OFFICIAL STATEMENT
Dated November 29, 2007

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS: Fitch: "AA+"
Moody's: "Aa1"
S&P: "AA+"
(See "RATINGS" herein.)

In the opinion of Bond Counsel (named below) assuming continuing compliance by the City (defined below) after the date of issuance of the 2007A Notes (defined below) with certain covenants in the ordinances described herein and subject to the matters discussed herein under "TAX MATTERS," interest on the 2007A Notes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from 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 the owners thereof who are individuals or, except as described herein under "TAX MATTERS," corporations. (See "TAX MATTERS" herein.)

$21,270,000
CITY OF SAN ANTONIO, TEXAS
TAX NOTES, SERIES 2007A

Date: November 1, 2007 **Due: August 1, as shown herein**

The $21,270,000 "City of San Antonio, Texas Tax Notes, Series 2007A" (the "2007A Notes") are being issued by the City of San Antonio, Texas (the "City") pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1431, Texas Government Code, as amended; the Home Rule Charter of the City (the "City Charter"); and an ordinance adopted by the City Council of the City (the "City Council") on November 29, 2007. (See "THE 2007A Notes - Authority for Issuance" herein.)

Interest on the 2007A Notes will accrue from November 1, 2007 and will be payable on February 1 and August 1 of each year, commencing February 1, 2008, until stated maturity, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The 2007A Notes will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the 2007A Notes will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the 2007A Notes (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the 2007A Notes. So long as the Securities Depository is the registered owner of the 2007A Notes, the principal of and interest on the 2007A Notes will be payable by U. S. Bank National Association, Houston, Texas, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners. (See "THE 2007A NOTES - Book-Entry-Only System" herein).

The 2007A Notes are payable from ad valorem taxes levied annually against all taxable property located within the City, within the limitations prescribed by law, including the constitutional tax limit of $2.50 per $100 of assessed valuation. (See "THE 2007A NOTES – Security" herein.)

Concurrently with the sale of the 2007A Notes, the City separately sold its "City of San Antonio, Texas General Improvement and Refunding Bonds, Series 2007" in the principal amount of $121,220,000 (the "2007 Bonds") and "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2007" in the principal amount of $106,755,000 (the "2007 Certificates") and the 2007 Airport Bonds (defined herein). The 2007 Bonds and 2007 Certificates are collectively referred to herein as the "2007 Obligations." This Official Statement describes the 2007A Notes, but not the 2007 Obligations or the 2007 Airport Bonds.

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS FOR THE 2007A NOTES

The 2007A Notes are offered for delivery, when, as and if issued and received by the initial purchasers named below (the "Underwriters"), and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Fulbright & Jaworski L.L.P., as Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, and for the City by the City Attorney. (See "LEGAL MATTERS" herein.) It is expected that the 2007A Notes will be available for initial delivery through the services of DTC on or about December 18, 2007.

SOUTHWEST SECURITIES, INC. **RBC CAPITAL MARKETS**

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

$21,270,000 TAX NOTES, SERIES 2007A
(CUSIP No. [1] Prefix: 796237)

Stated Maturity	Principal Amount	Interest Rate (%)	Initial Yield (%)	CUSIP No.[1] Suffix:
2008	$3,345,000	4.00	3.37	NC5
2009	4,210,000	4.00	3.30	ND3
2010	4,380,000	4.00	3.30	NE1
2011	4,555,000	5.00	3.36	NF8
2012	2,725,000	4.00	3.42	NG6
2012	2,055,000	5.00	3.42	QD0

No Redemption: The 2007A Notes are not subject to redemption prior to stated maturity. (See "THE 2007A NOTES – No Redemption" herein.)

[1] CUSIP numbers were assigned to the 2007A Notes 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 2007A Notes. Neither the City, the Underwriters, nor the Co-Financial Advisors shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL:

Name	Tenure on City Council	Term Expires	Occupation
Phil Hardberger, Mayor	2 Years, 5 Months	May 31, 2009	Retired, Appellate Court Judge
Mary Alice P. Cisneros, District 1	5 Months	May 31, 2009	Small Business Owner
Sheila D. McNeil, District 2	2 Years, 5 Months	May 31, 2009	Self-Employed
Roland Gutierrez, District 3	2 Years, 5 Months	May 31, 2009	Attorney
Philip A. Cortez, District 4	5 Months	May 31, 2009	Community Liaison
Lourdes Galvan, District 5	4 Months	May 31, 2009	Manager of Small Business
Delicia Herrera, District 6	2 Years, 5 Months	May 31, 2009	Self-Employed
Justin Rodriguez, District 7	5 Months	May 31, 2009	Attorney
Diane G. Cibrian, District 8	4 Months	May 31, 2009	Small Business Owner
Kevin Wolff, District 9	2 Years, 5 Months	May 31, 2009	Executive Vice President & C.O.O.
John G. Clamp, District 10	5 Months	May 31, 2009	Small Business Owner

CITY OFFICIALS:

Name	Position	Tenure with City of San Antonio	Tenure in Current Position
Sheryl L. Sculley	City Manager	2 Years	2 Years
Jelynne L. Burley	Deputy City Manager	23 Years, 8 Months	1 Year, 10 Months
Pat DiGiovanni	Deputy City Manager	1 Year, 9 Months	1 Year, 9 Months
Frances A. Gonzalez	Assistant City Manager	23 Years, 2 Months	4 Years, 1 Month
Erik J. Walsh	Assistant City Manager	13 Years, 6 Months	1 Year, 10 Months
Penny Postoak Ferguson	Assistant City Manager	1 Year, 3 Months	1 Year, 3 Months
T.C. Broadnax	Assistant City Manager	1 Year	1 Year
Sharon De La Garza	Assistant to the City Manager	3 Years, 7 Months	1 Year, 1 Month
Richard Varn[1]	Chief Information Officer	6 Months	Appointed November 19, 2007
Michael D. Bernard	City Attorney	2 Years, 1 Month	2 Years, 1 Month
Leticia M. Vacek	City Clerk	3 Years, 6 Months	3 Years, 6 Months
Ben Gorzell, Jr.	Director of Finance	17 Years	1 Year, 6 Months
Peter Zanoni	Director of Management and Budget	10 Years, 8 Months	3 Years, 11 Months

[1] Mr. Varn served as Interim Chief Information Officer beginning on May 16, 2007 and was appointed as Chief Information Officer on November 19, 2007.

CONSULTANTS AND ADVISORS:

Bond Counsel

Fulbright & Jaworski L.L.P. 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, Inc., 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. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the 2007A Notes, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by the Co-Financial Advisors or the Underwriters and is not to be construed as a promise or guarantee of the Co-Financial Advisors or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth hereinafter the date of this Official Statement.

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

THE AGREEMENTS OF THE CITY AND OTHERS RELATED TO THE 2007A NOTES 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 2007A NOTES IS TO BE CONSTRUED AS CONSTITUTING AN AGREEMENT WITH THE PURCHASERS OF THE 2007A NOTES. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

THE 2007A NOTES ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE 2007A NOTES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

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

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

OFFICIAL STATEMENT
Relating to the
$21,270,000
CITY OF SAN ANTONIO, TEXAS
TAX NOTES, SERIES 2007A

INTRODUCTION

This Official Statement of the City of San Antonio, Texas (the "City") is provided to furnish information in connection with the sale of the "City of San Antonio, Texas Tax Notes, Series 2007A" in the principal amount of $21,270,000 (the "2007A Notes").

This Official Statement contains descriptions of the 2007A Notes, the 2007A Note Ordinance (defined herein), and certain other information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City Finance Department, 111 Soledad, 5th Floor, San Antonio, Texas 78205; or from the City's Co-Financial Advisors, Coastal Securities, Inc., 600 Navarro, Suite 350, San Antonio, Texas 78205 and Estrada Hinojosa & Company, Inc., 100 West Houston Street, Suite 1400, San Antonio, Texas, 78205, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

PURPOSES AND PLAN OF FINANCING

Purpose of the 2007A Notes

The 2007A Notes are being issued to provide funds to (1) finance the costs of technology improvements to various City-owned systems (including, but not limited to, timekeeping administration, communications, business reporting, fiber optics, emergency citizen notification and response, procurement, recruiting, information, and data storage) and improvements to the City's sanitary sewage system; and (2) pay the costs of issuance.

Sources and Uses of the 2007A Notes

The following table summarizes the application of the proceeds resulting from the sale of the 2007A Notes and the sources and uses of funds.

Sources of Funds	
Principal Amount of the 2007A Notes	$21,270,000.00
Net Original Issue Premium	591,671.95
Accrued Interest	119,706.39
Total Sources of Funds	$21,981,378.34
Uses of Funds	
Construction Fund Deposit	$21,690,000.00
Interest and Sinking Fund Deposit	119,706.39
Costs of Issuance	87,331.18
Underwriters' Discount	84,340.77
Total Uses of Funds	$21,981,378.34

THE 2007A NOTES

General Description

Interest on the 2007A Notes accrues from November 1, 2007 and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2008. The principal of and interest on the 2007A Notes are payable in the manner described herein under "Book-Entry-Only System." In the event the Book-Entry-Only System is discontinued, the interest on the 2007A Notes will be payable to the registered owner as shown on the security register relating to the 2007A Notes maintained by the Paying Agent/Registrar (the "Register"), as of the fifteenth (15th) day of the month next preceding such interest payment date by check, mailed first-class, postage prepaid, to the address of such person on the Register, or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the 2007A Notes will be payable at stated maturity upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the 2007A Notes is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close or the United States Post Office is not open for business, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

Authority for Issuance of the 2007A Notes

The 2007A Notes are issued pursuant to the Home Rule Charter of the City (the "City Charter"); the general laws of the State, particularly Chapter 1431, Texas Government Code, as amended; and the ordinance adopted by the City Council of the City (the "City Council") on November 29, 2007, authorizing the issuance of the 2007A Notes (the "2007A Note Ordinance").

Concurrent Issuances

Concurrently with its issuance of the 2007A Notes, the City is also issuing, as separate and distinct transactions, the 2007 Obligations and the 2007 Airport Bonds (defined herein). This Official Statement describes only the 2007A Notes.

Security

Ad Valorem Tax Pledge

In the 2007A Note Ordinance, the City covenants that it will levy and collect an annual ad valorem tax within the limitations prescribed by law against all taxable property located within the City sufficient to meet the debt service requirements on the 2007A Notes. The City had outstanding, as of September 30, 2007, $945,755,000 in principal amount of tax-supported obligations prior to the issuance of the 2007A Notes. After effectuating initial delivery of the 2007A Notes and the 2007 Obligations on or about December 18, 2007, the City's outstanding principal amount of indebtedness payable from ad valorem taxes will be $1,135,000,000, assuming no other obligations are issued prior to such date.

Tax Rate Limitations

The Texas Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed $2.50 for each $100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the $2.50 rate for interest and sinking fund purposes; however, the Texas Attorney General, who must approve the issuance of the 2007A Notes, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% collections. In addition, the City is subject to a City Charter provision that

limits the amount of debt payable from the ad valorem tax proceeds. This City Charter provision prohibits the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of any indebtedness secured in whole or in part by special assessments, exclusive of the debt of any improvement district, and exclusive of any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2007A Notes does not result in the City's violation of these provisions.

No Redemption

The 2007A Notes are not subject to redemption prior to stated maturity.

Paying Agent/Registrar

The initial Paying Agent/Registrar is U.S. Bank National Association, Houston, Texas. In the 2007A Note 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 2007A Notes are duly paid. In the 2007A Note Ordinance, 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 2007A Notes. Upon a change in the Paying Agent/Registrar for the 2007A Notes, the City will promptly cause written notice thereof to be sent to each registered owner of the 2007A Notes by United States mail, first-class, postage prepaid.

Transfer, Exchange, and Registration

In the event the 2007A Notes are not in the Book-Entry-Only System, the 2007A Notes 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 2007A Note may be assigned by the execution of an assignment form on the 2007A Notes or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new 2007A Note will be delivered by the Paying Agent/Registrar in lieu of the 2007A Notes 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 2007A Notes issued in an exchange or transfer of 2007A Notes 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 2007A Notes 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 2007A Notes 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 2007A Notes surrendered for exchange or transfer. (See "THE 2007A NOTES - Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the 2007A Notes.)

Mutilated, Destroyed, Lost, or Stolen 2007A Notes

The City has agreed to replace damaged, mutilated, destroyed, lost, or stolen 2007A Notes upon surrender of the damaged or mutilated 2007A Notes to the Paying Agent/Registrar or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

Limitation on Transfer

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any 2007A Notes during the period commencing at the close of business on the Record Date (as hereinafter defined) and ending at the opening of business on the next interest payment date.

Defaults and Remedies

If the City defaults in the payment of principal of or interest on the 2007A Notes when due, or if it fails to make payments into any fund or funds created in the 2007A Note Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set for in the 2007A Note 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 2007A Notes if there is no other available remedy at law to compel performance of the 2007A Note 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 2007A Notes in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The 2007A Note 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 2007A Note 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. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3rd 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the City for breach of the 2007A Notes or the 2007A Note Ordinance covenants. 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 2007A Notes. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the 2007A Note Ordinance and the 2007A Notes are qualified with respect to the customary rights of debtors relative to their creditors.

Record Date for Interest Payment

The record date for determining the person to whom the interest on the 2007A Notes is payable on any interest payment date (the "Record Date") is the fifteenth (15th) day of the month next preceding such interest payment date, as specified in the 2007A Note Ordinance. 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 2007A Note appearing on the Register at the close of business on the day next preceding the date of mailing of such notice.

Amendments

The City may amend, change, or modify the 2007A Note Ordinance without the consent of or notice to any registered owners, as may be required (1) by the provisions of the 2007A Note Ordinance; (2) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein; or (3) in connection with any other change which is not to the prejudice of the registered owners. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the 2007A Notes then outstanding and affected thereby, amend, change, modify, or rescind any of the provisions of 2007A Note Ordinance; except that, without the consent of the registered owners of all of each respective series of the 2007A Notes affected, no such amendment, change, modification, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any 2007A Notes is due and payable, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the 2007A Notes; (2) give any preference to any 2007A Notes over any other 2007A Notes; (3) extend any waiver of default to subsequent defaults; or (4) reduce the respective aggregate principal amount of 2007A Notes required for consent to any amendment, change, modification, or rescission.

Defeasance

The 2007A Note Ordinance provides for the defeasance of the 2007A Notes when the payment of the principal of the respective 2007A Notes, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, and/or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment. The 2007A Note Ordinance provides that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (ii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the City money in excess of the amount required for such defeasance. Upon such deposit as described above, such 2007A Notes will no longer be regarded as being outstanding or unpaid and will no longer be entitled to the rights and benefits afforded under the 2007A Note Ordinance.

Payment Record

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

Book-Entry-Only System

This section describes how ownership of the 2007A Notes is to be transferred and how the principal of, premium, if any, and interest on the 2007A Notes are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the 2007A Notes are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the 2007A Notes, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 2007A Notes), or notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange

Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the 2007A Notes. The 2007A Notes 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 each series of the 2007A Notes, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities 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 the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies 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 the 2007A Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007A Notes on DTC's records. The ownership interest of each actual purchaser of the 2007A Notes ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the 2007A Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2007A Notes, except in the event that use of the book-entry system for the 2007A Notes is discontinued.

To facilitate subsequent transfers, all 2007A Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2007A Notes 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 2007A Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007A Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2007A Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2007A Notes, such as tenders, defaults, and proposed amendments to the 2007A Note documents. For example, Beneficial Owners of the 2007A Notes may wish to ascertain that the nominee holding the 2007A Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2007A Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2007A Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2007A Notes 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 payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of 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, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2007A Notes at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, 2007A Notes are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2007A Notes will be printed and delivered.

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

So long as Cede & Co. is the registered owner of the 2007A Notes, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the 2007A Notes 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 2007A Notes, 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 2007A Note Ordinance will be given only to DTC.

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

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

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

Tax Year 2007 Actual Market Value of Taxable Property		$76,269,611,385
Less:		
Residence Homestead Exemptions - Optional 65 or Older	$ 4,134,993,420	
Residence Homestead Exemptions - Disabled	121,197,697	
Disabled/Deceased Veterans' Exemptions	187,319,906	
Historical Property Exemptions	33,109,969	
Freeport Goods Exemptions	517,163,083	
Tax Abatement/Phase-In Exemptions	464,620,243	
Residence Homestead Appraised Value 10% Limitations	950,082,037	
Agricultural Productivity Loss	515,959,868	
Pollution Control Exemptions	62,760,278	
Community Housing Development Organization Exemptions	50,497,511	
Energy Exemptions	35,452,234	
Absolute Exemptions	3,193,016,866	
Absolute Pro-Rated Exemptions	7,606,203	
Total Exemptions	$10,273,779,315	
Tax Year 2007 Net Taxable Assessed Valuation (100% of Actual Market) [2]		$65,995,832,070

[1] See "AD VALOREM TAXATION" herein for a description of the City's taxation procedures. Based on Tax Year 2007 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 21, 2007.

[2] The City anticipates that the taxable assessed value of real property subject to the over-65 and disabled homeowners tax freeze (see "AD VALOREM TAXATION – Residence Homestead Exemptions") totals approximately $845,866,683, resulting in a fiscal year 2008 loss in ad valorem tax revenue of approximately $4,840,895.

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

The Outstanding Ad Valorem Tax Debt (at 9/30/07)	
General Obligation Bonds	$667,280,000
Combination Tax and Revenue Certificates of Obligation	218,185,000
Taxable Combination Tax and Revenue Certificates of Obligation	290,000
Tax Notes	60,000,000
Total Gross Outstanding Ad Valorem Tax Debt (9/30/07)	$945,755,000
Less: Outstanding Obligations to be Refunded [1]	$60,000,000
The 2007A Notes	$21,270,000
The 2007 Obligations	$227,975,000
Total Gross Outstanding Ad Valorem Tax Debt	$1,135,000,000
Less: Self-Supporting Debt (at 9/30/07) [2]	360,000
Total Net Debt Payable from Ad Valorem Taxes	$1,134,640,000
Estimated, Unaudited Interest and Sinking Fund Balance at 9/30/07	$76,160,643
Ratio of Gross Debt to Actual Market Value [3]	1.49%
Ratio of Gross Debt to Net Taxable Assessed Value [3]	1.72%
Ratio of Net Debt to Actual Market Value [3]	1.49%
Ratio of Net Debt to Net Taxable Assessed Value [3]	1.72%
Tax Year 2007 Actual Market Value of Taxable Property [3]	$76,269,611,385
Tax Year 2007 Net Taxable Assessed Valuation (100% of Actual Market) [3]	$65,995,832,070
Per Capita 2007 Net Taxable Assessed Valuation [3, 4]	$49,993
Per Capita Gross Debt [4]	$860
Per Capita Net Debt [4]	$860

[1] Represents the 2007 Notes being refunded with proceeds of the 2007 Bonds.
[2] To maintain this debt as self-supporting, payments will be made from the Hotel/Motel Occupancy Tax.
[3] Based on Tax Year 2007 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 21, 2007. See "AD VALOREM TAXATION" for a description of the City's taxation procedures, including determination of net assessed valuation.
[4] Based on the City's Department of Planning and Community Development estimated population of 1,320,100 as of March 1, 2007.

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Outstanding Principal and Interest Requirements

Table 2

Fiscal Year	Existing Debt Service	Refunded Obligations Debt Service	The 2007A Tax Notes Principal	The 2007A Tax Notes Interest	The 2007A Tax Notes Annual Debt Service	The 2007 Bonds Principal	The 2007 Bonds Interest	The 2007 Bonds Annual Debt Service	The 2007 Certificates Principal	The 2007 Certificates Interest	The 2007 Certificates Annual Debt Service	Total Debt Service Requirement
2008	$120,760,040	$2,787,070	$ 3,345,000	$ 687,675	$ 4,032,675	$ 4,155,000	$ 4,364,438	$ 8,519,438	$ 12,630,000	$ 3,662,531	$ 16,292,531	$ 146,817,614
2009	117,824,680	2,338,800	4,210,000	783,100	4,993,100	3,700,000	5,653,050	9,353,050	6,765,000	4,378,175	11,143,175	140,975,205
2010	177,227,511	62,338,800	4,380,000	614,700	4,994,700	3,840,000	5,505,050	9,345,050	6,200,000	4,107,575	10,307,575	139,536,036
2011	115,108,843		4,555,000	439,500	4,994,500	3,995,000	5,351,450	9,346,450	6,665,000	3,859,575	10,524,575	139,974,368
2012	92,959,218		4,780,000	211,750	4,991,750	4,160,000	5,191,650	9,351,650	7,220,000	3,526,325	10,746,325	118,048,943
2013	94,186,461					4,325,000	5,025,250	9,350,250	7,730,000	3,237,525	10,967,525	114,504,236
2014	77,493,278					4,500,000	4,852,250	9,352,250	8,260,000	2,928,325	11,188,325	98,033,853
2015	59,421,179					4,720,000	4,627,250	9,347,250	12,890,000	2,515,325	15,405,325	84,173,754
2016	55,139,223					4,960,000	4,391,250	9,351,250	2,185,000	1,870,825	4,055,825	68,546,298
2017	50,462,315					5,210,000	4,143,250	9,353,250	2,300,000	1,761,575	4,061,575	63,877,140
2018	50,456,249					5,470,000	3,882,750	9,352,750	2,390,000	1,669,575	4,059,575	63,868,574
2019	48,614,298					5,735,000	3,609,250	9,344,250	2,505,000	1,550,075	4,055,075	62,013,623
2020	45,273,508					6,030,000	3,322,500	9,352,500	2,635,000	1,424,825	4,059,825	58,685,833
2021	40,289,521					6,330,000	3,021,000	9,351,000	2,765,000	1,293,075	4,058,075	53,698,596
2022	37,978,436					6,640,000	2,704,500	9,344,500	2,905,000	1,154,825	4,059,825	51,382,761
2023	26,645,063					6,975,000	2,372,500	9,347,500	3,045,000	1,014,825	4,059,825	40,052,388
2024	19,339,013					7,325,000	2,023,750	9,348,750	3,200,000	862,575	4,062,575	32,750,338
2025	15,110,919					7,695,000	1,657,500	9,352,500	3,355,000	702,575	4,057,575	28,520,994
2026	10,989,000					8,070,000	1,272,750	9,342,750	3,525,000	534,825	4,059,825	24,391,575
2027						8,480,000	869,250	9,349,250	3,700,000	358,575	4,058,575	13,407,825
2028						8,905,000	445,250	9,350,250	3,885,000	174,825	4,059,825	13,410,075
	$1,255,278,755	$67,464,670	$21,270,000	$2,736,725	$24,006,725	$121,220,000	$74,285,888	$195,505,888	$106,755,000	$ 42,588,331	$149,343,331	$1,556,670,029

Tax Adequacy **Table 3**

2007 Net Taxable Assessed Valuation [1]	$65,995,832,070
Maximum Annual Debt Service Requirements, Fiscal Year Ended 2008	$ 146,817,614
Indicated Interest and Sinking Fund Tax Rate	$ 0.2282
Indicated Interest and Sinking Fund Tax Levy at 97.5% Collections	$ 146,837,427

[1] Based on Tax Year 2007 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 21, 2007.

Note: See "TAX DATA" herein.

Interest and Sinking Fund Management Index **Table 4**

Estimated, Unaudited Interest and Sinking Fund Balance, Fiscal Year Ended 2007	$ 76,160,643
2007 Actual Interest and Sinking Fund Rate	0.2115
2007 Interest and Sinking Fund Tax Levy at 97.5% Collections Produces [1]	136,091,655
Total Available for Debt Service	$212,252,298
Less: Ad Valorem Debt Service Requirements, Fiscal Year Ended 2008	$146,817,614
Estimated Surplus at Fiscal Year Ended 2008	$ 65,434,684

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

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

Fiscal Year	Currently Outstanding Obligations [1]	2007A Tax Notes	2007 Bonds	2007 Certificates	Combined Principal	Obligations Remaining Outstanding End of Year	Percent of Principal Retired
2008	$ 75,765,000	$ 3,345,000	$ 4,155,000	$ 12,630,000	$ 95,895,000	$1,039,105,000	8.45%
2009	77,210,000	4,210,000	3,700,000	6,765,000	91,885,000	947,220,000	16.54
2010	80,015,000	4,380,000	3,840,000	6,200,000	94,435,000	852,785,000	24.86
2011	84,160,000	4,555,000	3,995,000	6,665,000	99,375,000	753,410,000	33.62
2012	66,205,000	4,780,000	4,160,000	7,220,000	82,365,000	671,045,000	40.88
2013	70,930,000		4,325,000	7,730,000	82,985,000	588,060,000	48.19
2014	57,695,000		4,500,000	8,260,000	70,455,000	517,605,000	54.40
2015	42,410,000		4,720,000	12,890,000	60,020,000	457,585,000	59.68
2016	40,190,000		4,960,000	2,185,000	47,335,000	410,250,000	63.85
2017	37,495,000		5,210,000	2,300,000	45,005,000	365,245,000	67.82
2018	39,395,000		5,470,000	2,390,000	47,255,000	317,990,000	71.98
2019	39,495,000		5,735,000	2,505,000	47,735,000	270,255,000	76.19
2020	38,055,000		6,030,000	2,635,000	46,720,000	223,535,000	80.31
2021	34,875,000		6,330,000	2,765,000	43,970,000	179,565,000	84.18
2022	34,255,000		6,640,000	2,905,000	43,800,000	135,765,000	88.04
2023	24,350,000		6,975,000	3,045,000	34,370,000	101,395,000	91.07
2024	18,010,000		7,325,000	3,200,000	28,535,000	72,860,000	93.58
2025	14,445,000		7,695,000	3,355,000	25,495,000	47,365,000	95.83
2026	10,800,000		8,070,000	3,525,000	22,395,000	24,970,000	97.80
2027			8,480,000	3,700,000	12,180,000	12,790,000	98.87
2028			8,905,000	3,885,000	12,790,000	0	100.00
	$885,755,000	$21,270,000	$121,220,000	$106,755,000	$1,135,000,000		

[1] Excludes the 2007 Tax Notes to be refunded by the 2007 Bonds.

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

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, printers, fire trucks, golf operations equipment, public works equipment, a high capacity trailer, a library automation system, self-contained breathing apparatus, a hazardous materials vehicle, a mainframe computer, and electrocardiograms. Shown below is the gross value of the assets at September 30, 2007. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. The following is a schedule of the projected remaining future minimum lease payments under these capital leases together with the net minimum lease payments as of September 30, 2007.

Description	Lease Termination Date	Minimum Lease Payment	Amount Representing Interest	Total Minimum Lease Payments
Color Copier	12/1/2007	$ 13,076	$ 244	$ 13,320
Library Automation System	5/1/2008	119,628	1,624	121,252
Stormwater Tractor Trailers	5/1/2008	63,949	868	64,817
Street Maintenance Equipment	5/1/2008	525,210	7,133	532,343
Heidelberg Printer	11/1/2008	93,004	2,385	95,389
Garbage Containers	5/1/2009	115,778	3,112	118,890
Self-Contained Breathing Apparatus	5/1/2010	654,262	30,915	685,177
Mainframe Computer System & Software	5/1/2010	829,086	39,176	868,262
One Platform Truck	8/1/2010	389,826	20,958	410,784
One Pumper Truck, Four Aerial Trucks, and One Partial Aerial Truck	2/1/2011	2,303,597	183,977	2,487,574
Five Aerial Trucks	2/1/2011	2,215,965	176,409	2,392,374
13 Electrocardiograms	5/1/2011	120,985	9,802	130,786
Refuse Collection Containers	11/1/2009	1,493,914	67,417	1,561,331
19 Pumper Trucks	11/1/2011	6,144,552	505,121	6,649,673
Library Theft Detection System	8/1/2012	999,732	97,370	1,097,102
Automated Sideload & Manual Rearload Refuse Collection Trucks	11/1/2013	1,067,985	132,022	1,200,007
Total		$17,150,549	$1,278,533	$18,429,081

The adopted budget for fiscal year 2008 includes appropriations for lease purchase arrangements to acquire refuse collection trucks (diesel and compressed natural gas), refuse collection containers, hybrid vehicles, personal protective equipment, electric golf cars, and additional components of an inventory theft detection system for the City's Library Department. The funding for these lease purchase arrangements is anticipated to occur between fiscal year 2008 through 2009.

AD VALOREM TAXATION

Authority to Levy Ad Valorem Taxes; Tax Rate Limitations

The City is authorized to levy an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City in an amount sufficient to pay the principal of and interest on debt payable therefrom. The City is also authorized to levy an annual ad valorem tax for operations and maintenance purposes. The maximum rate that may be levied by the City for all City purposes is $2.50 per $100 assessed valuation as provided in Article XI, Section 5 of the Texas Constitution and as provided in the City Charter, which adopts this constitutional limitation. No direct funded debt limitation is imposed on the City under current Texas law; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of general obligation debt by a municipality, such as the City, if the issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% of collections. In addition, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of

any department or agency thereof. The issuance of the 2007A Notes does not violate these limitations. (See "DEBT AND TAX RATE LIMITATIONS" herein.)

Texas Property Tax Code and County-Wide Appraisal District

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Bexar Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Bexar County. Approximately 1.23 acres of property subject to taxation by the City is located in Comal County. The Comal Appraisal District has the responsibility for appraising property for all taxing units within Comal County. Although some property subject to taxation by the City extends into Medina County, this property is owned by the City and is not subject to taxation by the Medina Appraisal District. Such appraisal values are subject to review and change by the Bexar Appraisal Review Board and the Comal Appraisal Review Board.

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

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

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

Property Subject to Taxation by the City

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

Residence Homestead Exemptions

The Property Tax Code authorizes the governing body of each political subdivision in the State, at its option, to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. The City may be required to offer such an exemption if a majority of voters approve it at an election. The City would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. Where

ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of this additional residence homestead exemption may be considered each year, but must be adopted by July 1.

The Texas Property Tax Code authorizes the governing body of a taxing unit to adopt a residence homestead exemption for individuals who are disabled or sixty-five (65) years of age or older in a fixed amount of no less than $3,000 of the appraised value of the homestead. The City currently grants a $65,000 residential homestead exemption to persons 65 years of age or older, effective as of January 1 of the tax year in which such person attains the age of 65.

In addition, the City Council adopted a residence homestead property tax exemption in the amount of $12,500 in assessed valuation for persons who are disabled, commencing with the 2005 tax year. The term "disabled" means under a disability for purposes of receiving disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance Act administered by the Social Security Administration.

Individuals who qualify for both the Over-65 Residence Homestead Exemption and the Disabled Residence Homestead Exemption, may not receive both exemptions, but must choose only one of the exemptions.

At an election held on September 13, 2003, the voters of the State of Texas approved a constitutional amendment authorizing counties, cities, towns or junior college districts to establish an ad valorem "tax freeze" on residence homesteads of the disabled and persons 65 years of age or older. This "tax freeze" can be implemented by official action of a governing body, which includes the governing body calling an election on its own motion, or pursuant to an election called by the governing body upon receipt of a petition signed by 5% of registered voters of the political subdivision.

The City Council added a proposition to the May 7, 2005 election and at this election the qualified voters of the City by 84.19% established a limitation, or tax freeze, on the ad valorem taxes imposed on the homestead of a person who is disabled or 65 years of age or older.

The total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or 65 years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs and other than improvements made to comply with governmental requirements. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is 55 years of age or older at the time of the person's death. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation. The City anticipates the loss of ad valorem tax revenue due to the over-65 and disabled homeowners tax freeze will be approximately $4,840,895 in fiscal year 2008.

Disabled/Deceased Veterans' Exemptions

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

Historical Property Exemptions

The City has granted an exemption to historically significant sites in need of tax relief to encourage preservation. Commercial buildings that meet definitions of historical sites and that have been substantially rehabilitated or restored will be exempt from taxation by the City for five tax years, and thereafter, will be taxed by the City at 50%

of current assessed value for an additional five years. For the purposes of levying taxes, residential buildings meeting the definition of historical sites and having been substantially rehabilitated or restored will for a period of ten years retain the property value assessed prior to such rehabilitation or restoration.

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

Freeport Goods Exemptions

"Freeport goods" are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and other petroleum products, which have been acquired or brought into the State for assembling, storing, manufacturing, repair, maintenance, processing, or fabricating, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the State within 175 days. As a result of a State constitutional amendment passed by Texas voters on November 7, 1989, freeport goods may be exempted from taxation. The City has elected to allow the exemption.

Goods-in-Transit

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

The City currently taxes certain tangible personal property that does not qualify for the freeport exemption, but would qualify for the goods-in-transit exemption. As such, the City adopted an ordinance on December 6, 2007 that provides for the continued taxation of this tangible personal property for the tax year beginning January 1, 2008.

Tax Abatement/Phase-In Exemptions

The City may designate areas within the City as a reinvestment zone. Thereafter, the City may enter into a tax phase-in agreement with owners of property within the zone. Before entering into a tax phase-in agreement, each entity must adopt guidelines and criteria for establishing tax phase-ins in the zone, which each entity with taxing authority over the designated property will follow in granting tax phase-ins. The tax phase-in agreement may exempt from ad valorem taxation all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed. The property is exempt on the condition that the property owner makes specified improvements or repairs to the property in conformity with the terms of the tax phase-in agreement. The agreement may include each of the applicable taxing jurisdictions, including the City, for a period of up to 10 years. The respective City and Bexar County tax phase-in agreements are not required to be substantially the same, with the exception of projects located in a State-designated enterprise zone. Since 1989, the City has entered into 78 tax phase-in agreements; 42 are active; and 36 have expired or are inactive. The City anticipates that the taxable assessed value of real property subject to Tax Abatement/Phase-In Exemptions totals approximately $464,620,243, resulting in a Fiscal Year 2008 loss in ad valorem tax revenue of approximately $2,659,022.

The following table depicts, as of August 31, 2007, 42 active tax phase-in agreements:

Company	Phase-In Period	Phase-In Term (Years)	Percent of Phase-In (Type of Property)
Cadillac Lofts	1998-2007	10	Real @ 90%
Capital Group/American Funds	1999-2008	10	Real & Personal @ 100%
Boeing Aerospace	1999-2008	10	Personal @ 90%
LCWW Partners (Westin La Cantera Resort Hotel)	1999-2008	10	Real & Personal @ 100%
HEB (Meat Packing)	2004-2009	6	Real @ 100%
S.A. Aerospace	2001-2010	10	Real @ 100%
Chase Bank Credit Card Services – Phase 1	2001-2010	10	Personal @ 100%
Chase Bank Credit Card Services – Phase 2	2002-2011	10	Real & Personal @ 100%
Chase Bank Credit Card Services – Phase 4	2002-2011	10	Personal @ 100%
H.B. Zachry	2002-2011	10	Real @ 100%
First Health	2006-2011	6	Real @ 100%
CEDRA Clinical Research, LLC	2006-2011	6	Real @ 100%
Chase Bank Credit Card Services – Phase 3	2002-2011	10	Real & Personal @ 100%
MedLine	2003-2012	10	Real @ 100%
Texas Machining Enterprises II, L.L.P.	2003-2012	10	Real & Personal @ 100%
Karta Technologies, Inc.	2007-2012	6	Real @ 100%
Maxim Integrated Products	2005-2014	10	Personal @ 100%
DPT	2006-2015	10	Real & Personal @ 100%
Washington Mutual Bank	2006-2015	10	Personal @ 100%
Ark, Inc.	2007-2016	10	RPIS* @ 80%
Avanzar Interior Technologies, Ltd.	2007-2016	10	RPIS* @ 100%
Curtis-Maruyasu America, Inc.	2007-2016	10	RPIS* @ 100%
Futaba Industrial Texas Corp.	2007-2016	10	RPIS* @ 80%
Green Metals, Inc.	2007-2016	10	RPIS* @ 80%
HERO Assemblers, LP	2007-2016	10	RPIS* @100%
HERO Logistics, LP	2007-2016	10	RPIS* @ 80%
Kautex, Inc.	2007-2016	10	RPIS* @ 100%
Metakote Corporation	2007-2016	10	RPIS* @ 80%
Metalsa Light Truck, Inc.	2007-2016	10	RPIS* @ 80%
Millennium Steel of Texas, LP	2007-2016	10	RPIS* @ 80%
Reyes Automotive Group, LLC	2007-2016	10	RPIS* @ 80%
Reyes-Amtex Automotive, LLC	2007-2016	10	RPIS* @ 100%
Takumi Stamping Texas, Inc.	2007-2016	10	RPIS* @ 80%
Tenneco Automotive Services Texas, Inc.	2007-2016	10	RPIS* @ 80%
Toyoda Gosei Texas, LLC	2007-2016	10	RPIS* @ 80%
Toyotetsu Texas, Inc.	2007-2016	10	RPIS* @ 80%
Vutex, Inc.	2007-2016	10	RPIS* @ 80%
Lowe's Home Centers, Inc	2008-2017	10	Real & Personal @ 100%
Sino Swearingen	2008-2017	10	Real & Personal @ 100%
Vistana, Ltd	2008-2017	10	Real @ 100%
Higuchi Manufacturing Company, Ltd	2008-2017	10	Real & Personal @ 100%
Microsoft Corporation	2008-2017	10	Real & Personal @ 100%

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

Residence Homestead Appraised Value 10% Limitations

All real and personal property of the City within Bexar County must be appraised by the Appraisal District at market value as of January 1 of each year. The City's real and personal property within Comal County (which constitutes approximately 1.23 acres of the City's total taxable assessed valuation and, consequently, is not further reported in this Official Statement) is appraised by the Comal Appraisal District. Such appraisal values are subject to review and change by the Bexar Appraisal Review Board and the Comal Appraisal Review Board. State law, however, provides for limitations on appraised value of residential homesteads. The appraised value of a residential homestead may not exceed the lesser of:

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

Agricultural Productivity Loss

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

Pollution Control Exemptions

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

Community Housing Development Organization Exemptions

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

Energy Exemptions

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

Absolute Exemptions

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

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

Absolute Pro-Rated Exemptions

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

Effective Tax Rate and Rollback Tax Rates

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

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

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

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

Taxpayer Remedies

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

Levy and Collection of Taxes

By the later of September 30 or 60 days after the certified appraisal roll is delivered to the City, the rate of taxation is adopted by the City based upon the taxable valuation of property within the City as of the preceding January 1. The City has executed an inter-local agreement with the Bexar County Tax Assessor/Collector's Office to provide property tax billing and collection services at the same level of service to its citizens as previously provided by the City.

Property taxes are due and payable on October 1 and considered delinquent if not paid by the following January 31. A delinquent tax incurs a penalty of 6% for the first calendar month it is delinquent, plus 1% for each of the following four months, and 2% for the sixth month it is delinquent, for a total of 12%. A delinquent tax also incurs interest at the rate of 1% per month until paid in full. If a tax is not paid before July 1 of the year in which it becomes delinquent, the tax incurs an additional fee of up to 20% to offset the costs of collection.

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

City's Rights in the Event of Tax Delinquencies

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

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

Tax Increment Reinvestment Zone Financing

The City has approved a "TIF Manual" for the utilization of Tax Increment Financing ("TIF") and the creation of Tax Increment Reinvestment Zone ("TIRZ") pursuant to Chapter 311 of the Texas Tax Code, as amended. Since 1998, the City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs related to economic development, commercial and residential projects. As of September 30, 2007, 23 TIRZs have been approved and one TIRZ has been dissolved, and the total taxable captured value in the existing TIRZs was $433,761,857. The active TIRZs are referred to as the Rosedale, Highland Heights, New Horizons, Mission Del Lago, Brookside, Houston Street, Stablewood Farms, Inner City, Plaza Fortuna, Lackland Hills, Sky Harbor, North East Crossing, Brook City Base, Mission Creek, Hallie Heights, Rosillo Creek, Heathers Cove, Ridge Stone, Meadow Way Projects, Palo Alto Trails, Hunters Pond, Rosillo Ranch, and River North Projects. The TIRZs were established in order to finance the costs of public improvements to be made in each of the TIRZ which were created for various purposes, including the construction of single family and multi-family residential housing and commercial development projects, and included reimbursing developers from TIRZ revenues for the costs of public improvements, as well as, in the Houston Street TIRZ, the issuance of certificates of obligation by the City payable from the Houston Street TIRZ revenues to pay a portion of the costs of public improvements.

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Tax Data **Table 7**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation [1]	Tax Rate	Tax Levy	Percent Collections Current	Percent Collected Total
1998	1999	$31,253,551,025	$0.57979	$181,204,963	98.35%	99.86%
1999	2000	33,315,478,862	0.57979	193,159,815	98.14	99.84
2000	2001	36,033,321,329	0.57979	208,917,594	97.89	99.30
2001	2002	39,587,584,280	0.57854	229,030,010	97.78	99.25
2002	2003	41,535,547,008	0.57854	240,299,754	97.78	99.23
2003	2004	44,583,138,927	0.57854	257,931,292	97.96	99.58
2004	2005	46,481,974,620	0.57854	268,916,816	98.32	100.27
2005	2006	49,868,955,425	0.57854	288,511,855	98.23	99.67
2006	2007	56,767,701,702	0.57854	328,423,861	98.43	99.67
2007	2008	65,995,832,070 [2]	0.57230	377,694,147	In Process of Collection	

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
[2] Based on Tax Year 2007 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 21, 2007.

DEBT AND TAX RATE LIMITATIONS

No direct debt limitation is imposed on the City under current Texas law; however, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. In addition, Article XI, Section 5 of the State Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes. The City operates under a City Charter that adopts this constitutional provision. The Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% collection. The issuance of the 2007A Notes will not exceed the above described limits or violate the Texas Attorney General's administrative policy. The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt may be issued to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding bonds, certificates of obligations, tax anticipation notes, and public property finance contractual obligations.

- Certificates of obligation may be issued for the purpose of paying contractual obligations incurred in the construction of public works or the purchase of land, materials, and other supplies or services for the City's needs and for professional services without an election except under certain circumstances. The certificates of obligation may be refunded by ad valorem tax-supported bonds without an election. In addition, the City may issue certificates of obligation with a pledge of both tax and revenues derived from the operation of the facility to be acquired, or from any other lawful source, provided that the City otherwise has the right to pledge the revenues involved. Authority for the issuance of certificates of obligation is subject to notice by publication and right of referendum by the voters.

- Contractual obligations, generally to finance personal property, and tax anticipation notes payable from ad valorem taxes may be issued for capital improvements. The contractual obligations and tax anticipation notes may be refunded by ad valorem tax-supported bonds without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Tax anticipation notes are limited to seven years amortization or less.

- Revenue bonds may be issued for certain purposes which include the financing of the water, municipal drainage and sanitary sewer systems, electric and gas systems, convention centers, airports and parking systems, and other economic development projects. The revenue bond indebtedness is not considered in determining the legal debt margin on ad valorem tax-supported obligations. Revenue bond indebtedness, in certain cases, can be refunded by ad valorem tax-supported bonds without an election.

Tax Rate Distribution **Table 8**

	Fiscal Year Ended September 30				
Tax Rate	2008	2007	2006	2005	2004
General Fund	$ 0.36080	$ 0.36704	$ 0.36704	$ 0.36704	$ 0.36704
Interest and Sinking Fund	0.21150	0.21150	0.21150	0.21150	0.21150
Total Tax Rate	$ 0.57230	$ 0.57854	$ 0.57854	$ 0.57854	$ 0.57854

Principal Taxpayers **Table 9**

Name	Type of Property	FY 2008 Taxable Assessed Valuation	Percent of FY 2008 Taxable Assessed Valuation
HEB Grocery Company L.P.	Retail/Grocery	$ 759,790,423	1.15%
Toyota Motor Manufacturing Texas	Automobile Manufacturer	549,999,997	0.83
AT&T, Inc.	Telecommunications	414,685,950	0.63
United Services Automobile Association	Insurance/Banking	339,970,560	0.52
Wal-Mart Stores, Inc.	Retail/Grocery	326,732,584	0.50
Marriott International, Inc.	Hotel Chain	238,204,837	0.36
Methodist Healthcare System	Hospital/Healthcare	215,374,016	0.33
Valero Energy Corporation	Oil Refiner/Retail Gas Stations	169,417,741	0.26
La Cantera Retail LTD Partnership	Shopping Center	143,694,830	0.22
Time Warner Cable, Inc.	Cable Television	139,388,300	0.21
Total		$3,297,259,238	5.01%

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Net Taxable Assessed Valuation for Tax Years 1998-2007 — Table 10

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation [1]	Change From Preceding Year: Amount	Change From Preceding Year: Percent
1998	1999	$ 31,253,551,025	---	---
1999	2000	33,315,478,862	$2,061,927,837	6.60%
2000	2001	36,033,321,329	2,717,842,467	8.16
2001	2002	39,587,584,280	3,554,262,951	9.86
2002	2003	41,535,547,008	1,947,962,728	4.92
2003	2004	44,583,138,927	3,047,591,919	7.34
2004	2005	46,481,974,620	1,898,835,693	4.26
2005	2006	49,868,955,425	3,386,980,805	7.29
2006	2007	56,767,701,702	6,898,746,277	13.83
2007	2008	65,995,832,070 [2]	9,228,130,368	16.26

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
[2] Based on Tax Year 2007 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 21, 2007.

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

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation [1]	Ad Valorem Gross Debt	Debt Ratios Percent
1998	1999	$ 31,253,551,025	$ 754,958,108	2.42%
1999	2000	33,315,478,862	780,378,108	2.34
2000	2001	36,033,321,329	768,693,108	2.13
2001	2002	39,587,584,280	838,428,108	2.12
2002	2003	41,535,547,008	881,038,108	2.12
2003	2004	44,583,138,927	821,843,108	1.84
2004	2005	46,481,974,620	872,090,124	1.88
2005	2006	49,868,955,425	850,300,000	1.71
2006	2007	56,767,701,702	945,755,000	1.67
2007	2008	65,995,832,070 [2]	1,048,540,000	1.59

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
[2] Based on Tax Year 2007 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 21, 2007.

Authorized but Unissued Ad Valorem Tax Debt — Table 12

Date of Authorization	Improvements	Amount Authorized	Debt Issued To Date*	2007 Bonds	Debt Authorized But Unissued
5/12/2007	Streets, Bridges, & Sidewalks	$306,997,413	$5,321,214	$22,319,786	$279,356,413
5/12/2007	Drainage	152,051,818	2,635,528	14,057,000	135,359,290
5/12/2007	Parks, Recreation, Open Space, & Athletics	79,125,293	35,338,286	23,912,714	19,874,293
5/12/2007	Library	11,025,476	191,106	4,896,894	5,937,476
5/12/2007	Public Health Facilities	800,000	13,866	661,134	125,000
		$550,000,000	$43,500,000	$65,847,528	$440,652,472

* Issued pursuant to City of San Antonio, Texas, Tax Notes, Series 2007, which the City will count against its voted general obligation authorization.

Classification of Assessed Valuation

Table 13

	Fiscal Year 2008 [1]	% of Total	Fiscal Year 2007	% of Total	Fiscal Year 2006	% of Total	Fiscal Year 2005	% of Total	Fiscal Year 2004	% of Total
Real, Residential, Single-Family	$39,873,249,717	52.28	$35,144,959,261	54.04	$30,761,632,234	54.21	$28,522,603,105	55.04	$26,981,363,241	54.26
Real, Residential, Multi-Family	5,127,479,668	6.72	4,294,912,847	6.60	3,795,667,205	6.69	3,111,991,529	6.00	2,984,890,416	6.00
Real, Vacant Lots/Tracts	1,344,670,349	1.76	1,135,043,103	1.75	896,748,745	1.58	1,148,225,953	2.22	1,198,802,978	2.41
Real, Acreage (Land Only)	1,116,998,237	1.46	803,694,641	1.24	606,403,394	1.07	617,964,288	1.19	638,456,965	1.28
Real, Farm and Ranch Improvements	28,774,400	0.04	22,339,164	0.03	18,599,326	0.03	13,675,489	0.02	10,930,317	0.02
Real, Commercial	15,456,843,347	20.27	13,252,063,973	20.38	11,764,992,536	20.73	10,851,533,970	20.94	10,444,949,652	21.01
Real, Industrial	652,605,622	0.86	368,008,868	0.57	354,663,906	0.63	309,271,374	0.60	296,110,000	0.60
Real, Minerals Oil and Gas	459,910	0.00	280,560	0.00	166,660	0.00	39,040	0.00	21,530	0.00
Real and Tangible Personal Utilities	538,176,744	0.71	510,688,740	0.79	528,221,546	0.93	550,530,280	1.06	568,375,000	1.14
Tangible Personal, Commercial	6,292,952,595	8.25	5,648,102,068	8.68	5,176,198,004	9.12	5,067,130,053	9.78	4,897,160,982	9.85
Tangible Personal, Industrial	1,996,904,662	2.62	1,360,918,810	2.09	1,299,607,879	2.29	1,200,010,400	2.32	1,220,050,050	2.45
Tangible Personal, Mobile Homes	97,379,318	0.13	96,542,677	0.15	96,339,510	0.17	98,392,969	0.19	102,184,758	0.21
Real Property, Inventory	237,780,339	0.31	190,393,654	0.29	198,819,688	0.35	191,479,359	0.37	142,405,282	0.29
Special Inventory Tax	317,964,474	0.42	281,066,969	0.43	252,524,270	0.44	22,990	0.00	237,410,270	0.48
Exempt Property	3,187,372,003	4.18	1,924,610,909	2.96	1,000,322,338	1.76	141,337,410	0.27	174,700	0.00
Total Assessed Value	$76,269,611,385	100.00	$65,033,626,244	100.00	$56,750,907,241	100.00	$51,824,208,209	100.00	$49,723,286,141	100.00
Less:										
Residence Homestead Exemptions - Optional 65 or Older	$4,134,993,420		$4,110,067,258		$3,912,184,972		$3,817,600,447		$3,724,266,517	
Residence Homestead Exemptions - Disabled	121,197,697		126,244,040		119,597,187		-0-		-0-	
Residence Homestead Exemptions - Pro-Rated [2]	-0-		-0-		-0-		-0-		25,474,801	
Disabled /Deceased Veterans' Exemptions	187,319,906		189,172,020		180,072,214		174,102,776		121,505,478	
Historical Property Exemptions	33,109,969		49,916,153		29,673,115		33,822,228		25,341,198	
Historical Preservation Area [3]	-0-		-0-		-0-		2,905,902		1,200,136	
Freeport Goods Exemptions	517,163,083		385,837,970		332,875,270		270,308,370		278,560,740	
Tax Abatement/Phase-In Exemptions	464,620,243		411,961,519		418,909,527		448,091,914		443,930,328	
Residence Homestead 10% Limitations	950,082,037		609,240,240		193,890,523		131,060,193		195,043,337	
Agricultural Productivity Loss	515,959,868		346,926,222		268,148,584		278,168,180		289,077,692	
Pollution Control Property Exemptions	62,760,278		9,903,790		5,675,890		-0-		-0-	
Community Housing Development Organization Exemptions	50,497,511		42,779,850		45,248,643		689,895		-0-	
Energy Exemptions	35,452,234		32,610,802		-0-		-0-		-0-	
Absolute Exemptions	3,193,016,866		1,924,485,214		1,345,024,320		150,616,496		-0-	
Absolute Pro-Rated Exemptions	7,606,203		26,779,464		30,651,571		34,867,188		35,746,987	
Less: Total Exemptions	$10,273,779,315		$ 8,265,924,542		$ 6,881,951,816		$ 5,342,233,589		$ 5,140,147,214	
Net Taxable Assessed Valuation [4]	$65,995,832,070		$56,767,701,702		$49,868,955,425		$46,481,974,620		$44,583,138,927	

[1] Based on Tax Year 2007 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 21, 2007.
[2] Beginning in Fiscal Year 2005, State law changed allowing homeowners a full year's exemption at age 65 rather than a pro-rated exemption.
[3] Beginning in Fiscal Year 2006, Historical Preservation Area exemptions are combined with Historical Property Exemptions.
[4] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

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

Governmental Subdivision	FY 2008 Gross Assessed Valuation [1]	FY 2008 Net Taxable Valuation [1]	FY 2008 Tax Rate
Alamo Community College District	$100,391,176,885	$92,823,854,501	$0.134550
Alamo Heights Independent School District	5,216,813,058	4,905,468,782	1.156600
Bexar County	100,402,100,815	91,344,929,511	0.295104
Bexar County Flood Control	100,402,113,735	92,119,576,867	0.031762
Bexar County Hospital District d.b.a. University Health System	100,391,176,885	92,110,008,460	0.237408
East Central Independent School District	2,273,784,672	1,853,458,371	1.190000
Edgewood Independent School District	1,385,767,526	1,200,073,867	1.405000
Harlandale Independent School District	1,633,128,999	1,564,892,193	1.349000
Judson Independent School District	6,191,322,161	5,408,203,622	1.410000
North East Independent School District	29,204,137,043	27,920,903,441	1.402900
Northside Independent School District	32,220,168,869	29,918,033,423	1.265000
San Antonio Independent School District	14,079,010,732	12,403,640,015	1.249700
San Antonio River Authority	100,391,176,885	92,279,067,052	0.015951
Somerset Independent School District	539,145,936	378,151,010	1.194000
South San Antonio Independent School District	1,413,785,798	1,311,087,473	1.445000
Southside Independent School District [2]	771,446,572	554,709,140	1.490000
Southwest Independent School District	2,507,570,842	1,469,889,853	1.195000

[1] Assessed and taxable valuation data provided by Bexar County Tax Assessor-Collector's Office and Bexar Appraisal District.
[2] The tax rate is not officially adopted due to rollback election results not yet certified by applicable school boards.

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Direct and Overlapping Debt Data and Information — Table 15

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

Taxing Entity [1]	As of	Amount of Tax Debt Outstanding [2]	Percent Overlapping	Amount of Tax Debt Overlapping
Alamo Community College District	9/30/06	$ 113,847,378	78.08%	$ 88,892,033
Alamo Heights Ind. School District	9/30/06	77,168,288	48.24	37,225,982
Bexar County	9/30/06	154,109,546	77.16	118,910,926
Bexar County Hospital District d.b.a. University Health System	9/30/06			
East Central Independent School District	9/30/06	47,405,524	44.52	21,104,939
Edgewood Independent School District	9/30/06	112,211,743	100.00	112,211,743
Harlandale Independent School District	9/30/06	199,754,807	100.00	199,754,807
Judson Independent School District	9/30/06	194,386,415	35.13	68,287,948
North East Independent School District	9/30/06	863,272,652	87.15	752,342,116
Northside Independent School District	9/30/06	981,224,321	82.94	813,827,452
San Antonio Independent School District	9/30/06	501,536,583	98.95	496,270,449
San Antonio River Authority	9/30/06	49,241,150	96.28	47,409,379
Somerset Independent School District	9/30/06	24,846,814	1.14	283,254
South San Antonio Ind. School District	9/30/06	113,619,970	99.99	113,608,608
Southside Independent School District	9/30/06	69,673,063	22.08	15,383,812
Southwest Independent School District	9/30/06	87,440,629	37.33	32,641,587
Total Overlapping Tax Debt		$3,589,738,883		$ 2,918,155,034
City of San Antonio	9/30/06	$ 850,300,000		$ 850,300,000
Total Direct and Overlapping Tax Debt		$4,440,038,883		$ 3,768,455,034

Tax Year 2007 Actual Market Value of Taxable Property	$76,269,611,385
Tax Year 2007 Net Taxable Assessed Valuation (100% of Actual Market)	$65,995,832,070
Ratio of Direct and Overlapping Tax Debt to Actual Market Value	4.94%
Ratio of Direct and Overlapping Tax Debt to Net Taxable Assessed Value	5.71%
Per Capita Direct and Overlapping Debt [3]	$2,855

Note: The City's total net tax debt payable from ad valorem taxes is $790,145,557 [4] as of September 30, 2006. Calculations on the basis of total net tax debt would change the above figures as follows:

Total Net Direct and Overlapping Tax Debt	$3,708,300,591
Ratio of Net Direct and Overlapping Tax Debt to Actual Market Value	4.86%
Ratio of Net Direct and Overlapping Tax Debt to Net Taxable Assessed Value	5.62%
Per Capita Net Direct and Overlapping Tax Debt [3]	$2,809

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

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

[3] Based on the City's Planning Department estimated population of 1,320,100 as of March 1, 2007 for the City of San Antonio (figure includes those individuals residing within areas annexed by the City by such date).

[4] The audited interest and sinking fund balance for fiscal year ended September 30, 2006 was used to calculate this number.

REVENUE SOURCES AND EXPENDITURES

Sources of Revenues

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

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

The following statements set forth in condensed form reflect the historical operations of the City. The City has prepared such summary for inclusion herein based upon information obtained from the City's Comprehensive Annual Financial Report and financial records. Reference is made to such statements for further and complete information. For additional information relating to the General Fund balance re-estimates by the City for Fiscal Year 2007, see the section captioned "General Fund Update" on the following page.

	Fiscal Year Ended September 30				
	2006	2005	2004	2003	2002
Fund Balance - Beginning of Year	$118,413,742	$ 98,510,654	$ 81,642,072	$ 62,452,494	$ 96,198,138
Revenues					
Taxes	$399,359,902	$367,030,243	$343,707,952	$320,518,083	$310,912,963
Licenses and Permits	19,764,737	20,715,743	17,026,379	13,912,258	13,302,392
Intergovernmental	3,445,582	3,055,128	2,695,842	2,878,131	2,888,626
Revenues from Utilities	256,367,822	221,774,673	196,405,099	210,466,156	171,234,083
Charges for Services	35,276,831	33,622,089	30,029,118	27,283,429	24,631,495
Fines and Forfeits	10,947,472	12,025,344	11,713,073	11,282,396	10,828,974
Miscellaneous	13,830,931	14,286,093	10,758,387	9,810,913	12,054,469
Total Revenues	$738,993,277	$672,509,313	$612,335,850	$596,151,366	$545,853,002
Expenditures [1]					
General Government	$ 71,139,682	$ 66,746,538	$ 54,214,920	$ 53,416,465	$ 57,213,168
Public Safety	429,051,592	404,491,342	376,925,001	361,835,168	351,557,071
Streets and Roadways	10,769,261	10,477,765	10,656,685	11,920,629	10,244,816
Health Services	12,412,664	14,378,887	13,409,924	13,814,613	14,076,213
Sanitation	2,864,299	2,582,840	2,380,287	2,515,192	2,663,359
Welfare	23,504,261	21,578,358	16,480,979	16,317,480	17,662,015
Culture and Recreation	71,938,565	63,478,741	57,918,951	59,119,473	59,755,427
Economic Dev. and Opportunity	4,067,281	4,552,704	8,043,283	5,537,792	7,632,008
Total Expenditures	$625,747,605	$588,287,175	$540,030,030	$524,476,812	$520,804,077
Excess of Revenues Over Expenditures	$113,245,572	$ 84,222,138	$ 72,305,820	$ 71,674,554	$ 25,048,925
Other Financing Sources (Uses)					
Operating Transfers In	$ 11,466,466	$ 14,121,847	$ 15,348,182	$ 13,120,941	$ 11,198,493
Operating Transfers Out	(90,280,712)	(86,649,587)	(76,440,760)	(70,377,939)	(76,101,511)
Total Other Financing Sources (Uses)	$(78,814,246)	$(72,527,740)	$(61,092,578)	$(57,256,998)	$(64,903,018)
Add Encumbrances [1]	8,630,858	8,208,690	5,655,340	4,772,022	6,108,449
Fund Balance - End of Year	$161,475,926	$118,413,742	$ 98,510,654	$ 81,642,072	$ 62,452,494

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

General Fund Update

As part of its annual budget process, the City re-estimates revenues and expenditures for the current fiscal year. During the most recent budget process, the General Fund undesignated fund balance for FY 2007 was projected at $68.0 million with budgeted financial reserves of $48.1 million. This compares to an FY 2006 undesignated fund balance of $102.5 million and budgeted financial reserves of $28.5 million.

Sales Taxation

Authority to Levy Sales Taxes

Chapter 321 of the Texas Tax Code, as amended, authorizes the City to levy and collect a municipal sales and use tax on the receipts from the sale of taxable items within the City at a rate of 1%. Pursuant to other State law provisions, the City may also adopt an increased sales and use tax for particular purposes.

The Texas Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional sales tax on retail sales or taxable items to reduce the property tax levy. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year. The City is disqualified from adopting this additional sales and use tax because the City is included within the boundaries of a rapid transit authority created under Chapter 451, Transportation Code.

Legislation

Advanced Transportation District. A proposition was passed at the November 2, 2004 election which allows VIA Metropolitan Transit to create an Advanced Transportation District ("District") within the City and impose an additional one-fourth of one percent ("1/4 of 1%") sales and use tax. The 1/4 of 1% sales and use tax will be allocated as follows: 50% will be used for advanced transit services, operations, passenger amenities, equipment and other advanced transportation purposes; 25% will be used to construct, improve and maintain streets and sidewalks and related infrastructure to improve mobility and other advance transportation purposes in the District; and 25% will be used as the local share to obtain State and federal grants for highways, transportation infrastructure designed to improve mobility and other advanced transportation purposes in the District. With the imposition of this additional sales and use tax, the City's sales tax rate increased to eight percent effective April 1, 2005.

Alamo Regional Mobility Authority. The Alamo Regional Mobility Authority (the "Alamo RMA") was created pursuant to Chapter 370, as amended, Texas Transportation Code, to provide the San Antonio area with the ability to construct, maintain, and operate certain transportation projects and to establish a local governmental entity to make mobility decisions for this area.

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

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

Edwards Aquifer Protection Venue Project. The City Council has designated an Edwards Aquifer Protection Venue Project ("Edwards Venue Project") under Chapter 334 of the Texas Local Government Code ("Venue Code"). As required by the Venue Code, the City forwarded a copy of the Resolution to the Texas Comptroller for her determination as to whether the implementation of the Edwards Venue Project would have a significant negative impact on State revenue. This determination is required prior to the City Council calling an election on the matter. The Comptroller determined that implementation of this Resolution would not have a significant negative fiscal impact on State revenue.

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

Parks Development and Expansion Venue Project. The City Council has also designated a Parks Development and Expansion Venue Project ("Parks Venue Project") under the "Venue Code." As required by the Code, the City forwarded a copy of the Resolution to the Texas Comptroller for her determination as to whether the implementation of the Parks Venue Project would have a significant negative impact on State revenue. This determination was required prior to the City Council calling an election on the matter. The Comptroller determined that implementation of this Resolution would not have a significant negative fiscal impact on State revenue.

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

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

Crime Control and Prevention District. Pursuant to Texas Local Government Code, Chapter 363, entitled the "Crime Control and Prevention District Act" (in this subsection the "Act"), a governing body of a municipality may propose the creation of a crime control and prevention district ("CCPD") and the imposition of a sales and use tax for the financing of the CCPD. The sales and use tax may be authorized only if the creation and the tax are approved by a majority of the qualified voters of the proposed CCPD voting at the election called and held for that purpose. On March 10, 2005, the City Council proposed the creation of the City of San Antonio, Texas Crime Control and Prevention District through an ordinance. On April 28, 2005, the City Council, by resolution, appointed seven persons that reside in the proposed CCPD to serve as its Temporary Board of Directors (the "Temporary Board").

Sections of the Act authorize the Temporary Board to order an election on the question of creating the City of San Antonio, Texas Crime Control and Prevention District and approving a sales and use tax for the purpose of financing the CCPD, after a majority of the temporary directors of the proposed CCPD have approved a budget plan and a crime control plan in accordance with the Act. The Temporary Board of the proposed CCPD formulated and on August 10, 2005 approved a two-year crime control plan and a two-year budget plan. On August 17, 2005, the Temporary Board adopted an order calling a special election on the creation of a CCPD and the imposition of a 1/8 of 1% sales and use tax. The election was held on Tuesday, November 8, 2005, but the Crime Control and Prevention District Proposition failed. As a result, the sales and use tax rate for the City of San Antonio remains at 8.125%. The Act provides that if a CCPD has not been created before the fifth anniversary of the date the district was proposed by the City, the Temporary Board is dissolved and a CCPD may not be created.

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Collections and Equivalent Rates

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

Municipal Sales Taxes **Table 17**

Fiscal Year Ended 9/30	Sales Tax Collected [1]	Ad Valorem Tax Levy [2]	Percent of Ad Valorem Tax Levy	Net Taxable Assessed Valuation [3]	Equivalent Tax Rate
1998	$118,991,708	$170,587,464	69.75%	$29,422,284,674	$0.4044
1999	126,472,730	181,204,963	69.80	31,253,551,025	0.4047
2000	133,816,289	193,159,815	69.28	33,315,478,862	0.4017
2001	153,912,136	208,917,594	73.67	36,033,321,329	0.4271
2002	157,593,310	229,030,010	68.81	39,587,584,280	0.3981
2003	156,322,600	240,299,754	65.05	41,535,547,008	0.3764
2004	162,383,500	257,931,292	62.96	44,583,138,927	0.3642
2005	167,331,757	268,916,816	62.22	46,481,974,620	0.3600
2006	210,141,500	288,511,855	72.84	49,868,955,425	0.4214
2007*	223,266,376	328,423,861	67.98	56,767,701,702	0.3933

* The 2007 Municipal Sales Tax is based on the City's 2007 Budget Re-estimate.
[1] Includes the City's General Fund component of sales tax as well as the special venue sales tax components beginning in fiscal year 2001 and the Advanced Transportation District Tax beginning in fiscal year 2005.
[2] Total Ad Valorem Tax Levy for debt service and maintenance and operations.
[3] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

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Comparison of Selected Sources of Revenues — Table 18

Fiscal Year Ended 9/30	Taxes [1]	Charges for Services	Miscellaneous	Fines and Forfeits	Licenses and Permits	Inter-Governmental	City Public Service (CPS) Electric & Gas Systems	San Antonio Water System (SAWS)	Total
1997	$228,059,883	$18,666,543	$ 9,601,800	$ 8,475,837	$ 9,627,427	$ 2,346,577	$136,077,928	$ 4,375,869	$417,231,864
1998	245,430,127	21,676,353	10,862,192	11,525,034	11,159,736	2,354,189	146,145,982	4,687,162	453,840,775
1999	261,392,418	21,726,181	12,705,684	11,838,121	12,164,099	2,526,778	145,170,683	4,785,430	472,309,394
2000	277,833,729	23,010,824	13,017,615	11,593,504	12,257,775	2,669,780	167,138,876	5,161,798	512,683,901
2001	291,378,953	23,211,576	14,249,362	11,116,047	12,683,156	2,865,885	182,411,012	5,528,890	543,444,881
2002	310,912,963	24,631,495	12,054,469	10,828,974	13,302,392	2,888,626	165,118,018	6,116,065	545,853,002
2003	320,518,083	27,283,429	9,810,913	11,282,396	13,912,258	2,878,131	204,016,870	6,449,286	596,151,366
2004	343,707,952	30,029,118	10,758,387	11,713,073	17,026,379	2,695,842	189,505,855	6,899,244	612,335,850
2005	367,030,243	33,622,089	14,286,093	12,025,344	20,715,743	3,055,128	213,384,307	8,390,366	672,509,313
2006	399,359,902	35,276,831	13,830,931	10,947,472	19,764,737	3,445,582	246,084,171 [2]	10,283,651	738,993,277
2007*	426,066,061	27,702,356	14,773,930	10,699,415	5,181,658 [3]	3,600,553	249,526,548 [4]	9,195,345	746,715,866

* The 2007 Comparison of Selected Revenues is based on the City's 2007 Budget Re-estimate.
[1] Comprised of property, sales, alcoholic beverage, business taxes, penalties, and interest and judgments; excludes hotel/motel occupancy tax.
[2] Includes an additional transfer of $8,438,363.
[3] Beginning in fiscal year 2007, Planning and Development Services revenues are no longer included in the general fund and are now a special revenue fund.
[4] Includes an additional transfer of $8,294,548.

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Expenditures for Selected Functions [1]

Table 19

Fiscal Year Ended 9/30	General Government	Public Safety	Streets and Roadways	Health Services	Sanitation	Welfare	Culture and Recreation	Economic Development & Opportunity	Total
1997	$45,565,493	$251,646,029	$8,740,273	$10,267,013	$2,732,660	$ 8,382,401	$41,049,946	$4,555,513	$372,939,328
1998	44,617,078	267,566,794	9,162,860	10,753,132	2,780,539	10,232,506	42,809,012	4,783,117	392,705,038
1999	49,438,915	289,777,427	9,467,167	11,277,893	2,399,358	11,407,269	48,025,859	5,189,929	426,983,817
2000	55,180,174	305,859,236	9,909,813	12,299,792	2,600,995	12,857,131	52,938,397	5,864,158	457,509,696
2001	68,364,225	326,227,746	9,804,123	13,401,383	2,754,077	16,464,593	58,137,342	6,394,692	501,548,181
2002	56,154,675	350,755,902	10,179,816	13,933,748	2,653,746	16,991,511	59,454,085	7,330,135	517,453,618
2003	52,283,057	361,305,240	11,855,629	13,689,587	2,513,841	15,763,551	58,917,420	5,368,634	521,696,959
2004	53,456,752	373,315,912	10,656,685	13,383,921	2,380,287	15,920,832	57,072,648	7,687,550	535,874,587
2005	64,019,958	402,544,348	10,477,732	13,994,642	2,576,616	19,757,168	63,010,213	4,391,706	580,772,383
2006	66,956,066	427,598,173	10,769,231	12,032,617	2,857,185	21,738,552	71,495,663	3,973,352	617,420,839

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

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THE CITY

Governmental Structure

The City is a Home Rule Municipality that operates pursuant to the Charter of the City of San Antonio (the "City Charter"), which was adopted on October 2, 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government, whereby subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets and determines policies. The City Council is comprised of 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 Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2009. The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

City Charter

Since its adoption, the City Charter has been amended on five separate occasions; November 1974; January 1977; May 1991; May 1997; and November 2001. Significant amendments to the City Charter include the amendment passed in May of 1991, which limited the service by the Mayor and the City Council members to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990's 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 advice and/or confirmation.

Services

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

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

Electric and gas services to the San Antonio area are provided by CPS Energy ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 19 generating unit electric system and the gas system that serves the San Antonio area. CPS' operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City's fiscal year ended September 30, 2006 were $246,084,171 and include an additional transfer of $8,438,363. (See "CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY" herein and "SAN ANTONIO ELECTRIC AND GAS SYSTEM" in Appendix A attached hereto.)

Water services are provided by the San Antonio Water System ("SAWS"), San Antonio's municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 15th year of operation as a separate, consolidated entity. SAWS operating and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City's fiscal year ended September 30, 2006 were $10,283,651 based on

the City's 2006 Budget Re-estimate. (See "CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY" herein and "SAN ANTONIO WATER SYSTEM" in Appendix A attached hereto.)

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

Economic Overview

The City's economic strength is enhanced by a favorable business climate, which includes a low cost of living, and a friendly and inviting attitude toward commerce and industry. San Antonio is home to a variety of businesses and industries from small companies to large corporations, including public and private sector entities. Among the industries that contribute significantly to San Antonio's economy are domestic and international trade, convention and tourism, medical and health care, government employment, manufacturing, information security, financial services, telemarketing, telecommunications, insurance, and oil and gas refining. The City's cultural and geographic proximity to Mexico provides favorable conditions for international business relations therewith. In addition to the favorable economic climate, excellent weather conditions year round help to encourage and enhance the operation of many of San Antonio's most important industries. (See "Appendix A – Economic Factors" attached hereto.)

Recently, San Antonio has assembled a string of economic highlights. Microsoft and Lowe's have both begun construction on data centers in San Antonio. Microsoft is investing over $500 million to construct its facility. The company will employ 75 people within the data center with an average annual wage of $60,000 to $70,000. Lowe's is spending approximately $200 million to build its facility and will employ 22 people paying an average annual wage of $51,700. Maxim Integrated Products ("Maxim") opened operations in San Antonio in 2004 and the company is now expanding operations at its San Antonio location. Employment at the facility reached the original target of 500, and Maxim has decided to expand its operations to 800 employees in San Antonio, resulting in an additional $36.2 million investment by the company in the facility. On August 2, 2007, Rackspace announced a large expansion in the City of Windcrest, on the northeast side of San Antonio, resulting in the addition of 5,000 new jobs over the next five years and the redevelopment of the long vacant Windsor Park Mall building. Rackspace plans to invest $100 million in the new project.

While some communities will have some big adjustments due to base closings recommended by the Base Realignment and Closure Commission, San Antonio will see a net increase of military employment of about 3,600 and an estimated increase in investment of about $2 billion. While many of the military missions are being relocated from Brooks City-Base, the private development is doing very well, with the development of its retail corner, the expansions of DPT Laboratories, and the recent announcement by Southeast Baptist Hospital System of plans to build a hospital at Brooks City-Base.

Employee Pension Plan and Benefits

The City's employees participate in a variety of defined pension plans. These plans and contributions made to such plans are further described in Note 8 in the City's Comprehensive Annual Financial Report, attached hereto as Appendix C for the fiscal year ended September 30, 2006. (See "CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES" herein.)

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Employees

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

	Fiscal Year Ended September 30									
	2007		2006		2005		2004		2003	
Employees	Filled [1]	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized
Police	2,300	2,105	1,913	2,044	1,925	2,037	1,984	2,033	1,916	2,025
Police Grant Funded	47	18	17	18	16	17	0	30	39	41
Total Police	2,347	2,123	1,930	2,062	1,941	2,054	1,984	2,063	1,955	2,066
Fire	1,522	1,529	1,455	1,490	1,436	1,439	1,097	1,441	1,443	1,442
Fire Grant Funded	-0-	-0-	-0-	-0-	-0-	-0-	335	-0-	-0-	-0-
Total Fire	1,522	1,529	1,455	1,490	1,436	1,439	1,432	1,441	1,443	1,442
Total Police & Fire	3,869	3,652	3,385	3,552	3,377	3,493	3,416	3,504	3,398	3,508
Civilian	9,406	9,687	7,124	9,631	7,354	9,375	6,749	9,580	6,482	9,680
Civilian Grant Funded	715	745	575	900	607	928	1,540	980	683	1,209
Total Civilian	10,121	10,432	7,699	10,531	7,961	10,303	8,289	10,560	7,165	10,889
Total	13,990	14,804	11,084	14,083	11,338	13,796	11,705	14,064	10,563	14,397

[1] The adopted budget for fiscal year 2008 added a total of 322 positions, 207 were civilian positions and 115 were uniformed positions. Additionally, the adopted budget for fiscal year 2008 eliminated 184 civilian positions, including 102 vacant positions and 82 filled positions.

Financial Accounting and Financial Policies

Government-wide Financial Statements

Under the governmental financial reporting model instituted by GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," a government-wide financial statement has been presented since 2001, taking the place of the general purpose combining statements presented in previous annual reports. The government-wide financial statements present financial information about the reporting government as a whole using the "economic resource" measurement focus and full accrual basis of accounting. Fiduciary activities, whose resources are not available to finance the City's governmental programs, are not included in these statements, including component units that are fiduciary in nature. The government-wide statements include a statement of net assets and a statement of activities.

The statement of net assets reflects both short-term and long-term assets and liabilities. Capital assets, infrastructure assets, and debts that are considered long-term will now be reported in the governmental activity column. Net assets, previously known as fund balances in prior annual reports, are now presented in three separate components: invested in capital assets, net of related debt; restricted; and unrestricted. Governmental activities, or those activities normally financed through taxes, intergovernmental revenue, and other non-exchange revenues, are presented in one column. Business-type activities, or those which are primarily financed by fees charged to outside parties for goods or services, are presented in the next column. Component units are reported in the aggregate, following the primary government's total column.

The statement of activities is presented in a net cost format. Expenses are presented in the far left column, followed by program revenues. General revenues are presented at the bottom of the statement. This new presentation allows users to determine which functions are self-supporting, and which ones rely on the tax base in order to complete their mission. The Governmental activities are divided by function; the business-type activities are entered as one line (for example, Aviation, Solid Waste, etc. are on separate lines). Component units are presented in the same format as the Business-type activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. Some reconciling entries will include those numbers needed to report on the full accrual basis in the government-wide financials from a modified accrual basis, as used in the fund statements. Another reconciling entry will be the elimination of internal service fund activity; the net income (loss) is allocated back to user departments in order to achieve a break-even result in the internal service funds. These allocations will only be reflected in the government-wide statements. Any residual amounts of the internal service funds will be reported in the governmental activity column.

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

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: Governmental Funds, Proprietary Funds, and Fiduciary Funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported in separate columns in the Fund Financial Statements. Nonmajor funds are individually presented in the combining statements.

Governmental Funds

General Fund. The General Fund of the City accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds. Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

Permanent Funds. This fund is a new governmental fund type established by GASB Statement No. 34. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry.

Proprietary Funds

Enterprise Funds. The Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises when the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in this fund type.

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the City, as a fiduciary, in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Pension Trust, Retiree Health Care Trust, Private Purpose Trust Funds, and Agency Funds. Pension Trust and Retiree Health Care Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Fiscal Year 2006 Management Letter

The Fiscal Year 2006 Letter on Internal Control and Accounting Procedures (the "FY 2006 Management Letter") includes one material weakness comment, three reportable conditions, and five general comments.

The material weakness comment concerns the City's Grants Accounting Management Process. This comment was based on the lack of effective top-level controls for ensuring grant activity is properly reflected in the City's financial records and turnover in the Grants Section of the Finance Department which resulted in the loss of important institutional knowledge. As a result of an extensive review and validation effort, deficit fund balances totaling approximately $11.7 million were identified in grant projects. Grant Programs are in almost all instances on a cost reimbursement basis with the Federal and State Grantor Agencies. These deficits had accumulated over a period of more than eight years with a majority of the deficit occurring subsequent to FY 2002. Additionally, approximately $3.1 million of possible surpluses within grant projects were identified which upon further review and validation may be available to offset the deficit fund balances. The review of these surpluses is ongoing. With respect to a funding plan for the accumulated deficit of $11.7 million which occurred over a number of years, it is anticipated to be funded through the annual budget process over a five year period beginning in FY 2008. This approach is consistent with Generally Accepted Accounting Principles ("GAAP") which indicates a deficit within a fund should be addressed over a reasonable period of time. The grant deficits did not result in any default to any third-party lender. In the opinion of management, these grant deficits do not have an adverse material financial impact on the City.

The three reportable conditions include (i) difficulty surrounding the preparation of the Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards for the City's Federal and State Grants; (ii) construction-in-progress accounting and the related reconciliation and timely close-out of these accounts to ensure accurate depreciation of assets in accordance with GAAP; and (iii) segregation of duties related to the on-going need to perform segregation of duties role and user access reviews to identify conflicts and resolve those conflicts in a timely manner.

While certain challenges were identified in the FY 2006 Management Letter, the City received an "unqualified opinion" on its Comprehensive Annual Financial Report. City Management has taken a number of steps to significantly improve fiscal accountability, including the development of a corrective action plan to specifically address the issues noted in the FY 2006 Management Letter. The following is a brief summary of the steps taken:

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

a professional environment. As of October 1, 2007, the Department had only one vacancy out of its total FY 2007 personnel complement of authorized positions.

- Administrative Directives are being developed which comprehensively outline procedures for the administration of grants and capital projects, respectively. These Administrative Directives will be a key component for strengthening top level controls and establishing more uniformity in managing all financial aspects of grants and capital projects. Development of these Administrative Directives is underway and implementation is anticipated to occur before December 31, 2007.

- Training will be provided to all City staff responsible for the fiscal administration of grant and capital projects programs. The training will focus on the implementation of the Administrative Directives on Grants and Capital Projects, respectively, as well as the key elements of the fiscal requirements of grants and capital projects administration.

- The Finance Department is coordinating with the City's Information Technology Services Department on modifications to the current financial system account structure for grants as well as enhancements to reporting for grants. In July 2007, the Finance Department engaged a consultant with expertise in this area to develop solutions to the current financial system account structure. At this time, solutions have been identified and will be fully implemented by December 31, 2007.

- The City's FY 2008 Adopted Capital Budget includes funding for a software tool which will assist the City in identifying potential segregation of duties conflicts. This software tool will be utilized to review user roles and responsibilities on a continuous basis allowing for potential segregation of duties issues to be more quickly identified and resolved. Additionally, reviews of existing financial system user roles and responsibilities will be performed utilizing existing resources to identify any existing conflicts with recommendations to mitigate risk and/or document other mitigating controls which are in place. Additionally, the software tool described above will be utilized to assist in this initial review process and the on-going maintenance of these user roles.

Information Regarding GASB Statements for Pension/Retirement Program

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes uniform financial reporting standards for other postemployment benefits ("OPEB") plans and supersedes the interim guidance included in Statement No. 26. GASB Statement No. 43 follows a similar approach to GASB Statement No. 25 with modifications to reflect differences between pension plans and OPEB plans. The provisions of this statement are effective for fiscal periods beginning after December 15, 2005.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for fiscal periods beginning after December 15, 2006.

GASB Statement No. 47, *Accounting for Termination Benefits*, requires employers to disclose termination benefit arrangements, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. Termination benefits that are provided through an existing defined benefit OPEB plan should be implemented for the fiscal period beginning after December 15, 2006 (simultaneously with GASB Statement No. 45). 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 these statements will have on the City's financial statements.

Debt Management

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

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

Utilization of comprehensive financial analysis and computer modeling in the debt management plan incorporates numerous variables such as sensitivity to interest rates, changes in assessed values, annexations, current ad valorem tax collection rates, self-supporting debt, and fund balances. The analytical modeling and effective debt management has enabled the City to maximize efficiencies through refundings and debt structuring. Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "AA+", "Aa1", and "AA+" bond ratings by Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's Ratings Group ("S&P") respectively. The positive trend in the City's credit strength is evidenced by the Moody's rating upgrade in November 2007 from "Aa2" to its current "Aa1."

Debt Authorization

General Obligation Bonds

The City is authorized to issue bonds payable from ad valorem taxes pursuant to the City Charter, the general laws of the State, and ordinances adopted by the City Council. Such bonds must be authorized by the voters of the City at elections held within the City. The City currently has $550,000,000 ad valorem tax-supported debt previously approved by its voters on May 12, 2007 of which $43,500,000 was issued as part of the $60,000,000 Series 2007 Notes issue (described below), leaving $506,500,000 unissued. For the fiscal year ended September 30, 2007, the City had $667,280,000 in general obligation bonds outstanding.

On November 9, 2006, the City sold $170,785,000 "City of San Antonio, Texas General Improvement and Refunding Bonds, Series 2006," (the "2006 Bonds"). The 2006 Bonds were issued to provide funds (1) to finance the construction of general improvements to the City, including (a) streets and pedestrian improvements; (b) drainage improvements; (c) library improvements; (d) parks and recreation improvements; and (e) public health and safety improvements; (2) to refund certain outstanding obligations of the City to effectuate interest cost savings; and (3) to pay the costs of issuance. The 2006 Bonds represented the third and final installment of the $115,000,000 bonds approved at an election held in the City on November 4, 2003.

Tax Notes

On June 6, 2007, the City sold $60,000,000 "City of San Antonio, Texas Tax Notes, Series 2007" (the "Series 2007 Notes") for the purpose of funding capital improvements and to pay the cost of issuance. The Series 2007 Notes are short-term debt obligations payable from ad valorem taxes which were used as an interim funding mechanism in anticipation of the issuance of the 2007 Bonds.

The uses of the Series 2007 Notes are as follows: (1) constructing public safety improvements, including construction of new fire stations and renovating and improving existing fire stations and the Services Facility; (2) constructing drainage, sidewalk, bridge, and street improvements and drainage incidental thereto; (3) constructing improvements for flood control, dams, landscaping and amenities along the San Antonio River; (4) acquiring, constructing, renovating and improving municipal facilities; (5) acquiring, constructing, and renovating park facilities, including municipal golf courses; (6) acquiring land, conducting environmental assessments and constructing other improvements for the Homeless Campus; and (7) paying the costs of certain public improvements approved by the voters of the City at a bond election held on May 12, 2007 which authorized streets, bridges and sidewalk, drainage, libraries, parks, recreation, open space and athletics, and public health facilities improvements. At fiscal year ending September 30, 2007, the City's outstanding Tax Notes were $60,000,000, all of which are being refunded by the 2007 Bonds.

Certificates of Obligation

The City is authorized to issue certificates of obligation pursuant to the City Charter, applicable State laws, and ordinances adopted by the City Council. Certificates of Obligation are issued for various purposes to include financing revenue producing capital improvements and for infrastructure support and development. For fiscal year ended September 30, 2007, the City had $218,475,000 certificates of obligation outstanding, which comprised 23.10% of the total outstanding ad valorem tax-supported debt.

On November 9, 2006, the City sold $73,155,000 "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2006," (the "2006 Certificates"). The 2006 Certificates were used for the purpose of providing funds for the payment of contractual obligations to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing public safety improvements, including construction of new fire stations and renovating and improving existing fire stations and police stations and the Services Facility, (2) constructing drainage improvements, sidewalk improvements, bridge improvements, street improvements and drainage incidental thereto, (3) constructing improvements for flood control, dams, landscaping and amenities along the San Antonio River, (4) constructing improvements and renovations to existing municipal facilities or other public facilities including the Plaza de Armas Building and Pearsall Landfill, (5) acquiring, constructing, renovating and improving the City's library system, (6) acquiring, constructing and renovating park facilities, including municipal golf courses and Main Plaza, (7) constructing utility system and other infrastructure improvements at KellyUSA, (8) constructing and equipping certain downtown public restroom facilities, (9) payment of the costs of a study for the possible relocation of the San Antonio Metropolitan Health District Laboratory to Brooks City-Base and a portion of the relocation expenses, (10) purchasing materials, supplies, equipment, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, flood control, street, library, parks, utility infrastructure, and public works purposes, and (11) the payment of professional services related to the construction and financing of the aforementioned projects.

Revenue Bonds

The City is authorized to issue revenue bonds under the provisions of the City Charter, applicable State laws, and ordinances adopted by City Council. At fiscal year ending September 30, 2007, the City's outstanding revenue bonds were: Airport System Revenue Bonds in the aggregate principal amount of $158,840,000; Passenger Facility Charge and Subordinate Lien Airport System Revenue Bonds (the "Passenger Facility Bonds") in the aggregate principal amount of $69,755,000; Parking System Revenue Bonds in the aggregate principal amount of $22,775,000; Municipal Drainage Utility System (Stormwater System) Bonds in the aggregate principal amount of $98,205,000; and Henry B. Gonzalez Convention Center Expansion Project Revenue Bonds aggregating to $207,272,411.50.

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

On September 17, 2006, the City sold $72,620,000 "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006" (the "Series 2006 HOT Bonds"). The Series 2006 HOT Bonds were sold to effectuate a refunding of $68,785,000 of certain outstanding "City of San Antonio, Texas Hotel Occupancy Tax Revenue Bonds, Series 1996" (the "Series 1996 Bonds") whose proceeds had been utilized to fund the City's Convention Center Expansion Project. Refunding such Series 1996 Bonds was undertaken to preserve future capacity for future Convention Center expansion financing and to achieve savings. This refunding transaction produced total savings of $10,440,457 with a net present value savings of $6,905,263 or 10.04% of the refunded obligations.

On November 16, 2006, the City sold $17,850,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2006" (Alternative Minimum Tax Bonds) (the "Series 2006 Airport Bonds"). The Series 2006 Airport Bonds were sold to effectuate a refunding of $17,725,000 of certain outstanding "City of San Antonio, Texas Airport System Improvement Revenue Bonds, Series 1996" and was undertaken to achieve savings. This refunding transaction produced total savings of $1,050,012.50 with a net present value savings of $915,340.58 or 5.16% of the refunded obligations.

On June 13, 2007, the City effectuated a private placement of $5,500,000 "City of San Antonio, Texas Hotel Occupancy Tax Surplus Revenue Notes, Series 2007" (the "Series 2007 HOT Notes") for the purpose of funding capital improvements and to pay the costs of issuance. The Series 2007 HOT Notes are short term debt obligations payable from Hotel Occupancy Tax revenues which are being used as an interim funding mechanism in anticipation of the projected reimbursement from the State under Senate Bill 150 which allows for the City to be reimbursed for these capital improvements via the State's portion of sales tax collected in conjunction with the 2008 Final Four. The proceeds of the Series 2007 HOT Notes will be used for funding Alamodome renovations and enhancements necessary to host the 2008 Final Four.

Concurrently with the issuance of the 2007A Notes, the City is issuing $82,400,000 "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2007" and $74,860,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007" (collectively, the "2007 Airport Bonds").

Refundings

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

Commercial Paper Program

On May 7, 2005, the voters of the City approved a 1/8 cent sales and use tax for the purpose of collecting an aggregate of $90,000,000 to be used to acquire property for a conservation easement or open-space preservation program intended to protect water in the Edwards Aquifer, collection of which took effect October 1, 2005. Passage of the Aquifer Protection Proposition will enable the City to help protect the Edwards Aquifer water supply from pollution by acquiring land over the Edwards Aquifer Recharge Zone. It is expected that the land acquisition over the Edwards Aquifer will occur over a 60-month period. An accelerated land acquisition program will be financed through the implementation and issuance of Sales Tax Revenue Commercial Paper Notes. The commercial paper program was authorized by the City Council on May 10, 2007, for $50,000,000 in Sales Tax Revenue Commercial Paper Notes (the "Notes"). Funds collected in accordance with the Aquifer Protection Proposition, in addition to being available to pay the Notes, will be used to pay costs and expenses incurred in relation to eligible

projects, including, without limitation, acquisition costs of land, interests in land, rights-of-way and easements, engineering and legal costs, and real estate sales commissions and closing costs. As of September 30, 2007, $4,000,000 in Notes were outstanding.

Debt Limitations

The amount of ad valorem tax-supported debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed ten percent of the total assessed valuation.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed $2.50 for each one hundred dollars of assessed valuation of taxable property. There is no limitation within the $2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from $1.50 tax rate calculated at 90% collections.

Long-Term Debt Planning

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

The assumptions utilized in the FY 2007-2008 Debt Plan include: (i) assessed valuation growth at 16.22% in fiscal year 2008, 7.00% in fiscal year 2009, decreasing 1.00% per year beginning in fiscal year 2010 and continuing through fiscal year 2011, 4.00% in fiscal year 2012, decreasing 0.50% per year beginning in fiscal year 2013 and continuing until fiscal year 2017, when a growth rate of 1.50% is reached and held constant through fiscal year 2021; (ii) tax collections at 97.5%; (iii) tax freeze for elderly and disabled (proposition 3); (iv) the adopted debt service tax rate which remains constant at 21.15 cents in fiscal years 2008 through 2024 and decreases annually from fiscal years 2025 through 2041; and (v) $550,000,000 General Improvement Bonds authorized by the voters in the May 12, 2007 election, anticipated to be sold in $110,000,000 increments beginning in fiscal year 2008. Based on these assumptions and the projected maximum debt service tax rate of 21.15 cents, additional estimated bond authorizations in the Fall of 2012 and the Fall of 2017 are approximately $596,000,000 million and $550,000,000 million respectively. In addition, the FY 2007-2008 Debt Plan includes the issuance of approximately $300,000,000 Certificates of Obligation, which are scheduled to be sold from fiscal years 2008 through 2012 for fire station improvements, Metropolitan Planning Organization ("MPO") streets and other street projects, drainage projects, land acquisition, parks and recreation projects, municipal facility improvements, environmental services improvements, economic development, library improvements, health, and San Antonio River improvements. Additionally, the FY 2007-2008 Debt Plan includes the issuance of approximately $26,460,000 self-supporting Certificates of Obligation to be sold in fiscal year 2008 and $52,760,000 in short-term Tax Notes to be sold from fiscal years 2008 through 2011 to fund Brooks City-Base infrastructure improvements, time administration improvements, and information technology improvements.

New Money Issues

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

Debt Service Tax Rate

The combination of successful refundings and low interest rates for bonds and certificates of obligation sales has resulted in a decrease in the projected maximum debt service tax rate of $0.3049 per $100 valuation prior to 1992,

1993, 1996, 1998, 2001, 2002, 2003, 2004, 2005, and 2006 refundings to a projected maximum debt service tax rate of $0.2115 per $100 through fiscal year 2024.

The Budget Process

Fiscal Year 2008 Budget

The FY 2008 Budget Process included several budgetary steps and input practices which allowed for more community and employee input. Each phase of the FY 2008 Budget Process is explained below.

Five-Year Financial Forecast. The Budget Process is guided with the development and presentation of the Five-Year Financial Forecast (the "Forecast"). The Forecast is a financial and budgetary planning tool that provides a current and long-range assessment of financial conditions and costs for City service delivery plans including the identification of service delivery policy issues that will be encountered in the next five years and that will have a fiscal impact upon the City's program of services. The Forecast also examines the local and national economic conditions that have an impact on the City's economy and ultimately, its budget. Also included within the document is a set of budget strategy recommendations for the period covered by the Forecast.

The Forecast also serves as a foundation for development of the proposed budget by projecting revenues and anticipated expenditures under a defined set of assumptions. The Forecast enables the City Council and staff to identify financial issues in sufficient time to develop a proactive strategy in order to address emerging strategic issues. Although the FY 2008 Forecast focused primarily on the City's General Fund, the Environmental Services Fund, the Development & Planning Services Fund, and Community & Visitors Fund were also included. On May 16, 2007, the Five-Year Financial Forecast was presented to the City Council.

The FY 2008 positive ending balance was achieved through higher than estimated ending balances in FY 2006 and higher revenues in the FY 2007 Re-estimates. Additionally, added CPS revenue above budget was realized as a result of unusual weather conditions and higher than forecasted natural gas prices. San Antonio's expanding local economy has allowed the City to continue realizing strong sales tax receipts. Increased development activity and stronger property values also added to the overall positive outlook for the City.

Public Input. Beginning in March 2007, the Community Budget Input Dropbox (c-Bid) and Employee Budget Input Dropbox (e-Bid) gave citizens and employees the opportunity to offer their suggestions on how the City could increase efficiencies, generate revenues, and make effective changes to service delivery. The dropboxes were placed at 144 sites within the City including public libraries, the City's office lobbies, and other locations. Information and access for this budget initiative was provided to citizens and City employees in English and Spanish. E-Bid and c-Bid resources were also available on the City's internet website. In addition, the 2008 Frontline Focus Initiative was initiated in order for departments to identify process improvements that could be considered during the development of the FY 2008 Proposed Budget.

City Council Goal Setting Work Session. The Goal Setting Work Session for the annual budget is a formal mechanism for the City Council as a body to provide City staff with budget policy direction. This year's work session was held on June 27, 2007, and utilized a facilitator to guide City Council in their goals and priorities. Prior to the work session, the City Council was provided with a ballot that included 52 City service issues and four (4) revenue topics to be rated. The 52 City service issues were separated into nine major categories:

- Infrastructure Management (Streets, Sidewalks, & Traffic Signals)
- Police Protection/Public Safety
- Fire Protection/Emergency Medical Services
- Parks & Recreation
- Library Services
- Housing & Neighborhood Services
- Quality of Life (Health, Human Dev., Homelessness, & Animal Care)
- Business & Economic Development
- Downtown Maintenance, Operations, & Venues

The results of this rating process were discussed with City Council in order to provide City staff with a clear set of priorities to be included in the FY 2008 Budget.

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

FY 2008 Proposed Budget. After obtaining the priorities of the City Council, as well as conducting reviews of each City department, the City Manager presented the FY 2008 Proposed Budget to City Council on August 16, 2007. The Proposed Budget represented City staff's professional recommendation on how to utilize revenues and expenditures in order to achieve a balanced budget, while optimizing City service deliveries.

Major enhancements in the FY 2008 Proposed Budget included a two-year balanced budget, increased financial reserves, street and sidewalk, alley, drainage and traffic signal enhancements, enhanced funding for additional staffing for police, fire and EMS, funding to address neighborhood issues such as code compliance, graffiti enforcement and animal care, as well as provided funding for expanded youth services and parks improvements.

Public Input on Budget Priorities. After the FY 2008 Budget was proposed on August 16, 2007, the City held District Community Budget Hearings in all 10 City Districts between August 20 and September 4, 2007. In each community hearing, an explanatory video regarding the FY 2008 Proposed Budget was shown and citizens were given the opportunity to direct questions to their City Council Representative and City Officials. These District Community Budget Hearings were attended by over 600 individuals and over 230 community comments were heard. The City also held a Budget Public Hearing in which 23 citizens/groups provided input. Additionally, two Tax Rate Public Hearings and eight Work Sessions for City Council were held. The Public Hearings and Work Sessions resulted in the City Council being aware of issues important to citizens and community groups, while the District Community Budget Hearings allowed City Council to hear feedback from the citizens on the FY 2008 Proposed Budget.

Included in the FY 2008 Proposed Budget, were adjustments to the financial reserves. The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management. The FY 2008 Proposed Budget included an additional $20 million in Budgeted Financial Reserves allowing for an 8% Reserve. City Council policy direction is to obtain a 10% reserve goal by FY 2009.

Fiscal Year 2008 Adopted Budget. After receipt of the Proposed Budget, the City Council held eight work sessions to review the proposed service program details and discuss potential City Council budget amendments. The budget work sessions provided a forum for public discourse on significant policy issues as well as an opportunity to review departmental service plans highlighting proposed program enhancements, reductions, efficiencies, redirections, and revenue adjustments. After considering all the recommendations and receiving input from citizens at a public hearing on September 5, 2007, a balanced budget was adopted on September 13, 2007, including amendments added by the City Council. Highlights of the FY 2008 Adopted Budget include a General Fund positive ending balance of $22.7 million; $20 million added to financial reserves for a total of $68.2 million; $9 million for increased contractual street maintenance and sidewalks; new Capital Improvement Management Services Department dedicated to implementing the City's bond program; over $26 million for police and fire services with an additional 90 police officer positions; $3 million for workforce development; $1.3 million for library enhancements, $1 million for parks maintenance and renovations, and nearly $1 million for code enforcement and graffiti abatement.

Annexation

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 472.66 square miles (full purpose annexations only) or 510 square miles (both full purpose and limited purpose annexations), and having a tax year 2007 total taxable value of $65.996 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. As of October 2007, the City is currently engaged in growth management studies which identify adjacent areas in Bexar County which would be best served through the adoption of a new City three-year annexation plan.

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).

In 2006, City Council annexed the following areas for full purpose annexation: Southside Study Area Two includes 3,664 acres; Southside Study Area Three includes 9,796 acres; and Culebra/Loop 1604 includes 38 acres. These annexations added 13,498 acres or 21.09 square miles to the City. In 2007, City Council engaged in the following de-annexations: Southside Study Area Five includes 3,104 acres; Timberwood Park includes 4,345 acres; and the Windsor Park Mall boundary exchange with the City of Windcrest includes 229.13 acres.

Limited Purpose Annexation

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

As a requirement of Section 43.123, Texas Local Government Code, as amended, the City 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 Southside limited purpose annexation areas were annexed for full purposes on January 5, 2006. The rest of the Southside areas were annexed under limited purpose status. 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, also known as the Southside Study Area Seven.

Public Improvement District

Pursuant to the Public Improvement District Assessment Act, Chapter 372, Texas Local Government Code, as amended, on April 29, 1999, the City Council created a Public Improvement District ("PID") in the central business district. The purpose of the PID is to provide public improvement services to properties within the boundaries of the PID to include: (1) sidewalk sweeping and washing; (2) graffiti abatement; (3) landscaping/streetscaping services; (4) a marketing and promotional program; and (5) a public service representative program. On July 1, 1999, the City Council authorized the City to execute a contract with Centro San Antonio Management Corporation, a non-profit Texas corporation, to manage the PID programs. A 15-member Board of Directors of the PID meets at least quarterly to assure performance of Centro San Antonio Management Corporation. The supplemental services and improvements to be provided are detailed in the annual Service and Assessment Plan, which must be approved by the City Council. The fiscal year 2008 plan reflects a total budget of $1,860,000, based on an assessment rate of $0.12 per $100 valuation. In addition to assessment revenues from private property, which are expected to yield approximately $1,750,000 in fiscal year 2008, estimated additional funds are to be received from annual contributions from the City and City Public Service combined of $90,780, from VIA Metropolitan Transit and Bexar County combined of $90,000, and from interest on deposits and delinquent payments of $40,000. The PID will operate on these collected revenues and will not issue bonds. The PID is authorized for a term of five years through the end of fiscal year 2009.

Investments

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Act"), and in accordance with an Investment Policy approved by the City Council. 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 established a written investment policy adopted September 30, 2007. The City's investments are managed by the City's Department of Finance, who, in accordance with the Investment Policy, report investment activity to the City Council.

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (5) and clause (13) or in any other manner and amount provided by law for County deposits, and in addition (b) the County is authorized, subject to certain conditions, to invest in certificates of deposit with a depository institution that has its main office or branch office in the State of Texas and that participates in the Certificate of Deposit Account Registry Service® network (CDARS®) and as further provided by Texas law; (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), requires the securities being purchased by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State; (8) bankers' acceptances with the remaining term of 270 days or less, which will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (9) commercial paper with a stated maturity of 270 days or less and is rated at least "A-1" or "P-1" or the equivalent by either (i) two nationally recognized credit rating agencies or (ii) one nationally recognized credit rating agency if

the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (10) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, and provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934 or the Investment Act of 1940; (11) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and conforms to the requirements for eligible investment pools; (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or "AAA-m" or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than prohibited obligations described in the next succeeding paragraph, with a defined termination date, and pledged to the City and deposited with the City or a third party selected and approved by the City.

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

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

Investment Policies

Under Texas law, the City is required to invest its funds in accordance with written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pool fund groups, and the methods to monitor the market price of investments acquired with public funds and the requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

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

The City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Current Investments

At September 30, 2007, investable City funds, in the approximate amount of $1,073,487,625, were 89.84% invested in obligations of the United States, or its agencies and instrumentalities, and 10.16% invested in a money market fund, with the weighted average maturity of the portfolio being less than one year. The investments and maturity terms are consistent with State law, and the City's Investment Policy objectives are to preserve principal, limit risk, maintain diversification and liquidity, and maximize interest earnings.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.15% of their book value. No funds of the City are invested in derivative securities; *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

Certain Significant Issues Affecting the City

Water Supply

The primary source of water for the City is the Edwards Aquifer. The Edwards Aquifer is also the primary source of water for the agricultural economy in the two counties west of San Antonio and is the source of water for Comal

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

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

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

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

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

The Edwards Aquifer Authority has finalized the permitting process. The Edwards Aquifer Authority staff proposed permit(s) for 193,305 acre-feet for SAWS permanent Edwards Aquifer water right holdings as of December 2005. In addition to the 193,305 acre-feet, SAWS held an additional 25,806 acre-feet of Edwards' leases, bringing SAWS total inventory to 219,111 acre-feet. SAWS pumped 190,329 acre-feet of Edwards Aquifer water during 2006.

In 2007, the Texas Legislature passed Senate Bill 3 on the final day of the 80th legislative session, establishing a cap on annual pumping from the Edwards Aquifer of 572,000 acre-feet and placing restrictions on supply availability during drought periods into state statute. The System currently has access to 40% of this figure. Senate Bill 3 incorporates restrictions on supply availability during drought periods into state statute, thus making these restrictions state law. In addition, to support ongoing efforts to identify and evaluate methods to protect threatened and endangered species, the Texas Legislature prescribed in detail a Recovery Implementation Plan ("RIP") for the Edwards Aquifer region. The RIP, which will be undertaken in coordination with U.S. Fish and Wildlife Service, is

intended to help the region meet the needs of endangered species, while respecting and protecting the legal rights of water users.

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

Water Reuse Program

SAWS supplies reuse water to CPS Energy ("CPS"), San Antonio's municipally owned electrical utility. The revenues derived from such agreement 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 agreement are approximately $2 million each year.

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

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

Electric and Gas Supply

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

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

The CPS electric system, like other municipal electric systems in the State, is adapting to changes in electric regulation brought about by the enactment of Senate Bill 7 ("SB 7") by the Texas Legislature in 1999. SB 7 provides for open competition in the provision of retail electric service in the State, which commenced on January 1, 2002. Municipal utilities, such as CPS, are not required to participate in the competitive retail market, although they may "opt-in" to retail electric competition. On April 26, 2001, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002. SB 7 provides that "opt-

in" decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Energy Board of San Antonio, Texas ("CPS Board") and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to retail competition in the Electric Reliability Council of Texas ("ERCOT"). ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Electric Utility Restructuring in Texas; Senate Bill 7" in Appendix A attached hereto.)

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

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

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 $8.995 million as of September 30, 2006, 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 Note 11, entitled "Commitments and Contingencies:" of the City's Audited Financial Statements for the year ended September 30, 2006, attached hereto as Appendix C. In addition, the City provides the following updated information related to the lawsuits not contained in Appendix C:

Charles and Tracy Pollock, individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This case 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 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 case was argued to the Texas Supreme Court on October 18, 2006 and the City is still awaiting a ruling.

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. The Supreme Court denied both petitions for review. A Motion to Reconsider has been filed by the City.

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. Motions for summary judgment have been prepared on behalf of the City. However, if the case is not dismissed, based on the injuries incurred, exposure could be in excess of $150,000.

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, including 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 ("SAWS").

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. Plaintiff has dismissed his claims against the City. The claims against the officer are set for trial in February 2008.

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 has been reset for trial in early 2008.

City of San Antonio v. Interspiro. City sued Interspiro for Uniform Commercial Code violations related to defective 397 self-contained breathing apparatus ("SCBA") units, 982 cylinders, 705 face pieces with regulator, 100 face pieces without regulator, related equipment utilized by the City's firefighters when fighting fires, an eight part contract, training and certification and manufacturers warranty. The City agreed to pay as consideration $1,882,182 to Interspiro. The City also agreed to pay Interspiro $207,501 for additional equipment. The City discovered that the goods did not conform to the contract. To date the City has paid a total of $1,636,670. The City seeks damages for repayment of fees paid $1,636,670 for the purchase price; $1,308,142 in overtime payment to officers resulting from equipment failures and from the use of SCBA technicians to repair equipment; and $68,991 for the City's

testing of equipment. Interspiro has counterclaimed for breach of contract, seeking payment of approximately $400,000 in outstanding invoices. This case is set for trial in June 2008.

Carl O'Neal, Sr., et al. v. City of San Antonio, et al. This is a wrongful death and survivor claim brought by the parents of Carl O'Neal, Jr. O'Neal was stopped on November 10, 2005 by defendant officers Stanush and Hancock because they thought he was involved in a drug transaction. During his arrest, O'Neal swallowed some cocaine and suffered a minor cut on his head. O'Neal had to be treated for his head injury before he could be taken to the Magistrate's Office for booking. The officers took O'Neal to a relatively new medical clinic for prisoners that had suffered minor medical conditions. At this facility, O'Neal became combative and the physician's assistant on duty was not able to examine him. The officers then transported O'Neal to University Hospital. While the officers were waiting for the San Antonio Police Department paddy wagon to arrive for transport, O'Neal stopped breathing and eventually died in the hallway of the medical clinic. The City has been sued under a theory that it had a custom policy and practice of being indifferent to the medical needs of O'Neal. If this case were to go before a jury, the City's liability could exceed $100,000.

Samantha Rivera v. et al. v. City of San Antonio and San Antonio Police Officers Reynaldo Montes & Rachel Barnes. This is a case involving use of deadly force. Plaintiff claims that defendant officers entered her home without invitation or announcement of entry and with deadly force, brutally, intentionally, and or negligently murdered Plaintiff's decedent husband. Plaintiff alleges federal constitutional violations as well as battery under state law. Plaintiff seeks $25,000,000 against the Defendants, jointly and severally, reasonable attorneys fees, and expenses of litigation, court costs, pre-and post-judgment interest, and any general relief to be awarded by the Court. The case is in discovery with a trial setting of April 14, 2008.

McClure and Maximum Entertainment, LLC v. City of San Antonio et al. Plaintiffs filed this suit against the City and two officers alleging the City granted Plaintiff a permit to stage a three-day, outdoor rock concert at the intersection of IH-35 and Loop 410 East in San Antonio. Plaintiffs allege that the permit, when read together with the City Noise Ordinance, allowed the rock bands to play at unrestricted noise levels. Plaintiffs say that Defendant officers arbitrarily and capriciously shut down the concert before the second day's performance. Plaintiffs claim that because the concert was required to be performed indoors on the third day of the concert, the Plaintiffs lost all income from the second day and substantial income from the third day. Plaintiffs also claim that because of the negative publicity on the radio regarding the shut down of the concert that Plaintiffs lost ticket sales at the gate that Plaintiff would have otherwise had and that his blossoming career as a concert promoter was ruined. Plaintiffs' expert has set the damages range from $2,615,000 to $2,717,000.

Barajas et al. v. City of San Antonio. This is a death case of a minor child who was swept away in floodwater. The child, who later died, was found downstream trapped in a storm drain. Plaintiffs claim there were no barriers or barricades in place. Plaintiffs claim there was a special defect which constituted a breach of the City's duty to warn of the special defect. Alternately, Plaintiffs claim the flooding was a premises defect of which the City was aware and this defect created an unreasonable risk of harm. The case has been unsuccessfully mediated. Damages are capped at $250,000.

Shaw v. Phil Hardberger, City of San Antonio and City of San Antonio Police Officers. Plaintiffs contend they were subjected to excessive force and physical beatings by police officers. The police officers were called to Plaintiffs' home on a domestic violence call on Mother's Day in 2006. Plaintiffs claim the fight had stopped but the police officers beat them. Plaintiffs claim Fourth, Fifth, Sixth, Eighth, and Fourteenth Amendment violations under 42 U.S.C.1983. Plaintiffs have pled for damages of $7,500,000. At this time, the case has been stayed pending resolution of criminal charges against several of the Plaintiffs.

Diana Borjas, et al. v City of San Antonio. This case involves a serious vehicular accident that resulted in two fatalities and an allegedly serious incapacitating injury to a third passenger on whose behalf this lawsuit is filed. The passenger in question is a minor. The allegations in this case involve four minors who were allegedly "joy riding" at a very high rate of speed over a very bumpy road. The road condition and vehicular speed caused the driver to lose control and crash into a tree. The lawsuit against the City is based on premises liability (i.e., condition of the road). Discovery has not commenced in this case. However, if the City is found liable, damages would likely exceed $100,000.

Rebecca Moreau Bordelon & Vernon Paul Bordelon, Jr. v. Jaime Gonzales & City of San Antonio. Plaintiffs claim injuries from an auto accident on November 9, 2004, when a City garbage truck driver allegedly took faulty evasive action to avoid another car. Both Plaintiffs suffered back injuries – particularly Ms. Bordelon who suffered cervical vertebrae damage. Ms. Bordelon underwent a cervical diskectomy and fusion and is alleging medical expenses of over $78,000. She is seeking compensation for past and future medical expenses, pain and suffering, lost wages, lost earning capacity, disfigurement, mental anguish, etc. Mr. Bordelon was hospitalized for heart and blood pressure problems he claims were related to the accident. Mr. Bordelon's specials at this time are over $15,000. The City's liability is capped at $250,000. The case is in discovery with no current trial setting.

Texas Mutual Insurance Co. v. City of San Antonio. On July 18, 2003, Fernando Hernandez was operating a bobcat at the request of Central Catholic High School ("CCHS") to eliminate an excavation hole on the CCHS property when the bobcat fell into the hole and Hernandez suffered injuries. Texas Mutual filed this subrogation suit on behalf of Herandez, contending that in the Spring of 2003, the City and SAWS excavated, inspected, and repaired the City's storm drain and SAWS' sewer/water lines that run by or near the storm drain that runs under the street curbing that abuts the school. Plaintiff alleges that the excavation hole was partially filled and was not compacted, the surface was not leveled, and rocks and clods of dirt were left in the area constituting a hazard. The area was surrounded by high grass which partially obscured the hole. After numerous calls to the City the problem was not eliminated. Plaintiff has asserted damages in excess of $100,000.

Cynthia Galvan, Individually, and A/N/F of Sergio Galvan, Minor v. City of San Antonio, William McManus, Chief of the San Antonio Police department, Individually and in His Official Capacity, Officer Richard Smith, Badge # 0352 Individually and in His Official Capacity and Officer Richard Garza, Badge # 1428, Individually and in His Official Capacity. On March 23, 2007, Sergio Galvan (Deceased) was confronted by San Antonio Police Department Officers as he was exhibiting erratic behavior and causing property damage. The Defendant Officers reported that he attacked Police and managed to take away a pepper spray canister. A struggle pursued, and the officers used tasers to subdue Galvan. Galvan was tasered several times before collapsing and dying. This case is still in the discovery stages, but potential liability is in excess of $200,000.

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

John Foddrill v. City of San Antonio. Plaintiff was employed as a Telecommunications Manager in the City's Information and Technology Services Department. Plaintiff was terminated in April 2006 for job performance. Plaintiff had previously filed complaints with the City's Municipal Integrity Unit alleging misuse of funds in the Department. He filed suit against the City under the Texas Whistleblower Act and seeks damages in excess of $500,000. This case is set for trial in March 2008.

CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES

City Pension Benefit Plans

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

As a part of its valuation of the City Pension Benefits Plans, the actuary calculates and reports any "unfunded actuarial accrued liability" ("UAAL") relating to any of such plans. The UAAL is calculated on a present value

basis and includes assumptions such as (among others) rates of mortality, retirement, and disability, respectively; the estimated number of participants expected to withdraw from the subject plan; expected base salary increases; overtime rates; and investment returns. The UAAL includes liabilities for current retirees, active employees that are fully eligible, and for active employees that are not fully eligible.

Based on actuarial valuations, the City's current fire and police pension plan is funded in accordance with Texas law, and the UAAL as of October 1, 2006 was $204.4 million. The Texas Municipal Retirement System's UAAL as of December 31, 2006 was $178.5 million.

City 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. GASB Statement No. 45 does not become applicable to the City until Fiscal Year 2008 and the City continues to actively review each of these plans and has had actuarial valuations performed for these programs. In addition to the disclosure provided in Note 9 of the CAFR, the following information is provided for each of the City's other postemployment retirement benefit programs.

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

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

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

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

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

During the last State legislative session, the City, Board of Trustees of the Fund, Fire Association, and Police Association actively pursued amendments to the Fund's governing legislation, which amendments were enacted. These amendments were done in order to address the long-term actuarial position of the Fund. The changes primarily include: (a) making certain changes to the benefits plans; (b) providing the Board of Trustees of the Fund the authority to make additional changes to the health benefits plans in the future; (c) maintaining the City's contribution to the health plan at 9.4% of payroll over the next 10 years; (d) phase-in over five years of employee contributions from 2.0% of covered payroll to 4.7%; and (e) other administrative changes. Additionally, if after 10 years, the UAAL of the Fund cannot be amortized over a period of 30 years or less, the Board shall increase the City and employee contributions, and deductibles and out of pocket maximums for retirees by a percentage not to exceed 10 % each year until the UAAL can be amortized over a period of 30 years or less.

The aforementioned changes are anticipated to significantly improve the actuarial position of the Fund. The Board of Trustees of the Fund have implemented provisions of the amended legislation and developed a revised retirement benefits plan.

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, 2006 (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 2007A Notes.

TAX MATTERS

Tax Exemption

The delivery of the 2007A Notes is subject to the opinion of Fulbright & Jaworski L.L.P., San Antonio, Texas ("Bond Counsel"), to the effect that interest on the 2007A Notes 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. The form of the opinion of Bond Counsel is attached hereto as Appendix B.

Interest on all tax-exempt obligations, including the 2007A Notes, 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, Bond Counsel will rely upon the representations and certifications of the City made in a certificate of even date with the initial delivery of the 2007A Notes pertaining to the use, expenditure, and investment of the proceeds of the 2007A Notes and will assume continuing compliance with the provisions of the Ordinance by the City subsequent to the issuance of the 2007A Notes. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the 2007A Notes 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 2007A Notes 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 2007A Notes to be includable in the gross income of the owners thereof from the date of the issuance of the 2007A Notes.

Except as described above, 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 2007A Notes. Bond Counsel's opinion is not a guarantee of a result, but represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and 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 2007A Notes is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the 2007A Notes 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 2007A Notes, the City may have different or conflicting interests from the owners of the 2007A Notes. Public awareness of any audit of the 2007A Notes could adversely affect the value and liquidity of the 2007A Notes during the pendency of the audit, regardless of its ultimate outcome.

Ancillary Tax Consequences

Prospective purchasers of the 2007A Notes should be aware that the ownership of tax-exempt obligations such as the 2007A Notes 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 Notes

The initial public offering price to be paid for certain 2007A Notes may be less than the amount payable on such 2007A Notes at maturity (the "Discount Notes"). An amount equal to the difference between the initial public offering price of a Discount Note (assuming that a substantial amount of the Discount Notes 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 Notes. A portion of such original issue discount, allocable to the holding period of a Discount Note 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 2007A Notes. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Note, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Note 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 accrued 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 Note prior to maturity, the amount realized by such owner in excess of the basis of such Discount Note in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Note was held) is includable in gross income.

Owners of Discount Notes should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Notes and with respect to the state and local tax consequences of owning Discount Notes. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Notes 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 Notes

The initial public offering price to be paid for certain 2007A Notes may be greater than the stated redemption price on such 2007A Notes at maturity (the "Premium Notes"). An amount equal to the difference between the initial public offering price of a Premium Note (assuming that a substantial amount of the Premium Notes 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 Notes. The basis for federal income tax purposes of a Premium Note 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 2007A Notes which are Premium Notes. 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 Note. 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 Notes should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Notes for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Notes.

REGISTRATION AND QUALIFICATION OF 2007A NOTES FOR SALE

The sale of the 2007A Notes 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 2007A Notes have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the 2007A Notes been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the 2007A Notes under the securities laws of any jurisdiction in which the 2007A Notes may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the 2007A Notes must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended), provides that the 2007A Notes are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the 2007A Notes by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), requires that the 2007A Notes

be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. (See "RATINGS" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the 2007A Notes are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The 2007A Notes 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.

Texas law provides that obligations such as the 2007A Notes are eligible to secure deposits of the state, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their face value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), the 2007A Notes may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See "RATINGS" herein.)

The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the 2007A Notes for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the 2007A Notes for such purposes. The City has made no review of laws in other states to determine whether the 2007A Notes are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the 2007A Notes, including the unqualified approving legal opinions of the Attorney General of the State to the effect that the 2007A Notes are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel to the effect that the 2007A Notes are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the 2007A Notes is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Bond Counsel has been retained by and only represents the City. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the 2007A Notes, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the 2007A Notes will also be furnished. In its capacity as Bond Counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas has reviewed the information appearing in this Official Statement under the captions "THE 2007A NOTES," (except for the information under the caption "Defaults and Remedies," "Payment Record," and "Book-Entry-Only System," as to which no opinion is expressed) "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF 2007A NOTES FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except under the caption "Compliance with Prior Undertakings," as to which no opinion is expressed) to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the 2007A Notes are contingent on issuance and delivery of the 2007A Notes. The legal opinion of Bond Counsel will accompany the obligations deposited with DTC or will be printed on the definitive obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, and for the City by the City Attorney.

The various legal opinions to be delivered concurrently with the delivery of the 2007A Notes 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.

Fulbright & Jaworski L.L.P. is representing the initial purchasers of the 2007 Obligations. McCall, Parkhurst & Horton L.L.P. represents the City with respect to various legal matters; however, it is not representing the City in connection with the issuance of the 2007A Notes.

RATINGS

The 2007A Notes and the City's unenhanced general obligation debt are rated "AA+," "Aa1," and "AA+" by Fitch, Moody's, and S&P, respectively. The "Aa1" rating from Moody's represents an upgrade from "Aa2" delivered thereby in connection with the City's issuance of the 2007A Notes. The City will file a material events notice regarding this upgrade prior to its initial delivery of the 2007A Notes to the Underwriters.

An explanation of the significance of such ratings may be obtained from Fitch, Moody's, and S&P. The respective ratings of the 2007A Notes by Fitch, Moody's, and S&P reflect only the views of said companies at the time the ratings are given, and the City makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Fitch, Moody's, or S&P if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the 2007A Notes.

CONTINUING DISCLOSURE OF INFORMATION

In the 2007A Note Ordinance, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the 2007A Notes. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the 2007A Notes. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

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

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 1A-14 and 16-19, and in the City's CAFR, substantially in the manner set forth in Appendix C to this Official Statement. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any State Information Depository ("SID").

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

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

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

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the 2007A Notes, if such event is material to a decision to purchase or sell 2007A Notes: (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 2007A Notes; (7) modification to rights of holders of the 2007A Notes; (8) release, substitution, or sale of property securing repayment of the 2007A Notes; (9) rating changes; (10) calls for redemption; and (11) defeasances. (Neither the 2007A Notes nor the 2007A Note Ordinance make any provision for debt service reserves, credit enhancement, or liquidity enhancement; further, the 2007A Notes are not subject to redemption prior to stated maturity.) 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 2007A Notes only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, Post Office Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476-6947. The MAC has also received SEC approval to operate, and 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 2007A Notes.

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 2007A Notes 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 2007A Notes 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 2007A Notes in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering, as well as such changed circumstances; and (2) either (i) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision

of the 2007A Note Ordinance that authorize such an amendment) of the outstanding 2007A Notes consent to such amendment or (ii) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and Beneficial Owners of the 2007A Notes. 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 2007A Notes in the primary offering of the 2007A Notes.

Compliance with Prior Undertakings

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

FORWARD-LOOKING STATEMENTS

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

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2007A Notes from the City at a purchase price of $21,777,331.18 (representing the principal amount of the 2007A Notes, plus net original issue premium on the 2007A Notes of $591,671.95, and less Underwriters' discount on the 2007A Notes of $84,340.77) plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the 2007A Notes if any 2007A Notes are purchased. The 2007A Notes may be offered and sold to certain dealers and others at prices lower than such public offering prices and such public prices may be changed from time to time by the Underwriters.

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

CO-FINANCIAL ADVISORS

Coastal Securities, Inc. and Estrada Hinojosa & Company, Inc. (the "Co-Financial Advisors") are employed by the City in connection with the issuance of the 2007A Notes 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 2007A Notes is contingent upon the issuance and delivery of the 2007A Notes.

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

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

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the 2007A Notes, the Underwriters will be furnished a certificate, executed by proper officers of the City, acting in their official capacity, to the effect that to the best of their knowledge and belief (1) the descriptions and statements of or pertaining to the City contained in this Official Statement, and any addenda, supplement, or amendment thereto, for the 2007A Notes, on the date of sale of the 2007A Notes and on the date of the initial delivery of the 2007A Notes, were and are true and correct in all material respects; (2) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (3) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (4) there has been no material adverse change in the financial condition of the City, since the date of the last financial statements of the City disclosed in Appendix C hereto.

AUTHORIZATION OF THE OFFICIAL STATEMENT

This Official Statement has been approved as to form and content and the use thereof in the offering of the 2007A Notes 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 2007A Notes, 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

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APPENDIX A

City of San Antonio, Texas
General Demographic and Economic Information

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APPENDIX A

CITY OF SAN ANTONIO
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

Population and Location

The Census 2000, prepared by the United States Census Bureau ("U.S. Census Bureau"), found a City population of 1,144,646. The City's Department of Planning and Community Development estimated the City's population to be 1,320,100 at March 1, 2007. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the seventh largest in the United States.

The City is the county seat of Bexar County, which had a population of 1,392,931 according to the Census 2000. The City's Department of Planning and Community Development estimated Bexar County's population to be 1,610,900 at March 1, 2007. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the United States ("U.S")/Mexico border cities of Del Rio, Eagle Pass, and Laredo, respectively.

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

Year	City of San Antonio	Bexar County	San Antonio MSA
1920	161,379	202,096	238,639
1930	231,543	292,533	333,442
1940	253,854	338,176	376,093
1950	408,442	500,460	542,209
1960	587,718	687,151	736,066
1970	654,153	830,460	888,179
1980	786,023	988,971	1,088,881
1990	935,933	1,185,394	1,324,749
2000	1,144,646	1,392,931	1,711,703[1]

[1] As of June 2003, the 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 eight-county area.)

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

Area and Topography

The area of the City has increased through numerous annexations, and now contains approximately 510 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 472.66 square miles (full purpose annexations only) or 510 square miles (both full purpose and limited purpose annexations), and has a net taxable assessed valuation of $65.996 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. As of October 2007, the City is engaged in growth management studies which identify adjacent areas in Bexar County that would be best served through the adoption of a new City three-year annexation plan.

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).

In 2006, City Council annexed the following areas for full purpose annexation: Southside Study Area Two includes 3,664 acres; Southside Study Area Three includes 9,796 acres; and Culebra/Loop 1604 includes 38 acres. These annexations added 13,498 acres or 21.09 square miles to the City. In 2007, City Council engaged in the following de-annexations: Southside Study Area Five includes 3,104 acres; Timberwood Park includes 4,345 acres; and the Windsor Park Mall boundary exchange with the City of Windcrest includes 229.13 acres.

Limited Purpose Annexation

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

As a requirement of Section 43.123, Texas Local Government Code, as amended, the City 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 adopted Chapter 1167, Acts of the 76th Legislature, Regular Session, 1999 (the "Annexation Act"), changing the manner in which Texas municipalities 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 Southside limited purpose annexation areas were annexed for full purposes on January 5, 2006. The rest of the Southside areas were annexed under limited purpose status. 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, also known as the Southside Study Area Seven.

Governmental Structure

The City is a Home Rule Municipality that operates pursuant to the Charter of the City of San Antonio City (the "City Charter"), which was adopted on October 2, 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government, whereby subject only to the limitations imposed by the Texas

Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets and determines policies. The City Council is comprised of 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 Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2009. The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

City Charter

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

Services

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

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

Electric and gas services to the San Antonio area are provided by CPS Energy ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 19 generating unit electric system and the gas system that serves the San Antonio area. CPS' operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2006 were $246,084,171 and include an additional transfer of $8,438,363. (See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS" herein.)

Water services are provided by the San Antonio Water System ("SAWS"), San Antonio's municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 15th year of operation as a separate, consolidated entity. SAWS operating and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City's fiscal year ending September 30, 2006 were $10,283,651. (See "SAN ANTONIO WATER SYSTEM" herein.)

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, manufacturing, information security, financial services, telecommunications, telemarketing, insurance, and oil and gas refining. Support for these economic activities is demonstrated by the City's commitment to its on-going infrastructure improvements and development and its dedicated work force. Total employment in the San Antonio MSA for August 2007 was 891,260, which is 1,849 or 0.21% more jobs than that of August 2006 total of 889,411. 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 annual wage of $52,612. Total wages paid in the industry amounted to $2.66 billion in 2004. As a percent of total employment, the finance industry in San Antonio is the largest of any major metropolitan area in Texas. Compared to the growth in wages and employment in San Antonio overall, the finance industry experienced higher levels of average annual growth in these areas since 2001. Average annual growth in total wages paid by the finance industry for years 2001 through 2004 was 4.5%, compared to 4% for all industries. Average annual growth in employment in the finance industry over this same time period was 2.18%, compared to 0.36% for all other industries.

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

The second largest sector in this industry is banking. Like insurance, San Antonio is also the home of many banking headquarters and regional operation centers such as Frost Bank, Broadway Bank, and USAA Bank. Companies with large regional operations centers in San Antonio include Wachovia, JPMorgan Chase, and Citigroup. 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 at which the company employs about 2,500 people and is continuing to expand.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains one of the largest industries in the San Antonio economy. The industry is diversified, with related industries such as research, pharmaceuticals, and manufacturing contributing approximately the same economic impact as health services. According to the *San Antonio's 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 $15.3 billion in 2006. The industry provided 112,762 jobs, or approximately 14.1 percent of the City's total employment. The healthcare and bioscience industry's annual payroll in 2006 approached $4.4 billion. The 2006 average annual wage of San Antonio workers was $36,699, compared to $39,267 for healthcare and bioscience employees. These 2006 economic impact figures represent growth of 7.7 percent over the previous year, or approximately $1.1 billion.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has ten major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over $2.859 billion as of January 2007. Approximately 26,784 Medical Center employees provided care for over 4.7 million outpatients and over 103,877 inpatients. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represents approximately $2.154 billion, which is a $265 million increase in 2006 over the previous year. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects planned for the years 2008 through 2013 total approximately $640 million.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the "UTHSC") with its five professional schools awarding more than 63 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UTHSC has over 2 million square feet of education, research, treatment, and administrative facilities with a faculty and staff of approximately 5,000. The UTHSC oversees the federally-funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. Another UTHSC South Texas campus is located in Laredo.

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

Military Health Care. San Antonio 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 1.5 million square foot facility at Fort Sam Houston U.S. Army Base, providing health care to nearly 640,000 military personnel and their families annually. BAMC is a Level-one trauma center (the only one in the U. S. Army medical care system) and contains the world-renowned Institute of Surgical Research Burn Center. BAMC also conducts bone marrow transplants in addition to more than 600 ongoing research studies.

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

The San Antonio Military Medical Center ("SAMMC") was established as a result of the Base Realignment and Closure ("BRAC 2005") which combined Wilford Hall and BAMC. Wilford Hall was renamed SAMMC South and BAMC was renamed SAMMC North. SAMMC South will transfer its Level-One trauma facility to SAMMC North which will double SAMMC North's trauma and burn capabilities. SAMMC South will receive outpatient missions from SAMMC North and will become an outpatient facility.

BRAC 2005 actions will have a major positive impact on military medicine in San Antonio resulting in $1.6 billion in construction and the addition of 11,500 personnel in San Antonio in 2011. Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston. As a result of BRAC 2005, all military combat medic training, Army, Air Force, Navy, Marines and Coast Guard will be undertaken at the new Medical Education and Training Campus at Fort Sam Houston.

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

Audie L. Murphy Memorial Veterans Hospital, located in the Medical Center, is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, the Audie L. Murphy Research Services (which is dedicated to medical investigations), and the Frank Tejeda Veterans Administration Outpatient Clinic (which serves veterans located throughout South Texas). The two military medical care facilities and the Veterans Hospital partner in a variety of ways, including clinical research and the provision of medical care to military veterans. This partnership is unique and represents a valuable resource to San Antonio and the nation.

Biomedical Research and Development. Research and development are important areas that strengthen San Antonio's position as an innovator in the biomedical field, with total research economic impact exceeding $1.005 billion annually.

The Texas Research Park (the "Park") is the site for the University of Texas Institute of Biotechnology/Department of Molecular Medicine, the Cancer Therapy and Research Center ("CTRC"), and

CTRC's Research Center's Institute for Drug Development, The Southwest Oncology Group, and dozens of new biotechnology-related companies, whose work involves various stages of the very complicated drug development process. The Park has over $140 million invested in its facilities. The Park is owned and operated by the Texas Research and Technology Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation. The Park is also one of five sites throughout the country being considered by the U.S. Department of Homeland Security for the National Bio-Agro Defense Facility. If it is selected as the site, this will result in the construction of a 520,000 square foot facility containing Biosafety Level ("BLS") 3 and 4 laboratories. It is estimated the construction of the facility will cost approximately $450 million. The operations of the facility will result in the creation of 350 jobs with an average annual salary of $125,000.

The Southwest Foundation for Biomedical Research (the "Foundation"), which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the U.S., and is internationally renowned. The Foundation has a full time staff of 70 doctoral level employees, a technical staff of 110, and an administrative and supporting staff of approximately 200 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities. The Foundation is also home to one of the few BLS 4 labs in the country, and its Genomics Computing is the world's largest computer cluster devoted to statistical genetic analysis.

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

The University of Texas at San Antonio ("UTSA") houses the Cajal Neuroscience Research Center, which is funded by $6.3 million in ongoing grants and is tasked with training students in research skills while they perform basic neuroscience research on subjects such as aging and Alzheimer's disease. UTSA is also a partner in Morris K. Udall Centers of Excellence for Parkinson's disease Research which provides research for the causes and treatments of Parkinson's disease and other neurodegenerative disorders.

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

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. A study by the Greater San Antonio Chamber of Commerce found that in 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 per an economic impact study released in 2006. The updated economic impact study is tentatively scheduled in 2008.

In 2006, the City's overall performance for hotel occupancy increased by 0.1%, revenue per available room ("RevPAR") increased by 9.6% and total room nights sold in the destination increased by 1.7%.

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 November 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 a professional basketball team, the San Antonio Spurs.

Conventions. San Antonio is one of the top convention cities in the country. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows both overall city performance as well as convention activity booked by the San Antonio Convention & Visitors Bureau for the years indicated:

Calendar Year	Hotel Occupancy [1]	Hotel RevPAR [1]	Room Nights Sold[1]	Convention Attendance[2]	Convention Room Nights [2]	Convention Delegate Expenditures ($ Millions) [2, 3]
1997	62.9%	$50.07	5,691,621	417,492	670,039	$341.9
1998	64.9%	53.01	6,064,659	445,151	724,882	401.0
1999	64.2%	52.91	6,225,808	406,539	678,014	366.2
2000	64.7%	55.34	6,549,812	389,448	696,215	350.8
2001	62.7%	54.10	6,486,944	419,970	712,189	378.3
2002	63.9%	55.42	6,741,011	483,452	693,921	435.5
2003	63.8%	53.26	6,903,131	429,539	613,747	387.0
2004	64.6%	55.11	7,022,152	491,287	621,640	510.5
2005	69.1%	62.36	7,569,655	503,601	699,932	523.3
2006	69.2%	68.38	7,699,411	467,426	736,659	485.8

[1] Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code report dated March 21, 2007.
[2] Reflects only those conventions booked by the Convention and Visitors Bureau.
[3] For the year 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the Destination Marketing Association International (DMAI), formerly 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 $1,039.20 per convention and trade show delegate, according to a Veris Consulting, LLC study for the DMAI.
Source: City of San Antonio, Convention and Visitors Bureau.

Military Industry

The military represents a principal component of the City's economy providing an annual economic impact for the City of over $5 billion. Three major military installations are currently located in Bexar County, including Lackland Air Force Base ("Lackland AFB"), Fort Sam Houston Army Base ("Fort Sam"), and Randolph Air Force Base ("Randolph AFB"). In addition, the property of Brooks Air Force Base ("Brooks AFB"), a fourth major military installation, was transferred from the 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 the Port Authority of San Antonio, which is the former Kelly Air Force Base that was closed in 2001.

Port Authority of San Antonio. On July 13, 2001, Kelly Air Force Base ("Kelly AFB") officially closed and the land and facilities were transferred to the Greater Kelly Development Authority ("GKDA"), a City Council-created organization responsible for overseeing the redevelopment of the base into a business and industrial park. The business park is now known as the Port Authority of San Antonio. The Port Authority of San Antonio has developed a rail port for direct international rail operations, including inland port distribution with the Port of Corpus Christi, and continues to work on establishing international air cargo operations and the expansion and addition of new tenants.

As of December 2005, there were over 60 tenants employing over 12,469 people with an average annual salary of over $38,000 and a total economic impact of $2.76 billion per year. Major commercial employers at the Port Authority of San Antonio include Boeing, Lockheed Martin, General Electric, General Dynamics, Standard Aero, Pratt & Whitney, Chromalloy, Gore Design Completions, and EG&G.

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

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 the Port Authority of San Antonio. GKDA's development plan forecasts $336 million of new construction for buildings and infrastructure over the next five years. The Port Authority of San Antonio'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 BRAC 2005 recommendations. Despite the BRAC 2005 decision, Brooks City-Base is continuing its goal of sustainability by creating a Tax Increment Reinvestment Zone ("TIRZ"). The TIRZ has been established and revenues are flowing but a development agreement has not been approved 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 two million square feet of current total space including lab, office, and light industrial space.

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

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

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

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

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

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

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

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

Fort Sam and Lackland AFB. Fort Sam is engaged in military-community partnership initiatives to help reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the U.S. Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center and two other buildings at Fort Sam Houston. 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 Houston, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. The Army negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the newly renovated historic facilities in the summer of 2004. The continued success of this unique public-private partnership at Fort Sam is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP.

This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army intends to extend the public-private partnership initiative to include other properties at Fort Sam Houston currently available for redevelopment.

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

San Antonio is also home to the National Trauma Institute ("NTI"), a collaborative military-civilian trauma institute involving BAMC, Wilford Hall, University Hospital, the UTHSC, and the U.S. Army Institute of Surgical Research. The NTI coordinates resources from the institutions to most effectively treat the trauma victims and their families. The NTI received $1 million in funding from Congressional grants in FY 2007 and is expected to receive $2 million in FY 2008.

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

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

Other Major Industries

Aerospace. The aerospace industry's annual economic impact to the City is about $3.3 billion. This industry provides approximately 9,535 jobs, with employees earning total annual wages of over $406 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, Port Authority of San Antonio, Randolph AFB, Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta Airlines, Continental Airlines, FedEx, UPS, and others. The industry in San Antonio is diversified with continued growth in air passenger service, air cargo, maintenance, repair, overhaul, and general aviation.

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

Telecommunications Industry. San Antonio became the headquarters for AT&T, Inc. ("AT&T") after SBC Communications, Inc. acquired the New Jersey-based company for $16 billion and took its name in 2005. The 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. AT&T has 303,670 employees worldwide as of November 2007.

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

Manufacturing Industry. The manufacturing industry 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 250,000 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. Over 70 of these strategies have either been fully implemented or are in the process of being implemented.

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

Growth Indices

San Antonio Electric and Gas Customers

For the Month of December	Electric Customers	Gas Customers
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
2006	662,029	314,409

Source: CPS.

San Antonio Water System Average Customers per Fiscal Year

Fiscal Year Ended May 31 [1, 2]	Water Customers [3]
1997	273,276
1998	270,897
1999	279,210
2000	285,887
2001	293,299
2002	298,215
2003	303,917
2004	311,556
2005	320,661
2006	331,476

[1] On April 3, 2001, the SAWS Board of Trustees approved the changing of SAWS' fiscal year from a year-end of May 31 to December 31.
[2] Beginning in year 2001, for the 12 months ending December 31.
[3] Excluding SAWS irrigation customers.
Source: SAWS.

Construction Activity

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

Calendar	Residential Single Family		Residential Multi-Family[1]		Other[2]	
Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
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
2006	7,301	890,864,655	560	13,028,440	19,447	1,985,686,296

[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				
	2006	2005	2004	2003	2002
Amarillo	$53,770,280	$50,524,792	$48,155,445	$44,581,868	$44,201,183
Arlington	77,179,657	61,983,154	49,344,578	46,483,314	42,493,256
Austin	133,503,393	118,853,520	112,515,478	105,044,871	110,208,923
Dallas	217,223,165	199,585,955	192,972,586	184,263,151	192,542,321
El Paso	60,737,389	54,217,823	51,461,838	48,949,656	47,465,776
Fort Worth	92,739,620	83,754,760	76,202,528	72,772,964	72,632,487
Houston	440,687,609	380,871,932	355,616,488	325,284,697	334,122,179
Irving	45,604,794	41,573,304	37,719,779	36,584,559	38,810,594
Plano	62,015,005	53,036,662	49,453,998	46,876,867	45,309,249
SAN ANTONIO	195,966,662	161,951,337	157,284,972	152,360,840	153,207,656

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 289,346 encompassing 62 high schools, 81 middle/junior high schools, and 264 elementary schools as of October 2006. There are an additional 26 charter school districts with 53 open enrollment charter schools at all grade levels. In addition, Bexar County has 90 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect.

The six largest accredited and degree-granting universities, which include a medical school, a dental school, a law school, and five public community colleges, had combined enrollments of 99,373 for Fall 2006.

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 August 2007, as compared to the prior periods of July 2007 and August 2006.

Employment by Industry

San Antonio MSA[1]	August 2007	July 2007	August 2006
Mining	3,400	3,400	3,200
Construction	48,900	48,900	48,300
Manufacturing	49,400	49,400	48,700
Trade, Transportation, and Utilities	145,500	144,600	143,700
Information	20,300	20,400	20,500
Financial Activities	66,000	65,900	64,200
Professional and Business Services	109,400	109,400	106,600
Educational and Health Services	114,000	112,800	111,700
Leisure and Hospitality	100,700	101,300	98,400
Other Services	29,900	29,900	28,700
Government	141,300	140,500	140,400
Total Nonagricultural	828,800	826,500	814,400

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio MSA, Texas, and the U.S. for the period of August 2007, as compared to the prior periods of July 2007 and August 2006.

Unemployment Information *(all estimates are in thousands)*

San Antonio MSA[1]	August 2007	July 2007	August 2006
Civilian Labor Force	928.0	940.6	934.2
Number of Employed	891.3	897.7	889.4
Number of Unemployed	36.7	42.9	44.8
Unemployment Rate %	4.0	4.6	4.8

Texas (Actual)[1]	August 2007	July 2007	August 2006
Civilian Labor Force	11,491.8	11,643.0	11,526.9
Number of Employed	11,016.3	11,089.4	10,946.0
Number of Unemployed	475.5	553.6	580.9
Unemployment Rate %	4.1	4.8	5.0

United States (Actual)[2]	August 2007	July 2007	August 2006
Civilian Labor Force	153,493.0	154,871.0	152,465.0
Number of Employed	146,406.0	147,315.0	145,379.0
Number of Unemployed	7,088.0	7,556.0	7,086.0
Unemployment Rate %	4.6	4.9	4.6

[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.

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San Antonio Electric and Gas Systems

History and Management

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

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

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

The management provisions of the bond ordinances also grant the City Council authority to review CPS Board action with respect to policies adopted relating to research, development, and planning.

In 1997, CPS established a 15 member Citizens Advisory Committee ("CAC") to enhance its relationship with the community and to address the City Council's goals regarding broader community involvement with CPS. The CAC meets monthly and the primary goal of the CAC is to provide recommendations from the community on the operations of CPS for use by the CPS Board and CPS staff. Representing the various sectors of CPS' service area, the CAC encompasses a broad range of customer groups in order to identify their concerns and understand their issues.

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 three wholesale supply agreements have remaining terms ranging from less than one to ten years until expiration, although all of the agreements provide for extensions. Discussions are ongoing with all three entities to renew their respective long-term wholesale power agreements. Additionally, CPS has recently entered into several one-year wholesale supply agreements with other various municipalities and cooperatives. CPS will seek additional opportunities to enter into long-term wholesale electric power agreements in the future. The requirements under the existing and any new wholesale agreements would be firm energy obligations of CPS.

The CPS gas system serves the City and its environs, although there is no certificated CPS gas service area. In Texas, no legislative provision or regulatory procedure exists for certification of natural gas service areas. 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. Of these 28 agreements, 24 expire in 2010; the others expire in 2011, 2017, 2023, and 2024, respectively.

Retail Service Rates

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility. Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over 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 550,000 cubic feet 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 kilowatts 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 became 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 which sets the price for transmission at the system average for ERCOT. CPS' wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule, consistent with provisions in PURA §35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. Pursuant to P.U.C. Docket No. 31540, "Proceeding to Consider Protocols to Implement a Nodal Market in the Electric Reliability Council of Texas Pursuant SUBST. R. 25.501", the PUCT has made substantial progress in evaluating the shift from postage stamp pricing to nodal pricing for transmission transactions. Until the PUCT takes final action on nodal pricing, it will not be possible to predict the effects on CPS' transmission costs or its ability to recover costs from other participants in ERCOT. Additional information on recovery of ERCOT transmission fees is discussed in "CUSTOMER RATES – Governmentally Imposed Fees, Taxes or Payments" and with respect to the transition to the nodal market is discussed in "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Post Senate Bill 7 Wholesale Market Design Developments" herein.

Electric Utility Restructuring in Texas; Senate Bill 7. During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition. This began on January 1, 2002. SB 7 continues 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 non-discriminatory bases. Municipal Utilities and Electric Co-ops which open their service territories ("opt-in to") retail electric competition are not required to, but may, unbundle their electric system components. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Service Area" herein.

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

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

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

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.

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. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Transmission Access and Rate Regulation" herein.

The 80th Texas Legislative Regular Session adjourned on May 28, 2007. While certain legislation was enacted, CPS believes that this legislation will have no material adverse impact on the EG Systems, including its financial and other operations.

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 ("NO_x") from such units were reduced by 50% from 1997 levels, beginning May 1, 2003. These emissions have been reported on a yearly basis and CPS has met the requirements of its NO_x cap for the applicable units for the past three compliance years. CPS has final Electric Generating Facility ("EGF") State permits from the TCEQ for its four older electric generating plant sites, comprising of 11 gas-fired units. CPS may require future additional expenditures for emission control technology.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation, Chapter 117, is directed at all units, including CPS' coal plants. These regulations required a 50% reduction in NO_x 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 NO_x emission limitations than what is required under Chapter 117 at the Calaveras Lake site once the JKS 2 unit comes on line. The final Clean Air Interstate Rule has imposed even more NO_x restrictions on CPS power plants. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission limits 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 its various customer groups and the City. On August 22, 2005, the Board approved a new strategic plan, developed by a cross-functional team. The plan built on the CPS mission, vision, and core values as well as long-term goals adopted in 2004 as part of the Vision 2020 process. The strategic plan has evolved to formulate plans for its wholesale, retail, transmission and distribution, gas, and shared services business units. Each plan will be the responsibility of the business unit and will focus on market tactics, organizational development, business information, process improvement, legal/regulatory issues, and financial accomplishment. The senior executive for each business unit has accountability for development and delivery of the plan.

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. An oversight team, appointed by senior management, ensures consistency with Vision 2020 and directs the resolution of cross-business unit issues.

Debt and Asset Management Program. CPS has developed a debt and asset management program (the "Debt Management Program") for the purposes of lowering the debt component of energy costs, maximizing the effective use of cash and cash equivalent assets, and enhancing financial flexibility. An important part of the Debt Management Program is debt restructuring through the prudent employment of variable rate debt and possible interest rate swap contracts. 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 as of May 19, 2005, CPS has a 40.0% interest in STP's two nuclear generating units. The nuclear units supplied 38% of the electric system load during fiscal year 2006 - 07.

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" herein).

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

	Ownership Effective February 2, 2006	
Participants	%	MW
NRG Energy	44.0	1,159.6
CPS	40.0	1,054.2
City of Austin-Austin Energy	16.0	421.7
	100.0	2,635.5

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, 2007, the STP Units 1 and 2 operated at approximately 93.1% and 102.5% of net capacities, respectively. Unit 1 completed a normal refueling outage in the fall of 2006 which included replacement of all three low pressure turbines. Unit 2 completed a normal refueling outage in the spring of 2007 in which all three of its low pressure turbines were replaced. The replacement of low pressure turbines and other plant upgrades during these outages improved plant efficiency and yielded an average increase in electrical output of approximately 68 MW in each unit.

Qualified Scheduling Entity. CPS operates as an ERCOT Level 4 Qualified Scheduling Entity ("QSE") representing all of CPS' assets and load. The communication with ERCOT and the CPS power plants is monitored and dispatched 24 hours per day/365 days a year. Functions are provided from the Energy Market Center housed

within the main office. Backup facilities have also been created. QSE functions include load forecasting, day ahead and real time scheduling of load, generation and bilateral transactions, generator unit commitment and dispatch, communications, invoicing and settlement.

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 kilovolts ("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 341 miles of three-phase equivalent distribution lines, 84 miles of three-phase Downtown Network distribution lines, and 4,200 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems. At January 31, 2007, the number of street lights in service was 70,845. The vast majority of the lights are high-pressure, sodium vapor units.

Gas System

Supply Pressure System. The supply pressure system consists of a network of approximately 200 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 pounds per square inch gauge ("psig") and 274 psig, and supplies gas to 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 4,740 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, 2007, CPS adopted the provisions of the GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and GASB Technical Bulletin 2006-01, Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Provisions of Medicare Part D.

Other than the aforementioned changes, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ending January 31, 2007.

Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2007.

Recent Financial Transactions

On January 10, 2007, CPS issued $128,845,000 in tax-exempt revenue refunding bonds. The bond proceeds were used on February 9, 2007 to refund taxable bonds. The refunding transaction resulted in net present value debt service savings of $6,700,000, or approximately 5.4% of the par amount of the bonds refunded.

On May 23, 2007, CPS issued $449,410,000 in revenue and refunding bonds. A portion was used to partially refund higher cost debt and the remaining bond proceeds will be used to finance costs associated with constructing capital improvements of the EG Systems.

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

City Public Service Historical Net Revenues and Coverage[1]

	Fiscal Years Ended January 31, (Dollars in Thousands)				
	2003	2004	2005	2006	2007
Gross Revenues[2]	$ 1,271,656	$ 1,526,904	$1,473,254	$1,754,927	$1,822,230
Maintenance & Operating Expenses	740,161	942,471	882,508	1,057,035	1,103,128
Available For Debt Service	$ 531,495	$ 584,433	$ 590,746	$ 697,892	$ 719,102
Actual Principal and Interest Requirements:					
Senior Lien Obligations[3]	$ 211,831	$ 230,250	$ 245,984	$ 256,442	$ 271,931
Junior Lien Obligations[4]	$ 0	$ 2,111	$ 4,386	$ 10,964	$ 15,006
Actual Coverage-Senior Lien	2.51x	2.54x	2.40x	2.72x	2.64x
Actual-Senior and Junior Lien	2.51x	2.52x	2.36x	2.61x	2.51x

[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") into a single, unified system consisting of the former City departments comprising the waterworks, wastewater, and water reuse systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a stormwater system and any other water related system to the extent permitted by law.

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

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

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

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.6 million residents. SAWS employs approximately 1,600 personnel and maintains over 9,000 miles of water and sewer mains. The tables that follow show historical water consumption and water consumption by class for the fiscal years indicated.

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Historical Water Consumption (Million Gallons) [1]

Fiscal Year Ended	Daily Average	Peak Day	Peak Month	Metered Usage	Metered Water Revenue
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
12/31/2006	182	269	July	57,724	$110,219,280

[1] Unaudited.
Source: SAWS.

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

	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002
Residential	33,374	31,114	27,173	27,760	28,372
Commercial	13,379	12,991	11,746	11,730	11,942
Apartment	8,102	8,004	7,663	7,794	7,791
Industrial	2,133	2,122	2,089	2,473	2,696
Wholesale	623	121	99	136	173
Municipal	113	652	596	683	876
	57,724	55,005	49,366	50,576	51,850

[1] Unaudited.
Source: SAWS.

SAWS System

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

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

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS' waterworks system currently extends over approximately 620 square miles, making it the largest water purveyor in Bexar County. SAWS serves more than 80% of the water utility customers in Bexar County and provides potable water service on average to approximately 331,476 customers, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 24 elevated storage tanks and 39 ground storage reservoirs, of which 13 act as both, with combined storage capacities of 166 million gallons. As of 2006, the waterworks system had in place 4,525 miles of

distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between six and 12 inches), and 23,964 fire hydrants distributed evenly throughout the SAWS service area.

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

SAWS serves the residents of the City, 18 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 517 square miles. SAWS also coordinates with the City for wastewater planning for the City's total planning area, 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 368,401 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 4,739 miles of mains and three major treatment plants, Dos Rios, Leon Creek, and Medio Creek. All three plants are conventional activated sludge facilities. SAWS holds Texas Pollutant Discharge Elimination System wastewater discharge permits, issued by the TCEQ for a combined treatment capacity of 225.7 million gallons per day. The permitted flows from the wastewater system's three regional treatment plants represent approximately 98% of the municipal discharges within the ETJ.

The System has applied to the TCEQ to expand its Certificates of Convenience and Necessity ("CCN") or service areas for water and sewer from the existing boundaries to the ETJ boundary of the City of San Antonio. When the TCEQ grants a CCN to a water or sewer purveyor, it provides that purveyor with a monopoly for retail service. By expanding the CCN's to the ETJ, developments needing retail water and sewer service within the ETJ must apply to SAWS. Service can then be provided according to System standards and small, undersized systems can be avoided. The System's CCN application for water covers about 60,000 acres and the application for sewer about 435,000 acres. The expansion of the CCN to the ETJ also supports development regulations for the City. Within the ETJ, the City has certain standards for development. These standards somewhat insure the City that areas developed in the ETJ and then annexed by the City, will already have some City development regulations in place. The applications are currently proceeding through the TCEQ administrative and legal processes.

Recycling Water System. SAWS is permitted to sell Type I (higher quality) recycled water from its wastewater treatment plants and has been doing so since 2000. The recycle system is comprised of two north/south transmission lines and an interconnecting line. 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. Various City facilities, that include the Convention Center and Alamodome, constitute approximately 75% of the downtown system's chilled water and steam annual production requirements. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the Port Authority of San Antonio industrial area. SAWS' chilled water producing capacity places it as one of the largest producers of chilled water in South Texas. SAWS also operates and maintains the thermal energy plants at Brooks City Base under an agreement with the Brooks Development Authority. Together, chilled water and steam services produced $13,242,594 in revenues in fiscal year 2006.

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

treatment requirements. The City, along with SAWS, has the responsibility, pursuant to the "Authorization to Discharge under the National Pollutant Discharge Elimination System" (the "Permit"), for water quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for fiscal year 2007 is $3,440,547, for which SAWS is reimbursed $3,056,345 from the stormwater utility fee imposed by the City.

Water Supply

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

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

In August 2005, the System's Board of Trustees unanimously approved the 2005 Update. The 2005 Update is a comprehensive review of the assumptions governing population and per capita consumption projections in Bexar County through 2050. The 2005 Update includes an analysis of each water supply alternative available for meeting future needs and demonstrates the System's commitment to increasing the diversification of its water inventory.

Edwards Aquifer

Historically, the City obtained nearly all of its water from the Edwards Aquifer. The Edwards Aquifer lies beneath an area approximately 3,600 square miles in size. Including its recharge zone, it underlies all or part of 13 counties, varying from five to 30 miles in width, and stretching over 175 miles in length, beginning in Brackettville, Kinney County, Texas, in the west and stretching to Kyle, Hays County, Texas, in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it.

Much of the Edwards Aquifer region consists of agricultural land, but it also includes areas of population ranging from communities with only a few hundred residents to the City, which serves as a home for well over one million residents. In 2007, the Edwards Aquifer will supply 93% of the water for municipal, domestic, industrial, commercial, and agricultural needs in the greater San Antonio area. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed by Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

The Edwards Aquifer is recharged by seepage from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern areas. Practically continuous recharge is furnished by spring-fed streams, with stormwater runoff adding additional recharge, as well. The historical annual recharge, from 1934 to the present, to the reservoir is approximately 684,700 acre-feet. The average annual recharge over the last four decades is approximately 797,900 acre-feet. The lowest recorded

recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known as the recharge zone. The recharge dams, or flood-retarding structures, slows floodwaters and allow much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

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

In 2007, the Texas Legislature passed Senate Bill 3 on the final day of the 80th legislative session, establishing a cap on annual pumping from the Edwards Aquifer of 572,000 acre-feet and placing restrictions on supply availability during drought periods. The System currently has access to 40% of this figure. Senate Bill 3 incorporates restrictions on supply availability during drought periods into state statute, thus making these restrictions state law. In addition, to support ongoing efforts to identify and evaluate methods to protect threatened and endangered species, the Texas Legislature prescribed in detail a Recovery Implementation Plan ("RIP") for the Edwards Aquifer region. The RIP, which will be undertaken in coordination with U.S. Fish and Wildlife Service, is intended to help the region meet the needs of endangered species, while respecting and protecting the legal rights of water users.

Edwards Aquifer Recharge Initiatives

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

The Nueces, San Antonio, and Guadalupe River Basins are favorable for development of recharge projects. Of the three basins, the Nueces Basin is the most prolific in terms of recharge effectiveness. With assistance from the U.S. Army Corps of Engineers, 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. This project will cost an estimated $84.2 million in capital cost and $940,000 in annual operation and maintenance.

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

Oliver Ranch and Bulverde Sneckner Ranch ("BSR") Projects

The System reached a milestone in February 2002 with the introduction of the first non-Edwards drinking water supply from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in northern Bexar County. The System has contracted for delivery of approximately 5,000-acre feet per year of non-Edwards Aquifer groundwater 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 on 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. In 2007, anticipated production from the Oliver Ranch and BSR projects is 3,500 acre-feet.

Western Canyon Project

The System, the San Antonio River Authority ("SARA"), and Guadalupe-Blanco River Authority ("GBRA") are working together on the Western Canyon Project for the delivery of water from Canyon Lake. GBRA is required under the contract to divert, treat, and deliver the water to a certain point into the System's delivery system. The System will initially receive approximately 8,500 acre-feet per year for service to northern Bexar County. Over time, this amount will decline to 3,950 acre-feet, as GBRA's in-district participants in the project complete infrastructure necessary to enable them to obtain supplies.

The System began receiving water from this project in April 2006. In 2006, the System received 4,957 acre-feet of supplies from this project. In 2007, the System will produce approximately 6,800 acre-feet of supplies from this project, of the 10,500 acre-feet of inventory available. Pursuant to the terms of the contract with GBRA, this contract will terminate in 2037, with an option to extend until 2077 under new payment terms.

Brackish Groundwater Desalination Project

The 2005 Update includes a recommendation that the System develop a brackish groundwater desalination project. This project involves the development of a moderately sized (up to 22,000 acre-feet) water supply facility. Such a project is well suited for the south central Texas region, which contains more than 4,000,000 acre-feet of brackish groundwater. Hydrologic research on the sustainability of supply and water quality parameters began in December 2005.

In 2007, the System continued its hydrogeologic evaluation on four (4) test sites in the saline portions of the Edwards and Wilcox Aquifers in Atascosa and Bexar Counties. The hydrogeologic evaluation involves the construction of test and monitoring wells that will provide an indication of the firm supply of water available from the project and the impacts of the System's production on the Edwards-Trinity and Carrizo-Wilcox Aquifer systems. The data obtained from the tests and monitoring wells will support the evaluation of various pre-treatment, treatment, and concentrate management strategies.

This technical analysis is being accompanied by an evaluation of the potential benefit and feasibility of applying innovative procurement methods, such as Design Build, Design Build Operate, and Design Build Own Operate Transfer strategies. In 2007, the Texas Legislature passed House Bill ("HB") 1886, which authorized design build for water and wastewater projects.

Carrizo Aquifer Projects

In 2007, the System continued the development of plans to deliver and treat up to 56,200 acre-feet of groundwater from the Carrizo Aquifer in Gonzales and Wilson Counties. The project will be developed in phases. The delivery of water from the first phase 22,600 acre-feet is planned for 2011 - 2012. Phase I and Phase II have an estimated capital cost of approximately $228.3 million. If all three phases of the project are completed, the combined capital costs are approximately $406.6 million.

Development of the Carrizo Aquifer projects depends upon issuance of permits for groundwater drilling, production, and transport from local groundwater conservation districts. The System submitted an initial, consolidated permit application, for production and transportation, for 11,687 acre-feet to the Gonzales County Underground Water Conservation District (the "GCUWD") in June 2006. Pursuant to the GCUWD rules, production permits have a term of two years, after which a new permit may be issued upon application, subject to the notice and hearing requirements applicable to permit applications. The applications were declared administratively complete on July 12, 2006 and contested by several parties on October 10, 2006. In 2007, the System has held additional public hearings as part of the contested case hearing process and is also preparing for mediation with those parties contesting the permit applications.

Lower Colorado River Authority Project

The Lower Colorado River Authority-San Antonio Water System ("LCRA-SAWS") Water Project would conserve and make available up to 150,000 acre-feet of surface water supplies for San Antonio in 2020. In February

2001, a Memorandum of Agreement with LCRA outlining the terms for a future binding contract was signed. That same year, legislation was passed to authorize LCRA to sell water outside its statutory boundary to the System. The System and LCRA 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 fourth year of an estimated seven-year study period to assess the environmental, engineering, and cost impacts. The estimated project cost, including study period costs, design, and construction, is approximately $2.3 billion.

Throughout the study-period, the System and LCRA evaluate the Project's viability on an ongoing basis. Specific legislative criteria (Texas Water Code § 222.030) must be met before any water is transferred from the Colorado basin. Among other requirements, legislation mandates that the project must provide for beneficial inflows sufficient to maintain the ecologic health and productivity of the Matagorda Bay System and provide for a broad, public and scientific review process. In 2007, research activities focused on development of bay health criteria, project permitting, and the identification of a preferred alternative site for the location of an off-channel storage facility.

Bexar County Aquifer Storage and Recovery

An Aquifer Storage and Recovery ("ASR") project involves injecting ground or surface water into an aquifer, storing it and later retrieving it for use. Essentially, it accomplishes storage that is traditionally provided through surface water reservoirs. The ASR is primarily designed to optimize use of water from the Edwards Aquifer and may be expanded to inject water from the Carrizo Aquifer projects. In December 2002, the Evergreen Underground Water Conservation District and the System approved an Aquifer Protection and Management Agreement. This agreement ensures operation of the ASR site if the property is annexed into the district, manages groundwater production, and commits the System to monitoring water levels and mitigation of potential negative impacts.

The System began study of an ASR project in 1996, acquired 3,200 acres in southern Bexar County and has completed construction of Phase I of the $125 million ASR project and the approximately $90 million "integration facilities" to transport this water into the System's distribution system. Phase I of the project was dedicated on June 18, 2004.

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

In 2007, the System continued capital improvements to complete Phase II of the project, which involves well field expansion through the completion of thirteen additional wells, the addition of a 7.5 million gallon tank, and the addition of a 20 million gallon per day pump, among other improvements. The Phase II expansion is on schedule for completion in January 2008. While underway, the System has continued to store water in the ASR. At the end of 2007, the total storage volume is estimated to be 41,000 acre-feet.

Water Reuse Program

The System owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside the System's water and wastewater service area. The System has developed a water reuse program utilizing the wastewater stream. Currently, approximately 23,000 acre-feet are under contractual commitment and 12,600 acre-feet are on-line. The system will deliver up to 35,000 acre feet per year of reuse water for non-potable water uses including golf courses and industrial uses that are currently being supplied from the Edwards Aquifer. This represents approximately 20% of the System's current usage. Reuse water will be delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 40,000 acre-feet per year used by CPS, this is the largest reuse water project in the country. The System has a contract with CPS through 2030 for provision of such reused water. The revenues derived from the CPS contract have been excluded from the calculation of Gross Revenues, and are not included in any transfers to the City.

Conservation

Beginning in 1994, the System progressively implemented aggressive water conservation programs, which have reduced total per capita water production and use by 43.2%, going from 213 gallons-per–capita-per day (gpcd) in 1994 to approximately 121 gpcd in 2004. Given these accomplishments, the 2005 Update to the System's fifty-year Water Resource Plan set a new goal for conservation that includes the provision to reduce per 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 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.

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

Indoor Residential Conservation

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

> "Toilet Retrofits," which involve the distribution of high-efficiency toilets, provide a substantial water savings for San Antonio. The System sponsors activities like the "Season to Save Community Challenge," which tests the idea that non-profit organizations are effective at motivating ratepayers to participate in resource management programs. In 2007, the System established a goal of distributing 16,900 high-efficiency toilets. The System is currently on pace to distribute 20,000 high-efficiency toilets by the end of the year.
>
> "Plumbers to People" provides leak repairs and retrofits to qualified low-income homeowner customers. The System, in cooperation with the City's Community Action Division, qualifies applicants based on the current Federal Assistance Guidelines. Only leaks that result in a loss of potable water are eligible for repair under the program. Water Conservation is achieved by quickly repairing leaks that would otherwise continue due to the cost of repairs. Analysis of program costs and water savings indicate that this affordability program is also one of our most effective at conserving water at a reasonable cost per unit.

Outdoor Residential Conservation

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

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

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

Commercial and Industrial Programs

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

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

"Restaurant Certification Program" is the result of the System working with the San Antonio Restaurant Association. Participating restaurants receive replacement spray valves for their kitchen, have older toilets replaced, and learn about other ways they can reduce their water bills. The program has been very popular with restaurants with 1,200 obtaining certification during 2004.

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

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

Water Quality

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

Research on the Edwards Aquifer is conducted as part of the Edwards Aquifer Optimization program. This is a comprehensive program that identifies and evaluates technical options to increase available yield from the Edwards Aquifer and to attempt to use its storage capacity more efficiently. In 2007, the System continued its investigative studies on the saline portions of the Edwards Aquifer. The goal of these studies is to gain a better

understanding of the hydrogeologic framework, chemical and hydraulic characteristics, and ground water flowpaths of the freshwater-saline water interface of the Edwards Aquifer. At the end of 2007, the System is scheduled to commence a San Marcos flow path study. The goal of this study is to define and characterize sources for recharge and local flowpaths to San Marcos Springs. In addition, the study will determine local influences and contributions to the San Marcos Springs from the Edwards Aquifer, Trinity Aquifer, and neighboring surface water bodies.

In October 2000, the City Council created a permanent funding mechanism (The "Water Supply Fee") to be used for water supply development and water quality projection. The Water Supply Fee is assessed on all potable water service for water usage in every instance of service for each month or fraction thereof.

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

Year	Approved Incremental Charge Per 100 Gallons	Total Approved Charge Per 100 Gallons	Actual Assessment
2001	$0.0358	$0.0358	$0.0358
2002	0.0350	0.0708	0.0708
2003	0.0230	0.0938	0.0844
2004	0.0190	0.1128	0.1100
2005	0.0250	0.1378	0.1378

Source: SAWS, approved by City Council.

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

Capital Improvement Plan

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with tax-exempt commercial paper, impact fees, system revenues, and future bond issues. SAWS budgeted the following capital improvement projects during calendar year 2007:

- $39 million for the wastewater treatment program to repair, replace, or upgrade treatment facilities;
- $12 million for the wastewater collection program to fix deteriorated components of the collection system;
- $25 million to replace sewer and water mains;
- $50 million for the governmental replacement and relocation program;
- $6 million to construct new production facilities; and
- $98 million for water supply development, water treatment, and water transmission projects for new sources of water.

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

	Fiscal Year Ended December 31,					
	2007	2008	2009	2010	2011	Total
Water Supply	$98,989,814	$101,640,000	$88,106,700	$98,734,900	$32,193,700	$1,419,665,114
Water Delivery	68,668,016	67,981,684	69,681,226	71,423,257	73,208,838	350,963,021
Wastewater	86,131,291	91,346,110	93,629,762	95,970,507	98,369,770	465,447,441
Heating and Cooling	1,058,000	800,000	900,000	300,000	750,000	3,808,000
Total	$ 254,847,121	$ 261,767,794	$ 252,317,689	$ 266,428,664	$ 204,522,308	$ 1,239,883,576

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,					
	2007	2008	2009	2010	2011	Total
Revenues	$30,257,821	$43,801,654	$41,658,279	$49,607,999	$50,446,849	$215,772,602
Impact Fees	73,694,301	50,057,992	51,559,732	53,106,524	54,699,720	283,118,269
Debt Proceeds	150,894,999	167,908,148	159,099,678	163,714,141	99,375,739	740,992,705
Total	$254,847,121	$261,767,794	$252,317,689	$266,428,664	$204,522,308	$1,239,883,576

Source: SAWS.

Recent Financial Transactions

On January 23, 2007, the System issued $8,070,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007 through the Texas Water Development Board. The bonds were sold under the Federal Cross Cutter Program with interest rates ranging from 1.70% to 2.40%. The proceeds from the sale of the bonds were used to: (i) finance capital improvement projects which qualify under the Texas Water Development Board program; (ii) refund $550,000 in outstanding commercial paper notes; and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On January 23, 2007, the System issued $35,375,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007A through the Texas Water Development Board. The bonds were sold under the State Revolving Fund Program with interest rates ranging from 2.70% to 3.40%. The proceeds from the sale of the bonds were used to: (i) finance capital improvement projects which qualify under the Texas Water Development Board program; (ii) refund $14,200,000 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 and pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On February 22, 2007, the System issued $311,160,000 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2007. The proceeds from the sale of the Bonds were used to: (i) refund $49,950,000 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 1997 (Series 1997 Bonds); (ii) refund $237,610,000 in outstanding commercial paper notes; (iii) advance refund $25,775,000 City of San Antonio Water System Revenue Bonds, Series 2002-A (Series 2002-A Bonds); and (iv) pay the cost of issuing the bonds. In addition to the bond proceeds used to refund $49,950,000 Series 1997 Bonds, the System defeased $25,000,000 of the Series 1997 Bonds with "City of San Antonio, Texas Water System Renewal and Replacement Fund". The refunding and defeasement of the Series 1997 Bonds resulted in a reduction of the System's total debt service payments over the next 9 years of approximately $8.9 million and the System obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $3.1 million. The advance refunding of the Series 2002-A Bonds resulted in the reduction of the System's total debt service payments over the next 11 years of approximately $2.0 million and provided an economic gain of approximately $1.5 million.

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

	Fiscal Year Ended December 31, 2006	Fiscal Year Ended December 31, 2005	Fiscal Year Ended December 31, 2004	Fiscal Year Ended December 31, 2003	Fiscal Year Ended December 31, 2002
Revenues					
Water System	$ 104,810,450	$ 93,419,939	$ 72,888,054	$ 65,163,910	$ 58,873,352
Water Supply	118,490,848	108,045,245	78,546,461	76,044,416	76,167,052
Wastewater System	124,689,938	113,333,959	99,224,713	87,683,794	89,312,338
Chilled Water and Steam	13,242,594	13,370,759	12,027,528	12,193,646	10,871,599
Non Operating Revenues	20,818,616	11,167,861	7,060,677	7,308,979	7,547,353
Adjustments for Pledged Revenues	(7,221,456)	(6,668,991)	(5,437,557)	(5,591,341)	(7,583,370)
Total Revenues	$374,830,990	$332,668,772	$264,309,876	$242,803,404	$235,188,324
Maintenance and Operating Expenses	$179,842,724	$173,489,890	$153,859,964	$152,742,554	$138,212,615
Net Available for Debt Service	$194,988,266	$159,178,882	$110,449,912	$ 90,060,850	$ 96,975,709
Maximum Annual Debt Service Requirements - Total Debt[2]	$ 91,174,993	$ 94,992,353	$ 84,941,122	$ 76,075,114	$ 66,267,591
Maximum Annual Debt Service Requirements - Senior Lien Debt[2]	$ 78,372,649	$ 78,372,649	$ 67,203,188	$ 61,511,375	$ 61,511,375
Coverage of Total Debt	2.14 X	1.68 X	1.30 X	1.18 X	1.46 X
Coverage of Senior Lien Debt	2.49 X	2.03 X	1.64 X	1.46 X	1.58 X

[1] Unaudited.
[2] 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 freeway and U.S. Highway 281, is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second level gates. Presently, the following domestic air carriers provide service to San Antonio: American, American Eagle, Mesa, Continental, ExpressJet, Delta, Delta Connection/ASA, Delta Connection/Comair, Frontier, Go Jet, Midwest, Northwest, Southwest, United, United Express/SkyWest, and US Airways. Mexicana, Aeromar, Aerolitoral, and Aeroméxico are Mexican airlines that provide passenger service to Mexico.

An Airport Master Plan for the International Airport was completed in 1998 for the purpose of facilitating Airport expansion in anticipation of meeting projected demand. The Airport Master Plan design allows for an increase from 24 to 55 gates. It is estimated that current gate facilities are being used at 100% of capacity (see "THE AIRPORT SYSTEM – Capital Improvement Plan" below).

The International Airport is considered a medium hub facility by the FAA. For the calendar year ended December 31, 2006, the International Airport enplaned approximately 4,002,903 passengers. Airport management has determined that of the Airport's passenger traffic, approximately 88% is origination and destination in nature (which is important because it demonstrates strong travel to and from the City independent from any one airline's hubbing strategies). A variety of services are available to the traveling public from approximately 245 commercial businesses including nine rental car companies which lease facilities at the International Airport and Stinson (as described in more detail below).

Stinson, located on 300 acres approximately 5.2 miles southeast of the City's downtown business district was established in 1915 and is one of the country's first municipally owned airports. It is the second oldest continuously operating airport in the U.S. and is the FAA's designated general aviation reliever airport to International Airport. An Airport Master Plan for Stinson was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the International Airport. The Texas Department of Transportation ("TxDOT") accepted the Master Plan in 2002 and has recommended $16.0 million in grant funding for capital improvements over the next ten to fifteen years. The expansion of Stinson's facilities is also needed to take advantage of new, complementary business opportunities evolving with the synergy between Brooks City-Base, Port of San Antonio, and Stinson. A Targeted Industries Study was completed in 2003 as part of the master planning process. The study helped facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at Stinson.

Capital Improvement Plan

In order to meet future airport capacity requirements, the Airport Master Plan for the International Airport was completed in 1998. This plan made recommendations to expand terminal and airfield capacity in an orderly manner to coincide with projected growth in passenger volume and aircraft operations. In fiscal year 2002, the City commenced implementation of a ten-year "Capital Improvement Plan" (the "CIP"). As part of the overall CIP, the fiscal year 2007 through fiscal year 2012 Capital Plan, including the Air Transportation Program, commenced in 2006. Included in the program are projects planned or currently under construction at the Airport and Stinson. The six-year program totals $609 million. The projects are consistent with the Airport Master Plan and are necessary to accommodate the expected continued growth in the aircraft and passenger activity at the Airport and to replace or rehabilitate certain facilities and equipment at the Airport and Stinson. The CIP is scheduled to conclude in fiscal year 2012; however, due to the terrorist attacks of September 11, 2001, the timing of some projects has been adjusted, and the ultimate completion of the CIP is expected to extend beyond that date. The CIP addresses both terminal and airfield improvements, including the removal of the existing Terminal 2, parts of which are over 50

years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement to a runway along with supporting taxiways and aircraft apron. Over the next five years, the CIP addresses primarily terminal-related improvements, parking, roadway improvements, and airfield improvements. The anticipated sources of funding for the Airport's CIP per the City's Adopted Capital Budget for fiscal years 2007 through 2012 are as follows:

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

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

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

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

The FAA issued a "Record of Decision" on August 29, 2001 approving the City's initial PFC application. The City, as the owner and operator of the Airport, received authority to impose a $3.00 PFC and to collect, in the aggregate, approximately $102,500,000 in PFC Revenues. On February 15, 2005, the FAA approved an application amendment increasing the PFC funding by a net amount of $13,893,537. On February 22, 2005, the FAA approved the City's application for an additional $50,682,244 in PFC collections to be used for 11 new projects. On June 26, 2007, the FAA approved two amendments to approved applications increasing the PFC funding by a net amount of $121,611,491 for two projects and $67,621,461 for four projects. Additionally, the FAA approved the increased collection rate from $3.00 to $4.50 effective October 1, 2007.

On October 1, 2007, the City began collecting a $4.50 PFC (less an $0.11 air carrier collection charge) per paying passenger enplaned. A total of approximately $188.8 million in PFC Revenues will be required to provide funding for the projects included in the Airport's CIP. The City has received PFC "impose and use" authority,

meaning that it may impose the PFC and use the resultant PFC Revenues for all projects, contemplated to be completed using Bond proceeds. The estimated PFC collection expiration date is April 1, 2016.

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

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

Terminal Renovations. A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the International Airport. The project, which cost approximately $29 million included a completely new appearance to the building interiors and provided state-of-art terminal amenities. Included in the terminal renovations was complete redevelopment of the concessions area to provide high-quality retail and food establishments offering a mix of regional and national brands at street prices. Concession space was expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets are now at airside locations. In total, 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 $4.8 million in fiscal year 2006. This represented a 55% gain in four years. On a per-boarding passenger basis, concession revenue went from $0.86 in fiscal year 2002 to $1.26 for the fiscal year 2006. Following the Airport's implementation of its new concessions program, it was recognized by the *Airport Revenue News* ("ARN") "Best Concessions Poll." The Airport's concession program was voted for by a panel of judges in the airport category with less than 4 million enplanements. San Antonio won three first place awards over the last two years. The Airport was honored for having the terminal with the "Most Unique Services" and the Best Overall Concessions Program in 2004 and Best Overall Concessions Program in 2005. The publication noted the Airport's high-tech business services, such as high-speed fax and internet, wireless capabilities and conference rooms. The Airport Council International-NA also recognized the International Airport first in the "Best Food and Beverage Program" and second in the "Best Specialty Retail Program" for small airports. In 2006, for the third straight year, the International Airport was recognized by the ARN for the 2006 Best Customer Service Airport-Wide, Most Unique Services, and Best Concession Management Team. In addition, the International Airport concessionaires won in all thirteen of ARN's 2006 Best Concessions Poll categories. The Best Overall Concessions Program award is given to airports with a convenient customer-friendly layout, good visibility, attractive storefronts, and interesting themes.

Terminal Improvements. The terminal expansion project will include a seven-gate Terminal B (expandable up to eight gates) and a five-gate Terminal C (expandable up to eleven gates). Terminal B will replace Terminal 2, which is obsolete and will be demolished to make way for Terminal C, as well as further terminal development. Terminal C will be constructed in phases, as passenger growth and demand for gate facilities occur. Site work for the new Terminal B and the groundbreaking is anticipated to occur in the spring of 2008. The present Terminal 1 will be redesignated as Terminal A. Terminal C plans are in the development stages.

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

completion of these projects. Airport Master Plan projects included as part of the EIS include extension of Runway 3/21 and Taxiways N and Q; reconstruction and upgrade of Runway 12L/30R and associated taxiways from general aviation to air carrier dimensions of approximately 8,500 feet by 150 feet; as well as the installation of an instrument landing system. With a determination from the FAA that the Runway 12L/30R project was not yet critical to airfield capacity and that the required length of extension for Runway 3/21 was 1,000 feet rather than 1,500 feet proposed by the Master Plan, the EIS was reclassified as an environmental assessment ("EA") for the remaining work. The final public meeting for the EA was held on August 28, 2007 and a finding of no significant impact was received.

Parking Improvements. The International Airport operates and maintains approximately 5,663 parking spaces and 1,263 employee parking spaces for a total of 6,926 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 exceeded the available supply at 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. Begun in February 2007, a new Long-Term Parking Garage is under construction with partial completion (1,600 spaces) anticipated to occur in December 2007 and the balance of 1,200 spaces available in June 2008.

Cargo Improvements. The International Airport has two designated cargo areas: The West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992 and expanded in 2003. The East Cargo Area is specifically designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics constructed a processing facility in the year 2000. In 2005, UPS expanded its facilities by relocating from the West Cargo area to the East Cargo Area. Additional land has been allocated to accommodate future growth and an expansion of facilities is currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2006 totaled 101,689 tons.

Airport Operations

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

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

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

The passage of the Aviation and Transportation Security Act ("ATSA") in November of 2001, created the Transportation Security Administration ("TSA"). The Department has worked closely with the TSA to forge a new higher level of security for the traveling public. TSA employs about 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 five Explosive Detection Canine teams. The Police Officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in the baggage pickup areas, concourses, parking, cargo, and aircraft. This program is supported by the TSA with reimbursement to the Airport System at $250,000.

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

Stinson continues to experience strong growth in the number of based aircraft and volume of aircraft operations at the airport. Stinson is at 100.0% occupancy rate and has a tenant waiting list for the facilities. Because of its growth, the TxDOT Aviation Division has approved grant funds for various projects at Stinson. To accommodate the demand for services at Stinson, a $4.8 million terminal expansion project will add approximately 24,000 square feet of additional concession, administrative, education, and corporate aviation space to the existing 7,000 square feet terminal building. With Airport System funds, the construction of a new facility is under way, which will give the Airport additional administrative offices, classrooms, retail space and conference rooms to accommodate and attract new business. The Stinson groundbreaking was in May 2006 for the terminal expansion project. The Stinson terminal expansion project is expected to be completed by April 2008. Stinson is currently conducting an environmental assessment for the extension of Runway 9-27. The proposed project would provide a usable runway length of at least 5,000 feet. The additional runway length will allow Stinson to serve additional corporate aircraft under all conditions. The expansion, along with a runway extension and other infrastructure improvements, will allow for the growth of existing tenants as well as create opportunities for new business to locate at Stinson. Palo Alto College will move their Aviation Program to Stinson in the expanded terminal space.

Recent Financial Transactions

On November 16, 2006, the City issued $17,850,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2006," which were delivered on December 13, 2006.

Current Financial Transactions

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

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

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

	Fiscal Year Ended September 30				
	2002	2003	2004	2005	2006
Gross Revenues[1]:	$42,377,654	$43,930,687	$44,729,253	$47,180,691	$56,645,454
Airline Rental Credit	4,468,199	2,612,609	3,486,271	5,323,738	7,988,304
Adjusted Gross Revenues	$46,845,853	$46,543,296	$48,215,524	$52,504,429	$64,633,758
Expenses	(22,296,698)	(25,363,607)	(25,127,534)	(26,411,106)	(29,471,316)
Net Income	$24,549,155	$21,179,689	$23,087,990	$26,093,323	$35,162,442

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

Total Domestic and International Enplaned Passengers - San Antonio International Airport

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

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1997	3,484,141	----	----
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	3,713,792	214,820	6.14
2006	4,002,903	289,111	7.79

Source: City of San Antonio, Department of Aviation.

Total Enplaned and Deplaned International Passengers - San Antonio International Airport

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

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1997	200,965	----	----
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	191,254	31,678	19.85
2005	185,992	(5,262)	(2.76)
2006	199,138	13,146	7.07

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
1997	5,530,247	----	----
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	5,391,301	(167,714)	(3.02)
2004	5,416,555	25,574	0.47
2005	5,642,188	225,633	4.17
2006	5,946,232	304,044	5.39

Source: City of San Antonio, Department of Aviation.

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APPENDIX B

Form of Opinion of Bond Counsel

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FULBRIGHT & JAWORSKI L.L.P.
A REGISTERED LIMITED LIABILITY PARTNERSHIP
300 CONVENT STREET, SUITE 2200
SAN ANTONIO, TEXAS 78205-3792
WWW.FULBRIGHT.COM

TELEPHONE: (210) 224-5575 FACSIMILE: (210) 270-7205

FINAL

IN REGARD to the authorization and issuance of the "City of San Antonio, Texas Tax Notes, Series 2007A" (the *Notes*), dated November 1, 2007, in the aggregate principal amount of $21,270,000 we have reviewed the legality and validity of the issuance thereof by the City of San Antonio, Texas (the *City*). The Notes are issuable in fully registered form only, in denominations of of $5,000 or any integral multiple thereof, and have stated maturities of August 1 in each of the years 2008 through 2012. The Notes are not subject to redemption prior to stated maturity. Interest on the Notes accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance authorizing the issuance of the Notes (the *Ordinance*).

WE HAVE SERVED AS BOND COUNSEL for the City solely to pass upon the legality and validity of the issuance of the Notes under the laws of the State of Texas and with respect to the exclusion of the interest on the Notes from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Notes. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Notes. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Notes has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City in connection with the issuance of the Notes, including the Ordinance; (2) customary certifications and opinions of officials of the City; (3) certificates executed by officers of the City relating to the expected use and investment of proceeds of the Notes and certain other funds of the City and to certain other facts solely within the knowledge and control of the City; and (4) such other documentation, including an examination of the Note executed and delivered initially by the City, which we found to be in due form and properly executed, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. 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, IT IS OUR OPINION that the Notes have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Notes are valid and legally binding obligations of the City enforceable in accordance with the terms and conditions described therein, 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 Notes are payable

from the levy of an ad valorem tax, within the limitations prescribed by law, upon all taxable property in the City.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon the representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Notes, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Notes will be 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 for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Notes will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

WE CALL YOUR ATTENTION TO THE FACT THAT, with respect to our opinion in clause (2) above, interest on all tax-exempt obligations, such as the Notes, 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 mutual fund, a financial asset securitization investment trust, a real estate mortgage investment conduit, or a real estate investment trust. 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.

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 Notes. Ownership of tax-exempt obligations such as the Notes 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 an interest 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.

APPENDIX C

The information contained in Appendix C consists of selected portions of the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2006 selected by the City of San Antonio for inclusion herein, and is not intended to be a complete statement of the City's financial condition. Reference is made to the Comprehensive Annual Financial Report for further information.

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CITY OF SAN ANTONIO

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

June 26, 2007

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, 2006. These financial statements were prepared by the City's Finance Department and audited by the public accounting firms of KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA. As reflected in the Independent Auditors' Report, the City's financial statements are presented fairly in all material respects in accordance with U.S. generally accepted accounting principles. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City.

The Management Discussion and Analysis, (MD&A) beginning on page 1, provides a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter complements the MD&A and should be read in conjunction with it.

The CAFR is presented in three sections.

- 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 audited financial statements (government-wide and fund financial statements) and required supplementary information, MD&A, as well as the Independent Auditors' Report thereon.
- The statistical section consists of selected financial and demographic information presented on a multi-year basis.

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

CITY SERVICES

The City is a home rule city that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two-year terms, limited to two consecutive terms. The City is located in South Central Texas, approximately 75 miles south of the state capital of Austin and serves as the county seat for Bexar County. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including: championship golf courses, theme parks, historical attractions, museums, professional sporting attractions, and a lively performing arts environment.

CITY SERVICES (Continued)

As of September 30, 2006, the City's geographic area was approximately 519 square miles, making it one of the largest cities in the United States of America. The United States Census Bureau cites the City as the second most populated city in the state of Texas and eighth most populated city in the country. The estimated population grew from 1,299,200 in fiscal year 2005 to 1,322,900 in fiscal year 2006, an increase of 1.8%.

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. The City has entities that are considered part of the City's operations but are legally separate entities. The City has seven entities that are presented as blended component units and an additional eight that are discretely presented in the financial statements. For additional details on each of these entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, Note 1, entitled, Summary of Significant Accounting Policies subsection Reporting Entity.

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 in attracting programs to businesses of all sizes. Both government and citizens are actively committed to increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in the City.

The City's healthy economy and positive business climate are enhanced by elements key to continuing 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.

The North American Free Trade Agreement 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.

The City continued its efforts to enhance initial plant operations for Toyota Motor Manufacturing, Texas, by providing economic incentives for Toyota's tier one suppliers. The suppliers are expected to further stimulate Toyota's contribution of an $800 million plant and 2,000 local jobs with an additional $350 million investment in San Antonio's economy.

The City also realized additional investment in the information technology industry with the announcement of a new 100,000-square foot Lowe's data center to San Antonio. Lowe's, a Fortune 500 company, will build the center to centralize data transactions and storage for its increased business volume. For San Antonio, the center will create new high-tech jobs, generate additional utility and sales tax revenues, and further expand the area's growing information technology industry.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Construction continues on the 1,000-room Grand Hyatt Convention Center Headquarters Hotel (the Hotel). The Hotel is not only expected to transform the downtown skyline, but is also expected to increase San Antonio's status as a tier one destination for convention and tourism. The Hotel is estimated to be completed in 2008.

The City, in collaboration with Bexar County, encouraged Sino Swearingen Aircraft Company (the Company) to maintain and expand their manufacturing facility at San Antonio International Airport. The Company plans to invest $70 million in a new facility to design and manufacture a new plane for general aviation. The facility is expected to create as many as 850 new jobs by 2012.

The Texas A & M Board of Regents approved $40 million in tuition revenue bonds for the development of a Texas A & M San Antonio campus on San Antonio's south side. The campus will open in 2009 and will eventually serve 25,000 students and stimulate economic development on the south side.

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

Base-Realignment and Closure (BRAC)

The recommendations of the BRAC Commission became law on November 8, 2005, which has led to the on-going transformation throughout the military services resulting in the reorganization of many military missions and units. 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). BAMC will merge with elements of Wilford Hall Medical Center (WHMC) at Lackland Air Force Base to become the San Antonio Military Medical Center (SAMMC). This will establish Fort Sam Houston (Fort Sam) as the home of DOD enlisted medical training and SAMMC will be one of only two such DOD regional medical centers in the country.

A number of Army Agency Headquarters such as the Installation Management Agency, will also be relocating to Fort Sam from other bases around the country. 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. To assist the military with BRAC mandates, the Defense Transformation Institute (DTI), will serve as a proactive intermediary for leveraging local military assets and to identify problems and develop solutions. 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 health care.

Port Authority of San Antonio

Port Authority of San Antonio (the Port), the former Kelly Air Force Base, has begun the transformation of the base into Port San Antonio, a multi-use airport and rail-served business park. There are 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 $2.5 billion per year. Major commercial employers at the Port include Boeing, Lockheed Martin, General Electric, General Dynamics, Standard Aero, Pratt & Whitney, Chromalloy, Gore Design Completions, and EG&G. The Port is now focused on the 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. The Port is now proposing a Phase II development to accommodate market driven facilities over the next one to three years. The growth is projected to increase the economic impact on San Antonio, to exceed $4.3 billion, with more than $32 million in annual tax revenues.

Brooks City-Base

Brooks City-Base (BC-B) continues to leverage the science and technology industry through marketing of office and laboratory space. The BC-B property encompasses 1,246 acres and over 200 buildings on the southeast side of San Antonio. In 2006, a major pharmaceutical company, DPT Laboratories, began moving into their $24 million, built-to-suit research and development (R&D) and warehouse and production facilities, totaling nearly a quarter-million square feet at BC-B. DPT Laboratories will create 74 new high-paying positions and 131 jobs will remain in San Antonio as a result of this project. The City and County have broken ground on the construction of a new $24.5 million Emergency Operation Center at BC-B, which will open in December 2007.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Fort Sam Houston

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 BAMC and two other buildings at Fort Sam. In October 2006, the redevelopment of the U.S. 5th Army charged with Homeland Defense for North America became operational at Fort Sam. The redevelopment of the base will bring nearly 11,500 personnel, approximately 3,600 family members, and eight new missions to the base. To accommodate the expansion, 8 million square feet of new and renovated facilities will be needed at a cost of approximately $1.4 billion. The base will become the country's leader in military medical training and will, on average, train 9,000 students each day and approximately 32,000 each year. The current medical training facility will double in size with the addition of 2.1 million square feet of classrooms, dorms, and training facilities. A new SAMMC will be formed by expanding the facilities at BAMC. The Installation Management Agency and Army Contracting Agency that oversee Army garrisons world-wide will be moving to Fort Sam. Finally, an Armed Forces Reserve Center will be constructed at Camp Bullis to house local U.S. Army Reserve missions.

Aerospace Industry Development

The aerospace industry's annual economic impact to the City is approximately $3.3 billion. This industry provides over 9,500 jobs, with employees earning annual wages totaling over $406 million. The aerospace industry continues to expand as the City leverages its key aerospace assets. Many of the major aerospace industry leaders have significant operations in San Antonio, such as Boeing, Lockheed Martin, and General Electric to name a few. The industry in San Antonio is well diversified in air passenger service, air cargo, maintenance repair and overhaul (MRO), and manufacturing and general aviation.

San Antonio International Airport (SAT) has a total of 31 destinations, which does not include seasonal charter service to Mexico available during the spring and summer. The terminal expansion project for SAT will include a seven-gate Terminal B and a five-gate Terminal C (expandable up to 11 gates). The design work is underway with groundbreaking for a new five-story garage, with approximately 2,850 spaces. 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 (Stinson) is at 100.0% occupancy rate and has a tenant waiting list for the facilities. The Stinson groundbreaking ceremony was held on May 31, 2006 for the terminal expansion project. The $4.8 million project will add approximately 24,000 square feet of additional concession, administrative, education, and corporate aviation space to the existing 7,000 square feet terminal building. The expansion will allow for growth of existing tenants as well as creating opportunities for new business to locate at Stinson. Palo Alto College will move their Aviation Program to Stinson in the expanded terminal space. At the Port, the MRO business is strong as tenants such as Boeing and Lockheed Martin continue to secure long-term government contracts. The Port is also working to add air cargo activity as recommended by the Air Cargo Study and Strategic Plan completed in June 2002. This study also provided SAT with an Air Cargo Strategic Plan that includes recommendations on expanding the existing integrator service primarily provided by UPS, FedEx, and Airborne Express. A new belly freight facility is also currently under design for SAT. 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.

Downtown Development Projects

In December 2005, a new 265 all-suites hotel, the Hotel Contessa, opened its doors on the River Walk. During 2005, renovation of the Alamo Bank Building began by the flagship Drury Plaza Hotel. Financing of the Hotel Contessa was partially funded by Empowerment Zone Facility Bonds. In addition to the Hotel Contessa, Drury Southwest has partnered to renovate the Aztec Theatre building into a state of the art multimedia theatre experience. Drury Southwest is also providing, at its own expense, the final linkage to complete the downtown River Walk on the main channel of the San Antonio River. The River Walk linkage has an expected completion date of summer of 2007. The 300-room, limited service Drury Hotel is expected to open in the fall of 2007. The Empowerment Zone Facility Bonds were also used in the amount of $130 million for the construction of the Hyatt Convention Center Hotel. The project also includes 120 condominiums and an underground parking facility.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

International Trade and Outlook

The International Affairs Department was created to provide a clear entrance or "front door" to City programs and services in order to achieve global trade, attract foreign investment, offer protocol guidance, and establish San Antonio as the "Center of International Excellence." In doing so, it has identified and served over 210 local companies that conduct business internationally. The International Affairs Department continues to develop the Export Leaders Program that trains San Antonio companies to become successful in international markets. This unique municipal program has graduated 74 companies and has generated over $37 million in exports.

During fiscal year 2006, the department was also responsible for assisting more than 706 businesses and clients, which generated over $35 million in bilateral trade between San Antonio and Mexico through our three foreign trade offices, or Casas. On August 31, 2006, the North American Development Bank (NADB) participated in the development and financing of 95 environmental infrastructure projects, with approximately $810.44 million in loans and grants. These projects are estimated to cost a total of $2.49 billion to build, and will benefit an estimated 11.3 million border residents throughout the 10 states that comprise the U.S.-Mexico border region.

San Antonio continues to develop itself as an INLAND PORT for imports and exports with Mexico, China, Japan, Spain, Latin America, and other regions of the world. This is accomplished through transportation, manufacturing, and logistics facilities; professional services, and value-added services involved in processing, marketing, and moving freight within the San Antonio region. Over the past 15 years, the City led the nation by establishing three commercial trade offices in Mexico's principal cities: Mexico City, Guadalajara, and Monterrey, which has generated over $170 million in bilateral trade since its inception. For over 21 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. Following the Toyota announcement, the City fortified its position by establishing an official trade office in Tokyo.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. A recent study by the Greater San Antonio Chamber of Commerce, released in 2006 (for period 2004), found that the hospitality industry had an economic impact of nearly $8.7 billion. The estimated annual payroll for the industry was $1.58 billion, and the industry employed over 94,000 citizens. The next economic impact study is scheduled for update and release in 2008.

San Antonio's hospitality industry attracted over 21.3 million visitors in 2004 (up 7% from 2002), 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.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

The management of the City is responsible for establishing a system of internal controls that are designed to provide reasonable assurance that assets are protected from loss, theft, or misuse. The City's accounting system supports the internal controls and procedures, which provide reliable financial records for preparing financial statements in conformity with U.S. generally accepted accounting principles. The internal control structure provides reasonable assurance that the City's assets are safeguarded, the reliability of financial record for preparing financial statements and the evaluation of costs and benefits require estimates and judgments by management. The concept of reasonable assurance first recognizes that the cost of a control should not exceed the benefits likely to be derived. Secondarily, the evaluation of costs and benefits require estimates and judgments by management.

FINANCIAL INFORMATION (Continued)

Accounting System and Budgetary Control (Continued)

The City Auditor supports the internal control structure within the City by performing independent evaluations of existing accounting and administrative controls and by ascertaining compliance with existing plans, policies, and procedures.

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end and are generally appropriated as part of the following year's budget.

As demonstrated by the statements and schedules in the Financial Section of this report, the City continues to meet its responsibility for sound financial management.

Fiscal Management and Administrative Topics

Pension and Postemployment Retirement Benefits

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

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

Active Employee Benefits Program

The City's Self-Insurance Benefits Fund continues to experience increasing expenses due to rising health care and prescription drug costs, increased claims volume, and changes in participant demographics. The City has implemented cost containment programs to more effectively manage the rising cost of medical and prescription costs. These initiatives include hospital audits, pre-certifications, case utilization reviews, and large case management, prescription benefit management, disease management programs, and a preferred provider organization. The City has also addressed rising costs through plan design modifications, including increased deductibles and out-of-pocket maximums for the 2006 plan year, in conjunction with the funding of flexible spending accounts, resulting in savings of nearly $1.3 million annually. The City has also filed an application to receive a Retiree Drug Subsidy for retirees with Medicare coverage in self-funded medical plans.

The City retains a professional benefits consultant, The Hay Group, whose analysis and recommendations have been utilized to make further cost reductions in both the active and retiree health programs. For plan year 2007, a "total compensation" strategy for the City's employees seeks to raise the share of benefits premiums while increasing take-home salary. A change in the coordination of benefits between the City and Medicare for Medicare retirees, as well as increased premiums for non-Medicare retirees, has also impacted plans costs, with projected cost savings for fiscal 2007 estimated at approximately $3.8 million.

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Active Employee Benefits Program (Continued)
In fiscal year 2006, the City continues to engage in a strategic effort to bring the net asset balance of the Employee Benefits Fund to a positive balance by fiscal year 2008. For additional information on the City's risk and employee benefit programs, see Note 12, Risk Financing.

Risk Management Programs
For fiscal year 2006, the Insurance Reserve Fund maintained a positive net assets balance of $3.89 million. The Workers' Compensation Fund reflected a negative net assets balance of $1.26 million for fiscal year 2006. The Insurance Reserve and Workers' Compensation Funds carried cash reserves as of September 30, 2006 in the amount of $22.58 million and $20.69 million, respectively.

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

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

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

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

The City is authorized to use demand accounts, time accounts, certificates of deposit, and other permissible investments including, obligations of the U.S. Treasury and U.S. agencies, obligations of states and cities, 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. For additional information on cash and investments, see Note 3, Cash and Cash Equivalents and Investments.

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

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Debt Administration (Continued)
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 Group, a division of McGraw-Hill Corporation (S&P), and Fitch Ratings (Fitch), respectively, on the City's general obligation and certificates of obligation debt. For additional information on the City's long-term debt, see Note 6, Long-Term Debt.

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 addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audit of State and Local Government and Nonprofit Organizations* and State of Texas Single Audit Circular. The Independent Auditors' Report on the basic financial statements, MD&A (required supplementary information), required disclosures, and schedules are included in the Financial Section of this CAFR. The Independent Auditors' Report, along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996, and OMB Circular A-133, and the State of Texas Single Audit Circular are in 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, 2005. This was the 30th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report satisfies both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current 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.

The Office of Management and Budget received the Annual Distinguished Budget Award from the Government Finance Officers Association, recognizing outstanding achievement in preparation of the 2006 Operating and Capital Budget.

Acknowledgments

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2006, 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

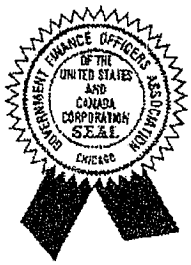
Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio
Texas

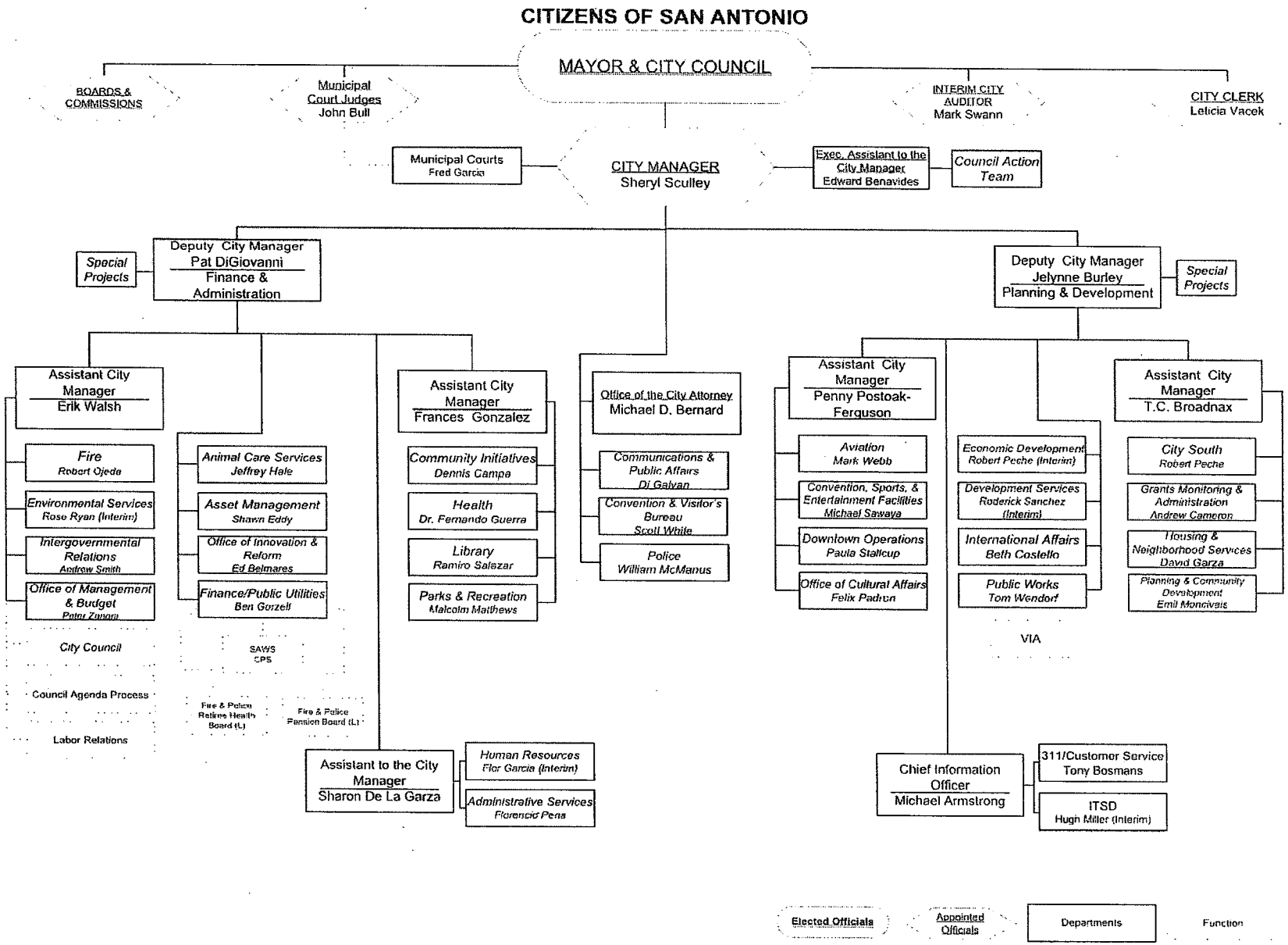
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

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
MAYOR & CITY COUNCIL
BOARDS & COMMISSIONS
Municipal Court Judges John Bull
INTERIM CITY AUDITOR Mark Swann
CITY CLERK Leticia Vacek
Municipal Courts Fred Garcia
CITY MANAGER Sheryl Sculley
Exec. Assistant to the City Manager Edward Benavides
Council Action Team
Special Projects
Deputy City Manager Pat DiGiovanni Finance & Administration
Deputy City Manager Jelynne Burley Planning & Development
Special Projects
Assistant City Manager Erik Walsh
Fire Robert Ojeda
Environmental Services Rose Ryan (Interim)
Intergovernmental Relations Andrew Smith
Office of Management & Budget Peter Zanoni
City Council
Council Agenda Process
Labor Relations
Animal Care Services Jeffrey Hale
Asset Management Shawn Eddy
Office of Innovation & Reform Ed Belmares
Finance/Public Utilities Ben Gorzell
SAWS
CPS
Fire & Police Retiree Health Board (L)
Fire & Police Pension Board (L)
Assistant City Manager Frances Gonzalez
Community Initiatives Dennis Campa
Health Dr. Fernando Guerra
Library Ramiro Salazar
Parks & Recreation Malcolm Matthews
Office of the City Attorney Michael D. Bernard
Communications & Public Affairs Di Galvan
Convention & Visitor's Bureau Scott White
Police William McManus
Assistant City Manager Penny Postoak-Ferguson
Aviation Mark Webb
Convention, Sports, & Entertainment Facilities Michael Sawaya
Downtown Operations Paula Stallcup
Office of Cultural Affairs Felix Padron
Economic Development Robert Peche (Interim)
Development Services Roderick Sanchez (Interim)
International Affairs Beth Costello
Public Works Tom Wendorf
VIA
Assistant City Manager T.C. Broadnax
City South Robert Peche
Grants Monitoring & Administration Andrew Cameron
Housing & Neighborhood Services David Garza
Planning & Community Development Emil Moncivais
Assistant to the City Manager Sharon De La Garza
Human Resources Flor Garcia (Interim)
Administrative Services Florencio Pena
Chief Information Officer Michael Armstrong
311/Customer Service Tony Bosmans
ITSD Hugh Miller (Interim)
Elected Officials
Appointed Officials
Departments
Function

Comprehensive Annual Financial Report
Year Ended September 30, 2006

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

CITY COUNCIL

Phil Hardberger
Mayor

Roger O. Flores
District 1

Sheila D. McNeil
District 2

Roland Gutierrez
District 3

Richard Perez
District 4

Patti Radle
District 5

Delicia Herrera
District 6

Elena Guajardo
District 7

Art A. Hall
District 8

Kevin A. Wolff
District 9

Christopher "Chip" Haass
District 10

MANAGEMENT TEAM

Sheryl L. Sculley
City Manager

Jelynne LeBlanc Burley
Deputy City Manager

Pat DiGiovanni
Deputy City Manager

T.C. Broadnax
Assistant City Manager

Penny Postoak-Ferguson
Assistant City Manager

Frances A. Gonzalez
Assistant City Manager

Erik J. Walsh
Assistant City Manager

Sharon De La Garza
Assistant to the City Manager

Michael Armstrong
Chief Information Officer

Michael Bernard
City Attorney

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

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City of San Antonio, Texas

Financial Section

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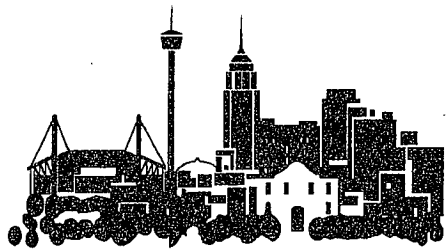
City of San Antonio, Texas



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, 2006, 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	77%	35%

	Percent audited by KPMG & Robert J. Williams		Percent audited by Leal & Carter	
	Total assets	Total revenue	Total assets	Total revenue
Government-wide				
Discretely presented component units	71%	78%	1%	2%
Fund statements				
Aggregate remaining fund information	0%	0%	7%	4%

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, 2006, 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.

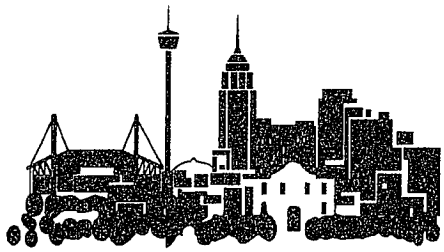
The Management's Discussion and Analysis on pages 1 through 12, the Budgetary Comparison Schedule on page 122, and Schedules of Funding Progress on page 123 are not required parts of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. 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 26, 2007

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, 2006. 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 $2,561,704 (net assets). Of this amount, $189,465 (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 $845,903, an increase of $72,949 compared to the fiscal year 2005 fund balance. The total unreserved fund balance of $570,807 is available for spending at the government's discretion. Of this amount, $52,707 is designated and $518,100 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $149,610 or 24.2% of the total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction to the City of San Antonio's basic financial statements, which have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

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

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

The *statement of activities* presents information showing how the government's net assets changed during the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, sanitation, health services, culture and recreation, convention and tourism, 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 nonmajor funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into three categories: governmental, proprietary, and fiduciary. Fund financial statements allow the City to present information regarding fiduciary funds, since they are not reported in the government-wide financial statements.

Governmental funds - Governmental funds are used for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

As the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The City maintains five individual governmental fund types for financial reporting purposes. The governmental fund types are General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Convention Center Hotel Finance Corporation Fund, Categorical Grant-In Aid, and the Debt Service Fund, 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 nonmajor governmental fund is provided in the form of combining statements elsewhere in this report.

Proprietary Funds - The City maintains two types of proprietary funds. *Enterprise funds* are used to report the functions presented in business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Airport, Parking, and Environmental Services Funds. *Internal Service Funds* are used to accumulate and allocate costs internally among the City's various functions, including, self-insurance programs, other internal services, and information technology services. The services provided by these funds predominantly support the governmental rather than the business-type functions. They have been included within the governmental activities in the government-wide financial statements and 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. With the exception of agency funds, the accounting for fiduciary funds is much like that used for the proprietary funds.

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

Other information - In addition to the basic financial statements and the accompanying notes, this report also presents 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 compliance with this budget.

Government-Wide Financial Analysis

Governmental Accounting and Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis--for State and Local Governments*, requires that the City provides 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, 2006
(With Comparative Totals for September 30, 2005)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	$ 1,080,579	$ 990,155	$ 245,795	$ 236,980	$ 1,326,374	$ 1,227,135
Capital Assets	3,070,178	3,068,559	319,870	307,740	3,390,048	3,376,299
Total Assets	4,150,757	4,058,714	565,665	544,720	4,716,422	4,603,434
Current and Other Liabilities	189,577	168,847	23,171	30,074	212,748	198,921
Long-term Liabilities	1,675,180	1,613,274	266,790	273,576	1,941,970	1,886,850
Total Liabilities	1,864,757	1,782,121	289,961	303,650	2,154,718	2,085,771
Net Assets:						
Investments in Capital Assets, net of related debt	1,998,751	2,042,288	240,764	212,715	2,239,515	2,255,003
Restricted	105,024	101,253	27,700	26,636	132,724	127,889
Unrestricted	182,225	133,052	7,240	1,719	189,465	134,771
Total Net Assets	$ 2,286,000	$ 2,276,593	$ 275,704	$ 241,070	$ 2,561,704	$ 2,517,663

For the year ended September 30, 2006, total assets exceeded liabilities by $2,561,704. The largest portion of the City's net assets, $2,239,515 (87.4%) 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, $132,724 (5.2%) represents resources that are subject to external restrictions on how they may be used. The remaining $189,465 (7.4%) represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

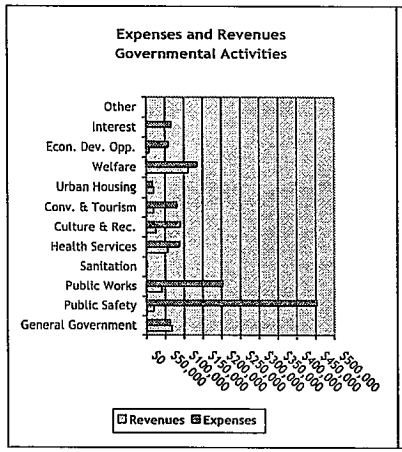
City of San Antonio, Texas
Changes in Net Assets
Year Ended September 30, 2006
(With Comparative Totals for September 30, 2005)

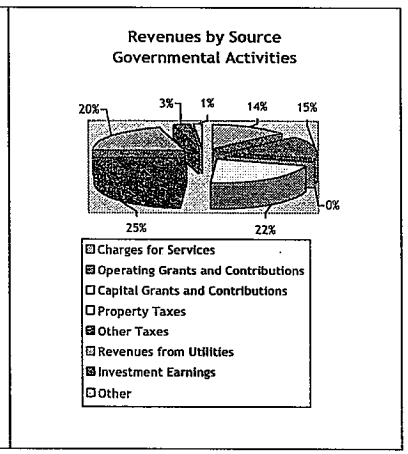
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	$ 171,427	$ 147,109	$ 120,360	$ 107,869	$ 291,787	$ 254,978
Operating Grants and Contributions	195,104	198,185			195,104	198,185
Capital Grants and Contributions	2,271	8,256	7,710	2,223	9,981	10,479
General Revenues:						
Property Taxes	276,728	269,138			276,728	269,138
Other Taxes	308,017	253,239			308,017	253,239
Revenues from Utilities	256,541	222,162			256,541	222,162
Investment Earnings	38,385	19,931	10,023	5,434	48,408	25,365
Miscellaneous	14,881	22,431	10,958	9,962	25,839	32,393
Special Items			10,870		10,870	
Gain on Sale of Capital Assets	2,427	1,507	64	96	2,491	1,603
Total Revenues	1,265,781	1,141,958	159,985	125,584	1,425,766	1,267,542
Expenses:						
Primary Government:						
Governmental Activities:						
General Government	62,230	80,018			62,230	80,018
Public Safety	455,341	428,582			455,341	428,582
Public Works	201,941	149,476			201,941	149,476
Sanitation	3,112	2,731			3,112	2,731
Health Services	87,283	89,011			87,283	89,011
Culture and Recreation	90,521	84,555			90,521	84,555
Convention and Tourism	81,098	48,364			81,098	48,364
Conservation	146	2			146	2
Urban Redevelopment and Housing	16,821	29,764			16,821	29,764
Welfare	134,554	131,840			134,554	131,840
Economic Development Opportunity	58,388	60,461			58,388	60,461
Interest on Long-term Debt	65,960	70,655			65,960	70,655
Business-Type Activities:						
Airport			53,821	46,868	53,821	46,868
Parking Systems			9,191	8,413	9,191	8,413
Environmental Services			61,318	54,703	61,318	54,703
Total Expenses	1,257,395	1,175,459	124,330	109,984	1,381,725	1,285,443
Increase (Decrease) in Net Assets Before Transfers	8,386	(33,501)	35,655	15,600	44,041	(17,901)
Transfers	1,021	2,150	(1,021)	(2,150)		
Net Increase (Decrease) in Net Assets	9,407	(31,351)	34,634	13,450	44,041	(17,901)
Beginning, net assets	2,276,593	2,307,944	241,070	227,620	2,517,663	2,535,564
Ending, net assets	$ 2,286,000	$ 2,276,593	$ 275,704	$ 241,070	$ 2,561,704	$ 2,517,663

Governmental Activities

The City's total revenues were $1,425,766 for fiscal year ended September 30, 2006. Revenues from governmental activities totaled $1,265,781 and revenues from business-type activities totaled $159,985. General revenues represented 65.2% of the City's total revenue, while program revenues provided 34.8% of revenue received in fiscal year 2006.

Expenses for the City totaled $1,381,725. Governmental activity expenses totaled $1,257,395, or 91.0% of total expenses.





Governmental Activities increased the City's net assets by $9,407. The reason for the change is as follows:

- Revenues from utilities increased by $34,379, of which $25,941 is due to an unusually hot and dry year and higher than projected fuel prices. In addition, beginning in fiscal year 2006, the City received an additional transfer from CPS Energy's Community Infrastructure and Economic Development (CIED) Fund for approved funding for community projects. Of the $34,379 increase in revenues from utilities, $8,438 was due to this transfer.
- Revenues from sales taxes increased by $43,268, of which $22,218 was realized from the City's 1/8th sales tax increase approved by voters for parks development funding that began in fiscal year 2006. The General Fund experienced an increase of $15,479, due to a healthy economy and economic development throughout the City. The remaining increase is due to the fact that Advanced Transportation District's sales tax began in the summer of 2005, and fiscal year 2006 contains a full 12 months of this dedicated sales tax revenue.
- Charges for Services revenue increased by $24,318 due to fee increases and the development of new fees enacted for fiscal year 2006. For example, the Police department implemented new revenues from fees for lost taxicab permits, tiered fees for street closures and a new police impound fee for the towing of uninsured motorists. Other examples include the increasing of the fee for the sale of local and state birth records, animal care services fees and increases for various fees within Golf operations.
- Investment earnings increased by $18,454 due to a significant increase in yields as well as the fact that the City's net assets are increasing allowing for more cash and investment holdings to earn larger interest revenues.
- General Government expenditures decreased by $17,788 primarily due to a $9,074 decrease within long-term debt and a $10,921 decrease in capital projects due to a change in classification by function within the funds. These decreases were offset by small increases in other areas.

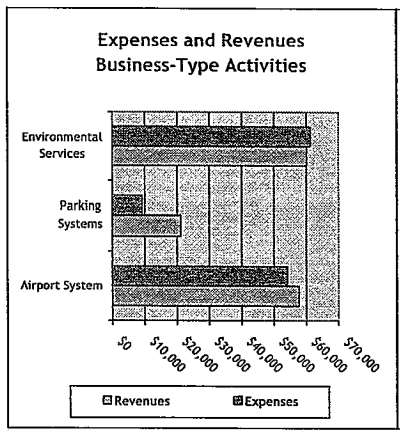
- Public Safety expenditures increased by $26,759 due to increases in salary and related benefits charges incurred by the City.
- Public Works expenditures increased by $52,465 due to budgeted increases in the City's capital improvement programs such as streets, stormwater, and other capital projects.
- In fiscal year 2006, Convention and Tourism expenses increased by $32,734 primarily because of continued construction of the Convention Center Hotel, which began in 2005.

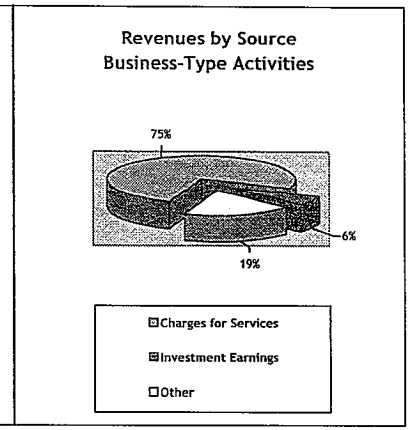
Business-Type Activities

Program revenues for the City's business-type activities totaled $128,070, which is $17,978 higher than the previous fiscal year. Expenses for business-type activities were $124,330 compared to prior year's expenses of $109,984. 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 $34,634, primarily because of the following:

- Charges for Services increased $12,491 because of an increase in customers served, as well as various fee increases implemented in fiscal year 2006.
- Investment earnings increased by $4,589 when compared to fiscal year 2005 due to higher interest rates.
- A $5,487 increase in Capital Grant Contributions in the Airport System Fund was attributed to an increase in grant funded capital expenditures at San Antonio International Airport.
- A $996 increase in Miscellaneous Revenues in both the Airport System Fund and Parking System Fund.
- A $10,870 increase in Parking Special Items, because of a reallocation of general obligation debt to the City's governmental activities.
- Expenses for Airport activities increased due to higher personnel costs of $1,926, contractual services of $1,213, commodities of $601, and to expense $3,074 of costs previously recorded as construction in progress.
- Environmental Services expenditures increased $6,615. This increase is due to additional expenditures associated with the implementation of automated garbage collection services as well as increases in fuel and maintenance costs. The fund also experienced increases in expenditures due to salary and related benefits increases enacted for fiscal year 2006.





Financial Analysis of Governmental Funds

Activities of the Primary Government's General Fund, Special Revenue Funds, Debt Service Fund, Convention Center Hotel Finance Corporation Fund, and Categorical Grant-In-Aid Fund are considered general government functions. The General Fund is the City's general operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted as to expenditure. The Debt Service Funds are used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations. The Convention Center Hotel Finance Corporation Fund (Hotel Project), established in 2005, is used to account for financing and costs associated with the design, development, and construction of the Hotel Project. The Categorical Grant-In-Aid Fund is used to account for receipt and disbursement of all federal and state grants except for Community Development Block Grants and Home Investment Partnership Grants.

Revenues from taxes increased by $62,368, which is primarily attributable to: (1) a $12,337 or 7.2% increase in property tax revenue in the General Fund, (2) a $15,479 or 9.3% increase in sales tax revenue in the General Fund, and (3) a $4,893 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 $34,379 or 15.5%. This is primarily attributed to an increase of $24,262 in the City's payment from CPS Energy, which is based on CPS Energy's gross revenues. CPS Energy revenues are impacted by a number of variables such as fuel costs, weather, types of electric generation used, as well as other factors.

The total fund balance of the General Fund at year-end was $161,476, an increase of $43,063 from the total fund balance of $118,413 for the close of fiscal year 2005. The total unreserved General Fund balance for fiscal year 2006 is $149,610, which represents $47,087 in designated and $102,523 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 $26,983 from the previous year.

The total fund balance of the Debt Service Fund at year-end was $92,443; an increase of $7,316 from the total fund balance for the close of fiscal year 2005. The entire fund balance is reserved for payment of debt service.

The Convention Center Hotel Finance Corporation has a total fund balance of $153,090, which is available for the payment of costs associated with the design, development, and construction of the Convention Center Hotel Project.

The Categorical Grant-In Aid has a total deficit fund balance of $10,829. The City engaged in a grant reconciliation effort beginning September 2006 and ending February 2007. The City's departmental fiscal staff was required to validate data in the City's financial system relating to grants. With this effort, the City determined that due to providing more services to the community, the City spent dollars in excess of the grant allocations. These deficits will be funded through future budget processes.

General Fund Budgetary Highlights

Significant Variances in Budget Appropriations
(Budgetary Basis)
General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 96,556	$ 95,473	$ 71,140
Public Safety	420,984	431,504	429,052
Public Works	10,971	10,976	10,769
Health Services	12,125	12,651	12,413
Sanitation	2,867	2,916	2,864
Welfare	23,097	25,913	23,504
Culture and Recreation	71,251	72,353	71,938
Economic Development and Opportunity	4,177	4,461	4,067
Transfers to Other Funds	87,142	90,414	90,281
Total	$ 729,170	$ 746,661	$ 716,028

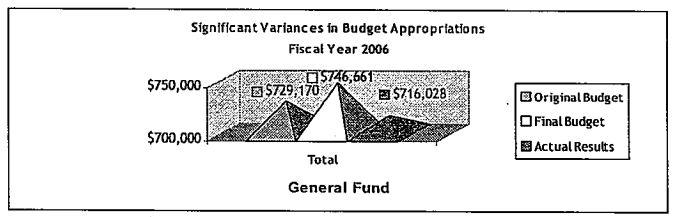
Changes in original budget appropriations to the final amended budget appropriations were a $17,491 increase in appropriations. This increase can be summarized by the following discussion:

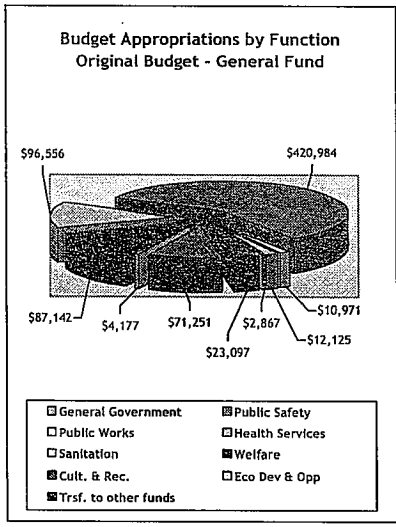
- General Government has a $1,083 decrease composed of $9,145 of budget carry forwards and a $10,228 budget decrease. Of the $9,145 of budget carry forwards, $4,772 is for special projects and $2,051 is nondepartmental carry forwards. The $10,228 budget decrease is made up of a $6,956 due to the indirect cost reallocation, decreases in special nondepartmental of $1,253, in addition to other budget increases and decreases in various departments resulting in a net budget reduction of $2,019.
- Of the $10,520 increase in Public Safety, $3,143 is due to budget carry forwards and $7,377 of budget increases. Major increases to budget carry forwards include $1,549 within the Police Department and $824 for the Fire Department. The $7,377 budget increase is attributable to increases to the Police and Fire Departments of $1,317 and $6,060 respectively. Of the $1,317 budget increase within the Police Department, $513 is due increases to budgeted salaries, a $300 budget increase for Helicopter Detail purchases and other assorted commodity and capital outlay purchases. Significant increases in the Fire Department's budget include a $4,250 increase for overtime salaries and $1,331 for increases to commodity purchases such as parts for automotive maintenance.
- Health Services had a $526 budget increase, which consists of $382 of budget carry forwards and $144 of budget increases.
- Of the $2,816 increase in Welfare; $2,243 of the increase is due to budget carry forwards and $573 is due to a budget increase.
- Culture and Recreation's $1,102 increase is due to a $678 increase for budget carry forwards and a $424 increase in budget. The increase in budget carry forwards is primarily due to increases in the Library and Parks and Recreation departments of $294 and $369, respectively. The $424 increase in budget is $112 and $312 within the Library and Parks and Recreation departments, respectively.
- The $284 increase in Economic Development and Opportunity is due to a $255 increase in budget carry forwards and a $29 budget increase.
- The $3,272 increase in transfers is due to $694 in budget carry forwards and the creation of a transfer to Environmental Services for the implementation of automated trash pickup in the amount of $1,582 funded from various government functions. In addition, budgets were adjusted based on ordinances that were passed throughout the year.

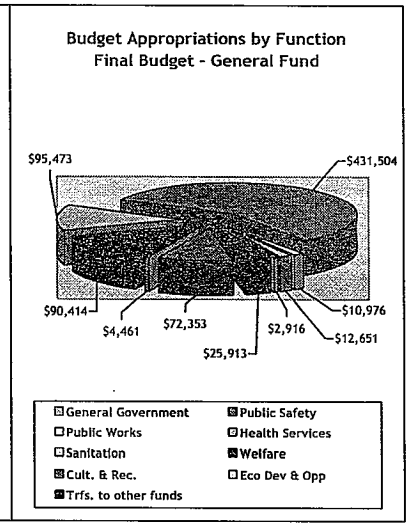
Final budgeted appropriations for the General Fund were $746,661, while actual expenditures were $716,028, creating a positive variance of $30,633. Significant variances are as follows:

- General Government had a $24,333 positive variance, which is composed of $9,327 of budgeted personnel expenditures, $11,021 in various contractual services, $2,124 in other expenditures due to savings in civilian retiree payouts and phone and fax services, $1,911 in unrealized expenditures for commodities such as supplies, repair, and maintenance, and a negative variance of $50 for capital outlay.
- Public Safety has a positive variance of $2,452, which is composed of a negative variance of $4,410 for budgeted salaries primarily due to overtime and related benefits, $2,112 for various contractual services, $1,430 for commodities such as supplies, $3,538 for other expenditures such as wireless data, radio and fuel charges, and negative variance of $218 for capital outlay.
- Welfare has a positive variance of $2,409, primarily because contributions to other agencies were under budget.

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







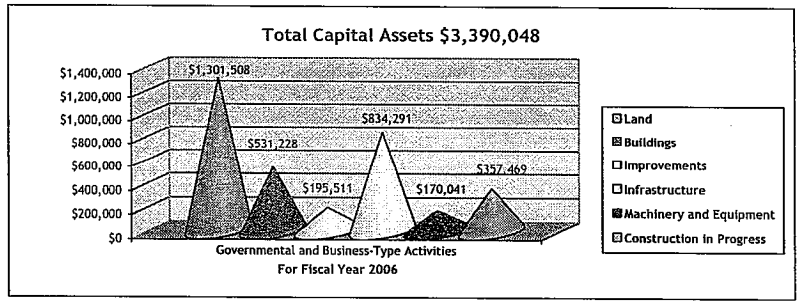
Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2006 amounts to $3,390,048 (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 $13,749, which comprises a $1,619 increase for governmental activities and a $12,130 increase for business-type activities.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	$ 1,289,520	$ 1,268,142	$ 11,988	$ 11,988	$ 1,301,508	$ 1,280,130
Buildings	428,398	228,284	102,830	106,049	531,228	334,333
Improvements	98,927	65,579	96,584	84,039	195,511	149,618
Infrastructure	834,291	796,202			834,291	796,202
Machinery and Equipment	166,893	95,589	3,148	3,355	170,041	98,944
Construction in Progress	252,149	614,763	105,320	102,309	357,469	717,072
Totals	$ 3,070,178	$ 3,068,559	$ 319,870	$ 307,740	$ 3,390,048	$ 3,376,299

During fiscal year 2006, the City transferred $342,855 of construction in progress to depreciable asset classes for various completed projects for buildings, improvements, infrastructure, and equipment.

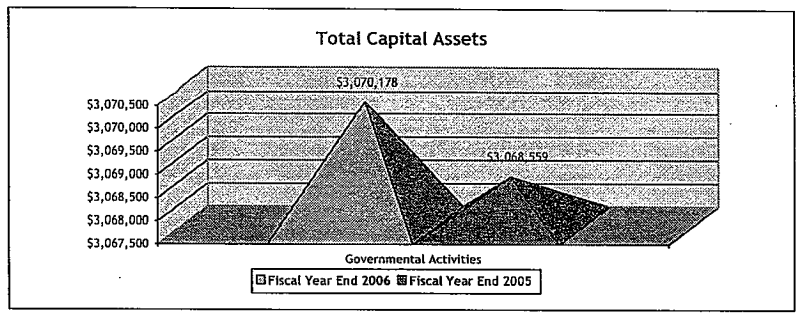
The following schedule provides a summary of the City's capital assets:

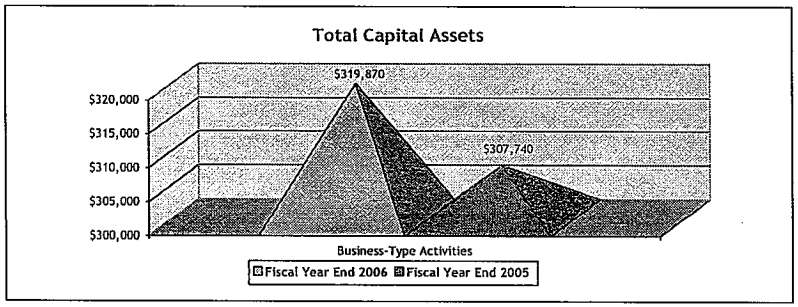


Change in Capital Assets
September 30, 2006

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$ 4,657,674	$ 463,486	$ 5,121,160
Additions	157,088	41,787	198,875
Deletions	(34,421)	(21,152)	(55,573)
Accumulated Depreciation	(1,710,163)	(164,251)	(1,874,414)
Ending Balance	$ 3,070,178	$ 319,870	$ 3,390,048

The following charts provide a summary of the changes in capital assets:





Additional information on the City's capital assets can be found in Note 4, Capital Assets.

Debt Administration

Long-Term Debt

At the end of the current fiscal year, the City had a total of $1,663,952 in bonds, certificates, revenue bonds, and tax anticipation notes (TANS) a decrease of 2.2% over last year. Additional information on the City's long-term debt, including descriptions of the new issues, can be found in Note 6, Long-Term Debt.

City of San Antonio's Outstanding Debt
September 30, 2006 and 2005

	Governmental Activities	
	2006	2005
Bonds Payable:		
General Obligation Bonds	$ 623,075	$ 658,450
Tax-Exempt Certificate of Obligation	183,455	194,675
Taxable Certificates of Obligation	6,170	6,850
Tax Anticipation Notes	37,600	
Revenue Bonds	551,767	556,152
Total	$ 1,402,067	$ 1,416,127

	Business-Type Activities	
	2006	2005
Bonds Payable:		
General Obligation Bonds	$ -	$ 12,115
Revenue Bonds	261,885	272,100
Total	$ 261,885	$ 284,215

On September 30, 2006, outstanding bonds, certificates and tax notes debt totaled $1,402,067 for governmental activities. In 2006, the City issued additional indebtedness for a total of $70,690. The $70,690 was composed of $33,090 in general obligation forward refunding bonds and $37,600 in tax notes. The general obligation forward refunding bonds were utilized to refund a portion of the City's outstanding tax supported debt and pay issuance costs. Additionally, in July 2006 the City issued $37,600 in tax notes that were utilized for: (1) constructing public safety improvements, including construction of new fire stations and renovating and improving existing fire stations and the Services Facility; (2) constructing drainage improvements, sidewalk improvements, bridge improvements, street improvements and drainage incidental thereto; (3) constructing improvements and renovations to existing municipal facilities or other public facilities, including the Plaza de Armas Building, Records Storage Facility, and Pearsall Landfill; (4) acquiring, constructing, renovating and improving the City's library system; (5) acquiring, constructing, and renovating park facilities, including Brackenridge Park, LaVillita Assembly Hall Complex, and the Normoyle Community Center; (6) acquiring land for park facilities; (7) constructing utility system and other infrastructure improvements at Kelly USA; (8) constructing and equipping certain downtown public restroom facilities; and (9) constructing public health and safety improvements, including acquisition, design and construction of Emergency Operations Center, Animal Care Facility and Medical Center Area Senior Multi-Services and Health Center.

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 10.0% of the total assessed valuation. The total assessed valuation for the fiscal year ended 2006 was $56,750,907, which provides a debt ceiling of $5,675,091.

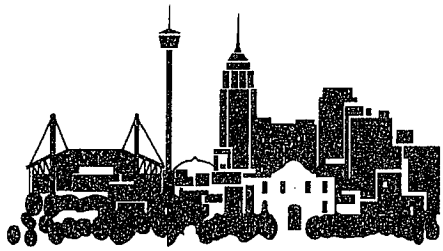
Currently Known Facts

The City issued numerous debt issuances after fiscal year end. In September 2006, a $72,620 Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006, was issued and was delivered in October 2006. In November 2006, the City issued a $170,785 General Improvement and Refunding Bonds, Series 2006 and a $17,850 Airport System Revenue Refunding Bonds, Series 2006. In May 2007, the City approved the issuance of $60,000 in Tax Notes, Series 2007. Additionally in May 2007, the City held an election on $550,000 in general obligation bonds, which were approved by the voters. For more information on these issuances, please see Note 17, Subsequent Events.

In May 2007, the City approved new collective bargaining agreements with the International Association of Fire Fighters Local 624 and with the San Antonio Police Officer's Association, the amounts of $44,400 and $43,500, respectively. The terms of these contracts run through September 30, 2009. For more information on these contracts, please see Note 17, Subsequent Events.

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.



City of San Antonio, Texas

Basic Financial Statements

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Statement of Net Assets

As of September 30, 2006

(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets:				
Cash and Cash Equivalents	$ 25,183	$ 1,532	$ 26,715	$ 127,541
Investments	291,137	20,208	311,345	267,139
Receivables, Net	103,317	8,711	112,028	209,774
Due from:				
Fiduciary Funds	600		600	
Other Governmental Agencies, Net	3,373		3,373	2,429
Internal Balances	6,297	(6,297)		
Materials and Supplies, at Cost	5,954	730	6,684	154,393
Prepaid Expenses	1,209	17	1,226	57,252
Deposits	38		38	
Restricted Assets:				
Cash and Cash Equivalents	116,830	19,620	136,450	66,414
Investments	452,039	194,838	646,877	1,408,887
Receivables	46,389		46,389	
Accrued Interest	4,202	2,191	6,393	7,187
Deposits	261		261	
Due from:				
Other Governmental Agencies	2,276		2,276	
Capital Assets:				
Non Depreciable	1,541,669	117,308	1,658,977	986,053
Depreciable, Net	1,528,509	202,562	1,731,071	6,516,108
Assets Held for Resale				2,760
Prepaid Rent Long-Term - Leaseback				496,392
Unamortized Debt Expense	21,474	4,245	25,719	41,777
Total Assets	4,150,757	565,665	4,716,422	10,344,106
Liabilities:				
Accounts Payable and Other Current Liabilities	102,506	19,314	121,820	320,589
Unearned Revenues	12,654	435	13,089	2,498
Accrued Interest		3,422	3,422	165,850
Due to:				
Other Governmental Agencies	802		802	1,066
Restricted Liabilities:				
Accounts Payable - Other	48,048		48,048	13,712
Unearned Revenue	11,738		11,738	
Accrued Interest	10,626		10,626	
Due to:				
Other Governmental Agencies	3,203		3,203	
Noncurrent Liabilities:				
Due within One Year	137,069	11,414	148,483	1,050,336
Due in More Than One Year	1,538,111	255,376	1,793,487	4,387,234
Total Liabilities	1,864,757	289,961	2,154,718	5,941,285
Net Assets:				
Invested in Capital Assets, Net of Related Debt	1,998,751	240,764	2,239,515	3,153,148
Restricted for:				
Debt Service	91,740	27,700	119,440	23,920
Equipment Renewal and Replacement				669,066
Conservation				180,389
Perpetual Care:				
Expendable	3,102		3,102	
Nonexpendable	10,182		10,182	
Unrestricted	182,225	7,240	189,465	376,298
Total Net Assets	$ 2,286,000	$ 275,704	$ 2,561,704	$ 4,402,821

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

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Statement of Activities
Year Ended September 30, 2006
(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	$ 62,230	$ 66,575	$ 867	$ 7	$ 5,219	$ -	$ 5,219	$ -
Public Safety	455,341	9,320	8,347	1,958	(435,716)		(435,716)	
Public Works	201,941	37,472	3,864		(160,605)		(160,605)	
Sanitation	3,112			260	(2,852)		(2,852)	
Health Services	87,283	15,852	40,108	46	(31,277)		(31,277)	
Culture and Recreation	90,521	18,947	6,057		(65,517)		(65,517)	
Convention and Tourism	81,098	19,659			(61,439)		(61,439)	
Conservation	146				(146)		(146)	
Urban Redevelopment and Housing	16,821	126	19,479		2,784		2,784	
Welfare	134,554	341	111,888		(22,325)		(22,325)	
Economic Development Opportunity	58,388	3,135	4,494		(50,759)		(50,759)	
Interest on Long-Term Debt	65,960				(65,960)		(65,960)	
Total Governmental Activities	1,257,395	171,427	195,104	2,271	(888,593)		(888,593)	
Business-Type Activities:								
Airport System	53,821	49,997		7,710		3,886	3,886	
Parking Facilities	9,191	10,273				1,082	1,082	
Environmental Services	61,318	60,090				(1,228)	(1,228)	
Total Business-Type Activities	124,330	120,360		7,710		3,740	3,740	
Total Primary Government	$ 1,381,725	$ 291,787	$ 195,104	$ 9,981	(888,593)	3,740	(884,853)	
Component Units:								
San Antonio Water System	$ 300,128	$ 328,170	$	$ 81,409				109,451
CPS Energy	1,699,090	1,682,719		68,090				51,719
Other Component Units	55,323	16,757		64,854				26,288
Total Component Units	$ 2,054,541	$ 2,027,646	$	$ 214,353				187,458
General Revenues:								
Taxes:								
Property Taxes					276,728		276,728	
General Sales and Use Taxes					210,141		210,141	
Selective Sales and Use Taxes					4,932		4,932	
Gross Receipts Business Taxes					30,415		30,415	
Occupancy Taxes					58,678		58,678	
Penalties and Interest on Delinquent Taxes					3,851		3,851	
Revenues from Utilities					256,541		256,541	
Investment Earnings					38,385	10,023	48,408	69,862
Miscellaneous					14,881	10,958	25,839	6,448
Gain on Sale of Capital Assets					2,427	64	2,491	3,525
Special Items						10,870	10,870	(3,584)
Transfers, net					1,021	(1,021)		
Total General Revenues, Special Items, and Transfers					898,000	30,894	928,894	76,251
Change in Net Assets					9,407	34,634	44,041	263,709
Net Assets - Beginning of Fiscal Year					2,276,593	241,070	2,517,663	4,155,753
Prior Period Adjustment								(16,641)
Net Assets - End of Fiscal Year					$ 2,286,000	$ 275,704	$ 2,561,704	$ 4,402,821

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Statement of Activities
Year Ended September 30, 2006
(In Thousands)

The accompanying notes are an integral part of these basic financial statements.

- 14 -

Amounts are expressed in thousands

Balance Sheet
Governmental Funds
As of September 30, 2006
(In Thousands)

	MAJOR FUNDS					
	GENERAL	DEBT SERVICE	CONVENTION CENTER HOTEL FINANCE CORPORATION	CATEGORICAL GRANT-IN AID	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:						
Cash and Cash Equivalents	$ 6,500	$ -	$ -	$ -	$ 13,178	$ 19,678
Investments	72,846				149,072	221,918
Receivables	100,329				50,576	150,905
Allowance for Uncollectibles	(24,006)				(26,601)	(50,607)
Prepaid Expenditures	190					190
Due from:						
Other Funds	33,736				3,738	37,474
Other Governmental Agencies	1,547				1,782	3,329
Materials and Supplies, at Cost	3,045				1,402	4,447
Restricted Assets:						
Cash and Cash Equivalents		14,141	15,489	181	87,019	116,830
Investments		76,311	143,655	87	231,986	452,039
Receivables		6,807	439	24,686	18,659	50,591
Deposits					261	261
Due from:						
Other Funds		791		238	5,928	6,957
Other Governmental Agencies				50	2,226	2,276
Total Assets	$ 194,187	$ 98,050	$ 159,583	$ 25,242	$ 539,226	$ 1,016,288
Liabilities and Fund Balances:						
Liabilities:						
Vouchers Payable	$ 3,996	$ -	$ -	$ -	$ 10,947	$ 14,943
Accounts Payable - Other	4,967				6,520	11,487
Accrued Payroll	9,706				2,248	11,954
Accrued Leave Payable	5,618				1,366	6,984
Unearned Revenues	6,743				5,908	12,651
Due to:						
Other Funds	1,654				10,754	12,408
Other Governmental Agencies	27				64	91
Restricted Liabilities:						
Vouchers Payable			4,064	4,515	2,744	11,323
Accounts Payable - Other			2,429	3,256	30,208	35,893
Accrued Payroll				703	129	832
Unearned Revenues		5,607		5,703	7,316	18,626
Due to:						
Other Funds				21,747	8,243	29,990
Other Governmental Agencies				147	3,056	3,203
Total Liabilities	32,711	5,607	6,493	36,071	89,503	170,385
Fund Balances:						
Reserved:						
Reserved for Encumbrances	8,631		3,697		165,688	178,016
Reserved for Material and Supplies	3,045				1,402	4,447
Reserved for Prepaid Expenditures	190					190
Reserved for Debt Service		92,443				92,443
Unreserved:						
Designated: Major Funds	47,087					47,087
Designated: Special Revenue Funds					2,518	2,518
Designated: Permanent Funds					3,102	3,102
Undesignated: Major Funds	102,523					102,523
Undesignated: Special Revenue Funds				(10,829)	177,287	166,458
Undesignated: Capital Projects Funds			149,393		89,553	238,946
Undesignated: Permanent Funds					10,173	10,173
Total Fund Balances	161,476	92,443	153,090	(10,829)	449,723	845,903
Total Liabilities and Fund Balances	$ 194,187	$ 98,050	$ 159,583	$ 25,242	$ 539,226	$ 1,016,288

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Activities
As of September 30, 2006
(In Thousands)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund Balances - Total Governmental Funds		$ 845,903
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental Capital Assets:		
Land	1,289,520	
Construction in Progress	252,149	
Buildings	633,904	
Improvements	145,533	
Infrastructure	2,151,113	
Machinery and Equipment	177,873	
Less: Accumulated Depreciation	(1,630,475)	
Total Governmental Capital Assets		3,019,617
Some of the City's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are not reported in the governmental funds (See Note 14).		8,750
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.		65,611
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 Note 14).		
Governmental Bonds Payable	(1,417,507)	
Premium on Bonds	(48,189)	
Deferred Amount on Refunding	8,598	
Leases Payable	(9,436)	
Amounts Received from Notes and Loans	(58,005)	
Other Payables	(8,003)	
Unamortized Debt Expense	21,474	
Accrued Interest	(10,626)	
Arbitrage Rebate	(401)	
Compensated Absences	(131,786)	
		(1,653,881)
Net Assets of Governmental Activities		$ 2,286,000

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2006
(In Thousands)

	MAJOR FUNDS					
	GENERAL	DEBT SERVICE	CONVENTION CENTER HOTEL FINANCE CORPORATION	CATEGORICAL GRANT-IN AID	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:						
Taxes:						
Property Taxes	$ 183,566	$ 103,816	$ -	$ -	$ 1,966	$ 289,348
General Sales and Use Taxes	177,806				32,335	210,141
Selective Sales and Use Taxes	4,932					4,932
Gross Receipts Business Taxes	30,823					30,823
Occupancy Taxes					58,672	58,672
Penalties and Interest on Delinquent Taxes	2,233	1,204			26	3,463
Licenses and Permits	19,765					19,765
Intergovernmental	3,446			152,361	36,478	192,285
Revenues from Utilities	256,368					256,368
Charges for Services	35,277				85,264	120,541
Fines and Forfeits	10,948					10,948
Miscellaneous	8,426	272		2,540	16,067	27,305
Contributions			19,871			19,871
Investment Earnings	5,404	4,751	5,626		20,049	35,830
In-Kind Contributions				15,617		15,617
Total Revenues	738,994	110,043	25,497	170,518	250,857	1,295,909
Expenditures:						
Current:						
General Government	66,956			995	12,721	80,672
Public Safety	427,598			9,571	3,062	440,231
Public Works	10,769			10,522	98,406	119,697
Health Services	12,033			17,640	56,585	86,258
Sanitation	2,857			280		3,137
Welfare	21,739			115,369	603	137,711
Culture and Recreation	71,496			2,398	13,242	87,136
Convention and Tourism			35,251		52,258	87,509
Urban Redevelopment and Housing				1,509	16,029	17,538
Economic Development and Opportunity	3,973			267	7,438	11,678
Capital Projects					115,229	115,229
Debt Service:						
Principal Retirement		61,865				61,865
Interest		61,406	10,442			71,848
Bond Escrow Agent		5				5
Issuance Costs		429				429
Total Expenditures	617,421	123,705	45,693	158,551	375,573	1,320,943
Excess (Deficiency) of Revenues over (under) Expenditures	121,573	(13,662)	(20,196)	11,967	(124,716)	(25,034)
Other Financing Sources (Uses)						
Long-Term Debt Issued		33,090			37,600	70,690
Payments to Refunded Bond Escrow Agent		(34,927)				(34,927)
Amounts from Notes and Loans					63,218	63,218
Premium on Long-Term Debt		2,251				2,251
Transfers In	11,467	20,564		6,766	189,244	228,041
Transfers Out	(89,977)			(25,628)	(115,685)	(231,290)
Total Other Financing Sources (Uses)	(78,510)	20,978		(18,862)	174,377	97,983
Net Change in Fund Balances	43,063	7,316	(20,196)	(6,895)	49,661	72,949
Fund Balances, October 1	118,413	85,127	173,286	(3,934)	400,062	772,954
Fund Balances, September 30	$ 161,476	$ 92,443	$ 153,090	$ (10,829)	$ 449,723	$ 845,903

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2006
(In Thousands)

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balances - Total Governmental Funds		$ 72,949
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Expenditures for Capital Assets	137,144	
Less: Current Year Deletions	(24,142)	
Less: Current Year Depreciation	(116,261)	(3,259)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(15,208)
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 Note 14).		
Bond and Loan Amounts	(136,159)	
Other Long-Term Liabilities	(20,118)	
Payments to Escrow Agent	34,927	
Amortization of Bond Premiums and Deferred Charges, Net	(3,057)	
Principal Payments	61,865	(62,542)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (See Note 14).		2,597
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.		14,870
Change in Net Assets of Governmental Activities		$ 9,407

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Net Assets
Proprietary Funds
As of September 30, 2006
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING SYSTEM	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Assets:					
Current Assets:					
Cash and Cash Equivalents	$ 1,116	$ 374	$ 42	$ 1,532	$ 5,505
Investments	14,100	5,574	534	20,208	69,219
Receivables:					
Other Accounts	3,482	83	150	3,715	1,869
Less: Allowance for Uncollectibles	(859)	(53)		(912)	(149)
Accrued Interest	172	52	1	225	733
Accrued Revenue	833		4,850	5,683	1
Due from Other Funds	1,068	85	48	1,201	1,013
Due from Other Governmental Agencies					67
Less: Allowance for Uncollectibles					(23)
Materials and Supplies, at Cost	511	208	11	730	1,507
Prepaid Expenses	17			17	1,019
Deposits					38
Total Current Assets	20,440	6,323	5,636	32,399	80,799
Noncurrent Assets:					
Restricted Assets:					
Debt Service Accounts:					
Cash and Cash Equivalents	5,600	1,524		7,124	
Investments	22,730	480		23,210	
Receivables - Accrued Interest	270	10		280	
Due from Other Funds	130			130	
Construction Accounts:					
Cash and Cash Equivalents	9,235		31	9,266	
Investments	118,414	7,644	390	126,448	
Receivables - Accrued Interest	1,330	81	39	1,450	
Due from Other Funds					
Improvement and Contingency Accounts:					
Cash and Cash Equivalents	3,032	137	38	3,207	
Investments	42,696	1,714	476	44,886	
Receivables - Accrued Interest	391	19	5	415	
Other Restricted Accounts:					
Cash and Cash Equivalents	23			23	
Investments	294			294	
Receivables - Accrued Interest	46			46	
Due from Other Funds	56			56	
Total Restricted Assets	204,247	11,609	979	216,835	
Capital Assets:					
Land	2,970	8,125	893	11,988	
Buildings	144,248	30,136	46	174,430	178
Improvements	170,860	2,095	3,622	176,577	530
Machinery and Equipment	11,359	579	3,868	15,806	129,541
Construction in Progress	103,986	1,334		105,320	
Total Capital Assets	433,423	42,269	8,429	484,121	130,249
Less: Accumulated Depreciation	149,350	11,094	3,807	164,251	79,688
Net Capital Assets	284,073	31,175	4,622	319,870	50,561
Unamortized Debt Expense	3,708	537		4,245	
Total Noncurrent Assets	492,028	43,321	5,601	540,950	50,561
Total Assets	$ 512,468	$ 49,644	$ 11,237	$ 573,349	$ 131,360

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Proprietary Funds
As of September 30, 2006
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING SYSTEM	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Liabilities:					
Current Liabilities:					
Payable from Current Assets:					
Vouchers Payable	$ 528	$ 41	$ 1,637	$ 2,206	$ 7,345
Accounts Payable-Other	9,039	102	2,163	11,304	55,774
Accrued Payroll	563	114	651	1,328	1,003
Accrued Leave Payable	236	32	258	526	439
Unearned Revenues	425	10		435	1,300
Accrued Interest			1	1	
Lease Purchase					293
Due to Other Funds					2,494
Total Payable from Current Assets	10,791	299	4,710	15,800	68,648
Payable from Restricted Assets:					
Vouchers Payable	4,392	82	2	4,476	
Accrued Bond and Certificate Interest	3,205	216		3,421	
Current Portion of Bonds and Certificates	9,605	620		10,225	
Due to Other Funds	1,254	85		1,339	
Lease Purchase			115	115	
Other Payables	198	7	343	548	
Payable from Restricted Assets	18,654	1,010	460	20,124	
Total Current Liabilities	29,445	1,309	5,170	35,924	68,648
Noncurrent Liabilities:					
Revenue Bonds, Net of Current Portion	228,885	22,775		251,660	
Unamortized Premium/Discount on New Series	3,464	349		3,813	
Less: Deferred Amount on Refunding	(2,987)	(403)		(3,390)	
Accrued Leave Payable	1,182	158	1,292	2,632	2,197
Lease Purchase					538
Due to Other Governmental Agencies					711
Other Payables			661	661	
Total Noncurrent Liabilities	230,544	22,879	1,953	255,376	3,446
Total Liabilities	259,989	24,188	7,123	291,300	72,094
Net Assets:					
Invested In Capital Assets, Net of Related Debt	218,101	18,041	4,622	240,764	44,323
Restricted:					
Debt Service	25,911	1,789		27,700	
Unrestricted	8,467	5,626	(508)	13,585	14,943
Total Net Assets	$ 252,479	$ 25,456	$ 4,114	$ 282,049	$ 59,266
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				(6,345)	
Net Assets of Business-Type Activities				$ 275,704	

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended September 30, 2006
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING SYSTEM	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Charges for Services	$ 49,997	$ 10,273	$ 60,090	$ 120,360	$ 201,372
Total Operating Revenues	49,997	10,273	60,090	120,360	201,372
Operating Expenses:					
Personal Services	19,347	4,218	25,100	48,665	34,743
Contractual Services	4,094	346	19,796	24,236	14,973
Commodities	1,346	227	3,699	5,272	4,813
Materials					20,089
Claims					93,267
Other	5,196	1,113	12,295	18,604	17,695
Depreciation	7,635	860	424	8,919	13,042
Total Operating Expenses	37,618	6,764	61,314	105,696	198,622
Operating Income (Loss)	12,379	3,509	(1,224)	14,664	2,750
Nonoperating Revenues (Expenses):					
Interest	9,045	798	180	10,023	2,728
Other Nonoperating Revenue	10,369		589	10,958	2,927
Gain on Sale of Capital Assets	61		3	64	2,427
Interest and Debt Expense	(12,747)	(1,247)	(13)	(14,007)	(37)
Other Nonoperating Expense	(3,590)	(1,232)		(4,822)	
Total Nonoperating Revenues (Expenses)	3,138	(1,681)	759	2,216	8,045
Change in Net Assets before Contributions and Transfers	15,517	1,828	(465)	16,880	10,795
Capital Contributions	7,710			7,710	
Indebtedness Assumed by Governmental Activities		10,870		10,870	
Transfers In (Out)					
Transfers In		452	1,701	2,153	7,074
Transfers Out	(191)	(1,417)	(1,566)	(3,174)	(2,804)
Total Transfers	(191)	(965)	135	(1,021)	4,270
Change In Net Assets	23,036	11,733	(330)	34,439	15,065
Net Assets - October 1	229,443	13,723	4,444		44,201
Net Assets - September 30	$ 252,479	$ 25,456	$ 4,114		$ 59,266
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				195	
Change in Net Assets of Business-Type Activities				$ 34,634	

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

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Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2006
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING SYSTEM	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Cash Received from Customers	$ 48,736	$ 10,367	$ 59,267	$ 118,370	$ 201,675
Cash Payments to Suppliers for Goods and Services	(7,718)	(1,712)	(35,303)	(44,733)	(144,188)
Cash Payments to Employees for Service	(18,895)	(4,121)	(24,407)	(47,423)	(33,377)
Net Cash Provided by (Used for) Operating Activities	22,123	4,534	(443)	26,214	24,110
Cash Flows from Noncapital Financing Activities:					
Other Nonoperating Revenues	10,369		589	10,958	2,927
Transfers In from Other Funds		452	1,701	2,153	7,074
Transfers Out to Other Funds	(191)	(1,417)	(1,566)	(3,174)	(2,804)
Due to Other Funds	(4,223)	(13,609)	(409)	(18,241)	(10,783)
Due from Other Funds	6,451	13,519	371	20,341	12,617
Net Cash Provided by (Used for) Noncapital Financing Activities	12,406	(1,055)	686	12,037	9,031
Cash Flows from Capital and Related Financing Activities:					
Acquisitions and Construction of Capital Assets	(14,210)	(43)	(124)	(14,377)	(17,921)
Principal Payments on Long-Term Debt	(9,615)	(600)	(148)	(10,363)	(96)
Interest Paid on Long-Term Debt	(12,853)	(1,338)	(13)	(14,204)	
Principal Payments on Notes					(226)
Interest Paid on Notes					(37)
Proceeds from Sale of Assets	61		3	64	2,427
Net Cash (Used for) Capital and Related Financing Activities	(36,617)	(1,981)	(282)	(38,880)	(15,853)
Cash Flows from Investing Activities:					
Purchases of Investment Securities	(419,314)	(32,162)	(2,907)	(454,383)	(18,876)
Maturity of Investment Securities	411,924	28,547	2,585	443,056	
Investment Earnings	8,115	741	180	9,036	2,386
Net Cash Provided by (Used for) Investing Activities	725	(2,874)	(142)	(2,291)	(16,490)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,363)	(1,376)	(181)	(2,920)	798
Cash and Cash Equivalents, October 1	20,369	3,411	292	24,072	4,707
Cash and Cash Equivalents, September 30	$ 19,006	$ 2,035	$ 111	$ 21,152	$ 5,505

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2006
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING SYSTEM	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)	$ 12,379	$ 3,509	$ (1,224)	$ 14,664	$ 2,750
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:					
Depreciation	7,635	860	424	8,919	13,042
Changes in Assets and Liabilities:					
(Increase) Decrease In Other Accounts Receivable	(1,464)	31	(133)	(1,566)	(902)
(Increase) Decrease In Allowance for Uncollectibles	419	53		472	(96)
(Increase) Decrease In Accrued Revenues	(45)		(690)	(735)	2
Decrease In Due from Other Governmental Agencies					692
(Increase) Decrease In Materials and Supplies	(11)	1	(2)	(12)	539
(Increase) In Prepaid Expenses					(290)
Decrease In Deposits					243
Increase (Decrease) In Vouchers Payable	131	(18)	468	581	3,379
Increase (Decrease) In Accounts Payable Other	2,798	(9)	21	2,810	2,778
Increase (Decrease) In Accrued Payroll	76	5	5	86	(41)
Increase In Accrued Leave Payable	376	92	688	1,156	1,407
Increase (Decrease) In Unearned Revenue	(171)	10		(161)	607
Net Cash Provided by (Used for) Operating Activities	$ 22,123	$ 4,534	$ (443)	$ 26,214	$ 24,110
Noncash Investing, Capital and Financing Activities:					
Indebtedness Assumed by Governmental Activities	$ -	$ 10,870	$ -	$ 10,870	$ -

The accompanying notes are an integral part of these basic financial statements.

Statement of Fiduciary Net Assets/Balance Sheet
Fiduciary Funds
As of September 30, 2006
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Assets:			
Current Assets:			
Cash and Cash Equivalents	$ 191,295	$ 13	$ 7,296
Security Lending Collateral	226,748		
Investments, at Fair Value:			
U.S. Government and Agency Issues	147,148		1,257
Corporate Bonds	140,558		
Preferred and Common Stock	69,129		
Other	1,493,148	20	
Total Investments, at Fair Value	1,849,983	20	1,257
Receivables:			
Other Accounts	6,295		556
Accrued Interest	6,894		11
Accrued Revenue	1,659		
Prepayments	12		
Total Current Assets	2,282,886	33	9,120
Capital Assets:			
Computer Equipment	76		
Buildings	681		
Total Capital Assets	757		
Less: Accumulated Depreciation	366		
Net Capital Assets	391		
Total Assets	2,283,277	33	$ 9,120
Liabilities:			
Vouchers Payable	2,465		$ -
Accounts Payable - Other	8,562		8,520
Accrued Payroll	107		
Due to Other Funds			600
Unearned Revenue	308		
Securities Lending	226,748		
Total Liabilities	238,190		$ 9,120
Net Assets:			
Held in Trust for Pension Benefits and Other Purposes	$ 2,045,087	$ 33	

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2006
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS
Additions:		
Contributions:		
Employer	$ 72,202	$ -
Employee	26,369	
Other Contributions		1
Total Contributions	98,571	1
Investment Earnings:		
Net Increase in Fair Value of Investments	148,990	
Real Estate Income, Net	9,325	
Interest and Dividends	37,187	1
Securities Lending	9,507	
Other Income	1,481	
Total Investment Earnings	206,490	1
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(11,791)	
Securities Lending Expenses:		
Borrower Rebates	(8,956)	
Lending Fees	(193)	
Net Investment Income	185,550	1
Total Additions	284,121	2
Deductions:		
Benefits	90,069	
Refunds of Contributions	371	
Administrative Expense	1,655	
Salaries, Wage, and Employee Benefits	564	
Total Deductions	92,659	
Change in Net Assets	191,462	2
Net Assets - October 1	1,853,625	31
Net Assets - September 30	$ 2,045,087	$ 33

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Net Assets
Component Units
As of September 30, 2006
(In Thousands)

	SAN ANTONIO WATER SYSTEM	CPS ENERGY	NONMAJOR COMPONENT UNITS	TOTAL
Assets:				
Current Assets:				
Cash and Cash Equivalents	$ 11,891	$ 96,548	$ 19,102	$ 127,541
Investments	115,716	145,993	5,430	267,139
Receivables:				
Notes			11,764	11,764
Other Accounts	40,530	117,071	3,316	160,917
Accrued Interest	880	36,091	122	37,093
Materials and Supplies, at Cost	4,786	149,545	62	154,393
Due from Other Governmental Agencies			2,429	2,429
Prepaid Expenses	2,111	55,057	84	57,252
Total Current Assets	175,914	600,305	42,309	818,528
Noncurrent Assets:				
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	39	685		724
Investments	24,219	2,895		27,114
Receivables-Accrued Interest		2		2
Construction Accounts:				
Cash and Cash Equivalents	5,328	1		5,329
Investments	171,509	103,174		274,683
Receivables-Accrued Interest		881		881
Repair and Replacement Account:				
Cash and Cash Equivalents		11,338		11,338
Investments		650,525		650,525
Receivables - Accrued Interest		4,147		4,147
Conservation Accounts:				
Investments	2,409			2,409
Other Restricted Accounts:				
Cash and Cash Equivalents		41,806	7,217	49,023
Investments	6,211	447,945		454,156
Receivables - Accrued Interest		2,157		2,157
Total Restricted Assets	209,715	1,265,556	7,217	1,482,488
Capital Assets:				
Land	108,869	58,651	12,586	180,106
Infrastructure			46,033	46,033
Buildings			197,207	197,207
Utility Plant in Service	2,497,609	7,373,168		9,870,777
Machinery and Equipment	109,764		2,693	112,457
Construction in Progress	483,201	296,946	13,201	793,348
Utility Property Leased		18,785		18,785
Nuclear Fuel, Net		485,055		485,055
Nonutility Property - Land		12,599		12,599
Total Capital Assets	3,199,443	8,245,204	271,720	11,716,367
Less: Accumulated Depreciation	861,163	3,302,568	50,475	4,214,206
Net Capital Assets	2,338,280	4,942,636	221,245	7,502,161
Assets Held for Resale	2,760			2,760
Prepaid Rent Long-Term - Leaseback		496,392		496,392
Unamortized Debt Expense	13,761	28,016		41,777
Total Noncurrent Assets	2,564,516	6,732,600	228,462	9,525,578
Total Assets	$ 2,740,430	$ 7,332,905	$ 270,771	$ 10,344,106

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Component Units
As of September 30, 2006
(In Thousands)

	SAN ANTONIO WATER SYSTEM	CPS ENERGY	NONMAJOR COMPONENT UNITS	TOTAL
Liabilities:				
Current Liabilities:				
Payable from Current Assets:				
Accounts Payable and Other Current Liabilities	$ 33,540	$ 256,176	$ 26,963	$ 316,679
Sewer Service Collections Payable	276			276
Unearned Revenues			2,498	2,498
Notes Payable	425		3,209	3,634
Due to Other Governmental Agencies			1,066	1,066
Total Payable from Current Assets	34,241	256,176	33,736	324,153
Payable from Restricted Assets:				
Accrued Bond and Certificate Interest	8,280			8,280
Current Portion of Bonds and Certificates	22,415	135,155		157,570
Other Payables	13,712			13,712
Total Payable from Restricted Assets:	44,407	135,155		179,562
Total Current Liabilities	78,648	391,331	33,736	503,715
Noncurrent Liabilities:				
Revenue Bonds, Net of Current Portion	1,351,510	2,832,730		4,184,240
Commercial Paper	98,000	150,000		248,000
Unamortized Premium on New Series Bonds	14,139	102,164		116,303
Plus: Unamortized Discount on New Series Bonds	(13,768)			(13,768)
Deferred Amount on Refunding	(26,243)	(121,298)		(147,541)
Long-Term Lease/Notes Payable	1,027	565,893	63,800	630,720
Other Payables	2,015	417,546	55	419,616
Total Noncurrent Liabilities	1,426,680	3,947,035	63,855	5,437,570
Total Liabilities	1,505,328	4,338,366	97,591	5,941,285
Net Assets:				
Invested in Capital Assets, Net of Related Debt	1,057,178	1,949,167	146,803	3,153,148
Restricted for Renewal and Replacement		666,010	3,056	669,066
Restricted for Debt Service	15,978	3,582	4,360	23,920
Restricted for Conservation	2,409	177,980		180,389
Unrestricted	159,537	197,800	18,961	376,298
Total Net Assets	$ 1,235,102	$ 2,994,539	$ 173,180	$ 4,402,821

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Statement of Activities
Component Units
Year Ended September 30, 2006
(In Thousands)

		PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	SAN ANTONIO WATER SYSTEM	CPS ENERGY	NONMAJOR COMPONENT UNITS	TOTALS
San Antonio Water System	$ 300,128	$ 328,170	$ 81,409	$ 109,451	$ -	$ -	$ 109,451
CPS Energy	1,699,090	1,682,719	68,090		51,719		51,719
Nonmajor Component Units	55,323	16,757	64,854			26,288	26,288
Total	$ 2,054,541	$ 2,027,646	$ 214,353	109,451	51,719	26,288	187,458
General Revenues:							
Investment Earnings				11,168	57,219	1,475	69,862
Miscellaneous						6,448	6,448
Gain on Disposal of Capital Assets						3,525	3,525
Special Items				(3,584)			(3,584)
Total General Revenues and Special Items				7,584	57,219	11,448	76,251
Change in Net Assets				117,035	108,938	37,736	263,709
Net Assets - Beginning of Fiscal Year				1,127,844	2,885,601	142,308	4,155,753
Prior Period Adjustment				(9,777)		(6,864)	(16,641)
Net Assets - End of Fiscal Year				$ 1,235,102	$ 2,994,539	$ 173,180	$ 4,402,821

The accompanying notes are an integral part of these basic financial statements.

Amounts are expressed in thousands

Comprehensive Annual Financial Report
Table of Notes to Financial Statements
Year Ended September 30, 2006

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Note 1 Summary of Significant Accounting Policies

The financial statements of the City of San Antonio (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*. The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials, 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, the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statements No. 14 and 39 outlined below, potential component units were evaluated for inclusion in or exclusion from the reporting entity, whether the organizations were financially accountable or not, and were further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others only discretely presented.

The following criteria (as set forth in GASB Statements No. 14 and No. 39) were used in the evaluation of potential component units of the City:

1) Legally separate
2) Financial accountability
   a) Appointment of a voting majority
   b) Imposition of will
   c) Financial benefit to or burden on the City
   d) Fiscal dependency
3) The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete
4) Service rendered by the potential component unit is provided entirely or almost entirely to the City.
5) The City or its component units, are entitled to, or have the ability to access the majority of the resources received or held by the separate organization

The criteria outlined above were excerpted from GASB Statements No. 14 and No. 39. For a more detailed explanation of the criteria established by the statements, the reader is referred to the *Codification of Governmental Accounting and Financial Reporting Standards*, as of June 30, 2006, published by GASB, Section-2600. GASB Statement No. 39 further clarifies that a "not for profit" may not be financially accountable to the City, but may be considered a component unit based on the nature and significance of its relationship with the City. Predicated upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units

The relationships among the following component units and the City meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity and 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. Following is a brief description of the City's blended component units:

San Antonio Health Facilities Development Corporation P.O. Box 830504 San Antonio, Texas 78283-0504 Contact: Robert Peche Telephone No. (210) 207-8040	The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of the City as a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The HFDC is governed by a board of directors, which is comprised of the City Council of the City of San Antonio.
San Antonio Industrial Development Authority P.O. Box 830504 San Antonio, Texas 78283-0504 Contact: Robert Peche Telephone No. (210) 207-8040	The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979, in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of the City as, an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects, which may further the promotion and development of commercial, industrial, and manufacturing enterprises to advance and encourage employment and public welfare. The IDA is governed by a board of directors, which is comprised of the City Council of the City of San Antonio.
San Antonio Fire and Police Pension Fund 311 Roosevelt San Antonio, Texas 78210-2700 Contact: Warren Schott Telephone No. (210) 534-3262	The San Antonio Fire and Police Pension Fund (Pension Fund) is a single employer defined benefit plan established in accordance with state law. The Pension Fund is administered by a nine-member board of trustees, including three City Council members. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state laws. Benefit levels are also set by state laws. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers, upon retirement.
San Antonio Texas Municipal Facilities Corporation P.O. Box 839966 San Antonio, Texas 78283-3966 Contact: Ben Gorzell Jr. Telephone No. (210) 207-8620	The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in fiscal year 2001 in accordance with state laws for the purposes of, and to act on behalf of the City in, acquiring, constructing, equipping, financing, operating, and maintaining land and other municipal facilities for the City. The TMFC is governed by a board of directors, which is comprised of the City Council of the City of San Antonio.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Fire and Police Retiree Health Care Fund
300 Convent Street, Suite 2500
San Antonio, Texas 78205-3716
Contact: James Bounds
Telephone No. (210) 220-1385

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide postemployment health care benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these postemployment health care benefits for eligible uniformed employees of the City. The Health Fund is administered by a nine-member board of trustees, including three City Council members, and is funded primarily by contributions from the City and contributions made by active employees and retirees on behalf of their dependents. The City, uniform active employee and retiree contribution rates are established pursuant to the Fire and Police collective bargaining agreements.

San Antonio Texas Starbright Industrial Development Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Ben Gorzell, Jr.
Telephone No. (210) 207-8620

The City of San Antonio Texas Starbright Industrial Development Corporation (TSIDC) was established in fiscal year 2003 in accordance with state laws for the purposes of, and to act on behalf of the City in, the promotion and development of commercial, industrial, and manufacturing enterprises, to advance and encourage employment and public welfare, including but not limited to the acquisition of land. The TSIDC is governed by a board of directors, which is comprised of the City Council of the City of San Antonio.

San Antonio Texas Convention Center Hotel Finance Corporation
100 Military Plaza
4th Floor, City Hall
San Antonio, Texas 78205-2425
Contact: Robert Peche
Telephone No. (210) 207-8040

The City of San Antonio, Texas Convention Center Hotel Finance Corporation (TCCHFC) was established in fiscal year 2005 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The TCCHFC is governed by a board of directors, which is comprised of the City Council of the City of San Antonio.

Discretely Presented Component Units

The relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB 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.

CPS Energy
P.O. Box 1771
San Antonio, Texas 78296-1771
Contact: Richard E. Williamson
Telephone No. (210) 353-2397

CPS Energy, a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS Energy is governed by a board of trustees, which is comprised of four members appointed by the City Council and the Mayor of the City as an ex-officio member. In 2006, City Public Service changed its name to CPS Energy. The user rates for services and charges and the issuance bonds are approved by the City Council.

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298-2449
Contact: Doug Evanson
Telephone No. (210) 233-3803

On February 13, 1992, the City Council determined it was in the best interests of the citizens of San Antonio and the customers served by the water and wastewater utilities to consolidate all water systems, 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 the customers would best be served by placing authority for management and control of SAWS, as consolidated, in a board of trustees. This board of trustees includes the City's Mayor as an ex-officio member, along with six members appointed by the City Council for four-year staggered terms. The user rates for user charges and bond issuance authorizations are approved by the City Council.

San Antonio Education Facilities Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Robert Peche
Telephone No. (210) 207-8040

The City of San Antonio Higher Education Authority (SAHEA) was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with, and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to San Antonio Education Facilities Corporation (SAEFC). The 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.

San Antonio Development Agency
P. O. Box 831386
San Antonio, Texas 78283-1386
Contact: David D. Garza
Telephone No. (210) 207-5850

The San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the state of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate for urban renewal in such areas as it deems advisable, subject to approval by the City Council 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.

Brooks Development Authority
8030 Challenger Drive
Brooks City-Base, Texas 78235-5355
Contact: Bart Sanchez
Telephone No. (210) 536-6710

The Brooks Development Authority (BDA) is a special district and political subdivision of the state of Texas. It was established on September 27, 2001, as a defense base development authority in accordance with state laws for the purposes of, and to act on behalf of the City in, improving mission effectiveness, reducing the cost of providing quality installation support through improved capital asset management, and promoting economic development for Brooks Air Force Base and in the surrounding community. An eleven-member board of directors appointed by the City Council 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Housing Trust Foundation, Inc.
2515 Blanco Rd.
San Antonio, Texas 78212-2796
Contact: John Kenny
Telephone No. (210) 735-2772

The San Antonio Housing Trust Foundation, Inc. (SAHTF) is a nonprofit corporation incorporated in 1990 under the laws of the state of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, and specifically for providing housing for low- and middle-income families, and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, a Permanent Fund of the City. The Housing Trust Fund was established by the City for the purposes of providing additional and continuing housing opportunities for low- and moderate-income families; promoting public health, safety, convenience, and welfare; and revitalizing neighborhoods and the downtown area through appropriate housing activities. SAHTF is governed by an eleven-member board of directors appointed by the City Council. 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.

Port Authority of San Antonio dba Port San Antonio
143 Billy Mitchell Blvd., Ste 6
San Antonio, Texas 78226-1816
Contact: Bruce Miller
Telephone No. (210) 362-7800

The Greater Kelly Development Corporation (GKDC) was established in 1996 as a local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base (Kelly). In November 1999, the City established the Greater Kelly Development Authority (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA has the powers previously enjoyed by the GKDC, while at the same time clarifying such powers and preserving the property tax-exempt status of prior commercial tenants at Kelly. In 2006, GKDA changed its name to Port Authority of San Antonio dba Port San Antonio (the Port). The Port is a special district and political subdivision of the state of Texas and was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The Port is governed by an eleven-member board of directors, appointed by the City Council. The City Council also has the ability to remove appointed members of the organization's governing board at will. The Port is authorized to issue bonds to finance any project as permitted by state laws, but said bonds are not obligations of the City.

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Local Development Company Inc. dba South Texas Business Fund
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact: Robert Peche
Telephone No. (210) 207-8040

The San Antonio Local Development Company Inc. (SALDC) is a nonprofit corporation organized in 1978 under the laws of the state of Texas and the auspices of the City. In 2004, SALDC changed its name to San Antonio Local Development Company dba South Texas Business Fund (STBF). The STBF also expanded the area served from twelve counties to all of the counties in the state of Texas. STBF was formed to participate in the Neighborhood Business Revitalization Program (NBRP), which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration, and the U.S. Department of Housing and Urban Development (HUD). STBF is governed by a thirty-three member board of trustees, appointed by the City Council, and an eleven-member board of directors appointed by 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.

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office.

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS Energy and SAWS would be misleading. CPS Energy and SAWS have been identified as major discretely presented component units as they both relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements. Discretely presented component units with different fiscal year ends from the City are SAWS, with a fiscal year-end of December 31, and CPS Energy with a fiscal year-end of January 31.

Related Organizations

The City Council appoints the members to the board of commissioners for the San Antonio Housing Authority; however, the City's accountability for this entity does not extend beyond making appointments to the board of commissioners and the coordination and approval of strategic plans.

Basic Financial Statements - GASB Statement No. 34

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 nonfiduciary activities of the primary government and its component units. The MD&A introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Basic Financial Statements - GASB Statement No. 34 (Continued)

The Statement of Net Assets - Reflects both short-term and long-term assets and liabilities. In the Government-Wide Statement of Net Assets, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by fees and charges for services. Long-term assets, such as capital assets, infrastructure assets, and long-term obligations are now reported with the assets of governmental activities. The components of net assets, previously shown as fund balances, are presented in three separate components: (1) Invested in Capital Assets, Net of Related Debt, (2) Restricted, and (3) Unrestricted. Interfund receivables and payables between governmental and business-type activities have been eliminated in the government-wide Statement of Net Assets, which minimizes the duplication of assets and liabilities within the governmental and business-type activities. Component units are also reported in the Statement of Net Assets.

The Statement of Activities - Reflects both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales tax, intergovernmental revenues, etc.). Direct (gross) expenses of a given function or segment are offset by program revenues, and operating and capital grants. Program revenues must be directly associated with the function of business-type activity. The presentation allows users to determine which functions are self-supporting and which rely on the tax base in order to complete their mission. Internal service fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental and business-type activities of the Statement of Activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the internal service fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the internal service funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets. The only reconciling item is the internal service fund allocation.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: governmental funds, enterprise funds, and fiduciary funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported separately in the Fund Financial Statements. Nonmajor funds are independently presented in the combining statements.

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

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

- 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 those that are accounted for in proprietary type funds.
- The City of San Antonio Texas Convention Center Hotel Finance Corporation Fund accounts for the selling of debt to finance the Convention Center Hotel building project.
- The Categorical Grant-In-Aid fund accounts for the receipt and disbursement of all federal and state grants, except for Community Development Block Grants and HOME Investment Partnership Grants.

The following is a brief description of the major proprietary 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 System operations is provided by user fees.

Governmental Funds

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

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than private-purpose trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

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

The governmental funds that have legally adopted budgets are the General Fund, Special Revenue Funds (excluding Project Management Office, HOME Program, Categorical Grant-In-Aid, HUD 108 Loan Program, Community Development Program, Community Services Fund, and Capital Project Funds), and the Debt Service Funds, Official City Store, Animal Care Service, and San Jose Burial Fund. Please note the Official City Store and Animal Care Service are reported in Community Services Fund.

Proprietary Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the expenses (including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in these funds.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include Pension Trust and Retiree Health Care Trust, which account for resources for pension fund and health care benefits for the City's firefighters and police officers. The Private Purpose Trust Funds include an assistance fund and a scholarship fund for City employees, as well as reporting on funds restricted for the City's literacy programs. The Agency Funds account for the City's sales tax to be remitted to the state, various fees for other governmental entities, unclaimed property, and holds various deposits. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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 interests and penalties. For additional disclosure related to property taxes see Note 2, Property Tax. Other taxes and fees are recognized as revenue in the year they are earned. Revenues from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied.

Program revenues are presented in the government-wide Statement of Activities. The City reports program revenues into three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions. Further descriptions of these three categories follow. They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by transactions with outside parties who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those funds to specific programs. Investment earnings that are legally restricted to specific programs are also reported as program revenues.

1) Charges for services are revenues generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, golf course fees, and food establishment licenses. Fines and forfeitures 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.

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included in their balance sheets. Revenues are recognized in the accounting period in which they become available and measurable. For this purpose, the City considers revenues, other than grants, to be available if the revenues are collected within 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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 materials and supplies and prepaid expenditures to indicate that they do not represent "current financial resources," since they do not represent net current assets. Such amounts are generally offset by fund balance reserve accounts.

Proprietary, Pension Trust, Private Purpose Trust, and Retiree Health Care Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred. These funds are accounted for on a cost of services or "economic resources" measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent) associated with their activity are included in their balance sheets. The reported proprietary fund net assets are segregated into three components: (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

Proprietary funds report both operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and street lot fees are operating revenues of the Parking System Fund. This definition is consistent with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered nonoperating.

The City's 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 Energy and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

CPS Energy's operating revenue includes receipts from energy sales and miscellaneous revenue related to the electric and gas systems operations. Miscellaneous revenue includes late payment fees, rental income, jobbing and contract work, and ancillary services. Operating expenses include those expenses that result from the ongoing operations of the electric and gas systems. Nonoperating revenues consist primarily of investment income, including the changes in fair value of investments. The amortization of net gains from the lease-leaseback of J.K. Spruce Unit 1 and the sale of water rights in prior years are also included.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Certain miscellaneous income amounts from renting general property and providing various services are also recorded as nonoperating when they are not directly identified with the electric or gas systems. These amounts for fiscal year 2006 were recorded net of expenses of $1,700 that were incurred to support the applicable activities.

SAWS' principal operating revenues are charges to customers for water and wastewater services. Operating expenses include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues consist primarily of investment income, including the changes in fair value of investments. Some miscellaneous income from renting general property and miscellaneous service is also recorded in nonoperating when it is not directly identified with the water or wastewater services.

Current Year GASB Statement Implementations

In fiscal year 2006, the City implemented the following GASB Statements:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for the service utility of an asset that has declined significantly and unexpectedly. For more information, please refer to Note 4, Capital Assets.

GASB Statement No. 44, *Economic Condition Reporting: TheStatistical Section*, an amendment of NCGA Statement 1. This statement addresses new standards to improve the understandability and usefulness of the information that state and local governments present in the statistical section.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This statement assists governments in determining 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 the financial statements when there are changes in the circumstances surrounding such legislation. As of September 30, 2006, the City had no fund net assets restricted by enabling legislation.

GASB Statement No. 47, *Accounting for Termination Benefits*. This statement requires employers to disclose termination benefit arrangements, the cost of the termination benefits, and significant assumptions and methods used to determine termination benefit liabilities. Statement 47 is effective for financial statements for periods beginning after June 15, 2005. The City offered an early retirement incentive to employees which took effect in May 2006. Calculations were based on the City's cost for an amount equivalent to 50% of the retiree's premium. As of September 30, 2006, the costs for these incentives have been analyzed and are considered immaterial for financial reporting purposes.

Future GASB Statement Implementations

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. GASB Statement No. 43 follows a similar approach to GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*, with modifications to reflect differences between pension plans and OPEB plans. The provisions of this statement are effective for fiscal periods beginning after December 15, 2005.

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities, assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for fiscal periods beginning after December 15, 2006.

GASB Statement No. 47, *Accounting for Termination Benefits*, requires employers to disclose termination benefit arrangements, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. Termination benefits that are provided through an existing defined benefit OPEB plan should be implemented for the fiscal period beginning after December 15, 2006 (simultaneously with GASB Statement No. 45).

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes criteria that governments will use to determine if a certain transaction should be regarded as a sale or a collateralized borrowing, requires enhanced disclosures pertaining to future revenues that have been pledged or sold, provides guidance on sales of receivables and future revenues within the same financial reporting entity, and provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues. The requirements for this statement are effective for fiscal periods beginning after December 15, 2006.

The City has not fully determined the effect that implementation of Statements No. 43, No. 45, No. 47, and No. 48 will have on the City's financial statements.

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, 2006, 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 and Fire and Police Retiree Health Care Fund. For a listing of authorized investments, see Note 3, Cash and Cash Equivalents and Investments.

The City, CPS Energy, and SAWS account for, and report investments, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The Fire and Police Pension Plan and the Fire and Police Retiree Health Care Fund report investments at fair value, in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The City's policy with respect to money market investments, which had a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, CPS Energy, and SAWS consider all highly liquid investments with an original maturity of approximately ninety days or less to be cash equivalents.

Materials and Supplies and Prepaid Items

Materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for certain materials and supplies. Under the consumption method, these acquisitions are recorded in material and supplies accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

Note 1 Summary of Significant Accounting Policies (Continued)

Materials and Supplies and Prepaid Items (Continued)

Prepaid items are goods and services that are paid in advance. These payments reflect costs applicable to future accounting periods, and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

Capital Assets and Depreciation

Primary Government (City)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported in the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. With the implementation of GASB Statement No. 34, the City has established capitalization thresholds for infrastructure and machinery and equipment, which includes computer equipment. All infrastructure assets are reported in the financial statements and the estimated useful lives and capitalization thresholds applied are as follows:

Assets	Useful Life (Years)	Capitalization Threshold
Buildings	15-40	$ 100
Improvement (Other than buildings)	20-40	100
Machinery and Equipment	2-20	5
Furniture and Office Equipment	5-10	5
Infrastructure	15-100	25

CPS Energy

The CPS Energy 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 Energy 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 Energy 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 as a percent of total depreciable assets, excluding nuclear fuel, was approximately 3.3% for 2006.

CPS Energy amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS Energy is charged a fee for disposal of spent nuclear fuel, which is based upon CPS Energy's share of the STP generation that is available for sale to CPS Energy customers. The charge is included in fuel expense monthly. For further discussion regarding the STP, see Note 10, CPS Energy South Texas Project (STP).

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets And Depreciation (Continued)

CPS Energy (Continued)

The estimated useful lives of capital assets are as follows:

Buildings and structures	15-60 years
Systems and improvements:	
Generation	8-45 years
Transmission and distribution	20-55 years
Gas	50-65 years
Machinery and equipment	4-30 years
Lignite mineral rights and other	20-40 years
Nuclear fuel	Units of Production

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. It is the policy of SAWS to capitalize certain interest costs on revenue bonds and commercial paper associated with newly constructed utility plant additions. Maintenance, repairs, and minor renewals are charged to operating expense; major plant replacements are capitalized.

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 estimated useful lives of capital assets are as follows:

Structures and improvements	50 years
Pumping and purification equipment	10-50 years
Distribution and transmission system	25-50 years
Collection system	50 years
Treatment facilities	25 years
Equipment and machinery	5-20 years
Furniture and fixtures	10 years
Computer equipment	5 years
Software	3 years

General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service 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.

Compensated Absences

In the governmental fund financial statements, the City accrues annual leave and associated employee related costs when matured (payable from available resources) for City nonuniformed employees and uniformed fire and police employees. In addition, the City accrues the matured portion of the City's uniformed fire and police employees, accrued sick leave pay, holiday pay, and bonus pay. Compensatory time is also accrued for the matured portion of the City's nonuniformed, nonexempt employees, as well as uniformed police officers.

Note 1 Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued)

For governmental fund types, the matured current portion of the liability resulting from the accrual of these compensated absences is recorded in the respective governmental fund and reported in the fund financial statements, while the entire vested liability is reported in the government-wide financials. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary fund.

Insurance

Activity for the City's self-insurance programs is recorded in the Internal Service Funds. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, extended sick leave, and employee wellness are included.

The City is insured for property and casualty liability. As of the fiscal year 2006, Great American Insurance Company insured the City's property, while the State National Insurance Company provided excess liability coverage. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported prior to the end of the fiscal year.

The City also provides employee health, workers' compensation, and unemployment benefits under its self-insurance programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims 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, 2006. The City records all workers' compensation loss contingencies, including claims incurred but not reported.

Employee health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits. Regarding unemployment compensation, the City is subject to the state of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the state for claims paid by the state.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent". A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 12, Risk Financing.

Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund equity represent tentative plans identified by management and are subject to change. Designations are utilized in the City's governmental funds for amounts that have been designated for subsequent years' expenditures and amounts allocated to making future improvements and replacements. Such designations will be reflected on the fund financial statements.

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Note 1 Summary of Significant Accounting Policies (Continued)

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 Energy revenues are recorded when earned. Customers' meters are read and bills are rendered monthly. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS Energy reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned, under the accrual basis.

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 2006, general government expenditures were reduced by $6,956, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of $4,306 and $2,650, respectively.

Nuclear Decommissioning

CPS Energy, 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 Energy will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1999, the owners conducted a review of decommissioning costs. The results estimated CPS Energy's share of decommissioning costs at approximately $311,000 in 1998 dollars. In 2004, the owners conducted an additional review of decommissioning, and results showed that CPS Energy's share of decommissioning costs are now approximately $397,400 in 2004 dollars.

Although there was an increase in decommissioning base costs from the 1998 study, there was an offsetting decrease in applicable cost escalation assumptions. Therefore, CPS Energy was able to decrease its minimum annual contribution requirement from $15,900 in fiscal year 2004 to $6,900 in fiscal year 2005, which included the partial year affect of the updated study. Reflecting a full year's impact of the most recent study, CPS Energy's minimum annual contribution requirement was $5,000 in fiscal year 2006.

In 1991, CPS Energy started accumulating the decommissioning funds for the 28.0% portion in an external trust, in accordance with the NRC regulations. The 28.0% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. At December 31, 2005, CPS Energy had accumulated approximately $231,600, of funds in that 28.0% external trust. Based on the annual calculation of financial assurance required by the NRC, CPS Energy's 28.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $76,700 at December 31, 2005.

Note 1 Summary of Significant Accounting Policies (Continued)

Nuclear Decommissioning (Continued)

In conjunction with the acquisition of the additional 12.0% interest in STP in May 2005, CPS Energy also assumed control of a relative portion of the Decommissioning Trust previously established by American Electric Power (AEP). This is referred to as the 12.0% Decommissioning Trust, and its assets and related liabilities are also included in CPS Energy's financial statements as a component unit.

In fiscal year 2006, AEP's remaining operational interest in STP was simultaneously acquired by Texas Genco. Additionally, the remaining portion of AEP's Decommissioning Trust was assumed by Texas Genco. These transactions occurred before Texas Genco was acquired by NRG.

Subject to Public Utility Commission of Texas (PUCT) approval as requested in the future, credits or deficiencies in the undoing of this trust will be received from or distributed to AEP's customers. As of December 31, 2005, that trust had accumulated approximately $70,100 of funds. According to the 2004 study mentioned above, the estimated decommissioning costs for that trust are approximately $170,300 in 2004. Based on the annual calculation of financial assurance required by the NRC, the 12.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $32,900 at December 31, 2005.

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.

Elimination of Internal Activity

Elimination of internal activity, particularly related to internal service fund transactions, is needed to make the transition from governmental funds to government-wide activities. The overriding objective in "eliminating the effects of internal service fund activity" is to adjust the internal charges to cause a break-even result. Eliminating the "effect" of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. Net income derived from internal service fund activity would cause a pro rata reduction in the charges made to the participating funds/functions. Conversely, an internal service fund net loss would require a pro rata increase in the amounts charged to the participating funds/functions. Therefore, eliminations made to the Statement of Activities remove the "doubling up" effect of internal service fund activity. The residual internal balances between the governmental and business-type activities are reported in the Statement of Net Assets, and the internal balance amounts that exist within the governmental funds or within business-type funds are eliminated. The City reports internal service fund balances in both governmental and business-type activities, based on the pro rata share of the amounts charged to the participating funds/functions.

Note 1 Summary of Significant Accounting Policies (Continued)

Elimination of Internal Activity (Continued)

The City has three internal service funds: Other Internal Services, Information Technology Services, and Self-Insurance Funds. Other Internal Services and Information Technology Services charge users fees for requested goods or services. Building maintenance charges, a component of the Other Internal Services Fund, are based on the space occupied by departments. Through the tracking of these charges to the applicable departments, the net income or loss will be allocated back to the user department, based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year. The net income or loss generated by the Self-Insurance Funds is allocated back, based on the same allocation by which the revenues are received.

Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditures are restricted to certain allowable costs. In situations where both restricted and unrestricted net assets are expended to cover allowable expenses, the City will first expend the restricted net assets and cover additional costs with unrestricted net assets. The City reserves the right to selectively defer the use of restricted assets.

Other Budget Disclosures

Excess of expenditures, transfers, and encumbrances over appropriations occurred as shown in the table below:

Excess of Expenditures, Transfers, and Encumbrances over Appropriations

Fund/Expenditures	Appropriations	Expenditures, Transfers, and Encumbrances	Excess of Expenditures, Transfers, and Encumbrances over Appropriations
Special Revenue Funds:			
Hotel Motel Tax Capital Improvement	$ 10,453	$ 12,377	$ 1,924
Emergency Medical Services	47,686	48,746	1,060
Public Health Support Revenue	2,626	2,789	163
International Center	921	1,029	108
Animal Care Services	4,937	5,125	188
Permanent Funds:			
San Jose Burial Park	452	475	23

The excess expenditures over appropriations were fully offset by excess actual revenues or fund balances.

Prior-Period Adjustments

SAWS' prior year net assets have been restated by $(9,777). This restatement relates to capitalized interest calculations. SAWS analyzed their capitalized interest calculations for prior years and recorded this entry to reverse prior period capitalized interest.

Brooks Development Authority restated net assets due to record long-term liability to CPS Energy and SAWS in the amount of $(6,739), to recognize lease revenue of $102, to record grant revenue/expenses in the amount of $(213), and to accrue interest receivable in the amount of $94.

San Antonio Development Agency (SADA) restated beginning net assets in the amount of $13 due to their inclusion of a component unit, San Antonio Affordable Housing, which should have been blended in prior years.

Note 1 Summary of Significant Accounting Policies (Continued)

Prior-Period Adjustments (Continued)

San Antonio Housing Trust Foundation, Inc. restated their beginning net assets in the amount of $(121), which is comprised of $(100) correcting a 2003 debt refinancing error and $(21) which is the cumulative difference in prior tax basis losses versus accrual basis losses.

Unreserved Designated Fund Balance

The designated fund balances from the governmental funds balance sheet are composed of the following:

- The General Fund has designated unreserved fund balance for budgeted carryforwards, special projects, reserve for revenue loss and fund balance reserved for Public, Educational and Government access channel operations.
- Special Revenue funds designated fund balance consists entirely of budgeted carryforwards.
- Permanent funds designated fund balance consists of budgeted carryforwards as well as a reservation for security of a loan within the San Antonio Housing Trust fund.

Note 2 Property Taxes

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1, and become delinquent the following February 1. 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.

In the governmental funds, property tax revenues are recognized when they become available, which means when due, or past due and receivable within the current period or expected to be collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. Property tax receivables, net of allowances for uncollectible amounts, are offset by unearned revenues. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation (please note amounts are not reflected in thousands). The tax rate approved by City ordinance for the year ended September 30, 2006, 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 $958,212 per year based on the net taxable valuation of $49,868,955 before the limit is reached.

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Note 3 Cash and Cash Equivalents and Investments

Summary of Cash and Cash Equivalents and Investments

A summary of cash and cash equivalents and investments for the primary government (City), Fire and Police Pension Fund, Fire and Police Retiree Health Care Fund, CPS Energy, and SAWS are presented below as of each entity's respective fiscal year. The information is provided in order to facilitate reconciliation between the Statement of Net Assets and the following note disclosures:

Totals from Statement of Net Assets

	City [1]	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS[2] Energy	SAWS[3]
Unrestricted:					
Cash and Cash Equivalents	$ 26,715	$ 170,049	$ 21,246	$ 96,548	$ 11,891
Security Lending Collateral		199,901	26,847		
Investments	311,345	1,704,387	145,596	145,993	115,716
Total Unrestricted	338,060	2,074,337	193,689	242,541	127,607
Restricted:					
Cash and Cash Equivalents	143,759			53,830	5,367
Investments	648,154			1,204,539	204,348
Total Restricted	791,913	-	-	1,258,369	209,715
Total Cash and Cash Equivalents and Investments	$ 1,129,973	$ 2,074,337	$ 193,689	$ 1,500,910	$ 337,322

[1] The following amounts were held by the City in a fiduciary capacity and are excluded from the primary Statement of Net Assets: cash and cash equivalents of $7,309 and investments of $1,277.
[2] For the fiscal year ended January 31, 2006.
[3] For the fiscal year ended December 31, 2005.

Summary of Cash and Cash Equivalents

	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
Deposits with Financial	$ 16,482	$ -	$ -	$ 10,731	$ 8,472
Investments with Original Maturities of Less than Ninety Days	153,102		20,912	138,870	8,547
Cash with Pension/Retiree Health Care Fiscal Agents		170,049	334		
Cash with Other Financial Agents	12			639	
Petty Cash Funds	173			138	
Cash on Hand	705				239
Total Cash and Cash Equivalents	$ 170,474	$ 170,049	$ 21,246	$ 150,378	$ 17,258

Summary of Investments

	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
U.S. Treasury, Government Agencies, and Money Market Funds	$ 968,946	$ 147,148	$ 26,237	$ 1,198,716	$ 328,611
Repurchase Agreements	143,655				
Corporate Bonds		140,558		34,675	
Foreign Bonds				9,125	
Preferred Stock		1,155			
Common Stock		969,752	67,974	237,150	
Real Estate Investment Trusts (REIT)		151,360	13,780	8,436	
Mutual Funds - Invest in Common Stock			4,099		
Hedge Fund of Funds		176,436	44,622		
International Equities				1,300	
Alternate Investment		117,978	9,796		
Total Investments	1,112,601	1,704,387	166,508	1,489,402	328,611
Less: Investments with original maturities of Less than Ninety Days Included in Cash and Cash Equivalents	(153,102)		(20,912)	(138,870)	(8,547)
Total	$ 959,499	$ 1,704,387	$ 145,596	$ 1,350,532	$ 320,064

Note 3 Cash and Cash Equivalents and Investments (Continued)

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 interfund payables by the overdrawn fund and as interfund receivables of the General Fund.

Collateral is required for demand deposits and certificates of deposit at 100.0% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States of America and its agencies and obligations of the state and its municipalities, school districts, and district corporations. Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a market value adequate to cover the deposits and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository with securities consisting of U.S. government or government agency or U.S. government guaranteed obligations held in book entry form by the Federal Reserve Bank in the City's name.

The City's investment portfolio is managed in accordance with its own Investment Policy and the Texas Public Funds Investment Act, as amended. Authorized investments include demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. government agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. government agency securities with original maturities greater than ninety days. Each fund's pro rata share of these investments with original maturities greater than ninety days is combined with similar nonpooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. government agency securities, and are reported as investments in the combined Statement of Net Assets, as of September 30, 2006.

The City accounts for and reports investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The City's policy with respect to money market investments that have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. The decrease in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $130 for the year ended September 30, 2006. The City does not participate in external investment pools.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Exposure*, the following table and narrative addresses the interest rate risk exposure by investment type, using the weighted average maturity (WAM) method, custodial credit risk, interest rate risk, credit risk, and concentration of credit risk. The City does not hold any foreign securities; therefore, foreign currency risk is not applicable.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

Primary Government (City) (Continued)

A summary of the City's cash and cash equivalents is provided at the beginning of Note 3, with a comparison to the Statement of Net Assets and Statement of Fiduciary Net Assets.

City Investments

	Carrying [1] Amount	Fair[1] Value	Allocation [2]	Rating [3]	WAM
U.S. Government Agency Securities	$ 438,619	$ 438,492	39.4%	AAA	0.35 years
U.S. Treasuries	434,646	434,643	39.1%	AAA	0.24 years
Money Market Mutual Fund	95,811	95,811	8.6%	AAA	N/A
Repurchase Agreement	143,655	143,655	12.9%	N/A	N/A
Total City Investments	$ 1,112,731	$ 1,112,601	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 $160,426.
[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. The City does not address custodial credit risk in its investment policy.

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 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, 2006, 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 100.0% collateralized with U.S. government agency securities. The City manages its exposure to credit risk by limiting its fixed income investments to a rating of A or better.

Concentration of Credit Risk - Although the City's Investment Policy does not limit the amount of the portfolio invested in any one U.S. government agency, the City manages exposure to credit risk through diversification. As of September 30, 2006, the U.S. government agency securities allocation was as follows: Federal Home Loan Mortgage Corporation 21.0%, Federal National Mortgage Association 18.1%, and Federal Home Loan Bank 0.4%.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund board of trustees. Investments of the Pension Fund are reported at fair value and include corporate bonds; common stock; preferred stock; U.S. Treasury securities; U.S. government agency securities; notes, mortgages, hedge funds and contracts; and real estate. Equity and fixed income securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Investment income is recognized as earned. Gains and losses on sales and exchanges are recognized on the trade date. Investments that do not have an established market are reported at estimated fair value. The Pension Fund's assets are invested as authorized by Texas state law. The fair value of the Pension Fund's cash and investment are $2,074,337. A summary of the Pension Funds cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposits) - Cash and short-term investments include demand deposit accounts, equity in pooled cash of the City, and short-term U.S. government and other investments. As of September 30, 2006, 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, 2006, the Pension Fund had investment in foreign currency in the amount of $239 that were uninsured and uncollateralized.

Credit Risk - Using Standard and Poor's rating system for fixed income securities as of September 30, 2006, 54.0% of the Pension Fund's bonds were rated AAA, 1.0% were rated AA, 6.0% were rated A, 1.0% were rated BBB, 16.0% were rated BB, 12.0% were rated B, 2.0% were rated CCC, 1.0% were rated below a D, and 7.0% were not rated.

Interest Rate Risk - Only the fixed income securities of the Pension Fund are subject to interest rate risk due to the possibility that prevailing interest rates could change before the securities reach maturity. Securities that are subject to interest rate risk as of September 30, 2006 amount to $278,351 and have a weighted-average maturity (WAM) of 7.96 years. Securities that are subject to interest rate risk are shown in the following table with exception of the Ashmore Emerging Markets Debt Fund (a commingled fund) which reports its interest rate risk in average duration for the portfolio. The average duration for the Ashmore Emerging Markets Debt Fund as of September 30, 2006 was 6.7 years, and the fair value of Pension Funds investment in this portfolio was $13,753.

Investment Type	Fair Value	Weighted-Avg. Maturity (Years)
Corporate Bonds	$ 56,101	7.78
Government Agencies	3,908	5.59
Government Bonds	102,568	9.87
Short-Term Bills and Notes	4,399	0.12
Government Mortgage-Backed Securities	84,457	5.21
Wellington Emerging Market Debt	26,918	11.20
Total Interest Rate Sensitive Securities	$ 278,351	7.96

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Foreign Currency Risk - The Pension Fund's investments include investments in equities, bonds, and cash in foreign currency denominations. Equities denominated in foreign currencies as of September 30, 2006 amounted to $365,913 in cash, $83,706 in bonds and $23,670 in common stock. Detailed as follows:

Country	Cash	Bonds	Common Stock	Total
Argentine Peso	$ -	$ 250	$ -	$ 250
Australian Dollar	7,216	12,112	(7,461)	11,867
Bulgarian New Lev	33			33
Bermuda Dollar	56			56
Brazilian Real	11,237	3,866		15,103
Canadian Dollar	342	5,184	4,259	9,785
Swiss Franc	32,453	54	118	32,625
Chinese Renminbi	4,564	3		4,567
Colombian Peso		296		296
Czech Republic Krona	369			369
Danish Krone	1,099			1,099
Egyptian Pound	48	256		304
European Union	90,763	13,797	(12,654)	91,906
British Pound	60,344	4,783	24	65,151
Hong Kong Dollar	13,139		25	13,164
Hungarian Forint	753			753
Indonesian Rupiah	120	2,544		2,664
Israeli New Shekel	27			27
Indian Rupee	1,661			1,661
Japanese Yen	54,608		36,220	90,828
South Korean Won	25,882			25,882
Kazakhstan Tenge	38			38
Lithuanian Litas	16			16
Mexican Peso	1,524	5,787		7,311
Malaysian Ringgit	3,477	2,309		5,786
Norwegian Krone	1,959		2	1,961
New Zealand Dollar	106	4,030		4,136
Nigerian Naira		285		285
Philippine Peso	482	69		551
Polish Zloty	7,799	8,571	233	16,603
Romanian Leu	660			660
Russian Ruble	8,339	359		8,698
Swedish Krona	5,474	7,552		13,026
Singapore Dollar	2,031	7,752	15	9,798
Thai Baht	1,646	34	2,889	4,569
Turkey New Lira	5,504	195		5,699
Taiwan Dollar	18,870			18,870
Ukrainian Hyvnia	25			25
Uraguay Peso		140		140
Venezuelan Bolivar	325			325
South African	2,924	3,478		6,402
	$ 365,913	$ 83,706	$ 23,670	$ 473,289

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Securities Lending - State statutes and Pension Fund policies allow for securities lending transactions. The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102.0% and 105.0% for domestic and international securities, respectively, of the loaned securities are maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due, and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote. Cash open collateral is invested in a short-term investment pool with an average weighted maturity of 30 days at September 30, 2006.

As of September 30, 2006, the Pension Fund had lending arrangements outstanding with a total market value of $194,200, which were fully collateralized with cash and securities. Of this amount, cash collateral of $199,901 is recorded in the accompanying Statement of Plan Fiduciary Net Assets. Net income for the year ended September 30, 2006 under the securities lending arrangement was $358.

Derivatives and Structured Investments - The Pension Fund has only limited involvement with derivative and other structured financial instruments (as defined in GASB Technical Bulletin No. 94-1) and does not use them for trading purposes. The Pension Fund's investment philosophy in bond portfolios has centered on using derivatives and other structured financial instruments only when comparable cash alternatives are not available. Specifically, the Pension Fund has used the following basic guidelines when entering into such transactions: (1) small allocations, (2) no use of leverage, (3) price floors, (4) short maturities to mitigate potential problems with liquidity, and (5) attention to credit risk of the issuer. The fair value of structured financial instruments held for the Pension Fund at September 30, 2006 was approximately $62,769.

Fire and Police Retiree Health Care Fund

The Fire and Police Retiree Health Care Fund (Health Care Fund) board of trustees administers investments of the Fire and Police Retiree Health Care Fund, a blended component unit. Investments are reported at fair value and short-term investments are reported at amortized cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments in hedge funds, real estate investment trusts, and alternative investments are held in the form of nonmarketable limited partnership investments. These investments are subject to the terms of the respective partnerships' governing documents, which may limit the Health Care Fund's withdrawal to specified times and conditions and restrict the transferability of the Health Care Fund's interest. The fair valuation of these investments is based on net assets values set by the partnerships. These net assets values may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material.

The Health Care Fund's assets are invested as authorized by the Investment Policy Statement and Guidelines of the San Antonio Fire and Police Retiree Health Care Fund, San Antonio (Investment Policy). The Health Care Fund utilizes an investment consultant to make recommendations as to the appropriate target portfolio weightings among the major assets classes (e.g. stocks, bonds, cash) within the Health Care Fund. Additionally, the Health Care Fund has hired certain investment managers to exercise full discretionary authority as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in the Investment Policy. All of the Health Care Fund's assets are held by a custodial bank, Frost National Bank of San Antonio, Texas.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

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, 2006 is $193,689. A summary of the Health Care Funds cash, cash equivalents, and investments can be found at the beginning of note 3.

Custodial Credit Risk (Deposits) - The Health Care Fund's deposits held with the custodial bank are insured up to $100 by federal deposit insurance. Deposit balances over $100 are not insured and are uncollateralized. There are no state regulations, however, which require the fund to maintain collateral for demand deposits not covered by federal deposit insurance. The bank balance of the Health Care Fund, which is exposed to custodial credit risk as of September 30, 2006, is $596. The Health Care Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2006. The Health Care Fund is aware of these risks and monitors such risks as part of its day-to-day operations and through its daily dealings with the custodian bank.

Custodial Credit Risk (Investments) - The Health Care Fund's investment securities, stocks, and bonds, are held at Frost National Bank's third-party custodian, Bank of New York. All securities held for the Health Care Fund at the Bank of New York are in Frost National Bank's name, and Frost National Bank tracks these securities as being held for the benefit of the Health Care Fund. Since the securities are not registered in the name of the Health Care Fund, are held by a counterparty, and are not insured, they are considered to be exposed to custodial credit risk. These investments are reported as follows, by investment type, as of September 30, 2006:

Common Stock	$ 67,974
Mutual Fund	4,099
Money Market Mutual Fund	20,912

Credit Risk - According to the Investment Policy of the Health Care Fund the average credit quality rating for the fixed-income portfolio will be at least A. Ninety percent of the securities must be rated BBB-/Baa3 or higher by a nationally recognized rating agency at the time of purchase. For split-rated securities, the higher rating will be used in determining compliance with these guidelines. Credit quality ratings for investments with credit risk were AAA for the money market mutual fund.

Concentration of Credit Risk - The Health Care Fund's Investment Policy regarding concentration of credit risk for equities states that no more than 5.0% of any investment manager's portfolio at cost and 8.0% at the market value shall be invested in the securities of any one company. Regarding fixed-income assets, no more than 10.0% of an investment manager's bond portfolio at cost shall be invested in the securities of any one issuer. The policy further states there shall be no such limit on U.S. government securities, U.S. agency securities or government - sponsored entities, U.S. agency mortgage-backed securities, or other sovereign issues rated AAA or Aaa. At year-end, the Health Care Fund did not have any investments in any one issuer that represented 5.0% or more of total investments.

Interest Rate Risk - The Health Care Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Health Care Fund is aware of this risk and has chosen to rely on the expert advice of professional money managers to manage its exposure to interest rate changes. The money market mutual fund had a fair value of $20,912 at year-end and is payable on demand.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Securities Lending - Securities Lending assets are reported at fair value. The Investment Policy of the Health Care Fund and state statutes allow for securities lending transactions. The Health Care Fund entered into an agreement with its custodial bank in June 2003 to lend the Health Care Fund's securities to one or more borrowers for a fee. It is the policy of the Health Care Fund and the custodian bank to require that collateral equal 100.0% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned, and 102.0% of the loaned security's market value plus accrued interest for approved, domestic, nongovernment, or agency securities loaned be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. If the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Health Care Fund may suffer a loss. Management of the Health Care Fund considers the possibility of such a loss to be remote. Cash collateral is invested in money market funds at September 30, 2006.

CPS Energy

CPS Energy's cash deposits at January 31, 2006 were entirely insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the securities were U.S. government, government agency, or U.S. government-guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS Energy's name. A summary of CPS Energy's cash, cash equivalents, and investment can be found at the beginning of this Note 3.

CPS Energy's cash, cash equivalents, and investments can be separated by those that are directly managed by CPS Energy, those managed through the Decommissioning Trusts, and those managed through the Employee Benefit Plans. For financial reporting purposes, cash, cash equivalents and investments managed directly by CPS Energy have been consistently measured at the end of the applicable fiscal years, as well as the results of the Decommissioning Trusts and the Employee Benefit Plans. For fiscal year 2006, consolidation practices were modified, whereby the results of the Decommissioning Trusts and the Employee Benefit Plans were included as of their separately audited calendar year-ends.

Investments managed directly by CPS Energy and the investments held in the Decommissioning Trusts are subject to the rules and regulations of the Public Funds Investment Act (PFIA). The PFIA regulates requirements of investment officers, requires internal management reports to be produced at least quarterly, and provides for the selection of authorized brokers. In September 2005, the PFIA was amended to allow the decommissioning trust funds for municipally owned nuclear power plants to hold investments authorized by Subtitle B, Title 9, of the Property Code (i.e., corporate bonds and equities such as common stocks.)

CPS Energy's 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 Energy's 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 Energy reports all investments of the Decommissioning Trusts and the Employee Benefit Plans at fair value.

Prior to the end of fiscal year 2005, CPS Energy wrote policies for its direct investments and for the 28.0% Decommissioning Trust. Conversely, an administrative committee, using applicable guidelines that management considered effective, provided oversight of the investments of the Employee Benefit Plans.

On January 31, 2005, the policies for the direct investments and the 28.0% Decommissioning Trust were amended to include specific language requirements associated with GASB Statement No. 40. Simultaneously, the guidelines of the Employee Benefit Plans were formalized in writing to include the language requirements of GASB Statement No. 40. CPS Energy fully adopted this statement in fiscal year 2005. The adoption of this guidance did not affect CPS Energy's financial position or results of operation. However, it did result in additional reporting disclosures that have been incorporated into this note.

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Since the above amendments and adoption coincided with CPS Energy's 2005 fiscal year-end, its direct investments were evaluated against the applicable amended Investment Policy. Comparatively, the GASB Statement No. 40 adoption followed the calendar year-ends of CPS Energy's component units. As a result, the 28.0% Decommissioning Trust's policy provision existing at end of the 2004 calendar year was used for applicable required disclosures. This approach was not used for the Employee Benefit Plans in fiscal year 2005. Alternatively, their investments were presented without comparison to policies, because the guidelines were not formally written and approved as of the prior calendar year-end. Even so, other applicable risk disclosures were made for the investments held by the Employee Benefits Plans.

As noted above, effective September 1, 2005, the investment policy of the Decommissioning Trusts were revised to allow for investment in additional types of securities. The policies provide guidelines to ensure all funds are invested in authorized securities in order to earn a reasonable return. The primary emphasis is placed on long-term growth commensurate with the need to preserve the value of the assets and, at the time funds are needed for decommissioning costs, on liquidity. These investment policies continue to follow the "prudent person" concept.

In November 2005, the Oversight Committee of the Employee Benefit Plans formally adopted Statements of Investment Objectives, Policy, Guidelines, and Administrative and Review Procedures. The investment objectives of the plans are to preserve plan assets through investment diversification and the trading of high quality securities and to provide sufficient liquidity to pay plan benefits. These investment policies also follow the "prudent person" concept.

The following tables and disclosures summarize CPS Energy's total investments by direct investments, Decommissioning Trusts, and Employee Benefit Plans as well as address investment exposure to interest rate risk, credit risk, concentration of credit risk and foreign currency risk, as applicable in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The disclosure requirements of the statement do not apply to equity securities or real estate since neither is directly or immediately exposed to these risks. CPS Energy and its component units do not have custodial credit risk, as all investments are held either by an independent trustee or bank.

CPS Energy's Direct Investments - CPS Energy's allowable direct investments are defined by CPS Energy Board Resolution, CPS Energy Investment Policy, bond ordinances, tax-exempt commercial paper ordinance and state laws. These investments include U.S. government or government agency or U.S. government guaranteed obligations, collateralized mortgage obligations issued by the U.S. government, 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. The following narrative and preceding tables describe the interest rate risk exposure by investment type, using the weighted-average maturity (WAM) method, credit risk, and concentration of credit risk of CPS Energy's Direct Investments.

2006 CPS Energy's Direct Investments	Carrying Amount	Fair Value	Allocation	Rating	WAM
U.S. Government Agency	$ 921,733	$ 921,548	91.5%	AAA	1.3 years
AIM Money Market	85,869	85,869	8.5%	AAA	N/A
Total CPS Energy Direct Investments	$ 1,007,602	$ 1,007,417	100.0%		1.3 years

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Interest Rate Risk - In accordance with its Investment Policies, CPS Energy manages exposure to fair market 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 Energy 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 - In accordance with its Investment Policies, CPS Energy manages exposure to credit risk by limiting its fixed-income investments to a rating of A or better. As of January 31, 2006, CPS Energy held no direct investments with a rating below.

Concentration of Credit Risk - In accordance with its Investment Policies, CPS Energy 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 nongovernment 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) 1.5%; Federal Home Loan Bank (FHLB) 43.4%; Federal Home Loan Mortgage Corporation (FHLMC) 22.9%; Federal National Mortgage Association (FNMA) 23.7%; and AIM Money Market of 8.5%.

Foreign Currency Risk - Since CPS Energy does not hold foreign instruments in its Direct Investments, foreign currency risk is not applicable.

Decommissioning Trusts - CPS Energy's investments in the Decommissioning Trusts are held by an independent trustee. Trust investments are limited to those defined by CPS Energy Board Resolution, the South Texas Project, Decommissioning Trusts, Investment Policy, the Investment Strategy Committee, the Trust Agreements, and state laws. Allowable investments for the Decommissioning Trusts include those mentioned above as directly permissible for CPS Energy, as well as equities and corporate bonds. Specifically, starting in September 2005, in accordance with the applicable amended Investment Policies, equity investment held can comprise 60.0% of total investments. 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.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

The following table and narrative address interest rate risk exposure by investment type, using the weighted-average maturity (WAM) method, credit risk, concentration of credit risk, and foreign currency risk. All investments held by the Decommissioning Trusts are long-term in nature and recorded at market value.

Decommissioning Trusts

Weighted-Average Maturity (WAM) of Investments

	28.0% Interest		12.0% Interest		
	Market Value	WAM (Years)	Market Value	WAM (Years)	Total Market Value
U.S Treasury and Agencies:					
Notes and Bonds	$ 64,041	3.4	$ 7,389	2.7	$ 71,430
Mortgage Pass-Through Securities	29,227	4.3	7,814	5.3	37,041
Asset-Backed Securities	6,125	4.7	1,348	4.2	7,473
Corporate Bonds	12,975	8.4	5,289	4.8	18,264
Municipal Bonds--Other States			4,614	5.5	4,614
Municipal Bonds--Texas			684	12.4	684
Foreign Bond Fund	843	33.2			843
Money Market Mutual Funds	22,475	N/A	1,263	N/A	23,738
Total Fixed Income Investments	$ 135,686	4.5	$ 28,401	4.7	$ 164,087

Investments Allocated by Credit Rating

	28.0% Interest		12.0% Interest		
	Market Value	Allocation	Market Value	Allocation	Total Market Value
Credit Rating					
U.S. Government Treasaury	$ 60,584	44.7%	$ 5,902	20.8%	$ 66,486
AAA (including A-1/P-1 CP)	59,931	44.2%	18,744	66.0%	78,675
AA	525	0.4%	822	2.9%	1,347
A	4,595	3.4%	2,933	10.3%	7,528
BBB	9,429	6.9%			9,429
Unrated Foreign Bonds	622	0.4%			622
Total	$ 135,686	100.0%	$ 28,401	100.0%	$ 164,087

Concentration of Credit Risk

	28.0% Interest		12.0% Interest		
	Market	Percentage of Fixed Income Portfolio	Market	Percentage of Fixed Income Portfolio	Total Market Value
Top Issuers					
U.S. Treasury	$ 60,584	44.7%	$ 5,902	20.8%	$ 66,486
Money Market Mutual Funds	22,475	16.6%		0.0%	22,475
Federal National Mortgage	24,334	17.9%	5,497	19.4%	29,831
Federal Home Loan Mortgage	10,148	7.5%	3,805	13.4%	13,953
	$ 117,541	86.7%	$ 15,204	53.6%	$ 132,745

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Interest Rate Risk - Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity allows interim fluctuations in market value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim market value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim market value of longer-maturity bonds may change substantially. One of the techniques used to mitigate this risk is by having duration limits. The overall portfolio duration should not deviate from the weighted average duration of the Investment Strategy Committee's specified fixed income index by more than +/- 1.5 years.

Weighted average duration is defined as the weighted average time to return a dollar of principal and interest, and also incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows and is used as an estimate of the interest rate risk of a fixed income investment-especially those with payment terms dependent on market interest rates. Prior to implementation of the new Investment Policy in fiscal year 2005, the WAM method was used as measurement of interest rate risk.

Credit Risk - The Decommissioning Trusts manages their exposure to credit risk by limiting all of their fixed income investments to a rating of BBB or better from at least two nationally recognized credit rating agencies.

Concentration of Credit Risk - The Decommissioning Trusts manage exposure to concentration of credit risk through diversification and by limiting their investment in each government-sponsored entity to 30.0% and their investment in any other nongovernment-sponsored issuer to 5.0% of the total fixed income portfolio.

Foreign Currency Risk - With the exception of dedicated foreign equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are U.S. dollar denominated; therefore, there is minimal foreign currency risk. Total foreign bonds outstanding as of January 31, 2006 were $843.

CPS Energy 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 laws. Equity investments can comprise 60.0% of total investments in the health plan and can comprise 65.0% of total investments in the disability and life plans. 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 Energy reports Employee Benefit Plans investments at fair value. CPS Energy employee Benefit Plans consist of three separate plans. The plans include the CPS Energy of San Antonio Group Health Plan (the Health Plan), the Disability Income Plan (the Disability Plan), and the Life Insurance Plan (the Life Plan).

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Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

The following narrative and tables describe the interest rate risk exposure by investment type using the weighted-average maturity (WAM) method, credit risk, and concentration of credit risk of CPS Energy's Employee Benefit Plans.

Weighted Average Maturity (WAM) of Investments

	Health Plan		Disability Plan		Life Plan		
	Market Value	WAM (Years)	Market Value	WAM	Market Value	WAM (Years)	Total Market Value
U.S. Treasuries and Agencies:							
Notes and Bonds	$ 8,776	6.4	$ 474	6.0	$ 3,840	6.7	$ 13,090
Collateralized Mortgage Obligations	5,842	7.7	267	4.3	3,522	7.1	9,631
Commercial Mortgage-Backed Securities	3,118	3.2	108	3.8	1,550	2.7	4,776
Mortgage Pass-through Securities	1,303	5.2	51	4.0	218	5.3	1,572
Asset-Backed Securities	1,505	1.5	80	1.5	835	1.1	2,420
Corporate Bonds	4,734	5.3	280	3.7	2,644	5.3	7,658
High-Yield Corporate Bonds	6,051	4.4					6,051
Foreign Bond Fund	6,047	4.5			2,235	4.5	8,282
Cash and Money Market Mutual Funds	14,845	n/a	269	N/A	2,233	N/A	17,347
Total Employee Benefit Plans	$ 52,221	3.8	$ 1,529	3.8	$ 17,077	4.7	$ 70,827

Investments Allocated by Credit Rating

	Health Plan		Disability Plan		Life Plan		
	Market Value	Allocation	Market Value	Allocation	Market Value	Allocation	Total Market Value
Credit Rating							
U.S. Government	$ 4,196	8.0%	$ 320	20.9%	$ 1,479	8.7%	$ 5,995
AAA (including A-1/P-1 CP)	31,180	59.7%	929	60.8%	11,009	64.4%	43,118
AA	892	1.7%	81	5.3%	579	3.4%	1,552
A	3,526	6.8%	82	5.3%	1,658	9.7%	5,266
BBB	373	0.7%	67	4.4%	17	0.1%	457
Less than BBB	6,007	11.5%	50	3.3%	100	0.6%	6,157
Subtotal	46,174	88.4%	1,529	100.0%	14,842	86.9%	62,545
Navarro Investments, L.L.C.:							
AAA (including A-1/P-1 CP)	5,482	10.5%			2,026	11.9%	7,508
AA	565	1.1%			209	1.2%	774
Total Navarro Investments, L.L.C.	6,047	11.6%			2,235	13.1%	8,282
Total Employee Benefit Plans	$ 52,221	100.0%	$ 1,529	100.0%	$ 17,077	100.0%	$ 70,827

Concentration of Credit Risk

	Health Plan		Disability Plan		Life Plan		
	Market Value	Percentage of Fixed-Income Portfolio	Market Value	Percentage of Fixed Income Portfolio	Market Value	Percentage of Fixed Income Portfolio	Total Market Value
Top Issuers							
Money Market Mutual Funds	$ 14,845	28.4%	$ 269	17.6%	$ 2,234	13.1%	$ 17,348
Federal National Mortgage Association	6,332	12.1%	157	10.3%	2,909	17.0%	9,398
Foreign Bond Fund-							
Navarro Investments, L.L.C.	6,047	11.6%			2,235	13.1%	8,282
Federal Home Loan Mortgage Corporation	5,922	11.3%	320	20.9%	3,052	17.9%	9,294
	$ 33,146	63.4%	$ 746	48.8%	$ 10,430	61.1%	$ 44,322

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Interest Rate Risk - In accordance with its historical guidelines and investment policy, the administrative committee manages exposure to fair value losses resulting from rising interest rates by limiting the effective duration of each manager's portfolio to +/- 1.5 years of the effective duration of the specified fixed income index used as a benchmark for the investment manager's portfolio. In addition, the duration of the aggregate fixed-income portfolio of the trust should not deviate from the duration of the specified fixed-income index used as a benchmark for the aggregate portfolio by more than +/-1.5 years.

Effective duration is defined as the present value weighted average time to return a dollar of principal and interest and also incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows. It is used as an estimate of the interest rate risk of a fixed income investment—especially those with payment terms dependent on market interest rates.

Credit Risk - In accordance with its historical guidelines and investment policy, the administrative committee manages exposure to credit risk by limiting high grade, domestic debt managers to not more than 7.5% of their total portfolio in below BBB rated investments. At December 31, 2005, investments rated below BBB represented 0.4% of the high grade portfolio. The investment policy also authorizes the administrative committee to retain investment managers to manage "high-yield" debt securities. The maximum allocation to high-yield securities is 7.5% of total investments, which at December 31, 2005 equated to 19.2% of total fixed income investments.

As noted above, even though at the end of calendar year 2005 the Health Plan held approximately 11.6% of its fixed income investments in funds that were not rated by a rating agency, the majority of the underlying securities were rated. The weighted average rating for those securities was calculated to be "AAA".

Concentration of Credit Risk - 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 administrative committee manages exposure to credit risk through diversification and by limiting the amount that may be invested in any one corporate bond issuer to 5.0% of the market value of an investment manager's fixed income portfolio. There is no limit to what may be invested in government-guaranteed or government agency debt issues other than the government agency debt may not exceed 50.0% by any one issuer. There were no corporate bonds exceeding these limits at December 31, 2005.

Foreign Currency Risk - The Health Plan and the Life Plan have $6,047 and $2,235, respectively, invested in the Navarro Investments L.L.C Foreign Bond Fund at December 31, 2005. The historical guidelines and the investment policy place a 7.5% of total investment portfolio (fixed income and equities) limit on the amount that may be invested in foreign currency-denominated securities. The foreign currency risk is further mitigated by the investment guidelines in the Funds.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

San Antonio Water System (SAWS)

The investment policy of SAWS, a major discretely presented component unit, is governed by state statute, local ordinance, and their own respective written investment policy. SAWS is permitted by City Ordinance No. 75686 to invest in direct obligations of the U.S. or its agencies and instrumentalities. Other allowable investments include direct obligations of the state of Texas or its agencies and instrumentalities, secured certificates of deposit issued by state and national banks domiciled in the state of Texas, defined bankers' acceptances and commercial paper, collateralized direct repurchase agreements, reverse repurchase agreements, no-load money market mutual funds; investment pools, and other types of secured or guaranteed investments. These investments are subject to market risk, interest rate risk, and credit risk, which may affect the value at which these investments are recorded. Investments other than money market investments are reported at fair value. Under the provisions of GASB Statement No. 31, SAWS reports money market investments with a remaining maturity at time of purchase of one year or less at reported cost. A summary of SAWS cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposit) - All funds are deposited at JP Morgan Chase/Bank 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 laws, 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, 2005; as such, SAWS incurs no custodial risk. As of December 31, 2005, the bank balance of demand and savings account was $12,871, and the reported amount was $8,711, which includes $239 of cash on hand.

Custodial 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, JP Morgan Chase/ Bank One N.A., 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. Investments are classified as current and non-current based on the maturity dates as of the end of the fiscal year. As of December 31, 2005, SAWS had the following investments and maturities:

	Investments Maturities (in Days)					
Investment Type	Less than 90	91 to 180	181 to 365	Greater Than 365	Fair Value	Reported
U.S. Treasury Bills	$ 37,817	$ 33,310	$ -	$ -	$ 71,127	$ 71,158
U.S. Treasury Notes	19,879	8,955			28,834	28,847
U.S. Agency Discount Notes	101,000	65,943			166,943	167,079
U.S. Agency Coupon Notes	24,049	10,786	9,858	5,734	50,427	50,453
Money Market Funds:						
Wachovia Bank	8,080				8,080	8,080
JP Morgan Chase/Bank One	2,994				2,994	2,994
	$ 193,819	$ 118,994	$ 9,858	$ 5,734	$ 328,405	$ 328,611
Percentage of Portfolio	59%	36%	3%	2%	100%	

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, 98.0% of SAWS' investment portfolio is invested in maturities less than one year.

Credit Risk - SAWS' investment 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.

Note 3 Cash and Cash Equivalents and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

Concentration of Credit Risk - SAWS' investment policy does not limit the amount it may invest in U.S. Treasury securities, government guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to credit risk, SAWS' investment policy does limit the amount it can invest in any one government-sponsored issuer to no more than 50.0% of the total investment portfolio, and no more than 5.0% of the total investment portfolio on any non-government issuer unless it is fully collateralized. As of December 31, 2005, SAWS has invested more than 5.0% 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: 11.2% in Federal Home Loan Bank Notes, 27.5% in Federal National Mortgage Association Notes, and 27.2% in Federal Home Loan Mortgage Corporation Notes.

Stock Investment - The demutualization of Metropolitan Life Insurance (MetLife) 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 to SAWS 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 to SAWS of $3,144. Upon the identification of these securities, these two stock transactions were recorded on the SAWS' financial records as of December 31, 2004. Given the appreciation in these securities subsequent to the demutualization, in accordance with GASB Statement No. 31, an unrealized gain was recorded in the amount of $2,369 for Principal Financial Group, Inc. and $198 for Metlife, Inc. In 2005, SAWS sold its stock for $5,609 and realized a gain on the sale of $2,357.

Note 4 Capital Assets

Primary Government (City)

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes guidance for accounting and reporting for the impairment of assets and for insurance recoveries. The adoption of this standard resulted in a reduction in capital assets in the amount of $4,029 for governmental activities. There was no financial statement impact for the City's business-type activities.

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Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

Capital asset activity for governmental activities, to include Internal Service Funds, for the year ended September 30, 2006, is as follows:

Capital Assets - Governmental Activities					
Governmental Activities:	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land	$ 1,268,142	$ 19,235	$ -	$ 2,143	$ 1,289,520
Construction in Progress	614,763	103,534	(21,291)	(444,857)	252,149
Total Non-Depreciable Assets	1,882,905	122,769	(21,291)	(442,714)	1,541,669
Depreciable Assets:					
Buildings	396,837		(1,546)	238,791	634,082
Improvements	107,033	48		38,982	146,063
Infrastructure	2,054,838			96,275	2,151,113
Machinery and Equipment	216,061	34,271	(11,584)	68,666	307,414
Total Depreciable Assets	2,774,769	34,319	(13,130)	442,714	3,238,672
Accumulated Depreciation:					
Buildings	(168,553)	(37,284)	153		(205,684)
Improvements	(41,454)	(5,682)			(47,136)
Infrastructure	(1,258,636)	(58,186)			(1,316,822)
Machinery and Equipment	(120,472)	(28,151)	8,102		(140,521)
Total Accumulated Depreciation	(1,589,115)	(129,303)	8,255		(1,710,163)
Total Depreciable Assets, net	1,185,654	(94,984)	(4,875)	442,714	1,528,509
Total Capital Assets, net	$ 3,068,559	$ 27,785	$ (26,166)	$ -	$ 3,070,178

Depreciation expense was charged to governmental functions as follows:

General Government	$ 13,443
Public Safety	4,804
Public Works	61,072
Health Services	308
Welfare	1,111
Culture and Recreation	5,307
Convention and Tourism	30,202
Economic Development	14
Depreciation on Capital Assets Held by the City's Internal Service Funds are Charged to Various Functions Based on Asset Usage	13,042
Total Depreciation Expense for Governmental Activities	$ 129,303

[1] The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2006, Internal Service Funds capital assets increased by $19,944, and decreased by $9,934, resulting in an ending balance of $130,249. Depreciation expense of $13,042 resulted in an ending accumulated depreciation balance of $79,688, to arrive at net book value of $50,561.

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

The City capitalizes interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62, *Special Reports*, issued by the Financial Accounting Standards Board. In fiscal year 2006, the City capitalized construction period interest for the Aviation Fund in the amount of $392. Capital asset activity for business-type activities for the year ended September 30, 2006, 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
Nonmajor Fund	893			893
Total	11,988			11,988
Construction in Progress:				
Aviation Fund	98,382	23,429	(17,825)	103,986
Parking Fund	3,329		(1,995)	1,334
Nonmajor Fund	598		(598)	
Total	102,309	23,429	(20,418)	105,320
Total Non Depreciable Assets	114,297	23,429	(20,418)	117,308
Depreciable Assets:				
Buildings:				
Aviation Fund	144,248			144,248
Parking Fund	29,192	1,194	(250)	30,136
Nonmajor Fund	46			46
Total	173,486	1,194	(250)	174,430
Improvements:				
Aviation Fund	156,110	14,750		170,860
Parking Fund	1,283	812		2,095
Nonmajor Fund	3,025	597		3,622
Total	160,418	16,159		176,577
Machinery and Equipment:				
Aviation Fund	10,866	906	(413)	11,359
Parking Fund	579			579
Nonmajor Fund	3,840	99	(71)	3,868
Total	15,285	1,005	(484)	15,806
Total Depreciable Assets	349,189	18,358	(734)	366,813
Accumulated Depreciation:				
Buildings:				
Aviation Fund	(58,060)	(3,428)		(61,488)
Parking Fund	(9,148)	(734)		(9,882)
Nonmajor Fund	(229)	(1)		(230)
Total	(67,437)	(4,163)		(71,600)
Improvements:				
Aviation Fund	(75,439)	(3,340)		(78,779)
Parking Fund	(519)	(121)		(640)
Nonmajor Fund	(421)	(153)		(574)
Total	(76,379)	(3,614)		(79,993)
Machinery and Equipment:				
Aviation Fund	(8,557)	(866)	340	(9,083)
Parking Fund	(569)	(3)		(572)
Nonmajor Fund	(2,804)	(270)	71	(3,003)
Total	(11,930)	(1,139)	411	(12,658)
Total Accumulated Depreciation	(155,746)	(8,916)	411	(164,251)
Total Depreciable Assets, Net	193,443	9,442	(323)	202,562
Total Capital Assets, Net	$ 307,740	$ 32,871	$ (20,741)	$ 319,870

Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

CPS Energy

CPS Energy's plant-in service includes seven power plants, which are solely owned and operated by CPS Energy. In total, the plants have 19 generating units—3 of which are coal-fired and 16 of which are gas-fired. The list of plants and relative generating units are J.T. Deely with 2 units, J.K. Spruce with 1 units, Arthur von Rosenberg with 1 unit, O.W. Sommers with 2 units, V.H. Braunig with 3 units, W.B.Tuttle with 4 units, of which two units are fully depreciated and are currently not available for use, and Leon Creek with 6 units, of which 4 units fully depreciated and not currently available for use.

Plant-in-Service also includes CPS Energy's 40.0% interest in South Texas Project (STP). Other notable capital assets in electric and gas plant include a fleet of rail cars, a transmission network for the movement of electric power from the generating stations, and electric and gas distribution systems. Included in general plant are the Energy Management Center (EMC), the main office complex, the customer service centers, the construction and service centers, the Villita Assembly Building, and a fleet of automobiles, trucks, and work equipment.

Impairments - an internal company-wide review of capital assets, in accordance with GASB Statement No. 42, indicated that CPS Energy had no impaired capital assets for fiscal year 2006.

CPS Energy capitalizes interest incurred on construction projects in accordance with Statement of Accounting Standard No. 62 issued by the Financial Accounting Standards Board. CPS Energy capitalized construction period interest in the amount of $4,669. Capital asset activity for CPS Energy is as follows:

Capital Assets - CPS Energy	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable Assets:				
Land	$ 56,482	$ 2,169	$ -	$ 58,651
Nonutility property-land	12,599			12,599
Construction in Progress	180,594	335,977	(219,625)	296,946
Total Nondepreciable Assets	249,675	338,146	(219,625)	368,196
Depreciable Capital Assets:				
Utility Plant in Service	7,005,400	396,847	(29,079)	7,373,168
Utility Property Leased	18,785			18,785
Nuclear Fuel	319,186	165,869		485,055
Total Depreciable Assets	7,343,371	562,716	(29,079)	7,877,008
Accumulated Depreciation:				
Utility Plant in Service	(2,662,919)	(246,410)	32,682	(2,876,647)
Utility Property Leased	(336)			(336)
Nuclear Fuel	(283,797)	(141,788)		(425,585)
Total Accumulated Depreciation	(2,947,052)	(388,198)	32,682	(3,302,568)
Total Depreciable Assets, Net	4,396,319	174,518	3,603	4,574,440
Total Capital Assets, Net	$ 4,645,994	$ 512,664	$ (216,022)	$ 4,942,636

Cash flow information-cash paid for additions, net removal costs and nuclear fuel was $559,938, and noncash AFUDC was $4,669, for a total of $564,607. Included in Decreases was $6,715 in removal cost, offset by $3,112 in salvage sales. Depreciation, depletion and amortization totaled $267,965. The $120,233 under fuel and its amortization as acquired through the additional 12.0% purchase of STP. The increases in Utility Plant & Service also included the 12.0% STP acquisition, as well as new substations and distribution infrastructure. The STP acquisition is included in the Utility plant in service additions/increases column. Included in utility plant in service plant was the Mission Road generation plant (MRP) that had an acquisition value of $12,500. MRP was taken out of service on October 1, 2003 after being fully depreciated.

Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

STP is a two-unit nuclear power plant located in Matagorda County, Texas. STP is maintained and operated by the STP Nuclear Operating Company (a non-profit Texas Corporation) and is financed and controlled by the owners--CPS Energy, Texas Genco, and the City of Austin. Also, see Note 10, CPS Energy South Texas Project (STP). To achieve the 40.0% interest in STP, CPS Energy exercised its right of first refusal to acquire an additional 12.0% (300 megawatts) share from AEP, the prior owner. The purchase was completed May 19, 2005 and increased CPS Energy's proportionate share of STP from 28.0% to 40.0%. As of January 31, 2006, CPS Energy's capital investment in STP is as follows:

STP Capital Investment, Net	
STP Costs:	
Construction in Progress	$ 21,261
Land	5,701
Electric and General Plant	2,371,419
Nuclear Fuel	485,055
Total STP Costs	2,883,436
Accumulated Depreciation:	
Electric and General Plant	(954,403)
Nuclear Fuel	(425,585)
Total Accumulated Depreciation	(1,379,988)
STP Capital assets, net:	
Construction in Progress	21,261
Land	5,701
Electric and General Plant	1,417,016
Nuclear Fuel	59,470
Total STP Capital Assets, Net	$ 1,503,448
Total CPS Energy Capital Assets, Net	$ 4,942,636
STP Capital Investment as a Percent of Total CPS Energy Capital Assets, Net	30.4%

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Note 4 Capital Assets (Continued)

San Antonio Water System (SAWS)

SAWS capitalized interest incurred on revenue bonds and commercial paper debt totaled $61,479 during the twelve months ended December 31, 2005, of which $16,300 was capitalized as part of the cost of SAWS' utility plant additions. In accordance with Statement of Accounting Standard No. 62, issued by the FASB, SAWS capitalized construction period interest in the amount of $16,300. Capital asset activity for SAWS is as follows:

Capital Assets - San Antonio Water System				
San Antonio Water System:	(Restated) Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable Assets:				
Land	$ 63,537	$ 9,968	$ (683)	$ 72,822
Acquistion of Water Rights	18,802	17,245		36,047
Construction in Progress	499,585	219,821	(236,205)	483,201
Total Nondepreciable Assets	581,924	247,034	(236,888)	592,070
Depreciable Assets:				
Utility Plant in Service	2,293,502	212,441	(8,334)	2,497,609
Machinery and Equipment	103,052	8,536	(1,824)	109,764
Total Depreciable Assets	2,396,554	220,977	(10,158)	2,607,373
Accumulated Depreciation:				
Utility Plant in Service	(735,555)	(59,465)	3,571	(791,449)
Machinery and Equipment	(62,902)	(8,492)	1,680	(69,714)
Total Accumulated Depreciation	(798,457)	(67,957)	5,251	(861,163)
Total Depreciable Assets, Net	1,598,097	153,020	(4,907)	1,746,210
Total Capital Assets, Net	$ 2,180,021	$ 400,054	$ (241,795)	$ 2,338,280

Beginning balances have been restated per SAWS' December 31, 2005 CAFR.

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Note 5 Receivables and Payables

Disaggregation of Receivables

Net receivables at September 30, 2006 is as follows:

	Accounts	Taxes	Notes and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities:						
General Government	$ 35,769	$ 55,792	$ -	$ 5,773	$ 625	$ 97,959
Public Safety	2,326			84		2,410
Public Works	4,096			901		4,997
Health Services	8,060			6		8,066
Environmental Protection and Control	96					96
Culture and Recreation	4,078			555		4,633
Convention and Tourism	6,549			470		7,019
Urban Redevelopment and Housing	11,933		2,156	41		14,130
Welfare	10,618		3,162	26		13,806
Economic Development Opportunity	724			68		792
Total Governmental Activities	$ 84,249	$ 55,792	$ 5,318	$ 7,924	$ 625	$ 153,908
Business-Type Activities:						
Airport System	$ 3,456	$ -	$ -	$ 2,209	$ -	$ 5,665
Parking Facilities	30			162		192
Nonmajor Fund	5,000			45		5,045
Total Business-Type Activities	$ 8,486	$ -	$ -	$ 2,416	$ -	$ 10,902

The receivable balances for General Government, Public Health Services, Culture and Recreation, and Convention and Tourism have been reduced by the estimated allowance for doubtful accounts of $18,176, $26,493, $29, $79, respectively, and General Government taxes of $5,979. The receivable balance for business-type activities has been reduced by the estimated allowance for doubtful accounts of $912.

The only receivables not expected to be collected within one year are $4,696 of notes and loans receivables in Welfare and Economic Development.

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Note 5 Receivables and Payables (Continued)

Disaggregation of Payables

Payables at September 30, 2006 are as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities:			
General Government	$ 90,275	$ 10,034	$ 100,309
Public Safety	5,271	1,049	6,320
Public Works	20,145	175	20,320
Sanitation	47		47
Health Services	2,672	817	3,489
Culture and Recreation	3,784	946	4,730
Convention and Tourism	4,929	553	5,482
Urban Redevelopment and Housing	3,134	13	3,147
Welfare	6,208	135	6,343
Economic Development Opportunity	300	67	367
Total Governmental Activities	$ 136,765	$ 13,789	$ 150,554
Business-Type Activities:			
Airport System	$ 13,959	$ 563	$ 14,522
Parking Facilities	225	114	339
Nonmajor Fund	3,802	651	4,453
Total Business-Type Activities	$ 17,986	$ 1,328	$ 19,314

Interfund Receivable and Payable Balances

As of September 30, 2006, the interfund receivable and payable 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 $33,736 due from other funds in the General Fund, $32,364 is a result of overdraws of pooled cash. All amounts are expected to be paid within one year. See table on next page.

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Note 5 Receivables and Payables (Continued)

Interfund Receivable and Payable Balances (Continued)

The following is a summary of interfund receivables and payables for the City as of September 30, 2006:

Summary Table of Interfund Receivables and Payables
As of September 30, 2006

	Due From Other Funds	Due To Other Funds
General Fund:		
Fiduciary Funds	$ 600	$ -
Categorical Grant-In-Aid	19,216	120
Internal Service Funds	1,886	
Nonmajor Governmental Funds	12,034	1,534
Total General Fund	33,736	1,654
Debt Service Funds:		
Nonmajor Governmental Funds	791	
Total Debt Service Funds	791	
Airport System Fund:		
Airport Operating Fund from the Airport I&C Fund	1,068	
Airport Debt Service Fund from the Airport PFC Fund	130	
Airport PFC Fund from Airport PFC I & C Fund	56	
Airport PFC I & C Fund to Airport PFC Fund		56
Airport PFC Fund to the Airport Debt Service Fund		130
Airport I&C Fund to the Airport Operating Fund		1,068
Total Airport System Fund	1,254	1,254
Parking Fund:		
Parking Operating from Parking Construction	85	
Parking Construction to Parking Operating		85
Total Parking Fund	85	85
Categorical Grant-In-Aid:		
General Fund	120	19,216
Internal Service Funds	8	513
Nonmajor Governmental Funds	110	2,018
Total Categorical Grant-In-Aid	238	21,747
Fiduciary Funds:		
General Fund		600
Total Fiduciary Funds		600
Internal Service Funds:		
General Fund		1,886
Categorical Grant-In-Aid	513	8
Nonmajor Governmental Funds		100
Internal Service Funds	500	500
Total Internal Service Funds	1,013	2,494
Nonmajor Governmental Funds:		
General Fund	1,534	12,034
Categorical Grant-In-Aid	2,018	110
Debt Service Fund		791
Internal Service Funds	100	
Nonmajor Enterprise Fund		48
Nonmajor Governmental Funds	6,014	6,014
Total Nonmajor Governmental Funds	9,666	18,997
Nonmajor Enterprise Fund:		
Nonmajor Governmental Funds	48	
Total Nonmajor Enterprise Fund	48	
Total	$ 46,831	$ 46,831

Amounts are expressed in thousands

Note 6 Long-Term Debt

Primary Government (City)

Governmental Activity Long-Term Debt

The City's debt management and on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2006. On December 2, 2004, the City issued $33,090 in General Improvement Forward Refunding Bonds, Series 2006 with a forward delivery date of May 9, 2006. These Obligations were issued to refund certain tax-supported debt for interest cost savings and are payable from ad valorem taxes and from certain revenue generating operations.

The net proceeds from the sale of the General Improvement Forward Refunding Bonds Series 2006, which included an original premium of $2,251, 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 2006 refunding, the City will realize a total reduction of $1,932 in debt service payments. Through this transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,027. The Series 2006 General Improvement Forward Refunding Bonds are retired serially in the years 2009 through 2016, and bear interest rates ranging from 3.7% to 5.5%.

In July 2006, the City issued $37,600 of Tax Anticipation Notes (TANs), Series 2006. Delivery of proceeds from the TANs occurred on July 11, 2006. The TANs are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the limitations prescribed by state laws. The TANs Series 2006 will retire in the year 2009 and bears an interest rate of 3.9%.

Proceeds of the TANs, Series 2006 will be used for constructing public safety improvements; constructing street, drainage, sidewalk, and bridge improvements; constructing improvements and renovations to municipal facilities; improving the library system; acquiring, constructing, and renovating park facilities; constructing infrastructure improvements; and constructing public health and safety improvements.

On February 5, 2003, Toyota Motor Manufacturing North America, Inc. selected the City for its sixth North American assembly plant. Subsequently, on May 22, 2003, the City established the Starbright Industrial Development Corporation (IDC) to act on behalf of the City and approved the "Starbright Agreement", which outlined the City's commitments to Toyota. These commitments included the acquisition of land for the Toyota plant through the Starbright IDC, reimbursement up to $10,000 for site improvements, and reimbursement up to $3,000 for a training facility.

The City of San Antonio, Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003, were issued in June 2003 to finance acquisition and conveyance of the land to Toyota and site improvements. As of September 30, 2006, the amount of bonds outstanding was $24,685, and this amount is reflected in the Governmental Activity Long-Term debt table. Under the terms of the Starbright Agreement, $8,003 of the City's total commitment remains an obligation to be paid to Toyota. As such, this amount is reflected as an "Other Payable" in the long-term obligations table as of September 30, 2006.

In September 2004, City Council authorized the submission of a $57,000 HUD 108 loan application to the Department of Housing and Urban Development (HUD), which was received August 2006. Proceeds of the loan will be utilized to fund various capital improvement projects including streets and drainage projects, and to fund improvements to public health facilities, parks, libraries, and community recreation and cultural facilities. The amount of $57,000 is reflected as a "Notes Payable" in the Governmental and Business-Type Activities Long-Term Debt table.

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Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The City's general obligation, certificates of obligation, and TANs include a pledge of ad valorem taxes. Hotel occupancy taxes are pledged to the repayment of the Convention Center Expansion Revenue Bonds and municipal drainage revenue is pledged to the Municipal Drainage Bonds. The Municipal Facilities Corporation Lease Revenue Bonds (One Stop) include a pledge of lease payments derived through the One Stop's lease agreement with the City. The Hotel Empowerment Zone Bonds include a pledge of revenues derived from hotel's operations and the Starbright Industrial Development Corporation Revenue Bonds include a pledge of the City's payment from CPS Energy.

Prior Years' Defeased Debt

In prior years, the City advance 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 the United States of America (the Purchased 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 payments on the principal, premium, if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer liabilities of the City; therefore, they are not included in the City's financial statements. On September 30, 2006, $102,070 of previously defeased bonds were outstanding.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year ended September 30, 2006 for governmental activity debt:

Governmental Activity Long-Term Debt							
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2005	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2006
General Obligation Bonds							
1988 Refunding	$ 132,978	2006	7.250-7.400	$ 1,735	$ -	$ 1,735	$ -
1996A Refunding	82,235	2016	4.800-6.000	46,240		38,120	8,120
1996B Refunding	6,030	2008	6.700	2,150		675	1,475
1998 Refunding	30,855	2018	4.500-5.000	17,390		955	16,435
1998 Forward Refunding	53,950	2008	5.500-6.000	17,795		2,790	15,005
1998A Refunding	47,955	2019	4.000-5.250	30,280		3,250	27,030
1999	12,000	2011	5.500	3,140		450	2,690
2000	27,565	2020	4.500-5.000	18,575		1,085	17,490
2000A	15,615	2021	5.250-5.375	7,635		545	7,090
2001	84,945	2022	3.000-5.250	48,210		700	47,510
2002 Forward Refunding	239,910	2013	5.000-5.250	178,340		20,980	157,360
2002	55,850	2023	3.000-5.500	49,540		2,750	46,790
2003	40,905	2014	2.750-5.000	32,015		3,090	28,925
2003A	55,710	2016	3.500-5.000	55,665		2,125	53,540
2004	33,570	2024	2.375-4.750	33,570			33,570
2004 Refunding[2]	13,245	2016	1.875-4.650		12,115	1,330	10,785
2005	116,170	2025	3.500-5.250	116,170			116,170
2006 Refunding	33,900	2016	3.700-5.500		33,090		33,090
Subtotal	$ 1,083,388			$ 658,450	$ 45,205	$80,580	$ 623,075
Tax -Exempt Certificates of Obligation							
Series 1996A	$ 12,515	2006	4.650-4.750	$ 575	$ -	$ 575	$ -
Series 1998	4,315	2018	4.700-5.000	1,755		380	1,375
Series 1998A	36,535	2019	4.000-5.250	15,940		1,825	14,115
Series 1999	4,230	2011	5.750	1,110		160	950
Series 2000	8,490	2020	4.500-5.000	5,720		335	5,385
Series 2000A	8,810	2021	5.250-5.375	4,305		305	4,000
Series 2000C	6,415	2020	5.000-5.500	6,065		260	5,805
Series 2001	65,195	2014	4.000-5.250	53,680		5,030	48,650
Series 2002	69,930	2023	3.000-5.500	65,905		1,780	64,125
Series 2004	29,525	2024	2.000-5.000	29,085		570	28,515
Series 2005	10,535	2025	4.000-5.250	10,535			10,535
Subtotal	$ 256,495			$ 194,675	$ -	$11,220	$ 183,455
Subtotal Page 1	$ 1,339,883			$ 853,125	$ 45,205	$91,800	$ 806,530

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Governmental Activity Long-Term Debt (Continued)							
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2005	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2006
Subtotal Page 1	$ 1,339,883			$ 853,125	$ 45,205	$ 91,800	$ 806,530
Taxable Certificates of Obligation							
Series 1996	$ 6,160	2009	6.550-6.050	$ 1,300	$ -	$ 300	$ 1,000
Series 1996B	7,375	2008	6.800	1,040		325	715
Series 2000B	1,755	2021	7.450-7.550	1,610		55	1,555
Series 2005A	2,900	2007	4.610	2,900			2,900
Subtotal	$ 18,190			$ 6,850	$ -	$ 680	$ 6,170
Tax Anticipation Notes							
Series 2006	$ 37,600	2009	3.927	$ -	$ 37,600	$ -	$ 37,600
Subtotal	$ 37,600			$ -	$ 37,600	$ -	$ 37,600
Revenue Bonds[1]							
Series 1996 Occupancy Tax	$ 182,012	2026	5.100-6.020	$ 86,897	$ -	$ -	$ 86,897
2003 Drainage	44,150	2028	3.500-5.000	42,050		1,100	40,950
2005 Drainage	61,060	2030	3.500-5.250	61,060		1,310	59,750
Series 2001 Municipal Facility	14,465	2020	3.800-5.200	12,300		600	11,700
Convention Series 2004A	10,390	2029	5.000	10,390			10,390
Convention Series 2004B	111,425	2020	2.000-5.000	110,625		1,375	109,250
Hotel 2005A	129,930	2039	5.000	129,930			129,930
Hotel 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			$ 556,152	$ -	$ 4,385	$ 551,767
TOTAL	$ 2,052,005			$ 1,416,127	$ 82,805	$ 96,865	$ 1,402,067

[1] A portion of the Hotel/ Motel Occupancy Tax Revenue Bonds Series 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from date of delivery and will be payable only at maturity or redemption. Interest accreted through fiscal year 2006 has resulted in an increase of $15,440 in revenue bonds payable. This increase is reflected on the combined Statement of Net Assets but is not shown in this above table.

[2] As of October 1, 2005, the Parking Fund General Improvement Refunding Bond was reclassified to governmental debt. This balance is reflected in this table.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all general obligation bonds, certificates of obligation, tax anticipation notes, and all revenue bonds outstanding as of September 30, 2006 is as follows:

Principal and Interest Requirements									
	General Obligation Bonds		Certificates of Obligation		Tax Anticipation Notes		Revenue Bonds		
Year Ending September 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total Annual Requirements
2007	$ 50,975	$ 30,904	$ 17,085	$ 8,953	$ -	$ 1,189	$ 5,930	$ 26,824	$ 141,860
2008	54,500	28,362	16,370	8,112		1,477	6,665	26,621	142,107
2009	55,720	25,359	16,445	7,333	37,600	1,477	9,505	24,200	177,639
2010	59,350	22,900	15,340	6,609			12,630	23,880	140,709
2011	62,615	19,953	15,965	5,876			9,832	23,427	137,668
2012-2016	185,835	62,447	60,085	17,678			54,693	111,949	492,687
2017-2021	116,755	23,745	33,635	7,827			91,627	98,212	371,801
2022-2026	37,325	2,407	14,700	1,049			125,215	71,740	252,436
2027-2031							107,395	42,456	149,851
2032-2035							85,755	20,933	106,688
2036-2039							42,520	4,331	46,851
Total	$ 623,075	$ 216,077	$ 189,625	$ 63,437	$ 37,600	$ 4,143	$ 551,767	$ 474,573 [1]	$ 2,160,297
Total Principal and Interest Payable within One Year									
Principal	$ 50,975		$ 17,085		$ -		$ 5,930		$ 73,990
Interest	30,904		8,953		1,189		26,824		67,870
Total	$ 81,879		$ 26,038		$ 1,189		$ 32,754		$ 141,860

[1] 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. Interest accreted through fiscal year 2006 has resulted in an increase of $15,440 in revenue bonds payable. The increase is reflected on the Combined Statement of Net Assets but is not in this table.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Authorized But Unissued General Obligation Debt				
Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized But Unissued
01-26-80 [1]	Drainage and Flood Control	$ 21,637	$ 17,413	$ 4,224
01-26-80 [1]	Fire Protection	4,257	2,125	2,132
01-26-80 [1]	Libraries	4,978	3,926	1,052
01-26-80 [1]	Street, Bridge, and Related Improvements	43,287	34,035	9,252
05-07-94	Street Improvements	25,600	25,600	
05-07-94	Drainage Improvements	34,400	34,400	
05-07-94	Parks and Recreation	41,600	41,600	
05-01-99	Streets and Pedestrian Improvements	41,300	41,300	
05-01-99	Drainage	19,000	19,000	
05-01-99	Flood Control	12,200	12,200	
05-01-99	Parks and Recreation	24,200	24,200	
05-01-99	Library System	13,200	13,200	
05-01-99	Public Safety	30,300	30,300	
11-04-03 [2]	Street and Pedestrian	29,398	18,828	10,570
11-04-03 [2]	Drainage	18,913	15,492	3,421
11-04-03 [2]	Parks & Recreation	27,224	24,522	2,702
11-04-03 [2]	Library System	3,965	3,065	900
11-04-03 [2]	Public Health and Safety	35,500	14,422	21,078 [3]
Total		$ 430,959	$ 375,628	$ 55,331

[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.

[3] Includes $9,654 which was included in the issuance of the Tax Anticipation Notes Series 2006, which the City will count general obligation authorization.

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 2006 was $56,750,907, which provides a debt ceiling of $5,675,091. The total outstanding debt that is secured by an ad valorem tax pledge is $850,300.

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.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

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, 2006 were approximately $3,200.

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high-capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for governmental activities are as follows:

Machinery and Equipment	$ 27,899
Less: Accumulated Depreciation	(9,136)
Total	$ 18,763

As of September 30, 2006, 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:

	Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30:			
2007	$ 3,157	$ 1,768	$ 4,925
2008	2,904	1,278	4,182
2009	2,104	1,261	3,365
2010	1,894	1,063	2,957
2011	1,011	746	1,757
2012-2016		3,477	3,477
2017-2021		3,311	3,311
2022-2026		365	365
Future Minimum Lease Payments	11,070	$ 13,269	$ 24,339
Less: Interest	(803)		
Present Value of Future Minimum Lease Payments	10,267		
Less: Current Portion	(2,822)		
Capital Leases, Net of Current Portion	$ 7,445		

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity 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 Airport System and its facilities.

Parking System - The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters, and retail/office space. Certain 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. As of October 1, 2005, the General Obligation Series 2004A Bonds were allocated back to governmental long-term debt and are paid from ad valorem taxes. Additionally, long-term debt for the Parking System includes revenue bonds, which 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 $14,386. For fiscal year 2006, the amounts of $392 were capitalized for the Airport System as part of the cost of additions to the Airport System.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

The following table is a summary of changes in revenue bonds and general obligation bonds for the fiscal year ended September 30, 2006.

Business-Type Long-Term Debt							
Issues	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2005	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2006
Airport System							
Revenue Bonds:							
Series 1996	$ 38,000	2014	5.700-5.750	$ 17,975	$ -	$ 250	$ 17,725
Series 2001	17,795	2016	5.375	17,795			17,795
Series 2002	92,470	2027	5.000-5.750	91,375		1,155	90,220
Series 2002 PFC	37,575	2027	4.000-5.750	35,150		880	34,270
Series 2003 Refunding	50,230	2013	5.500-6.000	42,280		4,315	37,965
Series 2003A	8,175	2006	2.000-2.250	2,190		2,190	
Series 2003B	3,255	2009	2.300-3.000	3,255			3,255
Series 2005 PFC	38,085	2030	3.375-5.250	38,085		825	37,260
Subtotal	$ 285,585			$ 248,105	$ -	$ 9,615	$ 238,490
Parking System							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 23,995	$ -	$ 600	$ 23,395
General Obligation Bonds:							
Series 2004A Refunding [1]	13,245	2016	1.400-4.650	12,115		12,115	
Subtotal	$ 38,090			$ 36,110	$ -	$ 12,715	$ 23,395
Total	$ 323,675			$ 284,215	$ -	$ 22,330	$ 261,885

[1] As of October 1, 2005, Parking System's General Improvement Forward Refunding Bond, Series 2004A was reclassified to governmental debt. This balance is now reflected in governmental long-term activities debt table.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to revenue bonds outstanding at September 30, 2006, are as follows:

	Business-Type Long-Term Debt					
	Airport System			Parking System		
Year Ending Sept. 30:	Principal	Interest	Total	Principal	Interest	Total
2007	$ 9,605	$ 12,819	$ 22,424	$ 620	$ 1,295	$ 1,915
2008	10,155	12,342	22,497	660	1,264	1,924
2009	11,595	11,831	23,426	850	1,230	2,080
2010	12,210	11,237	23,447	350	1,187	1,537
2011	13,400	10,548	23,948	575	1,169	1,744
2012-2016	69,890	40,854	110,744	6,180	5,075	11,255
2017-2021	40,000	25,045	65,045	8,105	3,173	11,278
2022-2026	52,110	13,252	65,362	6,055	710	6,765
2027-2030	19,525	1,657	21,182			
Total	$ 238,490	$ 139,585	$ 378,075	$ 23,395	$ 15,103	$ 38,498

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Leases

The City has entered into various lease purchase agreements for the acquisition of a high-capacity trailer. 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:

Machinery and Equipment	$ 709
Less: Accumulated Depreciation	(494)
Total	$ 215

As of September 30, 2006, 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:

	Capital Leases
Fiscal Year Ending September 30, 2007	$ 117
Future Minimum Lease Payments	117
Less: Interest	(2)
Present Value of Future Minimum Lease Payments	115
Less: Current Portion	(115)
Capital Leases, net of current portion	$ -

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt

Long-term obligations and amounts due within one year

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 658,450	$ 45,205	$ 80,580	$ 623,075	$ 50,975
Tax-Exempt Certificates of Obligation	194,675		11,220	183,455	13,455
Taxable Certificates of Obligation	6,850		680	6,170	3,630
Tax Anticipation Notes		37,600		37,600	
Revenue Bonds	556,152		4,385	551,767	5,930
	1,416,127	82,805	96,865	1,402,067	73,990
Unamortized (Discount)/Premium	49,799	2,241	3,851	48,189	3,985
Deferred Amount on Refunding	(13,839)	(1,396)	(6,637)	(8,598)	(1,335)
Total Bonds Payable	1,452,087	83,650	94,079	1,441,658	76,640
Other Payables:					
Accrued Arbitrage Rebate Payable	1,688		1,287	401	
Capital Leases	7,232	6,218	3,183	10,267	2,822
Compensated Absences	128,653	65,559	52,806	141,406	52,238
Notes Payable	1,369	57,000	364	58,005	1,985
Other Payables		8,003		8,003	3,384
Total Other Payables	138,942	136,780	57,640	218,082	60,429
Total Governmental Activities Long-Term Liabilities	$ 1,591,029	$ 220,430	$ 151,719	$ 1,659,740	$ 137,069
Business-Type Activities:					
Bond Payable:					
General Obligation Bonds	$ 12,115	$ -	$ 12,115	$ -	$ -
Revenue Bonds	272,100		10,215	261,885	10,225
	284,215		22,330	261,885	10,225
Unamortized (Discount)/Premium	3,012		(801)	3,813	
Deferred Amount on Refunding	(5,053)		(1,663)	(3,390)	
Total Bonds Payable	282,174		19,866	262,308	10,225
Other Payables:					
Aviation	1,565	176	1,573	168	168
Parking	7			7	7
Nonmajor Fund	1,030		26	1,004	343
Total Other Payables	2,602	176	1,599	1,179	518
Accrued Arbitrage Rebate Payable		30		30	30
Capital Leases Nonmajor Fund	263		148	115	115
Compensated Absences	2,002	2,997	1,841	3,158	526
Total Other Payables	4,867	3,203	3,588	4,482	1,189
Total Business-Type Activities Long-Term Liabilities	$ 287,041	$ 3,203	$ 23,454	$ 266,790	$ 11,414

The accreted interest through fiscal year 2006 has resulted in an increase of $15,440 in Hotel-Motel Tax Revenue Bonds Payable in governmental activites. The accreted interest in the amount of $15,440 is reflected on the Statement of Net Assets, but is not reflected in this table.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

Compensated Absences

The following is a summary of compensated absences for the year ended September 30, 2006:

Governmental Activities					
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 6,984	$ 44,815	$ 51,799	$ 86,971	$ 138,770
Internal Service Funds		439	439	2,197	2,636
Total Governmental Activities	$ 6,984	$ 45,254	$ 52,238	$ 89,168	$ 141,406

The General Fund, which accounts for approximately 65.0% of the City's employees, has typically been used in prior years to liquidate the liability for compensated absences. However, the fund which liquidates compensated absences is the same fund that the employees' salaries are charged to throughout the year.

Business-Type Activities			
Fund	Short-Term	Long-Term	Total
Airport	$ 236	$ 1,182	$ 1,418
Parking	32	158	190
Nonmajor Fund	258	1,292	1,550
Total Business-Type Activities	$ 526	$ 2,632	$ 3,158

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, and/or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2006, the aggregate principal amount payable are as follows: five series of Education Facility Revenue Bonds in the amount of $59,670 outstanding; two series of Health Facilities Development Bonds in the amount of $10,700 outstanding; two series of Industrial Revenue Bonds in the amount of $12,250 outstanding; and one series of Empowerment Zone Development Revenue Bonds in the amount of $21,900 outstanding.

The City also facilitates the issuance of tax-exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from, and secured by, a pledge of rental receipts. As of September 30, 2006, 28 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of $234,657 and an aggregate principal amount issued of $221,480.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

Conduit Debt Obligations (Continued)

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Facilities Airport Revenue Bonds, Series 1995 and Special Airport Facilities Revenue Refunding Bonds, Series 1999. The bonds are payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third-party trustee in lieu of lease payments to the City. These payments are sufficient to be made 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, 2006 was $0 and $3,800, 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, loans or leases. Accordingly, the bonds and loans are not reported as liabilities in the accompanying financial statements.

The City entered into an agreement with the Port to fund renovations at the Port, in the amount of $20,000. The Department of Housing and Urban Development (HUD) provides the funding for the loan through a Section 108 Loan. The loan is secured by pledged the Port revenues and property and is payable solely from payments received by the Port. As of September 30, 2006, the aggregate amount of the outstanding loan totaled $16,695.

CPS Energy

As of January 31, 2006, the bond ordinances for new series bonds issued on and after February 1, 1994 contained among others, the following provisions:

Funds in CPS Energy's general account shall be pledged and appropriated to be used in the following priority: (a) for maintenance and operating expenses of CPS Energy, (b) for payments of the new series bonds, (c) for the payment of prior lien bonds, including junior lien obligations, (d) payment of the notes and the credit agreement (as defined in the ordinance authorizing commercial paper), (e) payment of an inferior lien obligations issued, which are inferior in lien to the new series bonds, the prior lien bonds, and the notes and credit agreement, (f) for an amount equal to 6.0% of the gross revenues of CPS Energy to be deposited in the repair and replacement account, (g) for cash payments and benefits to the City, not to exceed 14.0% of the gross revenues of CPS Energy, and (h) any remaining net revenues in the general account to the repair and replacement account.

The maximum amount in cash to be transferred or credited to the City's General Fund from the net revenues of CPS Energy during any fiscal year shall not exceed 14.0% of the gross revenues of CPS Energy less the value of gas and electric services of CPS Energy used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system. The percentage of gross revenues of CPS Energy to be paid over or credited to the 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 CPS Energy 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 CPS Energy.

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Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

The City agrees that it will at all times maintain rates and charges for the sale of electric energy, gas, or other services furnished, provided, and supplied by 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 of the Texas Government Code, as amended;

(b) the interest on and principal of all parity bonds, as defined in the new series bonds ordinances, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the parity bonds;

(c) the interest on and principal of the prior lien bonds, including the junior lien obligations and any additional junior lien obligations hereafter issued (all as defined in the new series bond ordinances); as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the junior lien obligations and any additional junior lien obligations;

(d) to the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the commercial paper), the interest on and principal of all notes (as defined in said ordinance), and the credit agreement (as defined in said ordinance); and

(e) any legal debt or obligation of the Systems as and when the same shall become due.

Revenue Bonds

A summary of revenue bonds is as follows:

CPS Energy Revenue Bonds		
Bond Series	Weighted Average Interest Rate on Outstanding Bonds	January 31, 2006
Tax Exempt New Series Bonds, 1994A-2005A; 2007-2025	4.8%	$ 2,429,645
Taxable New Series		
Taxable New Series Bonds, 1998-2000; 2007-2021	6.7%	131,240
Total		2,560,885
Tax-exempt Variable Rate Series Bonds, 2003-2004, 2004-2033	4.9%	407,000
Total Revenue Bonds Outstanding		2,967,885
Less: Current Maturities of Bonds		135,155
Total Revenue Bonds, Net of Current Maturities		$ 2,832,730

The table on the beginning of the next page includes senior lien and junior lien bonds. Interest on the senior lien bonds is based upon the stated coupon rates of each series of bonds outstanding. The 2003 Junior Lien bonds were issued as variable rate bonds and as such have interest rates that reset on a weekly basis. On December 1, 2005, the 2004 Junior Lien Bonds were remarketed for a two-year term at an interest rate of approximately 3.6%. This interest rate will remain in effect until the next interest reset date of December 1, 2007. The total interest amounts for all revenue bonds outstanding included a blended interest rate of approximately 3.3% for the 2003 and 2004 Junior Lien Bonds.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

Principal and interest amounts due for the next five years and thereafter to maturity are:

CPS Energy Principal and Interest Requirements			
Year	Principal	Interest	Total
2007	$ 135,155	$ 144,921	$ 280,076
2008	142,155	137,941	280,096
2009	148,570	130,701	279,271
2010	154,790	123,019	277,809
2011	163,180	114,862	278,042
2012-2016	783,095	438,984	1,222,079
2017-2021	632,010	257,964	889,974
2022-2026	480,430	117,172	597,602
2027-2031	228,500	46,097	274,597
2032-2033	100,000	4,890	104,890
Totals	$ 2,967,885	$ 1,516,551	$ 4,484,436

In November 2004, CPS Energy issued $160,000 of variable rate junior lien revenue bonds. The bonds were issued at par value with an initial one-year borrowing rate of 2.2%. The proceeds were used toward the purchase of an electric plant and to pay bond issuance costs. On December 1, 2005, CPS Energy opted to redeem $3,000 of the 2004 Junior Lien Revenue Bond's principal and then remarket the remaining $157,000 of the bonds for a two-year interest rate of approximately 3.6% per annum. The interest rate term mode for the junior lien revenue bonds, or any portion thereof, may be converted to a different mode, or to an auction rate or term rate with an interest rate period of different duration at the direction of the City. Following such a conversion, the Junior Lien Revenue Bonds, or portion thereof, will bear interest at the corresponding daily rate, weekly rate, auction rate, commercial paper rate, term rate or fixed rate.

In April 2005, CPS Energy 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 Energy received net proceeds of $250,000 from the issuance of the revenue bonds. Proceeds will be used to partially fund transmission, electric distribution, information technology and communication, and general property construction. Refunding of higher cost outstanding bonds resulted in net present value debt service savings of $19,700, or approximately 6.7% of the par amount of the refunded bonds. This transaction resulted in a loss for accounting purposes of $14,300, which has been deferred and will be amortized over the shorter life of either the refunded or refunding bonds.

In October 2005, CPS Energy issued $197,300 of tax-exempt New Series 2005A Bonds. The true interest cost of these bonds was approximately 4.6%. CPS Energy received net proceeds of $201,500 from the issuance of the bonds. Of this amount, $200,000 was used to retire commercial paper, with the remaining used to pay costs and expenses relating to the issuance of the bonds.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

Long-Term Debt Activity							
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2005	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2006
Revenue and Refunding Bonds							
1992 Tax-Exempt	$ 700,805	2006	6.048	$ 36,875	$ -	$ 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	11,300		5,500	5,800
1997 Tax-Exempt	350,000	2020	5.738	169,715		165,630	4,085
1997 Tax-Exempt	311,170	2014	5.509	102,715		360	102,355
1998A Tax-Exempt	785,515	2021	4.918	582,965		32,925	550,040
1998B Taxable	99,615	2020	6.343	89,870		2,055	87,815
2000A Tax-Exempt	170,770	2010	5.374	15,795		4,625	11,170
2000B Taxable	50,425	2021	7.403	45,010		1,585	43,425
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		130,090	10,525
2003 Tax-Exempt Junior Lien	250,000	2033	Variable	250,000			250,000
2003A Tax-Exempt	93,935	2014	3.675	89,770		620	89,150
2003 Tax-Exempt	350,490	2013	3.081	312,400			312,400
2004 Tax-Exempt Junior Lien	160,000	2027	Variable	160,000		3,000	157,000
2005 Tax-Exempt	294,625	2020	4.381		294,625		294,625
2005 Tax-Exempt	240,675	2025	4.683		240,675		240,675
2005A Tax-Exempt	197,335	2025	4.571		197,335		197,335
				2,661,225	732,635	425,975	2,967,885
Less Bond Current Maturities				127,255	7,900		135,155
Less Bond Discount/(Premium)				(89,149)	(34,438)	21,423	(102,164)
Less Bond Acquisition Costs				134,227	9,714	(22,643)	121,298
Revenue Bonds, Net				2,488,892	749,459	424,755	2,813,596
Tax-Exempt Commercial Paper (TECP)				350,000		200,000	150,000
Long-term Debt, Net				$ 2,838,892	$ 749,459	$ 624,755	$ 2,963,596

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 and 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.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Funds Flow - City Ordinance No. 75686 requires that gross revenues of SAWS be applied in sequence to (1) current maintenance and operating expenses, including a two-month reserve based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of senior lien obligations; (3) reserve fund requirements of senior lien obligations; (4) interest and sinking fund and reserve fund requirements of junior lien obligations; (5) interest and sinking fund and reserve fund requirements of subordinate lien obligations; (6) payment of amounts required on inferior lien obligations; and (7) transfers to the City's General Fund and to the renewal and replacement fund.

Reuse Contract - SAWS has a contract with CPS Energy, the City-owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities, are excluded from the calculation of gross revenues, and are not included in any transfers to the City's General Fund.

Stormwater - In addition to the water-related utilities that 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 No. 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 firefighting purposes.

Revenue Bonds - On December 15, 2005, SAWS issued $298,220 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2005. The proceeds from the sale of the bonds were used to (i) advance refund the $70,200 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 1999; (ii) refund $227,000 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. The advance refunding reduced SAWS' total debt service payments over the next 20 years by approximately $7,900 and SAWS obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $5,900.

Senior Lien Water System Revenue Bonds, comprising of Series 1996, Series 1997, Series 2001, Series 2002, Series 2002-A, Series 2004, and Series 2005, outstanding in the amounts of $1,041 at December 31, 2005 are collateralized by a senior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining an operating reserve for operating and maintenance expenses.

Junior Lien Water System Revenue Bonds, comprising of Series 1999, Series 1999-A, Series 2001, Series 2001-A, Series 2002, Series 2002-A, Series 2003, Series 2004, and Series 2004-A, outstanding in the amount of $214,090 at December 31, 2005 are collateralized by a junior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining an operating reserve for operating and maintenance expenses and debt service on senior lien debt.

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Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

Subordinate Lien Water System Revenue Bonds comprising of Series 2003-A and 2003-B, outstanding in the amount of $118,435 at December 31, 2005 are collateralized by a subordinate lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining an operating reserve for operating and maintenance expenses and debt service on senior lien and junior lien debt. Revenue bonds currently outstanding are as follows:

San Antonio Water System		
Purpose	Interest Rates	Amount
Build, Improve, Extend, Enlarge, and Repair the System	0.10 - 6.25%	$ 1,373,925

The following summarizes transactions of the revenue bonds for the year ended December 31, 2005:

	Beginning Balance Jan. 1, 2005	Additions	Reductions	Ending Balance Dec. 31, 2005	Due Within One Year
Bonds Payable	$ 1,162,410	$ 298,220	$ 86,705	$ 1,373,925	$ 22,415
Deferred Amounts					
For Issuance (Discounts)/Premiums/(Losses)	(28,031)	3,143	5,302	25,872	
Total Bonds Payable, Net	$ 1,134,379	$ 295,077	$ 81,403	$ 1,348,053	$ 22,415

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
2006	$ 2,170	$ 4,951	$ 5,100	$ 7,247	$ 15,145	$ 52,748
2007	2,275	4,860	7,850	7,044	14,755	51,931
2008	2,375	4,765	8,085	6,796	18,705	51,045
2009	2,485	4,665	10,285	6,520	19,585	50,047
2010	2,600	4,561	12,555	6,186	20,065	49,024
2011-2015	14,880	21,076	69,455	24,550	110,435	229,078
2016-2020	18,590	17,669	74,690	11,186	144,450	195,778
2021-2025	23,235	13,414	26,070	1,504	233,570	147,103
2026-2030	29,035	8,094			200,335	83,998
2031-2035	20,790	1,764			71,145	58,069
2036-2040					193,210	24,802
Total	$ 118,435	$ 85,819	$ 214,090	$ 71,033	$1,041,400	$ 993,623

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Pay-Fixed, Receive-Variable Interest Rate Swap - On March 27, 2003, SAWS entered into an interest rate swap agreement in connection with its City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A and 2003-B (the Series 2003 Bonds), issued in a variable interest rate mode. The Series 2003 bonds were issued to provide funds for the Capital Improvement Program and to refund certain outstanding commercial paper notes. The swap was used to hedge interest rates on the Series 2003 Bonds to a synthetic fixed rate that produced a lower expected interest rate cost to SAWS than traditional long-term fixed rate bonds.

Terms - The terms, including the counterparty credit ratings of the outstanding swap, as of December 31, 2005, are included in the following table. SAWS' swap agreement contains scheduled reductions to the outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2003 Bonds were issued on March 27, 2003, with a principal amount of $122,500. The swap was structured to match the principal amortization structure and dates of the Series 2003 Bonds. The counterparty to the swap is Bear Stearns Financial Products, Inc. (Bear Stearns) with the index for the variable rate leg of the swap being the Bond Market Association (BMA) Municipal Swap Index.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P /Fitch	Variable Rate Received	Fixed Rate Paid	Market Value at December 31, 2005
Series 2003	May 1, 2033	Bear Stearns	Aaa/ AAA/ AAA	BMA	4.18%	$ (2,615)

The combination of variable rate bonds and a floating-to-fixed swap creates a synthetic fixed rate issue for SAWS. The synthetic fixed rate protects against the potential of rising interest rates in conjunction with SAWS Series 2003 Bond 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, 2005 of $2,615. 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, 2005, 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, 2005. The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should Bear Stearns credit rating fall below the applicable thresholds in the agreement.

Basis Risk - SAWS is exposed to basis risk to the extent that the interest payments on its variable rate bonds do not match the variable rate payments received on the associated swap. SAWS mitigates this risk by (a) matching the notional amount and amortization schedule of the swap to the principal amount and amortization schedule of the Series 2003 Bonds, and (b) selecting an index for the variable rate leg of the swap that is expected to match the interest rate resets on the Series 2003 Bonds over the life of the issue.

Termination Risk - SAWS may terminate 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 the swap should be terminated, the Series 2003 Bonds would no longer carry synthetic fixed interest rates. If at the time of the termination the swap has a negative fair value, SAWS would be liable to the counterparty for a payment equal to the swap's fair value.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Swap Payments and Associated Debt - As of December 31, 2005, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same, are detailed in the following table. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Pay-Fixed, Receive-Variable Interest Rate Swap:
Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

	Variable Rate Bonds			
Year	Principal	Interest	Interest Rate Swap, Net	Total
2006	$ 2,170	$ 4,141	$ 784	$ 7,095
2007	2,275	4,062	769	7,106
2008	2,375	3,979	753	7,107
2009	2,485	3,892	737	7,114
2010	2,600	3,802	719	7,121
2011-2015	14,880	17,498	3,312	35,690
2016-2020	18,590	14,526	2,749	35,865
2021-2025	23,235	10,812	2,046	36,093
2026-2030	29,035	6,169	1,168	36,372
2031-2033	20,790	1,003	190	21,983
Total	$ 118,435	$ 69,884	$ 13,227	$ 201,546

Capitalized Interest Costs - Interest costs incurred on revenue bonds and commercial paper debt totaled $61,479 during the 12 months ended December 31, 2005, of which $16,300 was capitalized as part of the cost of SAWS' utility plant additions.

Note Payable - During fiscal year 2000, a contract was entered into between SAWS and CPS Energy whereby SAWS acquired water rights from certain CPS Energy properties. A note was signed for 116 payments of $40 at an interest rate of 7.5%. The liability as of December 31, 2005 is included in the Statement of Net Assets for both the current portion of $390 and long-term amount of $990. The annual principal and interest requirements are as follows:

San Antonio Water System
Principal and Interest Requirements

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2006	$ 390	$ 90	$ 480
2007	420	60	480
2008	452	28	480
2009	118	2	120
Total	$ 1,380	$ 180	$ 1,560

Note 7 Commercial Paper Programs and Other Borrowings

Primary Government (City)

Revolving Line of Credit

The City used a revolving line of credit for the Housing Asset Recovery Program. The line of credit was 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 line of credit was paid in November 2005.

Revolving Line of Credit			
Beginning Balance	Increases	Decreases	Ending Balance
$ 301	$ -	$ 301	$ -

CPS Energy

Commercial Paper

In 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in Tax-Exempt Commercial Paper (TECP). This ordinance, as amended in June 1997, provides for funding to assist in the financing of eligible projects, in an aggregate amount not to exceed $450,000. Eligible projects include fuel acquisition, capital improvements to the utility systems (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 Energy 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 is currently extended until November 1, 2010, and may be renewed for additional periods.

On October 27, 2005, CPS Energy issued $197,300 of New Series 2005A Revenue Refunding Bonds to redeem $200,000 of the outstanding TECP. The TECP balance outstanding was $150,000 at January 31, 2006.

As of January 31, 2006, 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 junior lien obligations.

As of January 31, 2006, a summary of TECP is as follows:

TECP Outstanding	$ 150,000
Weighted Average Interest Rate of Outstanding TECP, Approximate	3.10%
Average Life of Outstanding TECP (Approximate Number of Days)	96

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Note 7 Commercial Paper Programs and Other Borrowings (Continued)

San Antonio Water System (SAWS)

Commercial Paper

SAWS maintains a Tax Exempt Commercial Paper (TECP) that is used to provide funds for the interim financing of a portion of capital improvements to the System.

On November 17, 2005, the City Council approved the expansion of the TECP from $350,000 to $500,000. The increase in the TECP provides interim financing capacity for the increased level of future expenditures on water resource projects. Notes payable under the TECP cannot exceed maturities of 270 days and scheduled maturities of the short-term borrowing under the TECP may not extend past June 28, 2041.

The City has covenanted in the ordinance authorizing the TECP Program 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 TECP. The credit facility is maintained under the terms of a revolving credit agreement.

To further support the issuance of the TECP, 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 JP Morgan Trust Company, National Association.

The borrowings under the TECP are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the TECP and (ii) borrowing under and pursuant to the revolving credit agreement.

Commercial paper notes of $98,000 are outstanding as of December 31, 2005. The proceeds of the notes have been used solely for financing of capital improvements of SAWS. The TECP notes have been classified as long-term in accordance with the refinancing terms of the revolving credit agreement and because management intends to continue the remarketing of the TECP notes to maintain a portion of its debt in variable rates. Interest rates on the notes outstanding at year-end range from 2.72% to 3.17%, and maturities range from 65 to 155 days. The outstanding notes at December 31, 2005 had an average rate of 3.02% and averaged 81 days to maturity.

The following summarizes transactions of the TECP Program for the year ended December 31, 2005.

	Beginning Balance January 1, 2005	Additions	Reductions	Ending Balance December 31, 2005	Due within One Year
Tax-Exempt Commercial Paper Notes	$ 238,400	$ 86,600	$ 227,000	$ 98,000	$ -

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Note 8 Pension and Retirement Plans

Primary Government (City)

General Plan Information

The City of San Antonio, SAWS, and CPS Energy participate in several contributory retirement plans. These are funded plans covering substantially all full-time employees. Payroll and contribution information as of the year-end for each entity is presented as follows:

Contributory Pension and Retirement Plans						
Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contribution
City	Fire and Police Pension Fund	Single Employer Defined Benefit Plan	$ 208,480	$ 25,801	$ 51,614	$ 77,415
	Texas Municipal Retirement System (TMRS)	Nontraditional Hybrid Defined Benefit Agent Plan	$ 220,536	$ 13,232	$ 27,077	$ 40,309
Component Units:						
SAWS	[1]Texas Municipal Retirement System (TMRS)	Nontraditional Defined Benefit Agent Plan	Not Available	$ 1,917	$ 2,101	$ 4,018
	[2]PMLIC Contract	Single Employer Defined Benefit Plan	$ 59,476	$ -	$ 3,689	$ 3,689
CPS Energy	[3]CPS All Employees Plan	Single Employer Defined Benefit Plan	$ 198,441	$ 9,570	$ 7,131	$ 16,701

[1] Plan year ended December 31, 2005

[2] Plan year ended December 31, 2005

[3] Fiscal year ended January 31, 2006

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Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The City provides retirement benefits for all eligible full-time firefighters and police officers through the Pension Fund. Employees who terminate, having 5 to 20 years of service, may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for 20 years or more shall, upon application to the board of trustees (the Board) of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest 3 years of pay of the last 5 years of service. The retirement annuity for employees retiring after September 30, 2003 is computed at the rate of 2.3% of this average for each of the first 20 years of service, plus 4.5% of the member's average total salary for each of the next 7 years, plus 3.0% of the member's average total salary for each of the next 3 years of service, plus 0.5% of the member's average total salary for each of the next 4 years of service, with fractional years of service prorated based on full months served as a contributing member. In applying the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary.

An employee with 20 years and one month of actual service credit may, at the time of retirement, elect a Backward Deferred Retirement Option Plan (Back DROP). The Back DROP election results in a lump sum payment equal to the number of full months of service elected by an employee that does not exceed the lesser of the number of months of service credit the employee had in excess of 20 years or 36 months and a reduced annuity payment.

There is also a provision for a thirteenth and fourteenth pension check. The Board may authorize the disbursement of a thirteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five-year period by at least 100 basis points. The Board may authorize a fourteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five-year period by at least 300 basis points. The thirteenth and fourteenth pension checks are paid to each retiree and beneficiary receiving a pension at the time of the disbursement and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a pro-rated check, and no check will be paid to members who retired after the end of the fiscal year).

If service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, based on the same number of years of the member's pay as used to compute normal retirement benefits. If a member is killed in the line of duty, the member's surviving spouse and dependent children are entitled to a pension based upon actual base salary at time of death.

Effective October 1, 2001, in addition to the changes for credited service and the fourteenth check 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 service pension.

Another important provision of the Pension Fund is the Cost of Living Adjustment (COLA). The COLA is based on the Consumer Price Index for all Urban Consumers - U.S. City Average (CPI) as published by the Bureau of Labor Statistics. Members whose retirement, disability, or death occurred before August 30, 1971 received an increase equal to 100.0% of the increase in the CPI. Members whose retirement, disability, or death occurred after August 30, 1971 but before October 1, 1993 receive an increase equal to 100.0% of the increase in the CPI up to 8.0%, and 75.0% of the increase in the CPI in excess of 8.0%. Members whose retirement, disability, or death occurred after October 1, 1993 receive an increase equal to 75.0% of the increase in the CPI.

Note 8 Pension and Retirement Plans (Continued)

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 24.6% of covered payroll, and employees contributed 12.3% of covered payroll. The employer's required contribution of $51,614 and the employee's required contribution of $25,801 were made to the Pension Fund (see summary of contribution information at the beginning of Note 8). New firefighters and police officers are immediately eligible for membership after they receive state certification and complete all other requirements.

The Pension Fund's annual required contribution for fiscal year 2006 was determined as part of the October 1, 2005 actuarial valuation, using the entry-age actuarial cost method. Significant assumptions included (a) 8.0% investment rate of return and (b) projected annual salary increase of 4.25%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability is amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period is 13.25 years with no assumption of a payroll growth rate.

The Pension Fund's governing statute was amended by the Texas Legislature effective October 1, 2005. The major changes enacted during the 2005 legislative session are (i) administrative changes to permit the Board to operate more efficiently, (ii) providing for an election to be made by a service retiree to receive a reduced annuity during the retiree's lifetime to provide a death benefit annuity to the retiree's postretirement surviving spouse, (iii) providing for an increased death benefit payment by the Pension Fund to an active member's or retiree's estate if there is no named beneficiary, (iv) changing the threshold year for determining increases in annuities based on CPI increases from 1991 to 1993, (v) allowing the use of a participant's salary beyond 34 years of service for purposes of a Back DROP benefit calculation, and (vi) increasing the service allowed in determining the spouse Back DROP lump-sum payroll from 27 to 30 years.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Texas Municipal Retirement System (TMRS)

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to City employees. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the TMRS plan.

Benefits depend upon the sum of the employee's contributions to the TMRS plan, with interest, and the City-financed monetary credits, with interest. At the date the TMRS plan began, the City granted monetary credits for service rendered before the TMRS plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the TMRS plan. Monetary credits for service since the TMRS plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the TMRS plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years of service, or with 20 years of service regardless of age. The TMRS plan also provides death and disability benefits. A member is vested after five years, but must leave accumulated contributions in the TMRS plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

TMRS provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints contained in the statutes.

Contribution requirements are actuarially determined by TMRS' actuary (see summary of TMRS Actuarial Assumptions and Methods at the end of Note 8). The contribution rate for the City's employees is 6.0% and the matching percent is currently 12.5%, both as adopted by the governing body of the City (see summary of contribution information at the beginning of Note 8.) Under the state law governing TMRS, the employer's contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percentage of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percentage of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25 year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is amortized over a constant 25 year period as a level percentage of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or calling (512) 476-7577.

San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System, San Antonio Water System Retirement Plan, the San Antonio Water System Deferred Compensation Plan, 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. Twenty years of credited service regardless of age, or
2. Five years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of credited service. "Average compensation" is defined as the monthly average of total compensation received for the 3 consecutive years ending December 31 out of the latest 10 compensation years prior to normal retirement date which gives the highest average.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

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. 0.8% of the average compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.4% of the average compensation, times years of credited service in excess of 35 years.

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits. The following information related to the Texas Municipal Retirement System and San Antonio Water System Retirement Plan has been prepared as of December 31, 2004 and January 1, 2005, respectively.

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 TMRS plans are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the SAWS-financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage (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 that, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and SAWS' matching percentage had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the SAWS-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at age 60 and above with 5 or more years of service, or with 20 years of service regardless of age. A member is vested after 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 at the end of Note 8). 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 percentage of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to SAWS' matching percentage, 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 percentage 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 (over funded) actuarial liability (asset) over the remainder of the plan's 20 amortization period.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

When SAWS periodically adopts updated service credits and increases the annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25 year period. Currently, the unfunded actuarial liability is to be amortized over the 25 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.

San Antonio Water System Retirement Plan (SAWSRP)

The San Antonio Water System Retirement Plan (SAWSRP) is a single-employer defined benefit pension plan that serves as a supplement to TMRS and Social Security benefits. SAWSRP is governed by SAWS, which may amend plan provisions and is responsible for the management of plan assets. SAWS has delegated the authority to manage certain plan assets to Principal Life Insurance Company. SAWS' covered payroll at January 1, 2005 under this contract was $59,476.

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 SAWSRP on January 1 of the calendar year following date of hire. An employee covered by SAWSRP may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. SAWSRP allows an employee to accrue vesting benefits as follows:

Years of Service	Vested Percentage
Less than 5	0.0%
5 or more	100.0%

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 Company (PMLIC). Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets. The pension plan's unallocated separate accounts are valued at fair value.

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%.

SAWSRP funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method estimates the total cost of the projected pension benefits for each employee evenly from the date the employee is first eligible for SAWSRP 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 SAWSRP had always been in existence. Thus, as of the SAWSRP 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."

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

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 SAWSRP. 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, 2004, reflects an unfunded frozen initial liability of $10,592.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Life Insurance Company, Pension Diversified Retirement Services, Des Moines, Iowa 50392-0001 or by calling (515) 247-5111.

San Antonio Water System Deferred Compensation Plan (SAWSDCP)

SAWS has a deferred compensation plan for its employees created in accordance with Internal Revenue Code Section 457. SAWSDCP, available to all regular employees, permits them to defer a portion of their salary until future years. The compensation deferred under this plan is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Participation in SAWSDCP is voluntary, and SAWS does not make any contributions. SAWS has no liability for losses under SAWSDCP, but does have the usual fiduciary responsibilities of a plan sponsor.

CPS Energy

All Employee Plan

The CPS Energy Pension Plan is a self-administered, single-employer, defined benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. 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 Energy. 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.

Employee contributions commence with the effective date of participation and continue until attaining normal or early retirement age, completion of 44 years of benefit service, or termination of employment. The balance of Plan contributions is the responsibility of CPS Energy, giving consideration to actuarial information, budget controls, legal requirements, compliance and industry, and/or community norms.

CPS Energy adopted one Restoration Plan effective January 1, 1998 to supplement benefits paid from the Plan due to federal tax restrictions on benefit amounts. The benefits due under the Restoration Plan have been paid annually by CPS Energy.

As calculated under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, CPS Energy's annual pension cost and net pension obligation for the fiscal year ended January 31, 2006 was $7,162. The annual required contribution was determined as part of the January 1, 2005 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 24.4 years and is calculated using the level dollar open amortization method.

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

Significant actuarial assumptions used for the January 1, 2005 actuarial valuation include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases averaging 4.1%, and (c) postretirement cost-of-living increases of 1.8%. The projected salary increases include an inflation rate of 3.5%.

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 to the Employee Benefits Division of CPS ENERGY, P.O. Box 1771, San Antonio, Texas 78296 or by calling (210) 353-2344.

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	2004	$ 48,038			$ 48,038	$ (48,038)				100.0%
Pension Fund City	2005	49,665			49,665	(49,665)				100.0%
of San Antonio	2006	51,614			51,614	(51,614)				100.0%
TMRS-	2004	$ 23,062			$ 23,062	$ (23,062)				100.0%
City of	2005	25,131			25,131	(25,131)				100.0%
San Antonio	2006	27,077			27,077	(27,077)				100.0%
CPS All	2004	$ 7,651			$ 7,651	$ (7,651)				100.0%
Employee Plan [1]	2005	8,694			8,694	(8,694)				100.0%
	2006	7,162			7,162	(7,162)				100.0%
TMRS-	2003	$ 1,905			$ 1,905	$ (1,905)				100.0%
SAWS [2]	2004	2,013			2,013	(2,013)				100.0%
	2005	2,101			2,101	(2,101)				100.0%
PMLIC-	2003	$ 3,324			$ 3,324	$ (3,324)				100.0%
SAWS [3]	2004	3,486			3,486	(3,486)				100.0%
	2005	3,689			3,689	(3,689)				100.0%

1 Fiscal year ended January 31, 2006
2 Plan year ended December 31, 2005
3 Plan year ended December 31, 2005

Note 8 Pension and Retirement Plans (Continued)

Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation by the Texas Municipal Retirement System's (TMRS) actuary are provided in the following table for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Investment Return - City	7.0%
Investment Return - SAWS	7.0%
Inflation Rate	None
Projected Salary Increases	None
Postretirement 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.

Note 9 Postemployment Retirement Benefits

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 nonuniformed City retirees and for all pre-October 1, 1989 uniformed (fire and police) retirees. Currently, there are 5,935 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, Pension and Retirement Plans. At September 30, 2006, there were 1,417 retirees participating in the program that covers eligible expenses at 80.0% after a deductible of $500 (single)/$1,000 (family) for non-Medicare and $125/$250 for Medicare retirees. The cost of the program is reviewed annually, and the costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis, shared on a targeted 67.0% City, 33.0% retiree cost allocation. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands. For retirees, total expenses for the year were $12,659. For the year ended September 30, 2006, total contributions were as follows:

City	$ 3,720
Retiree	2,696
Total	$ 6,416

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

The second postemployment benefit program of the City provides retirement health care benefits for eligible fire and police retirees under the Fire and Police Retiree Health Care Fund. The Health Care Fund was originally established as a fund of the City pursuant to the respective fire and police collective bargaining agreements to provide postemployment health benefits for San Antonio firefighters and police officers who retired on or after October 1, 1989. Effective October 1, 1997, the Health Care Fund was created as a separate and distinct statutory trust. The Health Care Fund is governed by a nine-member board of trustees comprising of the Mayor, two City Council members, two active police officers, two active firefighters, a retiree representative of the Fire Department, and a retiree representative of the Police Department. The board of trustees is responsible for the investment of the assets of the Health Care Fund. Contribution and benefit levels are currently determined by the respective collective bargaining agreements with the Fire and Police Associations.

The benefits of this plan are financed on a prefunded basis. The City currently makes contributions on behalf of 3,393 active firefighters and police officers who may be eligible for benefits under this plan in the future. The benefits of the plan are not available until the employee has completed 20 years of service, and the plan currently provides benefits to 1,286 eligible retirees. The Health Care Fund reimburses 80.0% of the amount of eligible claims for standard medical costs and 100.0% for hospitalization costs incurred by the retiree and their eligible dependents for Prefund I (firefighters who retired on or after October 1, 1989, but before or on December 3, 1995 and police officers who retired on or after October 1, 1989 and before July 1, 1995). The Health Care Fund for Prefund II retirees (firefighters who retired on or after December 4, 1995 and police officers who retired on or after July 2, 1995) reimburses both the amount of eligible claims for standard medical costs and hospitalization costs incurred by the retiree and their eligible dependents at 80.0%.

Please note, the number of firefighters, police officers, and retirees in this section are not expressed in thousands. For the year ended September 30, 2006, total benefit payments for retired employees and eligible beneficiaries was $13,412.

Contribution levels for fiscal year 2006 were established under the current collective bargaining agreements between the City and the Fire and Police Associations. Under the Fire Agreement, the City contributed 8.7% of base pay plus longevity, although under the agreement the City could have reduced its contribution to 8.5% of covered payroll. Firefighters contributed $70 per month to the Health Care Fund. Pursuant to the Police Agreement, the City contributed 9.4% of base pay plus longevity and $20 per police officer per month, and police officers contributed $70 per month. Total contributions to the Health Care Fund are summarized in the following table:

Total Contributions to the Health Care Fund	
City	$ 17,719
Employees and Retiree Dependent Premiums	3,437
Total Contributions	$ 21,156

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Health Care Fund and whether the existing financing of the Health Care Fund can be reasonably expected to be adequate over a long period of time. Actuarial valuations over the past several years have indicated that contribution levels are not sufficient to amortize the unfunded liability. At the request of the board of trustees, the Health Care Fund's consulting actuaries performed an actuarial valuation dated February 20, 2006, as of October 1, 2005. The results of the actuarial valuation were that, in the opinion of the actuary, the Health Care Fund will have a long-term inadequate financing arrangement if present health benefits are left unchanged and contributions remain at current levels.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

While the results of the studies reflect that significant changes would be required in contribution levels if benefits remain unchanged, the actuarial reports also state that the Health Care Fund does not have a short-term financing problem. As of September 30, 2006, net assets available for postemployment benefits were $165,412, while benefits payments for the fiscal year ended September 30, 2006 were $13,412. As noted above, contribution and benefit levels are currently established pursuant to the collective bargaining agreements. The current agreement with the Fire Association expired on September 30, 2005; however, it has an evergreen clause through September 30, 2015. With respect to the agreement with the Police Association, the current agreement expired on September 30, 2006; however, it has an evergreen clause through September 30, 2016.

Subsequent to fiscal year end, the board of trustees of the Health Care Fund, Fire Association, Police Association, and the City reviewed possible amendments to the statute governing the Health Care Fund in order to address the long-term actuarial position of the Health Care Fund. The parties have agreed to seek passage of amendments to the governing legislation, which primarily include: a) approving certain changes to the benefit plans; b) providing the board of trustees the authority to make additional changes to the health benefits plan in the future; c) maintaining the City's contribution to the Health Care Fund at 9.4% of covered payroll; and d) phase-in an increase in the employee contributions from 2.0% of covered payroll to 4.7% over a five year period as well as other administrative changes. This proposed legislative package is anticipated to be considered by the Texas Legislature during the 2007 regular session. The aforementioned changes are anticipated to significantly improve the actuarial position of the Health Care Fund as well as provide the board of trustees the ability to manage the health benefit plan with consideration for the amount of funding available.

CPS Energy

CPS Energy provides certain healthcare and life insurance benefits for retired employees. Most CPS Energy employees are eligible for these benefits upon retirement from CPS Energy. Plan assets are held as part of CPS Energy's Employee Benefit Plans, and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the employee benefit plan in varying amounts depending upon an equity formula that considers age and years of service. The Plan may be amended by CPS Energy. The annual cost of retiree healthcare and life insurance benefits funded by CPS Energy is recognized as an expense of CPS Energy as employer contributions are made to the programs.

These retiree costs approximated $5,700 for 2006. CPS Energy reimbursed a percentage of the monthly premium to certain retirees and their spouses enrolled in Medicare Part B, which totaled $414 for fiscal year 2006. Please note, the monthly premium is not stated in thousands.

Retired employees and covered dependents contributed $2,500 for their healthcare and life insurance benefits in fiscal year 2006. There were 2,473 retirees and covered dependents eligible for healthcare 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 Energy has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1, 2005 valuations are $91,300 for healthcare and $25,000 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 $49,500 for health, $6,400 for life insurance, and $3,600 for disability benefits. CPS Energy began partial accrual and funding of projected future benefits in 1992. Funding totaled $4,200 in 2006. For the employee benefit plan, the actuarial cost method used is the projected unit credit actuarial cost method. For the life insurance and disability plans, CPS Energy uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 2005 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 9.0% for 2005 decreasing to 6.0% in 2011 and thereafter.

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS)

SAWS provides certain healthcare and life insurance benefits for retired employees. Substantially all full-time employees who retire from SAWS may become eligible for those benefits. On December 31, 2005, there were 488 retirees with life insurance and 465 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 $4,735 and $92, respectively, for January 1, 2005 through December 31, 2005. Medical benefits are provided to retiree and active employees through a self-insured health plan administered by Blue Cross Blue Shield of Texas. Those and similar benefits for active employees are provided through insurance companies.

Note 10 CPS Energy South Texas Project (STP)

Joint Operations

CPS Energy is one of three participants in the STP, which consists of two units nominally rated to produce 1,281.25 megawatts each. The units, along with their support facilities and administrative offices, are located on a 12,220-acre site in Matagorda County, Texas. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. As noted in Note 4, Capital Assets, the other participants in STP are Texas Genco and the City of Austin. Increased by the additional 12.0% interest acquired in fiscal year 2006, CPS Energy's 40.0% ownership in STP represented 1,025 megawatts of total plant capacity. On February 2, 2006, NRG Energy, Inc. acquired Texas Genco. STP is maintained and operated by the STP Nuclear Operating Company (a nonprofit Texas corporation) and is financed and controlled by the owners - CPS Energy, Texas Genco, and the City of Austin.

To achieve the 40.0% interest in STP, CPS Energy exercised its right of first refusal to acquire an additional 12.0% (300 megawatts) share from AEP, the prior owner. The purchase was completed May 19, 2005 and increased CPS Energy's proportionate share of STP from 28.0% to 40.0%.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, the STP Nuclear Operating Company (STPNOC), a Texas nonprofit, nonmember corporation created by the participants, assumed responsibility as the licensed operator of STP. As of January 31, 2006, the agreement had not been amended. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC.

CPS Energy amortizes its share of nuclear fuel for STP to fuel expense on a units-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS Energy is charged a fee for disposal of spent nuclear fuel, which is based upon CPS Energy's share of STP generation that is available for sale to CPS Energy customers. This charge is included in fuel expense monthly.

Nuclear Insurance

The Price-Anderson Act is a comprehensive statutory arrangement for providing limitations on liability and governmental indemnities with respect to nuclear accidents or events. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100,600, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10,000 per year per reactor for each nuclear incident. CPS Energy and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests 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.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Insurance (Continued)

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.

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 Energy, 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 Energy 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 showed that CPS Energy's share of decommissioning costs are approximately $311,000 in 1998 dollars. In 2004, the owners conducted an additional review of decommissioning, and results showed that CPS Energy's share of decommissioning costs 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 Energy was able to decrease its minimum annual contribution requirement from $15,900 in fiscal year 2004 to $6,900 in fiscal year 2005, which included the partial year effect of the updated study. Reflecting a full year's impact of the most recent study, CPS Energy's minimum annual contribution requirement was $5,000 in fiscal year 2006.

In 1991, CPS Energy started accumulating the decommission funds for the 28.0% portion in an external trust in accordance with the NRC regulations. The 28.0% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. As of December 31, 2005 and 2004, CPS Energy had accumulated approximately $231,600 and $222,400, respectively, of funds in that 28.0% external trust. Based on the annual calculation of financial assurance required by the NRC, CPS Energy's 28.0% Decommissioning Trust balance exceeded the calculated financial assurance amounts of $76,700 at December 31, 2005 and $77,300 at December 31, 2004.

In conjunction with the acquisition of the additional 12.0% interest in STP in May 2005, CPS Energy also assumed control of a relative portion of the Decommissioning Trust previously established by AEP. This is referred to as the 12.0% Decommissioning Trust, and its assets and liabilities are also included in CPS Energy's financial statements as a component unit.

In fiscal year 2006, AEP's remaining operational interest in STP was simultaneously acquired by Texas Genco. Additionally, the remaining portion of AEP's Decommissioning Trust was assumed by Texas Genco. These transactions occurred before Texas Genco was acquired by NRG.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning (Continued)

Subject to Public Utility Commission of Texas (PUCT) approval, credits or deficiencies in the funding of this trust will be received from or distributed to AEP customers. As of December 31, 2005, that Decommissioning Trust had accumulated approximately $70,100 of funds. According to the 2004 study mentioned above, the estimated decommissioning costs for that trust are approximately $170,300 in 2004 dollars. Based on the annual calculation of financial assurance required by the NRC, the 12.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of $32,900 at December 31, 2005.

Both Decommissioning Trusts also have separate calendar-year financial statements. These separately audited financial statements can be obtained by contacting the Controller at CPS Energy.

Note 11 Commitments and Contingencies

Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2006. Grants awarded by federal, state, and other governmental agencies but not yet earned nor received in cash as of September 30, 2006 were $12,955.

Capital Improvement Program

The City will be undertaking various capital improvements during fiscal year 2007. The estimated cost of these improvements is $470,596, of which $151,360 is related to the Airport System. Approximately $30,722 of the these projects will be funded by federal grants, of which $22,661 are earmarked for the Airport System.

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 $19,213. 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 if personal injuries are recovered, damages are capped at $250 under the Texas Tort Claims Act. The case was argued to the Texas Supreme Court in October 2006.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

Matthew Jackson et. al. v. City of San Antonio. This is a Fair Labor Standards Act (FLSA) lawsuit with originally 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 has increased the size of the Plaintiff class to 330, but has the potential 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.

McClure and Maximum Entertainment L.L.C vs. City of San Antonio et al. This is a case in which the plaintiff was granted a permit to stage a three-day outdoor concert. The plaintiff states the permit allowed the bands to play at unrestricted noise levels. City officers shut down the concert prior to the second day's performance. The potential liability for this case, if lost, could exceed $1,000.

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Noncompliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties, including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual, and in the governmental fund type when matured.

Leases

The City leases City-owned property to others consisting of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. Total rental revenue on operating leases for the fiscal year ended September 30, 2006 was $19,289. As of September 30, 2006, the leases provide for the following future minimum rentals:

Leases Receivable				
	Governmental Activities	Aviation	Parking	Total
Fiscal year ending September 30:				
2007	$ 1,627	$ 3,807	$ 73	$ 5,507
2008	1,248	3,453	51	4,752
2009	859	2,470	36	3,365
2010	760	2,402	36	3,198
2011	697	1,958	36	2,691
2012-2016	2,899	8,440	57	11,396
2017-2021	2,125	3,761		5,886
2022-2026	750	1,329		2,079
2027-2031	750	92		842
2032-2036	575	27		602
2037-2041	500			500
2042-2046	67			67
Future Minimum Lease Rentals	$ 12,857	$ 27,739	$ 289	$ 40,885

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, federal and state laws required the City to incur certain postclosure care costs over a period of 30 years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,800. 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 30-year period. In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost*, the estimated postclosure cost of $3,800 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, 2006 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,004. This represents a decrease of $26 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

Texas Commission on Environmental Quality (TCEQ) Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission, related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City, and the new permitee has provided adequate financial assurance for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

Brooks City-Base - Electric and Gas Utilities

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the Air Force) and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks City-Base. On July 22, 2002, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology and Business Park, a facility that will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

As part of the conveyance, the electric and gas utilities were transferred to CPS Energy, 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 Energy have committed to make certain improvements and upgrades to the electric and gas utility over a 20-year period. Funding for these improvements include $3,400 from the Air Force and $6,300 from BDA and CPS Energy each, for a total of $16,000.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (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. If necessary, 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 Energy derived from Brooks City-Base. The City, as the owner of CPS Energy, receives 14.0% of CPS Energy's gross revenues, and this amount represents additional resources available to the City as a result of its increased payment from CPS Energy 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.

Joint Operations Agreement

A 1997 Joint Operations Agreement (JOA) resulted from the litigation settlement with Texas Genco, over its management of STP during the construction and early operating periods. The JOA was an arrangement to jointly dispatch CPS Energy's and Texas Genco's generating plants - other than STP - to take advantage of the most efficient plants and favorable fuel prices of each utility. Until June 2002, CPS Energy received 90.0% of the savings realized from the jointly operated systems in monthly cash payments. As of June 2002, when Texas Genco met the JOA $200,000 cumulative savings obligation, monthly cash payments to CPS Energy were reduced to 50.0% of the savings realized. As of January 24, 2006, CPS Energy's total cumulative payments from savings realized was $310,400. Due to changes in market conditions and the ERCOT market structure, Texas Genco terminated the JOA as of January 24, 2006. On January 25, 2006, CPS Energy began directly representing its generation and load in the Texas energy market place.

Litigation

Additionally, in the normal course of business, CPS Energy is involved in other legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals, and discrimination cases. Also, CPS Energy power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of CPS Energy, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS Energy.

Other

Purchase and construction commitments amounted to approximately $1,100,000 at January 31, 2006. This amount includes provisions for natural gas purchases expected through June 2010; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for coal purchases through December 2006 and for coal transportation through December 2014.

CPS Energy also has other purchase commitments totaling $1,000,000. This amount includes provisions for wind power through December 2026, landfill power through December 2020, and raw uranium associated with STP fabrications and conversion services needed for refueling through December 2010.

The PUCT promulgated new rules in 1996 designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on the amount of load served by each utility. CPS Energy's cost for calendar year 2005 was approximately $15,100. The estimated cost for calendar year 2006 is approximately $21,900.

Note 11 Commitments and Contingencies (Continued)

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.

In January 2006, SAWS settled a legal claim regarding the amount of water pumped under one of its existing water rights agreements. As part of this settlement, SAWS agreed to pay $924 related to past damages claimed and further modified the existing agreement to require SAWS to make minimum annual ground water payments of $337 on a take or pay basis. Under the terms of this agreement, SAWS is required to make total payments under this contract of $4,700 between 2006 and 2020. Additionally, SAWS has agreed to make payments quarterly in arrears for any residential customers within a defined geographical area that begin taking water payments associated with this provision of the agreement. Management estimates of this potential contingent liability are less than $5,000.

Other

SAWS is committed under various contracts for completion of construction or acquisition of utility plants totaling approximately $158,940 as of December 31, 2005. Funding of this amount will come from available revenues of SAWS, contributions from developers, and restricted assets.

As of December 31, 2005, SAWS has recorded a contingent liability of approximately $3,900 related to contractual and/or legal expenditures that are expected to be incurred. Any additional liability that may arise from these actions is indeterminable, but management believes that the amount recorded is a reasonable estimate.

Note 12 Risk Financing

Primary Government (City)

Property and Casualty Liability

At September 30, 2006, 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. Great American Insurance Company provides property coverage on the City's building and contents inventory. The City utilizes a third-party administrator for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Insurance Reserve Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported, and departments are assessed premiums to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements did not exceed insurance coverage for each of the past three years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee 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 Employee Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

Note 12 Risk Financing (Continued)

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 that the City, as a member, utilizes to administer self-insurance workers' compensation benefits to its employees for claims that occurred prior to September 30, 1986. The City also utilizes third-party administrators for the handling of administration, investigation, and adjustment of workers' compensation claims that occurred after October 1, 1986. All loss contingencies, including claims incurred but not reported, if any, are recorded in the City's Workers' Compensation Fund and City departments are assessed premiums to cover expenditures. As of September 30, 2006, the City has excess workers' compensation coverage through the State National Insurance Company. Claims settlements did not exceed insurance coverage for each of the past three years.

Unemployment Compensation Program

The Unemployment Compensation Program Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year-end, claims were being administered externally and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

Extended Sick Leave Program

The Extended Sick Leave Program Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Employee Wellness Program Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program Fund was established to offer City employees short-term mental health, marital, and financial counseling, as well as substance abuse intake and assessment.

Claims Liability

The liability for the Employee Benefits Program is based on the estimated aggregate amount outstanding at the statement of net assets date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the statement of net assets date, and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims that have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability, as management of the City feels it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for both the Insurance Reserve and Workers' Compensation Programs is based on a 3.0% discount rate.

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Note 12 Risk Financing (Continued)

Primary Government (City) (Continued)

Claims Liability (Continued)

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Benefits, and Workers' Compensation Programs Funds for the year ended September 30, 2006:

Fund	October 1,	Estimates	Adjustments	Payments	September 30,[1]
Insurance Reserve					
Fiscal Year 2005	$ 17,271	$ 1,928	$ 4,638	$ (4,638)	$ 19,199
Fiscal Year 2006	19,199	14	5,413	(5,413)	19,213
Employee Benefits					
Fiscal Year 2005	$ 8,548	$ -	$ 66,489	$ (66,489)	$ 8,548
Fiscal Year 2006	8,548	2,038	75,416	(75,416)	10,586
Workers' Compensation[1]					
Fiscal Year 2005	$ 23,205	$ (1,326)	$ 10,297	$ (10,297)	$ 21,879
Fiscal Year 2006	21,879	2,125	8,261	(8,261)	24,004

[1]The Workers' Compensation Liability Balance of $24,004 is comprised of $21,678 recorded in the Workers' Compensation Fund, and the remaining liability of $2,326 is recorded in proprietary funds.

CPS Energy

CPS Energy is exposed to various risks of loss including, but not limited to those related to, torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major risks. The property insurance program provides $4,000,000 of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductible for the property insurance policy is $5,000 for general property and turbine generators/transformers. The liability insurance program includes:

- $100,000 of excess general liability coverage over a retention amount of $2,000;
- $35,000 of excess workers' compensation coverage over a retention amount of $2,000;
- $25,000 of fiduciary liability coverage and
- Other property and liability insurance coverage, which includes employee travel, event insurance, and commercial crime.

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Note 12 Risk Financing (Continued)

CPS Energy (Continued)

Actuarial studies are performed periodically to assess and determine the adequacy of insurance reserve retentions. An actuarial study was last performed in the fourth quarter of FY 2006. Notable changes to certain insurance reserves included in the following table are related to establishing an employment practices liability reserve totaling $3,800 and discontinuing the property insurance reserve, which represented a $3,200 reduction to the total property reserve.

The remaining balance under the property reserve column at January 31, 2006 is related to estimated obligations for the clean up, closure, and postclosure care requirements of the Company's landfills. CPS Energy has seven landfill sites -- four of which are at full capacity. The estimates for landfill liability are based upon capacity to date and are subject to change due to inflation or deflation, as well as new developments in technology, applicable laws, or regulations.

The Employee Benefit Plans' assets are segregated from CPS Energy's assets. They are separately managed by a committee whose members are appointed by the oversight committee, which includes three specific members, the CPS Energy CEO and General Manager, the CFO and Treasurer, and the Board Audit Committee Chair. The employee benefit plans have separate calendar-year financial statements that are available upon request by contacting Compensation and Employee Benefits at CPS Energy.

City Public Service
Schedule of Changes in Claims Liability

Fund	Liability February 1,	Claims Adjustments	Claims Payments	Liability January 31,
Property Insurance				
Fiscal Year 2005	$ 5,835	$ 1,010	$ -	$ 6,845
Fiscal Year 2006	6,845	(3,207)		3,638
Employee and Public Liability Claims				
Fiscal Year 2005	$ 7,237	$ (871)	$ (331)	$ 6,035
Fiscal Year 2006	6,035	3,449	(341)	9,143
Employee Health and Welfare				
Fiscal Year 2005	$ 4,696	$ 32,888	$ (32,325)	$ 5,259
Fiscal Year 2006	5,259	38,079	(38,741)	4,597

Hedging - The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas Public Funds Investment Act to allow municipal utilities the ability to purchase and sell energy-related financial instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil, and electric energy.

On December 19, 2005, the CPS Energy board of trustees reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. Currently, these hedge instrument transactions are used to minimize the risk of market energy-price volatility as it relates to the underlying transactions that relate to the physical purchase of natural gas. The primary goal of the Energy Price Risk Management Policy, which is overseen by the hedging strategy committee, is to mitigate the potential for loss or reduce the uncertainty in expenses, pricing, and revenue as a result of unforeseen market changes that pertain to fuel expenses and revenues.

The hedge instruments are reported at cost on the balance sheets. Gains and losses related to the hedge instrument transactions are netted to fuel expenses in the period realized. For fiscal years 2006 and 2005, the commodity options and/or hedge instruments offset one another to achieve unrealized gains of approximately $258 and $496, respectively.

Note 12 Risk Financing (Continued)

CPS Energy (Continued)

CPS Energy follows GASB Technical Bulletin No 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on The Statement of Net Assets*. Accordingly, the following information is provided regarding CPS Energy's outstanding financial hedge instruments as of January 31, 2006 and 2005:

Fuel Derivative Transactions as of January 31, 2006

Type of Transaction		Duration	Volumes in MMBTU
Long	Call	Mar 2006 - Mar 2007	16,050,000
Short	Call	Mar 2006 - Mar 2007	16,580,000
Long	Put	Mar 2006 - Oct 2006	1,080,000
Short	Put	Mar 2006 - Mar 2007	16,050,000
Long	NG Futures	Mar 2006 - Oct 2006	530,000

Fuel Derivative Transactions as of January 31, 2005

Type of Transaction		Duration	Volumes in MMBTU
Long	Call	Mar 2005	420,000
Short	Call	Mar 2005 - Mar 2006	4,110,000
Long	Put	Mar 2005 - Mar 2006	4,110,000
Short	Put	Mar 2005	420,000
Long	NG Futures	Mar 2005 - Mar 2006	4,800,000
Short	NG Futures	Mar 2005 - Dec 2005	1,230,000
Short	Basis Swaps	Feb 2005 - Dec 2005	1,510,000

The fair value of option contracts is determined using New York Mercantile Exchange (NYMEX) closing settlement prices as of the last day of the reporting period. For futures and basis swap contracts, the fair value is calculated by deriving the difference between the closing futures prices on the last day of the reporting period and the futures or basis swap purchase prices at the time the positions were established, less applicable commissions. As of January 31, 2006, the total cost of the outstanding hedge instruments was $28, with a fair value of $286. As of January 31, 2005, total cost for outstanding hedge instruments was $59, with a fair value of $556.

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established and options are sold, premiums are received and an obligation to honor the terms of the option contract, if exercised, is created. The decision whether to exercise the options or let them expire rests with the purchasing party.

Futures contracts represent a firm obligation to buy, or sell, the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy, or sell, the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. Only if expressly requested in advance may an exchange for physical assets take place.

The hedging contracts expose CPS Energy to a minimal amount of credit risk. In the event of default or nonperformance by brokers or NYMEX, the operations of CPS Energy will not be materially affected. However, CPS Energy does not expect the brokerages to fail to meet their obligations, given their high credit rating and the strict and deep credit requirements upheld by NYMEX of which these brokerage houses are members. Termination risk for exchange-traded instruments is greatly reduced by the strict rules and guidelines established by NYMEX, which are governed by the Commodity Futures Trade Commission.

Note 12 Risk Financing (Continued)

San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAWS is self-administered and self-insured for the first $500 of each workers' compensation, general liability, automobile liability, public official's liability, 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, 2005, 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 has recorded a liability in the amount of $2,552 as of December 31, 2005, 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	Claims and Adjustments	Claims Payments	Balance at End of Fiscal Year
Dec. 31, 2004	$ 2,317	$ 1,675	$ (1,515)	$ 2,477
Dec. 31, 2005	$ 2,477	$ 1,542	$ (1,467)	$ 2,552

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Note 13 Interfund Transfers

The following is a summary of interfund transfers for the City for the year ended September 30, 2006:

Summary Table of Interfund Transfers
Year Ended September 30, 2006

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
Airport System	$ 35	$ -
Categorical Grant-in-Aid	317	5,423
Parking Facilities	761	452
Internal Service Funds		3,650
Nonmajor Governmental Funds	9,006	78,869
Nonmajor Enterprise Fund	1,348	1,583
Total General Fund	11,467	89,977
Debt Service Funds:		
Parking Facilities	516	
Nonmajor Governmental Funds	20,048	
Total Debt Service Funds	20,564	
Catergorical Grant-in Aid:		
General Fund	5,423	317
Internal Service Funds		154
Nonmajor Governmental Funds	1,343	25,157
Total Catergorical Grant-in-Aid	6,766	25,628
Airport System Fund:		
General Fund		35
Internal Service Funds		156
Total Airport System Fund		191
Parking System Fund:		
General Fund	452	761
Debt Service		516
Internal Service Funds		40
Nonmajor Governmental Funds		100
Total Parking System Fund	452	1,417
Internal Service Funds:		
General Fund	3,650	
Categorical Grant-in-Aid	154	
Airport System	156	
Parking Facilities	40	
Internal Service Funds	2,599	2,599
Nonmajor Governmental Funds	257	135
Nonmajor Enterprise Fund	218	70
Total Internal Service Funds	7,074	2,804
Nonmajor Governmental Funds:		
General Fund	78,869	9,006
Debt Service		20,048
Categorical Grant-in-Aid	25,157	1,343
Parking Facilities	100	
Internal Service Funds	135	257
Nonmajor Governmental Funds	84,983	84,983
Nonmajor Enterprise Fund		48
Total Nonmajor Governmental Funds	189,244	115,685
Nonmajor Enterprise Fund:		
General Fund	1,583	1,348
Internal Service Funds	70	218
Nonmajor Governmental Funds	48	
Total Nonmajor Enterprise Funds	1,701	1,566
Total	$ 237,268	$ 237,268

Note 13 Interfund Transfers (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches. and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

Note 14 Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes 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 $8,750 is as follows:

Revenues previously reported as unearned in the fund financial statements	$ 17,932
Receivable applicable to governmental activities, which are not available in the current period	565
Unearned revenues previously reported as income in the fund financial statements	(9,747)
Revenues collected after year end, but not available soon enough to pay for the current period's expenditures and, therefore, are not recognized in governmental funds	$ 8,750

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	$ 10,267
Less: Short-term available portion reported in fund financial statements	(831)
Net adjustment to decrease fund balance--total governmental funds to arrive at new assets--governmental activities for capital leases	$ 9,436

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Note 14 Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes 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 is as follows:

Amortization of bond premiums on long-term debt previously expensed in the fund financial statements	$ 1,199
Amortization of bond issues costs on long-term debt previously expensed in the fund financial statements	1,121
Less: Premiums/bond issue costs on bonds and certificates not previously recorded in the fund financial statements	(5,377)
Total amortization of bond premiums and deferred charges (net)	$ (3,057)

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 $2,597 are as follows:

Arbitrage Rebate Expense	$ 1,288
Compensated Absences	(2,348)
Interest Expense	(9,321)
Principal Paid on Leases	12,978
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	$ 2,597

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Note 15 Deficits in Fund Balances / Net Assets

Special Revenue Funds

As of September 30, 2006, deficit fund balances are reported in the Categorical Grant-in-Aid and Community Development Program in the amounts of $10,829 and $884, respectively. In fiscal year 2006, grant receivables within the grant funds were researched and analyzed by the owning City grant departments to determine validity of receivables and if accounting adjustments were necessary. The City identified the $11,713 as grant programs that were not sufficiently funded. These deficits are primarily attributed to the City providing additional program services to the community beyond what monies were provided by grantor agencies. The City will address funding these deficits through the City's future budget processes.

The Golf Course Fund had a deficit fund balance of $877 as of September 30, 2006. 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, 2006, a deficit of $11,823 in net assets is reported in the Employee Health Benefits Program. This deficit decreased by $8,867 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 Program. Establishing healthcare 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. These programs will be carefully studied as a means of providing long-term solutions to address rising healthcare costs and addressing fund balance deficits. Projections indicate that the fund will have a positive fund balance in fiscal year 2008.

Within the Internal Service Funds, the Workers' Compensation Fund also reported a deficit in net assets of $1,264, at September 30, 2006, which was reduced by $2,981 from the prior fiscal year. The City will fund the deficit through assessments charged to various City funds in future years.

Note 16 Other Disclosures

Donor Restricted Endowment

The City has four permanent funds: the San Jose Burial Park Fund, the Carver Cultural Center Endowment Fund, the San Antonio Housing Trust Fund, and the William C. Morris Endowment Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these endowment funds are classified as restricted net assets and are reported in the government-wide financial statements. The principal is required to be retained in perpetuity while the interest is available to cover specific expenditures.

The San Jose Burial Park Fund generated $93 in interest to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery.

The Carver Cultural Center Endowment Fund generated $14 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.

Note 16 Other Disclosures (Continued)

Donor-Restricted Endowment (Continued)

The San Antonio Housing Trust Fund generated $355 in interest. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of San Antonio Housing Trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed, construed, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $13 in interest. These earnings are used on an annual basis to enhance the City Library's Educational Programming and Services for Children. Any net income or net appreciation of the funds not used shall be accumulated and added to the principal of the funds. The earnings of the funds will be expended in accordance with the spending policy of the Library's board of directors or trustees.

Note 17 Subsequent Events

Debt Transactions

On September 21, 2006, the City issued $72,620 in Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006. The Bonds were issued to refund $68,785 in Hotel Occupancy Tax Revenue Bonds for interest costs savings and the proceeds were delivered on October 18, 2006. This refunding transaction produced total savings of $10,440 with a present value savings of $6,905, or 10.0% of the refunded obligations. The Bonds have maturities from 2007 to 2026, with interest rates ranging from 4.0% to 4.5%.

On November 9, 2006, the City issued $170,785 in General Improvement and Refunding Bonds, Series 2006. Proceeds of the bonds were utilized to finance general improvements of the City and refund certain general obligation and certificates of obligation for interest cost savings. The refunding transaction generated gross savings of $5,500 with present value savings of $4,100, or 4.2% of the refunded obligations. Additionally, the City issued $73,155 in Combination Tax and Revenue Certificates of Obligation, Series 2006, to fund various capital projects. Proceeds of the 2006 bonds and certificates were delivered on December 6, 2006. The 2006 bonds and certificates have maturities from 2007 to 2026, with interest rates ranging from 3.5% to 5.0%.

On November 16, 2006, the City issued $17,850 in Airport System Revenue Refunding Bonds, Series 2006. The Bonds were issued to refund certain Airport System Improvement Revenue Bonds for interest cost savings and the proceeds were delivered on December 13, 2006. This transaction produced total gross savings of $1,100, with a present value savings of $915, or 5.2% of the refunded obligations. The bonds have maturities ranging from 2007 to 2014, with an interest rate of 5.0%.

On May 17, 2007, the City approved the issuance of $60,000 in Tax Notes, Series 2007. The proceeds of the Notes will be utilized to fund capital projects in the City's Adopted 2007 Capital Budget, a proposed Homeless Campus, the acquisition and development of a Property Room for the San Antonio Police Department, and projects approved by the voters in a bond election held on May 12, 2007. These Tax Notes are being utilized as an interim financing mechanism in anticipation of the next scheduled sale of General Obligation Bonds and Certificates of Obligation currently scheduled for November 2007. The Notes are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the limitations prescribed by law. The Notes are retired in the year 2010 and bear an interest rate of approximately 3.9%.

On May 17, 2007, the City approved the issuance of $5,500 in Hotel Occupancy Tax Surplus Revenue Notes, Series 2007. The proceeds of the Notes will be utilized to fund renovations and improvements to the Alamodome, which are necessary for hosting the 2008 NCAA Men's Final Four. The Notes are being utilized as an interim financing mechanism in anticipation of the projected reimbursement for these capital expenditures from the State of Texas via Senate Bill 150. This Bill provides for the reimbursement of eligible expenditures from the State's portion of its sales tax collected in conjunction with major events such as the NCAA Final Four. The Notes are payable from the City's Hotel Occupancy Tax Revenues. The Notes are retired in the year 2010 and bear an interest rate of approximately 4.0%.

Note 17 Subsequent Events (Continued)

Bond Election

On May 12, 2007, the City held an election on the proposed issuance of general obligation bonds in an aggregate amount of $550,000. All propositions for the bond program were approved by the voters. The bonds are projected to be issued in installments over a 5-year period and will provide funding for street and sidewalk improvements, drainage improvements, parks, recreation, open space, athletic facility improvements, library improvements, and public facilities improvements.

Fire Collective Bargaining Agreement

On May 31, 2007 the City approved a new collective bargaining agreement with the International Association of Fire Fighters Local 624 with a term through September 30, 2009. The projected cost of the collective bargaining agreement is $44,400. The previous agreement approved on May 23, 2003 had a term of June 3, 2002 through September 30, 2005 with an evergreen clause effective through September 30, 2015.

Police Collective Bargaining Agreement

On May 31, 2007, the City approved a new collective bargaining agreement with the San Antonio Police Officers' Association (SAPOA) with a term through September 30, 2009. The projected cost of the collective bargaining agreement is $43,500. The previous agreement had a term through September 30, 2006 with an evergreen clause effective through September 30, 2016.

San Antonio Development Agency

On October 5, 2006, the City defunded the San Antonio Development Agency (SADA), a nonmajor discretely presented component unit of the City and provided for the transition of certain functions and programs of SADA to the City. Subsequently, on October 19, 2006, the City reprogrammed Community Development Block Grant funds previously allocated to SADA to certain City departments to continue ongoing land assembly and redevelopment efforts. The complete transition of SADA's activities to the City is ongoing and is anticipated to be completed prior to end of fiscal year 2007.

San Antonio Westside Development

The City of San Antonio Westside Development Corporation (WDC) was established in fiscal year 2006 in accordance with state laws for the purposes of promoting economic development and redevelopment opportunities in the area of Westside of San Antonio. WDC will seek to generate new capital investment, create more, higher paying jobs, and reduce the poverty level in the area. In addition, the WDC will function as a land development corporation that has the power to buy, sell, and accept land as a nonprofit without the restrictions placed upon a municipality. The WDC is governed by a board of directors nominated by a City Council committee and appointed by the City Council of San Antonio. Representatives of key stakeholders and Westside advocates will be the policy-setting oversight authority for the WDC, comprising of 17 members.

On June 8, 2006, the City Council approved the formation of the Westside Development Corporation. However the articles of the incorporation, bylaws, and board of directors were not approved until November 11, 2006. As this action occurred subsequent to fiscal year end the City has elected to not present Westside Development Corporation as a blended component unit in 2006.

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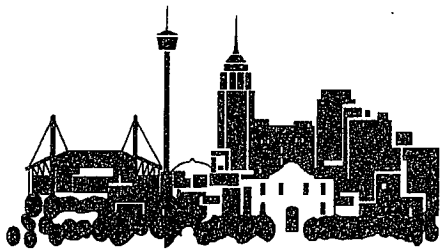
City of San Antonio, Texas



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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Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2006

	2006			
	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
Resources (Inflows):				
Taxes	$ 377,229,886	$ 377,229,886	$ 399,359,902	$ 22,130,016
Licenses and Permits	20,366,361	20,366,361	19,764,737	(601,624)
Intergovernmental	2,988,263	2,988,263	3,445,582	457,319
Revenues from Utilities	204,746,045	204,746,045	256,367,822	51,621,777
Charges for Services	33,701,173	33,701,173	35,276,831	1,575,658
Fines and Forfeits	11,218,759	11,218,759	10,947,472	(271,287)
Miscellaneous	12,203,386	12,203,386	13,830,931	1,627,545
Transfers from Other Funds	11,841,903	11,410,796	11,466,466	55,670
Amounts Available for Appropriation	674,295,776	673,864,669	750,459,743	76,595,074
Charges to Appropriations (Outflows):				
General Government	96,556,331	95,472,763	71,139,682	24,333,081
Public Safety	420,983,797	431,504,384	429,051,592	2,452,792
Public Works	10,970,760	10,975,794	10,769,261	206,533
Health Services	12,125,543	12,650,928	12,412,664	238,264
Sanitation	2,866,779	2,916,234	2,864,299	51,935
Welfare	23,096,900	25,912,936	23,504,261	2,408,675
Culture and Recreation	71,251,183	72,353,138	71,938,565	414,573
Economic Development and Opportunity	4,177,161	4,461,016	4,067,281	393,735
Transfers to Other Funds	87,142,029	90,413,906	90,280,712	133,194
Total Charges to Appropriations	729,170,483	746,661,099	716,028,317	30,632,782
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	(54,874,707)	(72,796,430)	34,431,426	107,227,856
Fund Balance Allocation	54,874,707	72,796,430	(34,431,426)	(107,227,856)
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	$ 750,459,743
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(11,466,466)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 738,993,277
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 716,028,317
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	(8,326,766)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(90,280,712)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 617,420,839

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 budgetary basis, which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year-end.

(unaudited - see accompanying auditors' report)

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City of San Antonio, Texas

Pension Schedules

Required Supplementary Information - (Unaudited)

Pension Schedules

Schedules of Funding Progress

Last Three Fiscal Years

FIRE AND POLICE PENSION PLAN - CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-05	$ 1,676,075	$ 1,910,789	$ 234,714	88%	$ 207,145	113%
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%

TEXAS MUNICIPAL RETIREMENT SYSTEM - CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-05	$ 475,325	$ 642,202	$ 166,877	74%	$ 209,176	80%
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%

CPS ENERGY - ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-05	$ 902,100	$ 837,600	$ (64,500)	108%	$ 198,400	(33)%
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)%

(amounts are expressed in thousands)

(unaudited - see accompanying auditors' report)

Required Supplementary Information - (Unaudited)

Pension Schedules

Schedules of Funding Progress

Last Three Fiscal Years

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-05	(1) $ -	$ -	$ -		$ -	
12-31-04	52,985	66,466	13,481	80%	60,588	22%
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%

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
01-01-05	$ 52,412	$ 63,064	$ 10,652	83%	$ 59,476	18%
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%

NOTE: (1) Balances for 12/31/05 not available

(amounts are expressed in thousands)

(unaudited - see accompanying auditors' report)