with legal requirements. (See Summary of Contribution Information at Part A of this footnote.)

As calculated under GASB Statement No. 27, CPS' annual pension cost and net pension obligation for the fiscal year ended January 31, 2005, was $8,694. The annual required contribution was determined as part of the January 1, 2004, actuarial valuation using (a) the five-year smoothed market method for asset valuation, (b) the projected unit credit for pension cost, and (c) the level dollar open for amortization. The remaining amortization period is 21.6 years and is calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 2004, actuarial valuation include (a) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (b) projected salary increases averaging 4.1%, and (c) post-retirement cost-of-living increases of 1.8%. The projected salary increases include an inflation rate of 3.5%.

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8. PENSION AND RETIREMENT PLANS (Continued)

E. Three-Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation as required by GASB Statement No. 27.

Three-Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End of Year	Percentage of APC Contributed
Fire and Police Pension-City of San Antonio	2003	$ 45,008			$ 45,008	$ (45,008)				100%
	2004	48,038			48,038	(48,038)				100%
	2005	49,665			49,665	(49,665)				100%
TMRS-City of San Antonio	2003	$ 22,684			$ 22,684	$ (22,684)				100%
	2004	23,062			23,062	(23,062)				100%
	2005	25,131			25,131	(25,131)				100%
CPS All Employee Plan [1]	2003	$ 4,921			$ 4,921	$ (4,921)				100%
	2004	7,651			7,651	(7,651)				100%
	2005	8,694			8,694	(8,694)				100%
TMRS-SAWS [2]	2002	$ 1,772			$ 1,772	$ (1,772)				100%
	2003	1,905			1,905	(1,905)				100%
	2004	2,013			2,013	(2,013)				100%
PMLIC-SAWS [3]	2002	$ 2,857			$ 2,857	$ (2,857)				100%
	2003	3,324			3,324	(3,324)				100%
	2004	3,486			3,486	(3,486)				100%

1 Fiscal year ended January 31, 2005
2 Plan year ended December 31, 2004
3 Plan year ended December 31, 2004

F. Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation by the Texas Municipal Retirement System's (TMRS) actuary are provided in the table below for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Investment Return-City	7%
Investment Return-SAWS	7%
Inflation Rate	None
Projected Salary Increases	None
Post Retirement Benefit Increases	None
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost

Location of Schedules of Funding Progress

The Schedule of Funding Progress is located in the "Required Supplementary Information" section of this report. The schedules are designed to provide information about each entity's progress in accumulating sufficient assets to pay benefits due.

9. POSTEMPLOYMENT RETIREMENT BENEFITS

A. Primary Government (City)

In addition to the pension benefits discussed in Note 8, the City provides all their retired employees with certain health benefits under two postemployment benefit programs. The first program is a health insurance plan, which provides benefits for all non-uniformed City retirees, and for all, pre-October 1, 1989, uniformed (fire and police) retirees. Currently, there are 6,060 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, 2005, there were 1,301 retirees participating in the program that covers eligible expenses at 80% after a deductible of $250 (single)/$500 (family) for non-Medicare and $125/$250 for Medicare retirees. The cost of the program is reviewed annually, and actuarially determined costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis shared on a targeted 67.0% 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 $9,788. For the year ended September 30, 2005, total contributions were as follows:

City	$ 3,609
Employees	2,672
Total	$ 6,281

The second postemployment benefit program of the City provides retirement health care benefits for eligible Fire and Police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). The Fund was originally established as a fund of the City pursuant to the respective Fire and Police collective bargaining agreements to provide postemployment health benefits for San Antonio Fire Fighters and Police Officers who retired on or after October 1, 1989. Effective October 1, 1997, the Fund was created as a separate and distinct statutory trust. The Fund is governed by a nine-member Board of Trustees comprised of the Mayor, two City Council members, two active police officers, two active fire fighters, a retiree representative of the Fire Department, and a retiree representative of the Police Department. The Board of Trustees is responsible for the investment of the assets of the Fund. Contribution and benefit levels are determined by the respective collective bargaining agreements with the Fire and Police Associations.

The benefits of this plan are financed on a prefunded basis. The City currently makes contributions on behalf of 3,400 active fire fighters and police officers who may be eligible for benefits under this plan in the future. The benefits of the plan are not available until the employee has completed twenty years of service, and the plan is currently providing benefits to 1,189 eligible retirees. The Program 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 II retirees. Please note the number of firefighters, police officers, and retirees in this section are not expressed in thousands. For the year ended September 30, 2005, total expenses for retired employees was $13,626. Contribution levels from the current collective bargaining agreements between the City and the Fire and Police Associations, respectively, and total contributions to the Fund are summarized in the following tables. Additionally, for FY 2005, the City did not reduce its contribution to the Fund under the Fire Agreement to 8.5% of base pay plus longevity but rather maintained its contribution at 8.7 % of base plus longevity.

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9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

Fire Agreement Contribution Levels		
Effective Date	City % of Base Pay Plus Longevity	Firefighter Per Month
June 1, 2002	8.92%	$40
October 1, 2002	8.71%	$50
October 1, 2003	8.51%	$60
October 1, 2004	8.33%	$70

Police Agreement Contribution Levels		
Effective Date	City % of Base Pay Plus Longevity	Police Officer Per Month
November 1, 2003	9.4%+$20/member monthly	$40
April 1, 2004	9.4%+$20/member monthly	$50
October 1, 2004	9.4%+$20/member monthly	$60
April 1, 2005	9.4%+$20/member monthly	$70

Total Contributions to the Fund	
City	$ 17,199
Employees and Retiree Dependent Premiums	3,264
Total Contributions	$ 20,463

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Fund and whether the existing financing of the Fund can be reasonably expected to be adequate over a long period of time. Actuarial valuations over the past several years have indicated that contribution levels are not sufficient to amortize the unfunded liability. At the request of the Board of Trustees, the Fund's consulting actuaries performed an actuarial valuation dated February 14, 2005, as of October 1, 2004. The results of the actuarial valuation were that, in the opinion of the actuary, the Fund will have a long-term inadequate financing arrangement if present health benefits are left unchanged and if the monthly contributions remain at the amounts of $60 per month for October 2004 through March 2005, and $70 per month from April 2005 through September 2006, per active participant for police employees and $70 per month for active fire fighters for fiscal year 2004-2005. The actuary has also recommended that the contribution be increased to 22.2% of covered payroll in addition to the continuation of the specified monthly contributions.

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 Fund does not have a short-term financing problem. As of September 30, 2005, net assets available for postemployment benefits were $147,554, while benefits payments for the fiscal year ended September 30, 2005, were $13,626. As noted above, contribution and benefit levels are established pursuant to the collective bargaining agreements. The current agreement with the Fire Association will expire September 30, 2005, and has an evergreen clause through September 30, 2015. This agreement was negotiated prior to the issuance of the actuarial valuation indicating that contribution levels could not sufficiently amortize the unfunded liability; however, the agreement does contain a limited re-opener related to contributions to the Fund. The City is in discussions with the Fire Association regarding the limited re-opener under the current agreement.

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

The City approved an agreement in November of 2003 with the Police Association that will expire on September 30, 2006, and has an evergreen clause through September 30, 2016. This agreement with the Police Association increases both contributions by the City and active police officers over the term of the agreement. The agreement makes certain changes in benefits such as expanding the list of preventive services and for in-network and out-of-network pharmacy benefits with increased co-payments for drugs purchased at out-of-network pharmacies, which also became effective simultaneously under the Fire Contract. To coincide with the expiration of the City's current agreement with the Fire Association in September of 2005, the agreement with the Police Association also includes a re-opener on the benefits article in fiscal year 2005, which will allow the City to simultaneously work with both the Police and Fire Associations to continue to develop a comprehensive long-term solution for the Fund. The plan is based on a dual-track strategy of restructuring and redesigning the health benefits program and increasing City and employee contributions.

B. City Public Service (CPS)

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Plan assets are held as part of CPS' Group Health and Life Insurance Plans and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The Plans may be amended by CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs.

These costs approximated $4,900 for 2005. CPS reimbursed certain retirees and their spouses enrolled in Medicare Part B a percentage of the monthly premium, which totaled $325 for fiscal year 2005.

Retired employees and covered dependents contributed $2,200 for their health care and life insurance benefits in fiscal year 2005. There were approximately 2,386 retirees and covered dependents eligible for health care and life insurance benefits. Please note the number of retirees is not stated in thousands.

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1, 2004, valuations are $80,500 for health and $21,800 for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $50,200 for health, $6,000 for life insurance, and $3,400 for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $5,200 in 2005. For the health care plan, the actuarial cost method used is the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 2004, actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.0% per year for the health, life, and disability plans, (b) projected salary increases for the plans ranging from 4.5% to 12.0% depending on age, for base and other salaries, and (c) medical cost increases projected at 9.5% for 2005-2010 decreasing to 6.0% in 2011 and thereafter.

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9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

C. San Antonio Water System (SAWS)

SAWS provides certain health care and life insurance benefits for retired employees. Substantially all full-time employees who retire from SAWS may become eligible for those benefits. On December 31, 2004, there were 468 retirees with life insurance and 480 retirees with medical coverage. Please note the numbers of retirees are not stated in thousands.

SAWS provides medical and life insurance for retirees and recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance. Premiums for medical insurance and life insurance amounted to $4,034 and $76, respectively, for January 1, 2004, through December 31, 2004. Those and similar benefits for active employees are provided through insurance companies.

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10. CPS SOUTH TEXAS PROJECT (STP)

Joint Operations

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are Texas Genco, L.P., formerly known as Houston Lighting & Power and Reliant Energy, American Electric Power - Central Power and Light Company, and the City of Austin. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28.0% ownership in the STP represents 700 megawatts of plant capacity. At January 31, 2005, CPS' investment in the STP utility plant was approximately $1,700,000, net of accumulated depreciation. Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated, and the STP Nuclear Operating Company (STP OPCO), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STP OPCO.

CPS amortizes its share of nuclear fuel for the STP to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS' share of the STP generation that is available for sale to CPS customers. This charge is included in fuel expense monthly.

CPS has committed to acquire from AEP an additional 12% share of STP. This will increase ownership to 40.0% and will give CPS an additional 300 megawatts of plant capacity.

Nuclear Insurance

The Price-Anderson Act is a comprehensive statutory arrangement for providing limitations on liability and governmental indemnities with respect to nuclear accidents or events. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100,600, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10,000 per year per reactor for each nuclear incident. CPS and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the Nuclear Regulatory Commission (NRC), in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $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 $1,100,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition, so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

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10. CPS SOUTH TEXAS PROJECT (STP) (Continued)

Nuclear Insurance (Continued)

The owners of STP currently maintain $2,800,000 of nuclear property insurance, which is above the legally required amount of $1,100,000, but is less than the total amount available for such losses. The $2,800,000 of nuclear property insurance 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). In the event that property losses as a result of an accident at the nuclear plant of any utility insured by NEIL exceed the accumulated funds available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $25,500 during any one policy year.

Nuclear Decommissioning

CPS, together with the other owners of the STP, files with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1995, the owners conducted a review of decommissioning costs. The results showed that CPS' share of decommissioning costs at approximately $270,000 in 1994 dollars. In 1999, the owners conducted an additional review of decommissioning, and results estimated CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars. In 2004, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now 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 was able to decrease its minimum annual contribution requirement from $15,900 in 2004 to $6,900 in FY 2005. In fiscal year 2006, CPS expects to establish a funding level of approximately $5,000.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At December 31, 2004, CPS has accumulated approximately $222,400 of funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amounts of $77,300 at December 31, 2004.

Based upon the 1998 and 1994 decommissioning cost studies, the annual level funding into the trust of $6,900 for 2005 was expensed by CPS.

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11. COMMITMENTS AND CONTINGENCIES

A. Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2005. Grants awarded by federal, state, and other governmental agencies but not yet earned nor received in cash as of September 30, 2005, were $114,546.

Capital Improvement Program

The City will be undertaking various capital improvements to its airport system during fiscal year 2006. The estimated cost of these improvements is $149,276. Approximately $11,508 of the total will be funded by federal grants.

Litigation

The City is involved in various lawsuits related to alleged personal and property damages, wrongful death, breach of contract, various claims from contractors for additional amounts under construction contracts, property tax assessments, environmental matters, class action and promotional practices, and discrimination cases. The Office of the City Attorney estimates the probable liability for these suits, including those mentioned below, will approximate $8,995, which is included as a component of the reserve for claims liability in the amount of $19,199. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The City makes significant estimates in determining the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Self-Insurance Funds are adequate to cover losses for which the City may be liable. It is not determinable whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the government-wide financial statements.

Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This is a nuisance case alleging that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in Plaintiff's contracting acute lymphoblastic leukemia. Although the jury at trial entered a judgment of more than $23,000 against the City, the trial court immediately reduced this by $6,000. On appeal, the Fourth Court subsequently sided with the City and reduced the judgment further by eliminating $10,000 in exemplary damages. The remaining issue is whether personal injuries are recoverable under the Plaintiff's theory of nuisance. The City believes they are not and that even if they are recoverable, damages are capped at $250 under the Texas Tort Claims Act. The City is appealing to the Texas Supreme Court.

Matthew Jackson et. al. v. City of San Antonio. This is a Fair Labor Standards Act ("FLSA") lawsuit with 175 named plaintiffs who claim that they were required to report for duty 15 minutes prior to their shift and that they were not compensated for the time in violation of the FLSA. There are several other allegations based on the FLSA, as well. The lawsuit has been filed on behalf of all of the police officers similarly situated to the 175 plaintiffs. The Plaintiffs have a motion pending for class certification that could increase the size of the Plaintiff class to include all officers of the San Antonio Police Department, of which there are more than 2,000. Thus, the potential exists for more officers to join the lawsuit. The City expects to win the lawsuit, but the potential liability, if the case were lost, could be an amount well over $1,000.

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Non-compliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual and in the governmental fund type when matured.

Leases

The City leases City-owned property to others consisting of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. Total rental revenue on operating leases for fiscal year ended September 30, 2005, was $17,945. As of September 30, 2005, the leases provide for the following future minimum rentals:

Leases Receivable				
	Governmental Activities	Aviation	Parking	Total
Fiscal year ending September 30:				
2006	$ 2,255	$ 14,257	$ 188	$ 16,700
2007	1,422	2,503	73	3,998
2008	1,053	2,195	51	3,299
2009	697	1,625	36	2,358
2010	601	1,603	36	2,240
2011-2015	2,658	5,328	93	8,079
2016-2020	2,526	2,918		5,444
2021-2025	750	355		1,105
2026-2030	750	157		907
2031-2035	625			625
2036-2040	500			500
2041-2045	167			167
Future Minimum Lease Rentals	$ 14,004	$ 30,941	$ 477	$ 45,422

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, federal and state laws required the City to incur certain postclosure care costs over a period of thirty years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,800. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a thirty-year period. In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost*, the estimated postclosure cost of $3,800 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Environmental Services Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations.

Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year ended September 30, 2005, resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,030. This represents a decrease of $21 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

TCEQ Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission (TNRCC), related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City, and the new permitee has provided adequate financial assurance for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

Brooks City-Base – Electric and Gas Utilities

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the "Air Force") and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks. On July 22, 2002, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology & Business Park, a facility that will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

As part of the conveyance, the electric and gas utilities were transferred to City Public Service (CPS), the City's utility. The electric and gas utility systems' infrastructure at Brooks are deficient and require extensive upgrades and improvements. Pursuant to the transfer, the Air Force, BDA, and CPS have committed to make certain improvements and upgrades to the electric and gas utility over a 20-year period. Funding for these improvements include $3,400 from the City and $6,300 from BDA and CPS each, respectively, for a total of $16,000.

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Brooks City-Base – Electric and Gas Utilities (Continued)

With respect to BDA's obligation of $6,300, the City has agreed, under certain circumstances and if necessary, to assist BDA in funding its obligation. The City has agreed to contribute to BDA on an annual basis an amount equivalent to the incremental increase in the City's payment from CPS derived from Brooks. The City, as the owner of CPS, receives 14.0% of CPS' gross revenues, and this amount represents additional resources available to the City as a result of its increased payment from CPS derived at Brooks. Over the 20-year period, the City's annual payments will not exceed $3,400. In the event BDA has exhausted all of its available resources and has been unable to fulfill its obligation of $6,300 by the end of the 20-year term, the City has agreed in good faith to utilize all of its funding options to enable BDA to satisfy its obligation.

B. City Public Service (CPS)

Joint Operations Agreement

A 1997 Joint Operations Agreement (JOA) resulted from the litigation settlement with Texas Genco, L.P., formerly known as Reliant Energy, Inc., and Houston Lighting & Power, over its management of STP during the construction and early operating periods. The JOA is an arrangement to jointly dispatch CPS' and Texas Genco, L.P.'s generating plants to take advantage of the most efficient plants and favorable fuel prices of each utility. Until June 2002, CPS received, in monthly cash payments, 90.0% of the savings realized from the jointly operated systems. As of June 2002, when Texas Genco, L.P. met the JOA $200,000 cumulative savings obligation, monthly cash payments were reduced to 50% of the savings realized from the jointly operated systems. As of January 31, 2005, CPS' total cumulative payments from savings realized was $265,500.

Litigation

Additionally, in the normal course of business, CPS is involved in other legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals, and discrimination cases. Also, CPS power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

Other

Purchase and construction commitments amounted to approximately $893,000 at January 31, 2005. This amount includes approximately $24,400 that is expected to be paid for natural gas purchases to be made under various contracts currently in effect through June 2007; the actual amount to be paid will depend upon CPS' actual requirements during the contract period and the price of gas. Also included is $54,800 for coal purchases through December 2006, $238,400 for coal transportation through December 2014, and $3,000 for treated cooling water through December 2005, based upon the minimum firm commitment under these contracts.

CPS has also committed to purchase $529,700 in wind power. Additional purchase commitments at January 31, 2005, which are related to STP, include approximately $45,500 for raw uranium, associated fabrication, and conversion services. This amount represents services that will be needed for refueling through the year 2028.

The PUC promulgated new rules in 1996 designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule (Rule) mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on the amount of load served by each utility. CPS' cost for calendar year 2004 was approximately $15,800. The estimated cost for calendar year 2005 is approximately $15,100.

11. COMMITMENTS AND CONTINGENCIES (Continued)

Other (Continued)

B. City Public Service (CPS) (Continued)

As part of the Request for Proposal process for the J.K. Spruce Unit 2 Power Plant, CPS has committed to compensate the unsuccessful J.K. Spruce 2 Design-Build Offeror up to $1,000, which is payable contingent on their meeting specific criteria.

C. San Antonio Water System (SAWS)

Litigation

SAWS is the subject of various claims and litigation that have risen in the ordinary course of its operations. Management, in consultation with legal counsel, is of the opinion that SAWS' liabilities in these cases, if decided adversely to SAWS, will not be material.

Other

SAWS is committed under various contracts for completion of construction or acquisition of utility plants totaling approximately $182,440 as of December 31, 2004. Funding of this amount will come from available revenues of SAWS, contributions from developers, and restricted assets.

12. RISK FINANCING

A. Primary Government (City)

Property and Casualty Liability

At September 30, 2005, the City has excess insurance coverage through State National Insurance Company for liability. The blanket policy provides general and auto liability along with police professional errors and omissions and EMS Medical Malpractice, and Civil Rights and Employee Benefits Liability Coverage. Allianz Insurance Company provides property coverage on the City's building and contents inventory. The City utilizes a third-party administrator for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Internal Service Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported, and Departments are assessed premiums to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements did not exceed insurance coverage for each of the past three years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee benefit program including coverage for medical, dental, and life insurance, vision, dependent care reimbursement accounts, and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Self-Insurance Employee Benefits Insurance Internal Service Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

12. RISK FINANCING (Continued)

A. Primary Government (City) (Continued)

Workers' Compensation

The City self-insures for Workers' Compensation. The City is a member of the Texas Municipal League (TML) Workers' Compensation Joint Insurance Fund, an unincorporated association of political subdivisions of the State of Texas. The TML Workers' Compensation Joint Insurance Fund is not intended to operate as an insurance company, but rather is intended to be a contracting mechanism, which the City as a member utilizes to administer self-insurance workers' compensation benefits to its employees for claims that occurred prior to September 30, 1986. The City also utilizes third-party administrators for the handling of administration, investigation, and adjustment of workers' compensation claims that occurred after October 1, 1986. All loss contingencies, including claims incurred but not reported, if any, are recorded in the City's Self-Insurance Workers' Compensation Internal Service Fund and City departments are assessed premiums to cover expenditures. As of September 30, 2005, the City has excess workers' compensation coverage through the State National Insurance Company. Claims settlements did not exceed insurance coverage for each of the past three years.

Unemployment Compensation Program

The Unemployment Compensation Program of the Self-Insurance Internal Service Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year-end, claims were being administered internally by the City and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

Extended Sick Leave Program

The Extended Sick Leave Program of the Self-Insurance Internal Service Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Self-Insurance Employee Wellness Program Internal Service Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program was established to offer City employees short-term mental health, marital, and financial counseling, as well as substance abuse intake and assessment. The Program was funded by a transfer from the Workers' Compensation Fund.

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12. RISK FINANCING (Continued)

A. Primary Government (City) (Continued)

Claims Liability

The liability for the Employees' Benefits Program is based on the estimated aggregate amount outstanding at the statement of net assets date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the statement of net assets date, and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims that have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability as management of the City 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 the Insurance Reserve Program is based on a 3.0% discounted rate.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Benefits, and Workers' Compensation Programs for the year ended September 30, 2005.

Schedule of Changes In Claims Liability

Fund	Liability Balance October 1,	Change in Estimates	Claims & Adjustments	Claims Payments	Liability Balance September 30, [1]
Insurance Reserve					
Fiscal Year 2004	$ 16,179	$ 1,092	$ 3,370	$ (3,370)	$ 17,271
Fiscal Year 2005	17,271	1,928	4,638	(4,638)	19,199
Employee Benefits					
Fiscal Year 2004	$ 8,548	$	$ 48,266	$ (48,266)	$ 8,548
Fiscal Year 2005	8,548		66,489	(66,489)	8,548
Workers' Compensation[1]					
Fiscal Year 2004	$ 23,205	$	$ 9,635	$ (9,635)	$ 23,205
Fiscal Year 2005	23,205	(1,326)	10,297	(10,297)	21,879

[1]The Workers' Compensation Liability Balance of $21,879 is comprised of $19,553 recorded in the Workers' Compensation Fund and the remaining liability of $2,326 is recorded in Proprietary Funds.

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12. RISK FINANCING (Continued)

B. City Public Service (CPS)

CPS is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS purchases commercial liability and property insurance coverages to provide protection in event of large/catastrophic claims. CPS performs actuarial studies periodically to determine its insurance retentions. An actuarial study was last performed in 2004.

In addition, CPS is exposed to risks of loss due to death of, and injuries to, or illness of, its employees. CPS makes payments to external trusts to cover the claims under the related plans. At January 31, 2005, CPS accumulated approximately $172,800 in these external trusts. The trust accounts and related claims liabilities are included in CPS' financial statements. CPS has recorded $30,400 of expense related to these plans for the year ended January 31, 2005.

Based upon the guidance of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the following information is provided regarding the changes in the insurance reserves for property and employee and public liability claims for the years ended January 31:

City Public Service
Schedule of Changes In Claims Liability

Fund	Liability Balance February 1,	Claims & Adjustments	Claims Payments	Liability Balance January 31,
Property Insurance				
Fiscal Year 2004	$ 5,553	$ 377	$ (95)	$ 5,835
Fiscal Year 2005	5,835	1,010		6,845
Employee & Public Liability Claims				
Fiscal Year 2004	$ 6,866	$ 1,371	$ (1,000)	$ 7,237
Fiscal Year 2005	7,237	(871)	(331)	6,035
Employee Health & Welfare Claims				
Fiscal Year 2004	$ 4,172	$ 35,939	$ (35,415)	$ 4,696
Fiscal Year 2005	4,696	32,888	(32,325)	5,259

The employee health and welfare plan assets are segregated from CPS' assets. They are separately managed by a committee whose members are appointed by the CPS General Manager and CEO. These plans have separate financial statements for calendar year 2004. These separately audited financial statements are available upon request from CPS.

12. RISK FINANCING (Continued)

C. San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

SAWS is self-administered and self-insured for the first $500 of each worker's compensation, general liability, automobile liability, public official's liability and $250 for pollution legal liability claim whereby any claim exceeding the self-insured retention limit would be covered through SAWS' comprehensive commercial insurance program. For the year ended December 31, 2004, there were no reductions in insurance coverage from the previous year and there were no claims that exceeded the self-insured retention limit. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

SAWS had recorded a liability in the amount of $2,477 as of December 31, 2004, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. The claims liability includes medical and rehabilitation costs, which are considered incremental claim adjustment expenses. Changes in the liability amount for the last two fiscal years were:

San Antonio Water System
Schedule of Changes In Claims Liability

Year Ended	Balance at Beginning of Fiscal Year Liability	Claims & Adustments	Claims Payments	Balance at End of Fiscal Year Liability
Dec. 31, 2003	$ 1,184	$ 3,029	$ (1,896)	$ 2,317
Dec. 31, 2004	$ 2,317	$ 1,675	$ (1,515)	$ 2,477

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13. INTERFUND TRANSFERS

The following is a summary of interfund transfers for the City for the year ended September 30, 2005:

Summary Table of Interfund Transfers
Year Ended September 30, 2005

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
Airport System	$ 102	$ -
Parking Facilities	760	499
Internal Service Funds	766	3,705
Nonmajor Governmental Funds	11,184	81,752
Nonmajor Enterprise Fund	1,310	
Total General Fund	14,122	85,956
Debt Service Funds:		
Nonmajor Governmental Funds	16,423	
Total Debt Service Funds	16,423	
Airport System Fund:		
General Fund		102
Internal Service Funds		151
Nonmajor Governmental Funds		362
Total Airport System Fund		615
Parking Facilities Fund:		
General Fund	499	760
Internal Service Funds		39
Nonmajor Governmental Funds		228
Total Parking Facilities Fund	499	1,027
Internal Service Funds:		
General Fund	3,705	766
Airport System	151	
Parking Facilities	39	
Internal Service Funds	1,399	1,399
Nonmajor Governmental Funds	380	351
Nonmajor Enterprise Fund	212	430
Total Internal Service Funds	5,886	2,946
Nonmajor Governmental Funds:		
General Fund	81,752	11,184
Debt Service		16,423
Airport System	362	
Parking Facilities	228	
Internal Service Funds	351	380
Nonmajor Governmental Funds	46,583	46,583
Nonmajor Enterprise Fund		85
Total Nonmajor Governmental Funds	129,276	74,655
Nonmajor Enterprise Fund:		
General Fund		1,310
Internal Service Funds	430	212
Nonmajor Governmental Funds	85	
Total Nonmajor Enterprise Funds	515	1,522
Total	$ 166,721	$ 166,721

13. INTERFUND TRANSFERS (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches, and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

Other significant transfers by the General Fund include $615 set aside for the purchase of additional ladder trucks from fiscal year 2006 through fiscal year 2009. This is the third year that funds have been set aside for that purpose as the Master Plan recommended in fiscal year 2001 that $615 in funds be set aside each year through fiscal year 2005.

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14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets-governmental activities as reported in the Government-wide Statement of Net Assets.

One element of this reconciliation states, "Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are not reported in the governmental funds." The detail of the $23,958 is as follows:

Revenues previously reported as deferred in the fund financial statements	$ 33,528
Receivable applicable to governmental activities, which are not available in the current period	565
Deferred revenues previously reported as income in the fund financial statements	(10,135)
Revenues collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are not recognized in governmental funds	$ 23,958

Another element of this reconciliation states, "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds." The detail for the decrease related to capital leases is as follows:

Total capital leases reported on the Government-wide Statement of Net Assets	$ 7,232
Less: Short-term available portion reported in fund financial statements	(1,153)
Net adjustment to decrease fund balance-total governmental funds to arrive at new assets-governmental activities for capital leases	$ 6,079

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14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the Government-wide Statement of Activities.

The details of the increase of bond premiums and deferred charges are as follows:

Amortization of bond premiums on long-term debt-Debt Service Fund, previously expensed in the fund financial statements	$ 1,027
Amortization of bond premiums and bond issues costs on long-term debt - General Obligation Bonds previously expensed in the fund financial statements	18,725
Less: premiums on bonds and certificates not previously recorded in the fund financial statements	(5,031)
Total amortization of bond premiums and deferred charges (net)	$ 14,721

Another element of this reconciliation states, "Some expenses reported in the Statement of Activities are not reported as expenditures in governmental funds." The details of the ($9,990) are as follows:

Compensated Absences	$ (6,557)
Interest Expense	(6,505)
Principal Paid on Leases	3,792
Arbitrage Rebate Expense	(720)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	$ (9,990)

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15. DEFICITS IN FUND BALANCES / NET ASSETS

Special Revenue Funds

The Alamodome Fund had a deficit fund balance of $3,199 as of September 30, 2005. This deficit is attributed to events programmed but not realized, due in part to the downturn of certain entertainment industries and local venue competition. Additionally, individual spending per event was expected to increase due to an anticipated economic upswing.

The Public Health Support Revenue Fund had deficit fund balance of $131 as of September 30, 2005. The deficit is attributed to increased operating costs associated with the expansion of the Animal Care Project. Higher commodity expenditures were the result of an active influenza season and increased vaccine cost.

As of September 30, 2005, deficit fund balance at year-end is reported in the Categorical Grant In-Aid, and Community Development Program in the amounts of $3,934 and $251, respectively. During the next fiscal year, individual projects within the Categorical Grant-In Aid Fund which have a deficit fund balance will be comprehensively researched and analyzed to determine whether insufficient funding exists or accounting adjustments to projects are required to be made. Once this process is completed, a corrective action plan to address the deficit fund balance will be developed and implemented in Fiscal Year 2006. The deficit for the Community Development Program Fund is attributable to project budgets that require adjustment in order to address these deficits.

The Golf Course Fund had a deficit fund balance of $974 as of September 30, 2005. 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.

Internal Service Funds

As of September 30, 2005, a deficit of $20,689 in net assets is reported in the Employee Benefits Program. This deficit decreased by $11,063 from the prior fiscal year. To address specific issues related to the increasing costs of health benefits, the City has sought the services of an outside consultant in 2006 to perform a comprehensive review of the Employee Benefits Programs. Establishing health care medical management programs focused on providing managed care for employees having chronic, high-risk ailments involving high costs such as back pain, high-risk maternity, heart disease, and depression are some of the areas on which the consultant will be focusing. Programs such as these will be carefully studied as means of providing long-term solutions to address rising health care costs and increasing fund balance deficits.

Within the Internal Service Funds, the Workers' Compensation Program also reported deficit net assets of $4,245, at September 30, 2005, which was reduced by $2,345 from the prior fiscal year. The City will fund the deficit through assessments charged to various City funds in future years.

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16. OTHER DISCLOSURES

Donor Restricted Endowment

The City of San Antonio has four permanent funds: the San Jose Burial Park Permanent Fund, the Carver Cultural Center Endowment Fund, the San Antonio Housing Trust Fund, and the William C. Morris Endowment Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these endowment funds are classified as restricted net assets and are reported in the government-wide financial statements. The principal is required to be retained in perpetuity while the interest is available to cover specific expenditures.

The San Jose Burial Park Permanent Fund generated $54 in interest to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery.

The Carver's Endowment Fund generated $8 in interest. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated $314 in interest. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of this trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed, construed, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $5 in interest. These earnings are used on an annual basis to enhance the City's Library's Educational Programming and Services for Children. Any net income or net appreciation of the funds not used shall be accumulated and added to the principal of the funds. The earnings of the funds will be expended in accordance with the spending policy of the Library's Board of Directors or Trustees.

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17. SUBSEQUENT EVENTS

Primary Government (City)

On December 2, 2004, the City issued $33,090 of "City of San Antonio, Texas General Improvement Forward Refunding Bonds, Series 2006," (the "2006 Bonds"). The 2006 Bonds were delivered on May 9, 2006. The 2006 Bonds have maturities from 2009 to 2016, with interest rates ranging from 5.25% to 5.50%.

Fire Collective Bargaining Agreements

The City's collective bargaining agreement with the International Association of Fire Fighters Local 624 ("Local 624") approved on May 23, 2003 had a term of June 3, 2002 through September 30, 2005. The contract contains an evergreen clause effective through September 30, 2015. Negotiations for a new agreement with the Local 624 have been initiated, however, to date, no agreement has been reached.

Response to Hurricanes Katrina and Rita

On August 29, 2005, Hurricane Katrina landed on the coasts of Louisiana, Mississippi and Alabama. The catastrophic destruction caused by the hurricane led to an unprecedented amount of evacuees seeking shelter in the City of San Antonio. Additionally, on September 24, 2005, Hurricane Rita caused extensive damage to the coastal regions of Texas and Louisiana. The City combined forces with Bexar County, private companies, and state, federal, and non-profit agencies to coordinate the needed relief efforts in order to assist the evacuation efforts for Hurricanes Katrina and Rita. The City as of April 2006, has incurred approximately $35,031 in shelter and interim housing expenses in support of the relief efforts consisting of temporary housing, equipment, food, medical supplies, facilities, and City emergency and civilian personnel. Additionally, the City has been reimbursed $27,134 from the Federal Emergency Management Agency (FEMA). The remaining eligible expenses of $7,897 have been submitted to FEMA for reimbursement. FEMA will accordingly reimburse the additional costs.

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City of San Antonio
Texas

Required Supplementary Information Other Than MD&A

(Unaudited)

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City of San Antonio
Texas

Budgetary Comparison Schedule - General Fund

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GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2005

	2005			
	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
Resources (Inflows):				
Taxes	$ 350,282,729	$ 350,282,729	$ 367,030,243	$ 16,747,514
Licenses and Permits	17,542,550	17,542,550	20,715,743	3,173,193
Intergovernmental	2,795,306	2,795,306	3,055,128	259,822
Revenues from Utilities	196,784,803	196,784,803	221,774,673	24,989,870
Charges for Services	29,101,948	29,101,948	33,622,089	4,520,141
Fines and Forfeits	12,315,804	12,315,804	12,025,344	(290,460)
Miscellaneous	11,668,023	11,668,023	14,286,093	2,618,070
Transfers from Other Funds	14,673,148	14,778,703	14,121,847	(656,856)
Amounts Available for Appropriation	635,164,311	635,269,866	686,631,160	51,361,294
Charges to Appropriations (Outflows):				
General Government	79,512,765	87,405,500	66,746,538	20,658,962
Public Safety	400,696,219	405,154,154	404,491,342	662,812
Public Works	10,698,288	10,698,288	10,477,765	220,523
Health Services	13,947,697	14,245,069	14,378,887	(133,818)
Sanitation	2,886,374	2,886,374	2,582,840	303,534
Welfare	20,837,267	22,018,578	21,578,358	440,220
Culture and Recreation	66,031,937	66,726,827	63,478,741	3,248,086
Economic Development and Opportunity	4,054,036	4,525,265	4,552,704	(27,439)
Transfers to Other Funds	75,209,927	87,057,100	86,649,587	407,513
Total Charges to Appropriations	673,874,510	700,717,155	674,936,762	25,780,393
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	(38,710,199)	(65,447,289)	11,694,398	77,141,687
Fund Balance Allocation	38,710,199	65,447,289	(11,694,398)	(77,141,687)
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	$ 686,631,160
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(14,121,847)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 672,509,313
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	$ 674,936,762
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.	(7,514,793)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(86,649,587)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 580,772,382

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function and activity within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City prepares an annual budget for the General Fund on a modified-accrual basis, which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year-end.

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City of San Antonio
Texas

Pension Schedules

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REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

FIRE AND POLICE PENSION PLAN--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-04	$ 1,540,286	$ 1,838,371	$ 298,085	84%	$ 204,516	146%
10-01-03	1,429,378	1,718,262	288,884	83%	191,647	151%
10-01-02	1,341,274	1,630,434	289,160	82%	183,686	157%

TEXAS MUNICIPAL RETIREMENT SYSTEM--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL (1)	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-04	$ 464,345	$ 621,034	$ 156,689	75%	$ 204,088	77%
12-31-03	451,071	602,927	151,856	75%	192,896	79%
12-31-02	436,046	566,203	130,157	77%	197,678	66%

CITY PUBLIC SERVICE ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-04	$ 839,800	$ 795,100	$ (44,700)	106%	$ 189,900	(24)%
01-01-03	783,000	748,700	(34,300)	105%	186,700	(18)%
01-01-02	758,200	691,800	(66,400)	110%	180,300	(37)%

NOTES: (1) Abstracted from City payroll records.

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-04	(2) $	$	$		$	
12-31-03	48,964	61,425	12,461	80%	57,596	22%
12-31-02	46,492	57,635	11,143	81%	51,889	21%
12-31-01	44,613	55,201	10,588	81%	51,958	20%

SAN ANTONIO WATER SYSTEM - PMLIC

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-04	$ 47,249	$ 57,241	$ 9,992	83%	$ 56,932	18%
01-01-03	42,827	52,602	9,775	81%	55,364	18%
01-01-02	39,270	45,947	6,677	85%	51,303	13%

(2) Balances for 12/31/04 not available

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

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APPENDIX D

DTC'S BOOK-ENTRY-ONLY SYSTEM

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an "Omnibus Proxy" to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar; disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

* * *

APPENDIX E

FORM OF CO-BOND COUNSEL OPINION

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

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

FINAL

WE HAVE ACTED as Co-Bond Counsel in connection with the issuance by the City of San Antonio, Texas (the "City") of the "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006" (the "Bonds") in the aggregate principal amount of $72,620,000, dated September 15, 2006, solely to express legal opinions as to the validity and enforceability of the Bonds, the defeasance and discharge of the City's outstanding obligations being refunded by the Bonds, the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

THE BONDS are issuable in fully registered form only and in denominations of $5,000 or any integral multiple thereof within a maturity. The Bonds mature on August 15 in each of the years 2007 through 2026, unless redeemed in accordance with applicable redemption provisions. Interest accrues on the Bonds from their date at the rates per annum stated in the ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance"), and such accrued interest is payable on February 15 and August 15 in each year, commencing February 15, 2007, to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (identified in the Ordinance).

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

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

Legal Opinion of Fulbright & Jaworski L.L.P. and Escamilla & Poneck, Inc. regarding "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006"

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

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

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals for federal income tax purposes. Interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust, or a financial asset securitization investment trust) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

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

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

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APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

SPECIMEN

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

SPECIMEN