OFFICIAL STATEMENT
Dated May 31, 2001

NEW ISSUE—BOOK-ENTRY-ONLY

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

In the opinion of Co-Bond Counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, and Wickliff & Hall, P.C., San Antonio, Texas, interest on the Bonds described herein will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matter described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

$14,465,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL FACILITIES CORPORATION
LEASE REVENUE BONDS, SERIES 2001

Dated Date: May 15, 2001 **Due: August 15, as shown on the inside cover page**

The captioned Bonds are being issued by the City of San Antonio, Texas Municipal Facilities Corporation (the "Corporation") pursuant to (i) Subchapter D of Chapter 431, Texas Transportation Code, as amended, and Chapter 1201, Texas Government Code, as amended and (ii) a Trust Agreement between the Corporation and The Bank of New York, New York, New York as Trustee (the "Trustee") (the "Trust Agreement"). Proceeds of the Bonds will be used to finance the acquisition and construction of a municipal office facility, which will be leased to City of San Antonio, Texas (the "City") for its use and benefit. For a discussion of the purpose and concept of the Project, see "THE PROJECT" herein.

Interest on the Bonds will accrue from the dated date and will be payable on February 15 and August 15 of each year, commencing August 15, 2001, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued as fully registered obligations in book-entry-only form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Book-entry interests in the Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. So long as the Securities Depository is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by the Trustee to DTC 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 "BOOK-ENTRY-ONLY SYSTEM" herein.

The principal of, premium, if any, and interest on the Bonds is payable from Lease Payments to be made by the City to the Corporation pursuant to a Lease dated as of May 15, 2001, between the City and the Corporation (the "Lease"). The Lease Payments are due at such times and in such amounts as will be required to timely pay the principal of, premium, if any, and interest on the Bonds. As additional security for the Bonds, the Corporation will grant to the Trustee for the benefit of the registered owners of the Bonds (i) a first mortgage lien on the real property portion of the Project and will assign and pledge the Corporation's interest in the leases, rents, and certain other benefits from the Project, pursuant to a Mortgage (defined herein), and (ii) a first priority purchase money security interest in the personal property portion of the Project, pursuant to the Security Agreement (defined herein). See "THE BONDS – Security for the Bonds" and APPENDIX A – "Selected Provisions of the Financing Documents."

The obligation of the City to make Lease Payments is a current expense, payable solely from funds annually appropriated by the City for such use. Remedies available upon a failure of the City to appropriate or pay Lease Payments are limited to termination of the City's leasehold interest, the right to take possession and control of the Project, and the right to sell or lease the Project upon foreclosure under the Mortgage and Security Agreement. The Lease and the obligations of the City thereunder do not constitute a pledge, a liability, or a charge upon the funds of the City and do not constitute a debt or general obligation of the State of Texas, the Corporation, the City, or any other political subdivision of the State of Texas. Neither the faith and credit nor the taxing power of the State of Texas, the City, or any other political subdivision of the State of Texas has been pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Corporation has no authority to levy taxes.

Purchasers of the Bonds should carefully review the information under "INVESTOR CONSIDERATIONS."

[SEAL] ***The scheduled payment of principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation.***

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND REDEMPTION PROVISIONS FOR THE BONDS

The Bonds are offered for delivery, when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of the State of Texas and the legal opinions of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, and Wickliff & Hall, P.C., San Antonio, Texas, as Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Vinson & Elkins L.L.P., Houston, Texas. See "LEGAL MATTERS" herein. It is expected that the Bonds will be available for delivery through the services of DTC on or about June 27, 2001.

A.G. EDWARDS & SONS, INC. **RAMIREZ & COMPANY**

$14,465,000
CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION
LEASE REVENUE BONDS, SERIES 2001

MATURITY SCHEDULE

Stated Maturity (Due August 15)	Principal Amount	Rate	Yield	Stated Maturity (Due August 15)	Principal Amount	Rate	Yield
2002	$ 510,000	5.00 %	3.100 %	2011	$ 725,000	4.50 %	4.62 %
2003	535,000	3.37	3.375	2012[1]	760,000	4.65	4.75
2004	550,000	3.62	3.625	2013[1]	800,000	4.80	4.90
2005	570,000	3.80	3.830	2014[1]	835,000	4.90	5.00
2006	600,000	3.95	3.980	2015[1]	875,000	5.00	5.10
2007	610,000	4.10	4.120	2016[1]	920,000	5.05	5.18
2008	640,000	4.20	4.250	2017[1]	965,000	5.10	5.25
2009	670,000	4.35	4.400	2018[1]	1,015,000	5.15	5.30
2010	695,000	4.45	4.500				

$2,190,000 5.200% Term Bond due August 15, 2020 – Yield 5.350%

[1]**REDEMPTION:** The Bonds having stated maturities on and after August 15, 2012 are subject to optional redemption, upon direction of the City to the Corporation, in whole or in any part thereof, in the principal amounts of $5,000 or any integral multiple thereof on August 15, 2011 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions" herein.

The Bonds are also subject to mandatory redemption under certain circumstances described herein under "THE BONDS – Redemption Provisions" herein.

CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL[1]:

Name	Year(s) on Council	Term Expires	Occupation
Howard W. Peak, Mayor	8	May, 2001	Instructor, Trinity University
Bobby Pérez, District 1	2	May, 2001	Attorney
Mario M. Salas, District 2	4	May, 2001	Educator
Debra Guerrero, District 3	4	May, 2001	Self-Employed Consultant
Raul Prado, District 4	4	May, 2001	Educator
David A. Garcia, District 5	1	May, 2001	Attorney
Enrique M. Barrera, District 6	1	May, 2001	Retired
Ed Garza, District 7	4	May, 2001	Land Development Planning & Finance
Bonnie Conner, District 8	2	May, 2001	Real Estate Management
Tim Bannwolf, District 9	4	May, 2001	Attorney
David Carpenter, District 10	2	May, 2001	Small Business Owner

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Year(s) In Current Position
Terry M. Brechtel	City Manager	10	Effective 04/01/01
J. Rolando Bono	Deputy City Manager	23	Effective 04/02/01
Melissa Byrne Vossmer	Assistant City Manager	3	3
Travis M. Bishop	Assistant City Manager	23	1
Christopher J. Brady	Assistant City Manager	5	1
George V. Pedraza[2]	Assistant to the City Manager	2	2
Frances A. Gonzalez	Assistant to the City Manager	16	1/2
Roland Lozano	Assistant to the City Manager	21	Effective 04/02/01
Erik J. Walsh	Assistant to the City Manager	7	Effective 04/02/01
Frank J. Garza	City Attorney	5	3
Norma S. Rodriguez	City Clerk	31	21
Louis A. Lendman	Director of Office of Management and Budget	12	1/4
Thomas G. Wendorf	Director of Public Works	2	1/6
Rebecca Waldman	Director of Asset Management	16	3
Milo Nitschke	Acting Director of Finance	6	Effective 03/07/01

CONSULTANTS AND ADVISORS:

Co-Bond Counsel
McCall, Parkhurst & Horton L.L.P., San Antonio, Texas
Wickliff & Hall, P.C., San Antonio, Texas

Co-Certified Public Accountants
KPMG L.L.P., San Antonio, Texas
Garza/Gonzalez and Associates, San Antonio, Texas
Robert J. Williams, CPA, San Antonio, Texas

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

---

[1] All members of the City Council serve as directors of the Corporation. See "THE CORPORATION" herein.
[2] George V. Pedraza announced his resignation on May 30, 2001 effective June 15, 2001.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

This Official Statement and the information contained herein are subject to completion and amendment. 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 such jurisdiction.

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 respective 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.

No dealer, broker, salesman, or other person has been authorized by the Corporation or the City to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Co-Financial Advisors. 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.

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT NOTICE.

TABLE OF CONTENTS

INTRODUCTION 1
THE CORPORATION 1
THE PROJECT 2
PLAN OF FINANCING 3
INVESTOR CONSIDERATIONS 4
THE BONDS 7
BOOK-ENTRY-ONLY SYSTEM 10
DEBT SERVICE SCHEDULE 13
THE CITY 13
THE BUDGET PROCESS 14
REVENUES OF THE CITY 16
CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY 20
LITIGATION AND REGULATION 23
RECENT LEGISLATION 26
TAX MATTERS 26
REGISTRATION AND QUALIFICATION OF BONDS FOR SALE 28
INVESTMENTS 28
LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS 30
LEGAL MATTERS 31
MUNICIPAL BOND INSURANCE POLICY 32
RATINGS 34
CONTINUING DISCLOSURE OF INFORMATION 34
FORWARD-LOOKING STATEMENTS DISCLAIMER 36
CO-FINANCIAL ADVISORS 36
UNDERWRITING 37
AUTHORIZATION OF THE OFFICIAL STATEMENT 37

Selected Provisions of the Financing Documents ..... Appendix A
General Information Regarding the City Of San Antonio, Texas and Bexar County ..... Appendix B
Excerpts From the City's Audited Financial Statements for the Year Ended September 30, 2000 ..... Appendix C
Form of Opinion of Co-Bond Counsel ..... Appendix D
Specimen of Financial Guaranty Insurance Policy ..... Appendix E

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

OFFICIAL STATEMENT
Relating to the
$14,465,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL FACILITIES CORPORATION
LEASE REVENUE BONDS, SERIES 2001

INTRODUCTION

This Official Statement of the City of San Antonio, Texas Municipal Facilities Corporation (the "Corporation" or "Issuer") is provided to furnish information in connection with the sale of the City of San Antonio, Texas Municipal Facilities Corporation Lease Revenue Bonds, Series 2001 (the "Bonds"). The Trust Agreement, the Lease, the Mortgage and the Security Agreement are collectively referred to herein as the "Financing Documents." *Capitalized terms used in this Official Statement and not otherwise defined herein have the meanings assigned to such terms in APPENDIX A – "Selected Provisions of the Financing Documents."*

This Official Statement contains descriptions of the Bonds and the Trust Agreement and certain other information about the City of San Antonio, Texas (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 Corporation at the Office of the Director of Finance, City of San Antonio, Texas, City Hall Annex, 506 Dolorosa, San Antonio, Texas 78204 and from the City's Co-Financial Advisors, Coastal Securities, 909 Northeast Loop 410, Suite 300, San Antonio, Texas 78205, and Estrada Hinojosa & Company, Inc. 1717 Main Street, 47th Floor, Lockbox 47, Dallas, Texas 75201, upon payment of reasonable copying and mailing open records.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement will be filed with the Municipal Securities Rulemaking Board, 1640 King Street, Suite 300, Alexandria, Virginia 22314.

Purchasers of the Bonds should carefully review the information under "Investor Considerations."

THE CORPORATION

The Corporation is a nonprofit local government corporation and instrumentality formed by and on behalf of the City pursuant to Subchapter D of Chapter 431, Texas Transportation Code, as amended (the "Act"), pursuant to resolution of the City Council of the City approved on February 15, 2001. The Act authorizes Texas municipalities and counties to create a nonprofit "local government corporation" to "aid and act on behalf of" such municipalities or counties "to accomplish any governmental purpose of" such municipalities or counties, including the ability to issue bonds and notes to carry out its purpose.

Pursuant to its articles of incorporation and the bylaws of the Corporation, the Corporation is governed by an 11-member Board of Directors, composed entirely by those persons who are members of the City Council of the City and whose terms of office are fixed and run coterminously with their respective terms of office as members of the City Council; provided, however, that any director may be removed from office at any time, for cause or at will, by the City Council of the City. The directors serve without compensation except for the reimbursement of expenses.

The Corporation currently has no assets other than its interest in the Project and its rights under the Lease, which will be assigned to the Trustee for the benefit of the registered owners of the Bonds upon the initial delivery of the Bonds.

The Corporation's obligation with respect to the payment of the principal of, premium, if any, and interest on the Bonds is a special, limited, and non-recourse obligation payable solely from the Lease Payments payable by the City pursuant to the Lease, and from proceeds from the sale or other lease of the Project. The Corporation has

no authority to levy taxes. The Bonds do not constitute an obligation, either special, general, or moral, of the City, the State of Texas, or any other political subdivision thereof.

The obligation of the City to make Lease Payments is a current expense, payable solely from funds annually appropriated by the City for such use. See "THE BUDGET PROCESS". Remedies available upon a failure of the City to appropriate or pay Lease Payments are limited to termination of the City's leasehold interest, the right to take possession and control of the Project, and the right to sell or lease the Project upon foreclosure under the Mortgage and Security Agreement. The Lease and the obligations of the City thereunder do not constitute a pledge, a liability, or a charge upon the funds of the City and do not constitute a debt or general obligation of the State of Texas, the Corporation, the City, or any other political subdivision of the State of Texas. Neither the faith and credit nor the taxing power of the State of Texas, the City, or any other political subdivision of the State of Texas has been pledged to the payment of the principal of, premium, if any, or interest on the Bonds.

THE PROJECT

DESCRIPTION AND LOCATION OF THE PROJECT

The purpose of the One Stop Development Services Center ("Center" or "Project") is to provide a convenient, single source of information and assistance to private sector entities that are expanding, developing or relocating their business. It is anticipated that the Center will be centrally located on the south side of the City's Central Business District. The Corporation has entered into a contract with the Developer to purchase approximately 5.3 acres of land located at the intersection of South Flores and South Alamo Streets; however, the land for the Project has not been purchased, nor is it expected to be purchased prior to delivery of the Bonds. See "INVESTOR CONSIDERATIONS" herein. The building will be a two story facility, encompassing approximately 75,000 gross square feet along with 300 parking spaces. The Center will house those governmental entities and representatives of various City Departments that provide services to private sector businesses. The Center will provide space for approximately 230 employees of the City and other governmental entities. Offices will include but not be limited to Development Services, Planning, Health, Fire Inspections/Fire Marshal, water, electric and gas utilities, Economic Development/Small Business Outreach and related departments of Bexar County.

DEVELOPMENT OF THE PROJECT

In 1998, the City Council created a special task force ("Task Force"), comprised of local chambers of commerce representatives, members of the business community and City staff, to evaluate the concept of a "one stop" services center for the City. In particular, the Task Force evaluated (1) the demand for development process services and small business services, (2) interest of other governmental entities and private sector service providers, (3) similar one stop projects in other cities, (4) facility requirements, (5) development options, and (6) funding options. Based on its evaluation, the Task Force believes that a "one stop" center could expedite future economic growth by facilitating small business formation, streamlining the business development process, and coordinating the development approval process services (e.g. permits, certificates of occupancy, building code plan review, inspection requests, fire code plan review, water and electric utility service).

In conjunction with the Task Force, DMG – Maximus, a consulting firm hired by the City to conduct a management review of the proposed development, code compliance and business assistance services of the City, confirmed the need to co-locate many of certain departments and agencies to streamline the development services process. It was further recommended that customer service could be improved through implementation of a one stop development services center. In July 1999, the City retained Ford, Powell and Carson to develop a space plan for a one stop center. The plan recommended that the facility comprise approximately 72,000 square feet, include office space for approximately 170 City employees, have the flexibility to expand in the future, and provide approximately 300 parking spaces.

During the Spring of 2000, the City issued a request for proposals which solicited proposals from property owners and/or development teams for the lease/purchase of property, renovation of an existing building, or construction of a

new building for the Center. Three proposals were submitted to the City. After evaluation of the proposals, the City selected Southern Pecan Joint Venture, consisting of Embrey Partners, Ltd. and H.B. Zachry Company (the "Developer"), to design and build the Project, which will be paid from the proceeds of the Bonds. The Corporation approved a resolution to enter into a design-build agreement (the "Development Agreement") with the Developer on March 1, 2001, which requires the Developer to design and construct the Center. The Development Agreement was executed by all parties and became effective on May 29, 2001. On May 31, 2001, the Board of Directors of the Corporation approved an amendment to the Development Agreement to purchase an additional tract of land adjacent to the original site contemplated in the Development Agreement. Under the Act, the Corporation is not required to comply with applicable competitive bidding statutes which govern the City. For a discussion of recent legislation regarding local government corporations, see "RECENT LEGISLATION."

PLAN OF FINANCING

The Project is being financed through the issuance of the Bonds in accordance with the provisions of applicable Texas law, including the Act and the Public Securities Procedures Act (Chapter 1201, Texas Government Code, as amended). To provide funds for the construction of the Project, the City and the Corporation will enter into the Lease whereby the Corporation, pursuant to the Development Agreement, will agree to cause the Project to be built and leased by the City, and the City will agree to appropriate sufficient funds to pay Lease Payments sufficient to pay principal of, premium, if any, and interest on the Bonds when due. Upon the occurrence of an Event of Nonappropriation, without further demand or notice, the Lease shall terminate at the end of the Fiscal Year for which sufficient Appropriations have been made, and the City shall immediately, upon the expiration of the said Fiscal Year, surrender possession and control of the Project to the Corporation or the Trustee. See "INVESTOR CONSIDERATIONS" herein. For a summary of certain provisions of the Lease, see APPENDIX A - "Selected Provisions of the Financing Documents - Summary of Certain Provisions of the Lease."

The Bonds are being issued pursuant to a resolution adopted by the Board of Directors of the Corporation (the "Bond Resolution") and the Trust Agreement by and between the Issuer and The Bank of New York, New York, New York, as trustee (the "Trustee") to finance the construction of the Project. See "THE PROJECT." A portion of the proceeds of the Bonds will also be used to fund a debt service reserve fund for the Bonds and to pay the costs of issuing the Bonds. See APPENDIX A - "Selected Provisions of the Financing Documents - Summary of Certain Provisions of the Trust Agreement."

To secure its obligations under the Trust Agreement, the Corporation will grant a first mortgage lien on and first deed of trust title to the real property portion of the Project and will assign and pledge the Corporation's interest in the leases, rents, profits, revenues, income, receipts, money, rights, and benefits of and from the Project for the use and benefit of the Trustee, on behalf of the registered owners of the Bonds, pursuant to the Mortgage. The Corporation will also grant to the Trustee a first priority purchase money security interest in the machinery, equipment, furnishings, or other personal property acquired by the Corporation with the proceeds of the Bonds, and at any time installed or located at the Project site and substitutions or replacements therefor, in any inventory of the Corporation now or hereafter located at the Project site, and in the accounts, documents, chattel paper, instruments, and general intangibles arising in any manner from the Corporation's ownership and operation of the Project pursuant to the Security Agreement. The mortgage and the security interest will be granted to the Trustee upon acquisition of the land for the Project, which is anticipated to be subsequent to the delivery of the Bonds. See "INVESTOR CONSIDERATIONS" herein.

(The remainder of this page intentionally left blank.)

SOURCES AND USES OF FUNDS

Sources of Funds

Principal Amount of Bonds	$	14,465,000.00
Net Original Issue Discount		(120,586.10)
Accrued Interest		78,595.27
City Contribution		1,350,000.00
Total Sources of Funds	$	15,773,009.17

Uses of Funds

Deposit to Project Account:		
Construction and Contingency	$	8,571,695.00
Land Acquisition		1,342,465.00
Architect and Engineering/Development and Management/Legal Fees		2,762,484.00
Furniture, Fixtures and Equipment		2,150,000.00
Costs of Issuance		102,734.20
		14,929,378.20
Deposit to Reserve Account		590,000.00
Bond Insurance		83,000.00
Accrued Interest		78,595.27
Underwriters' Discount		92,035.70
Total Uses of Funds	$	15,773,009.17

INVESTOR CONSIDERATIONS

Each prospective investor in the Bonds should read this Official Statement in its entirety including its Appendices. Particular attention should be given to the considerations described below which, among others, could affect the payment of debt service on the Bonds, and which could also affect the marketability of the Bonds to an extent that cannot be determined.

Nonappropriation. Except to the extent that the Bonds may be payable from the proceeds of the Bonds not needed to construct the Project or to pay the costs of issuance of the Bonds, and income from the investment thereof, the Bonds and the interest thereon are payable solely from Lease Payments and other payments paid or payable by the City from and after the date of the Lease, and other income, charges, and funds realized from the lease, sale, transfer, or other disposition of the Project, together with all funds and investments in all accounts (except the Rebate Fund) established under the Trust Agreement, and all funds deposited with the Trustee pursuant to the Financing Documents. If available funds sufficient to pay the Lease Payments during the succeeding fiscal year are not appropriated by the City, the Lease will automatically terminate at the end of the fiscal year for which sufficient funds have been appropriated. In such event, the City must immediately, upon expiration of such fiscal year, surrender possession and control of the Project to the Trustee. No assurances may be given that the Trustee will be able to manage, lease or sell the Project such that there will be sufficient revenues to pay debt service on the Bonds.

There can be no assurance that the City will annually appropriate sufficient funds to pay the Lease Payments due in any given fiscal year. Accordingly, the likelihood that there will be sufficient funds to pay the principal of, premium, if any, and interest on the Bonds is dependent upon certain facts which are beyond the control of the registered owners, including (a) the continuing need of the City for the Project, (b) the economic conditions within the service area of the City, (c) the value, if any, of the Project in a sale instituted by the Trustee pursuant to the Trust Agreement, and (d) the rental value of the Project in the event the Trustee re-leases the Project to a third party or to the City pursuant to an operating lease.

Failure to Purchase Land for Project. The Corporation has entered into an agreement to purchase the land on which the Project will be constructed by the Developer; however, it is not anticipated that the land for the Project will be purchased prior to delivery of the Bonds. The security under the Mortgage and the Security Agreement will not be granted to the Trustee until the land has been purchased. Generally, the Corporation is required to purchase the land unless the Developer is unable to provide a guaranteed maximum price which does not exceed 110% of the preliminary guaranteed maximum price set forth in the Development Agreement. Failure of the Corporation to purchase the land could result in early redemption of the Bonds if the City elects under such circumstances not to contribute additional funds to finance the Project.

Completion/Construction Risks. The construction of the Project will be subject to risks typically associated with construction and development of real estate. These risks could have a material adverse effect on the willingness of the City to appropriate money for the Project. The Corporation has entered into the Development Agreement wherein the Developer will agree to provide the construction of the Project at a stipulated guaranteed maximum price. Performance under the Development Agreement and payment of obligations thereunder will be supported by payment and performance bonds; however, enforcement of such bonds can take a significant amount of time. See "THE PROJECT" herein.

Damage or Destruction Risk. In the event of damage, destruction, or condemnation of all or a portion of the Project, the City is required to promptly repair, restore, or replace the Project, but solely from Appropriated Funds (hereinafter defined), in addition to Net Proceeds of any insurance or condemnation award for such purposes. Regardless of the sufficiency or insufficiency of the Net Proceeds for such purposes, the City is obligated to continue to pay the Lease Payments from Appropriated Funds. If the Net Proceeds are insufficient to pay in full the cost of any repair, restoration, or replacement of the Project, the City, in lieu of making the repairs, restorations, or replacements, has the option to terminate the Lease and all of the Corporation's interest in the Project, by exercising its option to purchase on the next succeeding Bond Payment Date for which it is possible to give notice of intent to exercise its option to purchase in accordance with the Lease.

There can be no assurance that the Net Proceeds of an insurance or condemnation award will be sufficient to repair or restore the Project or that, if such Net Proceeds are insufficient for such purpose, the City will appropriate sufficient funds for the repair, replacement, or restoration of the Project, or for the payment of the principal of, premium, if any, and interest on the Bonds necessary in order to exercise its option to purchase under the Lease.

City's Power of Eminent Domain. Pursuant to State law, the City has the power to exercise its right under the doctrine of eminent domain to condemn and take ownership of property for public use. There is no assurance that the City will not exercise its power of eminent domain in order to take possession of the Project and to terminate its obligations under the Lease. Under the eminent domain process, a State judge appoints a three-member panel of commissioners to arrive at a fair price for the City to purchase the property. The City and the Corporation have agreed in the Lease, to the extent permitted by law, that in the event the City determines to exercise its power of eminent domain to take the Corporation's or the Trustee's interest in the Project or any part thereof, that the damages payable to the Corporation or the Trustee will be an amount which will be sufficient to pay the principal of, premium, if any, and accrued interest on all outstanding Bonds to the earliest date for which notice of redemption can be given pursuant to the Trust Agreement. Any condemnation proceeds would be distributed to the registered owners in accordance with the provisions of the Trust Agreement.

There is no precedential law in the State to indicate (i) whether or not the courts would prevent the City's condemnation of the Project as an equitable abuse of its eminent domain power or (ii) whether or not the courts would uphold the validity of the agreement of the City and the Corporation under the Lease to establish, in advance, the damages to be paid to the Corporation or the Trustee in the event that the City determines to exercise its power of eminent domain to acquire title to the Project. If the agreement of the City and the Corporation is not upheld, there is no assurance that the "fair price" arrived at by the panel of commissioners will be sufficient to pay the principal of, redemption premium, if any, and interest on the Bonds then outstanding.

Remedies. Remedies provided for in the Financing Documents may be unenforceable as a result of the application of principles of equity or of state and federal laws relating to bankruptcy, other forms of debtor relief, and creditors' rights generally. The enforcement of certain remedies may be subject to applicable principles of public policy

which may require that the City be given sufficient time to vacate the Project before the foreclosure remedy may be enforced.

Inability to Liquidate, or Delay in Liquidating, the Project. An Event of Default gives the Trustee the right to manage, lease or sell the Project. The Project is being designed and constructed for a single-purpose use, (*i.e.* a municipal office facility) therefore, a potential purchaser of the Bonds should not anticipate that sale or lease of the Project could be accomplished rapidly, or at all. Any delays in the ability of the Trustee to obtain possession of the Project will result in the payment of the Bonds after the expenditure of amounts on deposit in the Reserve Account.

There is no assurance that the Trustee will be able to sell or lease the Project after a termination of the Lease for an amount equal to the aggregate principal amount of the Bonds then outstanding plus accrued interest thereon. If the Project is sold or leased by the Trustee for an amount less than the aggregate principal amount of and accrued interest on the Bonds, such partial payment would be the only remedy of the registered owners of the Bonds; upon such a partial payment, no registered owner will have any further claim for payment upon the Corporation, the Trustee, or the City.

Constitutionality of the Lease Obligation. In *City-council Solid Waste Control Board v. Capital City Leasing*, 813 S.W.2d 705 (Tex. Civ. App. 1991, writ den.), a Texas appellate court ruled that an equipment lease which required a governmental unit to pursue annual appropriations creates an unconstitutional debt, thus rendering the lease void and unenforceable. The Texas Supreme Court declined, without comment, to hear the case on appeal. Although the Lease and the Trust Agreement acknowledge that the Lease Payments and certain other financial obligations of the City and the Corporation are payable from funds that must be appropriated by the City, there is no explicit covenant in the Lease requiring the City to seek an appropriation. Accordingly, Co-Bond Counsel believes the facts of such case are distinguishable from the language contained in the Lease. However, there can be no guarantee that another court would not apply reasoning similar to that of the appellate court in the *Capital City Leasing* case to the Lease.

Other Obligations of the City. The obligation of the City to make Lease Payments will be satisfied from the funds of the City which are appropriated for such use. The City may enter into other obligations which may constitute additional charges against the funds from which the Lease Payments may be appropriated. To the extent additional obligations are incurred by the City, the funds available to appropriate for Lease Payments may be decreased.

Securities Law and Federal Tax Law Implications of a Termination Event. Co-Bond Counsel has rendered no opinion with respect to the applicability or inapplicability of the registration requirements of the Securities Act of 1933, as amended, to any Bond subsequent to a termination of the Lease by reason of an Event of Default under the Trust Agreement. If the Lease is terminated by reason of an Event of Default, there is no assurance that the Bonds may be transferred by a holder thereof without compliance with the registration provisions of the Securities Act of 1933, as amended, or the availability of an exemption therefrom.

In addition, Co-Bond Counsel has rendered no opinion as to the treatment for federal income tax purposes of any money received by a registered owner of the Bonds subsequent to a termination of the Lease by reason of an Event of Default thereunder or under the Trust Agreement. There is no assurance that any money received by the registered owners of the Bonds subsequent to such event will continue to be excludable from gross income for federal income tax purposes.

Noncompliance with Arbitrage Provisions; Occurrence of Taxability. **THE LEASE AND THE TRUST AGREEMENT OBLIGATE THE CITY AND THE CORPORATION TO COMPLY WITH REQUIREMENTS OF FEDERAL LAW REGARDING REBATE OF CERTAIN INVESTMENT PROCEEDS TO THE FEDERAL GOVERNMENT. IF THE CITY OR THE CORPORATION FAILS TO COMPLY WITH THOSE REQUIREMENTS, THE BONDS WOULD BECOME "ARBITRAGE BONDS," AND THE INTEREST PORTION OF THE BOND PAYMENTS COULD BECOME INCLUDABLE IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES RETROACTIVE TO THE DATE OF ISSUANCE OF THE BONDS.**

THE BONDS

GENERAL DESCRIPTION

Interest on the Bonds accrues from May 15, 2001, at the rates per annum shown on the inside cover page hereof, computed on the basis of a 360-day year consisting of twelve 30-day months, and is payable semiannually on August 15 and February 15 of each year, commencing August 15, 2001. The principal of and interest on the Bonds 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 Bonds will be payable to the registered owner as shown on the security register maintained by the Trustee, as of the last business 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 security register or by such other method acceptable to the Trustee requested by and at the risk and expense of the registered owner.

SECURITY FOR THE BONDS

Trust Estate. All payments to be made by the Trustee under the Trust Agreement to the registered owners may be made only from the income and proceeds from the Trust Estate and only to the extent that the Trustee has received income or proceeds from the Trust Estate. The "Trust Estate" consists of all right, title, and interest of the Corporation (i) in and to the Project, (ii) in and under the Lease and the other Financing Documents, (iii) in and to all Lease Payments and other payments paid or payable by the City from and after the date of the Trust Agreement, (iv) other income, charges, and funds realized from the lease, sale, transfer, or other disposition of the Project, (v) all funds and investments in all accounts (except the Rebate Account) established under the Trust Agreement, and (vi) all funds deposited with the Trustee pursuant to the Financing Documents. Under the Trust Agreement, the (i) Project Account, (ii) Payment Account, (iii) Insurance and Condemnation Account and (iv) Reserve Account are created for the benefit of the holder of the Bonds.

Lease Payments. The City is required to pay to the Trustee, for deposit into the Payment Account of the Corporation, the Lease Payments from Appropriated Funds on August 15, 2001, and each February 15 and August 15 thereafter for so long as the Lease is in effect. The amount of each Lease Payment required under the Lease is equal to (i) an amount of money which, when added to the amount then on deposit in the Payment Account, will equal the amount of principal to become due on the Bonds, either pursuant to a mandatory (or optional) redemption or upon maturity of the Bonds, and interest to become due on the Bonds on the next Bond Payment Date, and (ii) the amount, if any, required to replenish the Reserve Account. See "Reserve Account" below. ***The obligations of the City under the Lease, including its obligation to pay the Lease Payments, constitute a current expense of the City in each fiscal year, and do not constitute an indebtedness of the City within the meaning of the laws of the State. Nothing in the Lease is to constitute a pledge by the City of any taxes or other money, other than Appropriated Funds for the current fiscal year, to the payment of Lease Payments due thereunder.***

The term "Appropriated Funds" is defined in the Trust Agreement as funds appropriated by the City from any money that may be lawfully used with respect to any payment obligated or permitted under the Lease.

Reserve Account. Pursuant to the Trust Agreement, there will be established an account (the "Reserve Account"), in an amount equal to the Reserve Requirement. The Reserve Requirement is $590,000, which is approximately one-half of the average annual debt service on the Bonds. Upon delivery of the Bonds, proceeds will be deposited by the Trustee into the Reserve Account. Money within the Reserve Account is to be disbursed by the Trustee to pay principal of and interest on the Bonds to the extent that the amount on deposit in the Payment Account is not sufficient therefor. All interest or income received by the Trustee on the investment of money held in the Reserve Account is required to be transferred as received to the Payment Account. In the event that the amount on deposit in the Reserve Account is reduced to an amount less than the Reserve Requirement, upon receipt of notice from the Trustee, in accordance with its obligation under the Lease, the City is required to replenish the Reserve Account from Appropriated Funds to an amount equal to the Reserve Requirement within one year of receipt of such notice from the Trustee.

Upon a redemption of the Bonds in whole, but not in part, all funds in the Reserve Account will be transferred to the Redemption Account. The unexpended balance of the Reserve Account will be transferred to the Payment Account on the last business day prior to the final Bond Payment Date and the Reserve Account will thereby be closed.

To the extent permitted by law as evidenced by an opinion of national-recognized bond counsel, a surety bond or insurance policy (a "Reserve Account Obligation") may be deposited into the Reserve Account to satisfy all or a portion of the Reserve Requirement if the use of the Reserve Account Obligation will not cause the rating on the Bonds to be reduced or withdrawn. A Reserve Account Obligation must be provided by an issuer with a claims paying ability rated "AAA" or "Aaa" by Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service ("Moody's"), respectively. The obligation to reimburse the issuer of a Reserve Account Obligation for any claims or draws upon such Reserve Account Obligation, including expenses incurred in connection with such claims or draws, to the extent permitted by law, will be made from the deposits required to be made to the Reserve Account as provided in the Lease and the Trust Agreement. The Reserve Account Obligation will provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Account Obligation to reimbursement will be subordinated to the cash replenishment of the Reserve Account to an amount equal to the difference between the full original amount available under the Reserve Account Obligation and the amount then available for further draws or claims. In the event (a) the issuer of a Reserve Account Obligation becomes insolvent, (b) the issuer of a Reserve Account Obligation defaults in its payment obligations thereunder, or (c) the claims paying ability of the issuer of the Reserve Account Obligation falls below "AAA" or "Aaa" as rated by S&P or Moody's, respectively, the obligation to reimburse the issuer of the Reserve Account Obligation will be subordinated to the cash replenishment of the Reserve Account.

In the event (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated, (b) the rating of the claims paying ability of the issuer of the Reserve Account Obligation falls below "AAA" or "Aaa" as rated by S&P or Moody's, respectively, (c) the issuer of the Reserve Account Obligation defaults on its payment obligations thereunder, or (d) the issuer of the Reserve Account Obligation becomes insolvent, the City and the Corporation, in accordance with the terms of the Lease and the Trust Agreement, will either (i) deposit into the Reserve Account an amount sufficient to cause the cash and/or investments credited to the Reserve Account to accumulate to the Reserve Requirement or (ii) replace such Reserve Account Obligation with another Reserve Account Obligation meeting the requirements described above within one year of such occurrence.

The Trustee will determine the need for a claim or draw upon any Reserve Account Obligation and provide notice to the issuer of the Reserve Account Obligation in accordance with the terms of the Reserve Account Obligation, but not later than three days (or such appropriate time period as will, when combined with the timing of required payment under the Reserve Account Obligation, ensure payment under the Reserve Account Obligation on or before a Bond Payment Date) prior to a Bond Payment Date.

Mortgage and Security Agreement. To secure its obligations under the Trust Agreement, the Corporation will grant a first mortgage lien on and first deed of trust title to the real property portion of the Project and will assign and pledge the Corporation's interest in the leases, rents, issues, profits, revenues, income, receipts, money, rights, and benefits of and from the Project for the use and benefit of the Trustee on behalf of the owners of the Bonds, pursuant to the Mortgage. Substantially all of the proceeds of the Bonds will be held in a trust account pending the purchase of the land for the Project. Additionally, the Corporation will grant to the Trustee a first priority purchase money security interest in the machinery, equipment, furnishings, or other personal property acquired by the Corporation with the proceeds of the Bonds, and at any time installed or located on the Project site, and substitutions or replacements therefor, in any inventory of the Corporation now or hereafter located at the Project, and in the accounts, documents, chattel paper, instruments, and general intangibles arising in any manner from the Corporation's ownership and operation of the Project pursuant to the Security Agreement.

Remedies. **Remedies available upon a failure of the City to Appropriate or pay Lease payments are limited to termination of the City's leasehold interest, the right to take possession and control of the Project, and the right to sell or lease the Project upon foreclosure under the Mortgage and the Security Agreement. See APPENDIX A – "Selected Provisions of the Financing Documents."**

The enforcement by the Trustee of the remedies provided in the Financing Documents is subject to the application of principles of equity and state and federal laws relating to bankruptcy, moratorium, reorganization, and creditors' rights generally, and such remedies may require the expenditure of money and considerable time to enforce.

No Additional Obligations. The Corporation has covenanted and agreed that, other than bonds or other obligations issued to refund the Bonds or complete the Project, if necessary, no other bonds or other obligations will be issued which are secured by a lien on the Trust Estate.

REDEMPTION PROVISIONS

Optional Redemption. The Corporation reserves the right, at the request and option of the City, to redeem Bonds stated to mature on or after August 15, 2012, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof on August 15, 2011, or any date thereafter, at a price of 100% plus accrued interest to the date fixed for redemption. The Corporation will determine the maturity or maturities, and the principal amount of the Bonds within each maturity to be redeemed. If less than all of the Bonds within a stated maturity are to be redeemed, the particular Bonds to be redeemed will be selected at random and by lot by the Trustee.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 15, 2020 are subject to mandatory sinking fund redemption prior to maturity on August 15 in the years and in the amounts shown below, at a redemption price of 100% of the Outstanding amount of such Bonds, plus accrued interest to the date of redemption:

Redemption Date	Redemption Amount
August 15, 2019	$1,065,000
August 15, 2020†	1,125,000

†Maturity Date

Mandatory Redemption in Whole Upon City's Exercise of Purchase Option. The Bonds are subject to redemption prior to their stated maturity on August 15, 2011, or any date thereafter upon the exercise by the City of its option to purchase the Project pursuant to the Lease after receipt by the Trustee of the Purchase Option Price and payment of the Trustee's reasonable fees and expenses, such redemption to be in whole, but not in part, on the next earliest Purchase Option Date for which notice can be given in accordance with the Trust Agreement. Bonds redeemed pursuant to this paragraph will be redeemed at a redemption price equal to the Outstanding principal amount thereof, plus accrued interest to the redemption date.

Mandatory Redemption in Whole Upon Exercise of Purchase Option Due to Casualty Loss or Condemnation. The Bonds are subject to mandatory redemption in whole, but not in part, on the next succeeding Bond Payment Date for which notice can be given in accordance with the Trust Agreement, at a redemption price equal to 100% of the Outstanding principal amount of the Bonds being redeemed, plus accrued interest to the date of redemption, in the event the City exercises its option to purchase upon a casualty loss or condemnation of the Project and the City pays the Purchase Option Price to the Trustee, all in accordance with the terms of the Lease.

Mandatory Partial Redemption from Excess Bond Proceeds. The Bonds are subject to mandatory partial redemption, prior to their respective maturities and in inverse order of maturity at a redemption price of 100% of the par amount of Bonds being redeemed plus accrued interest to the date of redemption, in the event money in the Project Account exceeds $100,000 on the earliest of (i) the next Bond Payment Date for which notice of redemption can be given in accordance with the Trust Agreement following May 1, 2004, or (ii) receipt by the Trustee of a Final Acceptance Certificate and receipt of the certificate of the Architect as required by the Lease upon completion of the Project.

Notice of Redemption. If any of the Bonds are called for redemption, the Trustee will give written notice by first class (postage prepaid) mail not less than 30 days prior to the date fixed for redemption, in the name of the Corporation, of the redemption of such Bonds to the registered owner of each Bond to be redeemed in whole or in

part at the address shown on the registration books at the close of business on a day not later than the fifth day preceding the date of mailing. Any notice mailed as provided in the Trust Agreement shall be conclusively presumed to have been duly given, whether or not the owner of such Bonds actually receives the notice. Failure to give such notice by mail to any Bondholder, or any defect therein, shall not affect the validity of any proceedings for the redemption of other Bonds.

Partial Redemption. If less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed will be in amounts equal to $5,000 or an integral multiple thereof and will be selected by the Trustee ratably among each maturity of the Bonds and by lot within each maturity. Upon surrender of any Bond for redemption in part, the Corporation will execute and the Trustee will authenticate and deliver to the owner thereof a new Bond or Bonds of the same interest rate and maturity and of authorized denominations in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

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

BOOK-ENTRY-ONLY SYSTEM

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

The Corporation cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, (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 DTC.

DTC will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If however, the aggregate principal amount of any issue exceeds $200 million, one certificate will be issued with respect to each $200 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC 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 ("UCC"), and a "clearing agency"

registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its Participants ("DTC Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by 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 securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission ('SEC").

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

THE CORPORATION WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHICH THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO, OR THE PROVIDING NOTICE FOR, THE DTC PARTICIPANTS OR THE PERSONS FOR WHICH THEY ACT AS NOMINEES OR WITH RESPECT TO MAINTENANCE, SUPERVISION OR REVIEWING ANY RECORDS RELATING TO BENEFICIAL OWNERS.

To facilitate subsequent transfers, all Securities deposited by Participants with DTC are registered in the name DTC's partnership nominee, Cede & Co., The deposit of Securities with DTC and their registration in the name of Cede & Co., effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The 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.

Principal and interest payments on the Securities will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. 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, Agent, or Corporation, subject to any statutory or regulatory requirements of Corporation or Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and its disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

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

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the direct or indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinances will be given only to DTC.

EFFECT OF TERMINATION OF BOOK-ENTRY ONLY SYSTEM

In the event that the Book-Entry Only System is discontinued by DTC or the use of the Book-Entry Only System is discontinued by the Corporation, the following provisions will be applicable to the Bonds. The Bonds may be exchanged for an equal aggregate principal amount of Bonds in authorized denominations and of the same maturity upon surrender thereof at the principal office for payment of the Trustee. The transfer of any Bond may be registered on the books maintained by the Trustee for such purpose only upon the surrender of such Bond to the Trustee with a duly executed assignment in form satisfactory to the Trustee. For every exchange or transfer of registration of Bonds, the Trustee and the Corporation may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer. The Corporation shall pay the fee, if any, charged by the Trustee for the transfer or exchange. The Trustee will not be required to transfer or exchange any Bond after its selection for redemption. The Corporation and the Trustee may treat the person in whose name a Bond is registered as the absolute owner thereof for all purposes, whether such Bond is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of, premium, if any, and interest on, such Bond.

(The remainder of this page intentionally left blank.)

DEBT SERVICE SCHEDULE
$14,465,000 LEASE REVENUE BONDS, SERIES 2001

TABLE 1

Fiscal Year Ended 09/30	Principal	Interest	Annual Debt Service
2001		$ 168,418.44	$ 168,418.44
2002	$ 510,000	673,673.76	1,183,673.76
2003	535,000	648,173.76	1,183,173.76
2004	550,000	630,117.50	1,180,117.50
2005	570,000	610,180.00	1,180,180.00
2006	600,000	588,520.00	1,188,520.00
2007	610,000	564,820.00	1,174,820.00
2008	640,000	539,810.00	1,179,810.00
2009	670,000	512,930.00	1,182,930.00
2010	695,000	483,785.00	1,178,785.00
2011	725,000	452,857.50	1,177,857.50
2012	760,000	420,232.50	1,180,232.50
2013	800,000	384,892.50	1,184,892.50
2014	835,000	346,492.50	1,181,492.50
2015	875,000	305,577.50	1,180,577.50
2016	920,000	261,827.50	1,181,827.50
2017	965,000	215,367.50	1,180,367.50
2018	1,015,000	166,152.50	1,181,152.50
2019	1,065,000	113,880.00	1,178,880.00
2020	1,125,000	58,500.00	1,183,500.00
	$ 14,465,000	$ 8,146,208.46	$ 22,611,208.46

THE CITY

The City is a political subdivision of the State of Texas, incorporated in 1837 and chartered as a home-rule municipality in 1951. It operates with a Council-Manager form of government with ten council members elected from single member districts and a Mayor elected at large, each serving two-year terms, limited to two concurrent terms as required by the City Charter. All members of the City Council stand for election at the same time in odd-numbered years.

The City's geographic area covers approximately 430.0188 square miles and is located in South Central Texas, 282 miles south of Dallas, 199 miles west of Houston, and 152 miles north of the U.S./Mexico border. It serves as the county seat for Bexar County, which has a population of 1,392,931. The United States Census Bureau cites the City's population to be 1,144,646 as of April, 2000. According to the United States Census Bureau, this ranks San Antonio as the ninth largest city in the United States and the third largest in the State of Texas. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest from the Gulf of Mexico, and approximately 150 miles from the Mexican border cities of Del Rio, Eagle Pass and Laredo.

Additional information with respect to the City, including financial information, is provided below and in APPENDIX B attached hereto. Selected portions of the City's Annual Financial Report for the fiscal year ended September 30, 2000, which has been selected by the City for inclusion herein, is attached as APPENDIX C hereto.

THE BUDGET PROCESS

The fiscal year 2001 budget seeks to address the critical priorities of the City Council within the constraints of available revenues and with due regard for sound financial practices. To accomplish this task, preparation of the budget began early in the Spring of 2000 with the preparation of the Five Year Financial Forecast for fiscal year 2001 through fiscal year 2005. The forecast is a financial and budgetary planning tool, which identifies emerging issues that will be encountered in the next five years that will have a fiscal impact upon the City's program of services. The forecast provides information that is utilized in the budget process by projecting revenues and anticipated expenditures under a defined set of assumptions. An important component of the forecast each year is the identification of emerging issues which will have a direct and indirect impact on the City as a unit of local government and as a provider of services to the community.

Following the presentation of the Five Year Financial Forecast, the City Council held the Goals and Objectives Worksession (the "Worksession") in June, 2000. This year was the eleventh consecutive year in which the City Council met to determine its priorities for the coming budget deliberations. Under the leadership of the Mayor, participation in this year's Worksession once again included not only City Council members, but also policy advisors from each respective Council district and City department heads. The Worksession participants focused on establishing budget priorities through a three-stage process using as reference the 61 Strategic Issues identified in the Five Year Financial Forecast and a status report on the Two Year Agenda (June, 1999 through May, 2001) set last year by the participants at the June, 1999 Goals & Objectives Worksession. First, the Worksession participants developed an overall agenda of priority actions to be undertaken within the remaining term of the present City Council (June, 1999 through May, 2001). Secondly, the participants narrowed the coming year agenda list to a set of proposed fiscal year 2001 Budget Priorities. Finally, using the proposed fiscal year 2001 Budget Priorities developed by all participants as a basis, the City Council, by consensus, finalized the selection of a list of thirteen fiscal year 2001 Budget Priorities. The City staff, in turn, used the City Council's fiscal year 2001 Budget Priorities as the basis for formulating the recommended service level enhancements which were contained in the Proposed Budget for fiscal year 2001.

The fiscal year 2001 Budget was developed within the context of revised projected funds available and City Council priorities utilizing a target budget approach. Departments were given target budgets based on current service requirements and allowed to submit expenditure proposals within the target amount. The target budgets submitted represent the departments' best judgment on how resources should be allocated based on the expertise and experience on the most effective method for delivering services. After the target budgets were finalized, the Management Team met with each department director to review the departments' goals and objectives for the upcoming fiscal year. During these meetings, staff presented existing and proposed performance indicators which would help them track the City's progress in the efficient and effective delivery of services to citizens and achieve their stated goals and objectives. From these deliberations evolved a set of recommended program changes to service delivery for inclusion in the City Manager's proposed budget consistent with the fiscal year 2001 Budget Priorities set by the City Council.

After presentation of the City Manager's proposed budget, the City Council held a series of work sessions to review the proposed service program details. The work sessions included a review of revenues and presentations by each Department, which included a description of the significant policy issues. After considering all the recommendations and receiving input from citizens at public hearings, City Council ultimately adopted a balanced budget for fiscal year 2000-2001 that included a tax rate of $0.57979 per $100 assessed valuation.

The Consolidated Annual Budget for fiscal year 2001 (the "Budget") was adopted at $1.175 billion which included a General Fund Budget of $569.3 million. The Budget requires no increase to the overall property tax rate for the eighth consecutive year remaining at $0.57979 per $100 assessed valuation. Continuing the City's focus on prudent financial management, the Budget also includes a $2.3 million increase to the City's Reserve for Revenue Loss in fiscal year 2001 for a total reserve of $23.168 million by the end of fiscal year 2001.

The Financial Forecast, which was presented to the City Council on June 16, 2000, assumed modest growth in current revenues and expenditures and was based upon the continuation of existing services at the 2000 level with adjustments for inflation and mandates. The forecast projected a General Fund ending balance (exclusive of a

$20.068 million Reserve for Revenue Loss) of $21.082 million in fiscal year 2000 with shortfalls anticipated in fiscal years 2001 and 2002 of $7.967 million and $23.117 million respectively, followed by three years of positive fund balances. During the budget process, the projected shortfall for fiscal year 2001 was eliminated in the Adopted Budget for fiscal year 2001.

Throughout the current fiscal year, City staff will closely monitor departmental budgets and report to the City Council the status of funds. In January 2001, City staff began the preparation of the Five Year Financial Forecast to reflect current conditions and estimate the projected revenues and expenditures over the forecast period. Any projected shortfall will be dealt with by exploring a combination of possible program reductions, foregoing inflationary adjustments, and/or increases to revenue in much the same manner in which projected shortfalls were resolved in prior years.

Budgetary compliance is a significant tool for managing and controlling governmental activities. Therefore, conformance with budgetary limits and specifications maintained by the City is critical. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund and the Special Revenue Funds, excluding the categorical Grants-in-Aid and Community Development Block Grant Program Funds, are included in the annual appropriated budget.

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

(The remainder of this page intentionally left blank.)

REVENUES OF THE CITY

GENERAL FUND

The following statements set forth in condensed form reflect the historical operations of the City. The City of San Antonio 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.

General Fund Comparative Statement Of Revenues And Expenditures And Analysis Of Changes In Fund Balances **TABLE 2**

	Fiscal Year Ended September 30				
	2000	1999	1998	1997	1996
Fund Balance – Beginning of Year	$ 84,535,824	$ 88,444,515	$ 68,299,794	$ 65,174,824	$ 61,427,604
Revenues					
Taxes[1]	276,239,899	$ 261,392,418	$ 245,430,127	$ 228,059,883	$ 214,635,376
Licenses and Permits	12,257,775	12,164,099	11,159,736	9,627,427	9,438,492
Intergovernmental	2,669,780	2,526,778	2,354,189	2,346,577	2,141,719
Revenues from Utilities[1]	172,300,674	149,956,113	150,833,144	140,453,797	145,189,566
Charges for Services	23,010,824	21,726,181	21,676,353	18,666,543	18,422,483
Fines and Forfeits	11,593,504	11,838,121	11,525,034	8,475,837	9,051,481
Miscellaneous	13,297,212	12,705,684	10,862,192	9,601,800	8,927,797
Total Revenues	$ 511,369,668	$ 472,309,394	$ 453,840,775	$ 417,231,864	$ 407,806,914
Expenditures[2]					
General Government	$ 56,420,516	$ 50,127,983	$ 45,241,942	$ 45,837,033	$ 43,115,439
Public Safety	308,127,849	291,548,960	270,411,777	253,471,983	238,625,449
Streets and Roadways	9,909,813	9,467,167	9,162,860	8,740,273	8,918,131
Health Services	12,472,403	11,394,680	10,874,350	10,321,803	10,666,222
Sanitation	2,601,621	2,400,482	2,780,688	2,732,660	2,773,727
Welfare	13,864,539	12,046,649	10,816,574	8,692,828	9,605,385
Culture and Recreation	53,607,164	48,771,521	43,251,642	41,337,207	41,898,315
Economic Development and Opportunity	6,352,358	5,617,688	5,126,211	4,593,078	4,596,805
Total Expenditures	$ 463,356,263	$ 431,375,130	$ 397,666,044	$ 375,726,865	$ 360,199,473
Excess of Revenues Over Expenditures	$ 48,013,405	$ 40,934,264	$ 56,174,731	$ 41,504,999	$ 47,607,441
Other Financing Sources (Uses)					
Operating Transfers In	$ 16,324,734	$ 15,207,796	$ 14,377,412	$ 15,658,487	$ 11,497,098
Operating Transfers Out	(64,535,173)	(66,366,621)	(58,689,236)	(58,220,906)	(59,847,599)
Total Other Financing Sources (Uses)	$ (48,210,439)	$ (51,158,825)	$ (44,311,824)	$ (42,562,419)	$ (48,350,501)
Add Encumbrances	8,806,560	6,315,870	8,281,814	4,182,390	4,490,280
Fund Balance – End of Year	$ 93,145,350	$ 84,535,824	$ 88,444,515	$ 68,299,794	$ 65,174,824

(1) Fiscal year 1996 included stormwater fee revenues in the Revenues from Utilities. Commencing with fiscal year 1997 stormwater fee collections are deposited into the newly created Stormwater Fund within the Special Revenue Funds. Total stormwater fee collections accounted for in the Special Revenue Stormwater Fund for fiscal years 1998, 1999 and 2000 totaled $13,558,856, $14,245,127 and 16,382,310 respectively. Expenditures related to the stormwater collections are paid directly from the Stormwater Fund.

(2) Expenditures are reported on a budgetary basis with encumbrances added back to arrive at a GAAP fund balance.

MUNICIPAL SALES TAXES

The City has adopted the provisions of Chapter 321, as amended, of the Texas Tax Code which 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 cent through September 30, 2000. On May 6, 2000, the citizens of San Antonio approved an election to increase the sales and use tax by 1/8 cent to 1 1/8 cents. The additional 1/8 cent became effective on October 1, 2000, and will terminate upon the earlier of ten years or collection of $65,000,000. Projected collections show that $65,000,000 will be collected from the 1/8 cent sales and use tax by the summer of 2004. The funds received from the 1/8 cent sales and use tax collection will be used to fund parks and recreation land acquisition and construction improvements. The City plans to acquire and make improvements to approximately 10,000 acres of land located in Bexar County over the Edwards Aquifer Recharge Zone for preservation of water supply, and make improvements to 32 miles of linear parks located in the Leon and Salado Creeks in order to diminish flood damage to businesses and residences along the creeks. Net sales tax collections on a fiscal year basis are as follows:

Municipal Sales Taxes **TABLE 3**

Fiscal Year Ended 9/30	1/8 Cent Sales Tax Collected[1]	1 Cent Sales Tax Collected	Ad Valorem Tax Levy[2]	Percent of Ad Valorem Tax Levy	Net Taxable Assessed Valuation	Equivalent of Tax Rate
1991	*	$ 71,284,537	$ 124,030,497	57.47%	$ 23,550,043,620	$ 0.30366
1992	*	74,796,676	131,465,429	56.89%	22,567,235,320 [3]	0.33144
1993	*	82,328,513	130,820,390	62.93%	21,950,834,822 [3]	0.37506
1994	*	92,669,237	133,977,540	69.17%	22,480,584,590	0.41222
1995	*	97,667,344	142,934,773	68.33%	24,309,875,164	0.40176
1996	*	103,032,541	155,347,338	66.32%	26,793,724,971	0.38454
1997	*	110,034,458	164,201,161	67.01%	28,320,799,143	0.38853
1998	*	118,991,708	170,587,464	69.75%	29,422,284,674	0.40443
1999	*	126,472,730	181,204,963	69.80%	31,253,551,025	0.40467
2000	*	133,816,289	193,159,815	69.28%	33,315,478,862	0.40166

(1) The 1/8 cent sales and use tax collection became effective on October 1, 2000.
(2) Total ad valorem tax levy for debt service and maintenance and operations.
(3) Decrease in assessed valuation in fiscal years 1992 and 1993 is due to general decline in economy.

(The remainder of this page intentionally left blank.)

CAPITAL LEASES

The City has entered into various lease purchase agreements for the acquisition of fire trucks, firefighter equipment, a mainframe computer, a print shop copier and a color print shop copier, a departmental copier, golf turf equipment, and golf cart equipment. Shown below is the gross value of the assets at September 30, 2000. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by Council. The following is a schedule of the remaining future minimum lease payments under these capital leases together with the present value of the net minimum lease payments as of September 30, 2000. **The City has never failed to appropriate sufficient funds for its capital leases or other lease obligations**. The adopted fiscal year 2001 budget includes a new lease purchase arrangement for four additional pumper trucks and one ladder truck. The City has budgeted $102,467 for the first year of a three-year agreement for the pumper trucks and $32,595 for the first year of a five-year lease purchase agreement for the ladder truck. These amounts represent one quarterly payment in fiscal year 2001. The adopted fiscal year 2001 budget includes a new lease purchase agreement for long term capital for Golf Operations to include industrial golf fairway mowers, green mowers, and trucksters. (This equipment is estimated to cost a total of $223,300.) The City has budgeted $38,000 for the first year of a five-year lease purchase agreement for this equipment. This amount represents one quarterly payment in fiscal year 2001.

Debt Obligations – Capital Leases Payable **TABLE 4**

Description	Lease Termination Date	Present Value Of Minimum Lease Payments	Amount Representing Interest	Total Future Minimum Lease Payments
Fire Aerial Trucks	11/01/2005	$ 1,478,106	$ 222,010	$ 1,700,116
Fire Pumper Trucks	11/01/2003	1,290,977	119,199	1,410,176
Firefighter Personal Protective Equipment	11/01/2005	1,348,076	202,480	1,550,556
Computer, Mainframe	11/01/2003	819,870	58,499	878,369
Copier, Print Shop	03/21/2003	157,045	9,829	166,874
Copier, Print Shop Color	08/01/2002	69,101	1,267	70,368
Copier, Departmental	09/01/2003	9,616	1,312	10,928
Golf Turf Equipment	11/01/2005	433,626	64,057	497,683
Golf Cart Equipment (Mission Equipment)	12/15/2001	68,109	2,690	70,799
Golf Cart Equipment (Yamaha Corporation)	03/01/2004	151,243	13,264	164,507
Total		$5,825,769	$694,607	$6,520,376

Tax Rate Distribution **TABLE 5**

	Fiscal Year Ended September 30						
Fund	2001	2000	1999	1998	1997	1996	1995
General Fund	$ 0.35079	$ 0.34579	$ 0.34579	$ 0.34669	$ 0.34712	$ 0.34979	$ 0.36066
Interest and Sinking Fund	$ 0.22900	$ 0.23400	$ 0.23400	$ 0.23310	$ 0.23267	$ 0.23000	$ 0.22731
Total	$ 0.57979	$ 0.57979	$ 0.57979	$ 0.57979	$ 0.57979	$ 0.57979	$ 0.58797

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

Assessed Valuation — **TABLE 6**

Tax Year 2000 Actual Market Value of Taxable Property		$ 40,468,630,615
Less:		
Local, Optional Over-65 Homestead Exemptions	$ (2,961,584,249)	
Over-65 Pro-rated Homestead Exemptions	(48,751,695)	
Disabled and Deceased Veterans' Exemptions	(91,233,966)	
Freeport Exemption	(292,442,670)	
Article 8, Sec. 1-d-1 Appraisals	(207,284,636)	
Tax Phase-In	(433,726,646)	
Historical Exemptions	(24,140,490)	
Appraised Value Limitations	(209,677,571)	
Absolute Pro-rated	(33,029,568)	
Total	$ (4,301,871,491)	
Tax Year 2000 Net Taxable Assessed Valuation (100% of Actual)		$ 36,166,759,124

(1) See "AD VALOREM TAXATION" herein for a description of the City's taxation procedures. Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District on February 9, 2001.

Debt Payable from Ad Valorem Taxes

The Outstanding Ad Valorem Tax-Supported Debt (at 2/15/01)		
General Improvement and Refunding Bonds	$	677,598,108
Tax-Exempt Commercial Paper Notes		15,000,000
Tax-Exempt Combination Tax and Revenue Certificates of Obligation		99,175,000
Taxable Combination Tax and Revenue Certificates of Obligation		17,825,000
Total Gross Outstanding Ad Valorem Tax Debt	$	809,598,108
Less: Self-Supporting Debt(1) (at 2/15/01)		(24,795,000)
Total Net Debt Payable from Ad Valorem Taxes:	$	784,803,108
General Obligation Interest and Sinking Fund Balance as of 9/30/00	$	65,381,325
Ratio of Gross Debt to Actual Market Value		2.00%
Ratio of Gross Debt to Net Taxable Value		2.24%
Ratio of Net Debt to Actual Market Value		1.94%
Ratio of Net Debt to Net Taxable Value		2.17%
Tax Year 2000 Actual Market Value of Taxable Property	$	40,468,630,615
Tax Year 2000 Net Taxable Assessed Valuation (100% of Actual Market)	$	36,166,759,124

Population: 1980 - 786,023; 1990 - 935,933; 2000 - 1,144,646

Per Capita 2000 Net Assessed Valuation $31,596.46; Per Capita Gross Debt $707.29; Per Capita Net Debt $685.63

(1) To maintain this debt as self-supporting, payments will be made from the operation of the Parking, Golf Course, Alamodome, and Hotel-Motel Tax Funds. While the principal amount of debt outstanding for the Alamodome of $2,225,000 and the principal amount of debt outstanding for the Golf Course Fund of $4,175,000 is considered self-supporting, an annual subsidy of $700,000 and approximately $350,000 is contributed to the Alamodome and Golf Course Fund respectively.

CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY

WATER RESOURCE MANAGEMENT/EDWARDS AQUIFER AUTHORITY

The Edwards Aquifer has served as the sole source of water for the City of San Antonio since the 1890's. The Edwards Aquifer is also the primary source of water for the agricultural economies in the two counties west of San Antonio and is the source of water for the Comal and San Marcos Springs in New Braunfels and San Marcos, respectively, which depend upon springflow for their tourist-based economies. Edwards Aquifer water from these springs provides the habitat for species listed as endangered by the U.S. Fish & Wildlife Service under the Endangered Species Act. Water levels in the Edwards Aquifer are affected by rainfall or lack thereof, water usage region wide and discharge form the springs. One unique aspect of the Edwards Aquifer is its prolific rechargeability.

Pumping in response to the semiarid climate plus a generally ever-increasing demand on the Edwards Aquifer threatened to regularly exceed average historical recharge. Such circumstances generated concerns about continued water availability and flow from Comal and San Marcos Springs. Since groundwater is subject to the rule of capture in Texas, meaningful management of the Edwards Aquifer could not be accomplished without specific state legislation. 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 ("EAA") began operations on July 1, 1996, and final implementation of the State Legislation will ultimately result in elimination of uncertainties concerning access to and use of Edwards Aquifer water by the City and all other aquifer users.

The EAA has jurisdiction over the vast majority Edwards Aquifer pumping and manages water usage by limiting overall permitted withdraws and requiring water users to implement water usage reduction measures during critical dry periods. The EAA is currently preparing a Habitat Conservation Plan to insure compliance with the Endangered Species Act through an incidental take permit.

The EAA reviewed over 1000 applications for permits based on historical pumping of Edwards Aquifer water. The EAA staff proposed either permit amounts or denials on all applications in November 2000. At their meeting of January 14, 2001, the board of the EAA issued or denied over half of the proposed permits. The San Antonio Water System (the "System") has a proposed permit of 149,815.9 acre-feet; the proposed amount was contested by several parties and supporting facts will be examined in an administrative proceeding before final action on it by the EAA board. The System pumped 180,564 acre-feet during 2000 and currently has interim authorization to pump 193,944 acre-feet. The System anticipates that the earliest effective date for a final permit would be January 2003. The System has acquired over 11,500 acre-feet of Edwards Aquifer pumping rights to help cover the shortage between the proposed permit and current pumping. Likewise, the System has been instrumental in creating a market for Edwards Aquifer pumping rights and to date has leased another 17,000 acre-feet for 2001. The bulk of the lease terms are three to five years.

Another major activity for the EAA is the adoption of critical period management measures. The EAA has adopted critical period rules on an emergency basis, most recently during the summer of 2000. Past critical period management rules have called for staged reductions in water usage by limiting discretionary use with successive measures based upon Edwards Aquifer levels. The City has had a critical period management ordinance since 1984, limiting discretionary water usage through primarily restrictions in outdoor water use and lawn watering. The EAA has yet to propose final critical period rules; however, the City will adopt an ordinance that meets or exceeds whatever the EAA establishes. The System does not expect these rules to materially adversely affect revenues or operations or the System's ability to supply water to its customers for primary needs.

Implementation of the legislation and management of the Edwards Aquifer will benefit the City and the System. The legislation should provide a basis for resolving disputes concerning the application of the Endangered Species Act to the Edwards Aquifer. 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.

In Sierra Club v. City of San Antonio, et. al., (m-96-CA-097) filed June 10, 1996, in the United States District Court, for the Western District of Texas, the Sierra Club brought suit against the City and its Water System, Bexar Metropolitan Water District and the Department of Defense, including the U.S. Air Force and the U.S. Army. The suit also names as defendants other individuals, corporations and municipal governments as representatives of defendant classes consisting of all municipal, commercial, domestic, industrial, irrigation and livestock pumpers of water in Bexar, Atascosa, Medina, Uvalde, Kinney, Hays and Comal Counties who rely on the Edwards Aquifer as their source of water. The suit alleges that the pumpers are "taking" threatened or endangered species by causing the spring flows at Comal and San Marcos Springs to fall below levels that the U.S. Fish and Wildlife Service has previously determined are necessary to prevent both "take" and "jeopardy" of threatened and endangered species at or immediately downstream of the springs. The plaintiffs in the Sierra Club suit petitioned the court to enter a temporary restraining order and preliminary injunction against aquifer users, including the City of San Antonio. After an evidentiary hearing on August 1, 1996, on August 23, 1996 the District Court entered a preliminary injunction requiring the City to reduce water usage to 1.2 times winter average, to be effective October 1, 1996. On August 26, 1996, the City of San Antonio filed an appeal from and moved to stay the preliminary injunction with the U.S. Fifth Circuit Court of Appeals. The fifth Circuit court granted the stay request on September 10, 1996, and after oral argument and briefing, reversed the District Court decision and vacated the injunction.

The Fifth Circuit Court of Appeals found that the State had adopted legislation creating a regulatory management scheme for the water of the Edwards Aquifer to protect all interests dependent upon it, including the endangered species. Under the Burford Abstention Doctrine, the Fifth Circuit found that the Sierra Club would likely not prevail in its claims because the district court should abstain to allow the state administrative regulatory agency to complete its management efforts free of federal court interference. The Fifth Circuit dissolved the preliminary injunction and remanded the case for further action by the district court. The Sierra Club's effort to have this decision reviewed by the U.S. Supreme Court was unsuccessful and the Fifth Circuit decision will control further action in the case.

The Fifth Circuit decision does not dispose of the entire claim of the Sierra Club. Since the City could only appeal from the issuance of the preliminary injunction, the Fifth Circuit's decision does not constitute a judgment on the merits in the City's favor. However, the decision does control further action in the case by the Sierra Club and sets a standard which must be overcome before the district court can overcome the requirements to abstain under the Burford Abstention Doctrine. The Sierra Club has described the effect of the Fifth Circuit decision on its case on the merits as devastating. The Sierra Club has taken no action in the lawsuit since the decision favorable to the City in its Interlocutory Appeal.

The City previously intervened in Sierra Club vs. Babbit, et. al., (MO 91-CA-069) in which the same court ordered the U.S. Fish and Wildlife Service to define necessary spring flow levels and to adopt a recovery plan pursuant to the Endangered Species Act in order to protect these species. Numerous post-judgment motions were filed, including a motion by Sierra Club seeking additional relief, similar to that now being sought in the proceeding filed on June 10, 1996. On February 26, 1996, the U.S. Fifth Circuit Court of Appeals found that such relief was beyond the scope of the original complaint and remanded the case to the trial court for dismissal, leading to the subsequent litigation described above.

The System has been successful to date in defending any efforts to have Edwards Aquifer water usage regulated by the Federal District Court to protect endangered species.

LONG-RANGE WATER RESOURCE PLANNING

In FY 1996, the San Antonio City Council appointed a 34 member citizens committee to develop strategic policies and goals for water resource management. The Citizens Committee on Water Policy report "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 "Water Resource Plan". On November 5, 1998, the City Council accepted the Long Term Water Resources Plan "Securing Our Water Future Together" as the first comprehensive

water resources plan for the City. The Plan establishes programs for immediate implementation as well as a process for developing long term water resources. In FY 1999 the Citizen Advisory Panel began the evaluation process for various projects using the criteria established in the "Framework Report".

Conservation Program – The System has an aggressive water conservation program which aims to reduce pumping to 140 gallons per person per day over the next five to ten years. This will be accomplished through a variety of means including consumer education, rebates for water efficient technologies, system improvements to prevent water loss and other measures. The System has a unique commercial conservation program as well as a strong residential program.

Water Recycling Program – The water-recycling program is now in the third year of active construction and approximately 85% complete. Construction efforts have been concentrated on completion of two major branches of the System serving the eastern and western portions of the City. Completion of construction is targeted for the end of 2001 culminating in the closure of the recycle system loop. Upon completion, the System will deliver up to 35,000 acre-feet per year ("af/yr") of reclaimed water for non-potable water uses for those currently using Edwards Aquifer water. Over 65% of the water has been allocated to customers who will use recycled water for industrial processes, cooling towers and irrigation.

Water Supply Contracts – On December 30, 1998, contracts for the acquisition of up to 90,000 af/yr of water rights were executed with the Aluminum Company of America and the City Public Service Board of San Antonio, Texas ("CPS"). The feasibility of the options under this contract is under study. Groundwater availability studies conclude that 55,000 af/yr is sustainable from this project which has been included in regional water supply plans. The System also has contracted for delivery of approximately 4,500 af/yr of non-Edwards water from the Cow Creek aquifer in northern Bexar County. Facilities to accept this water are under design and should be completed in 2001.

Western Canyon – The Western Canyon project represents a partnership between the System, the San Antonio River Authority ("SARA"), Guadalupe-Blanco River Authority ("GBRA"), and Bexar Metropolitan Water Districts ("Bexar Met") for the delivery of Canyon Lake Water. The System will receive approximately 3,000-6,000 af/yr for service to Northern Bexar County. Water from this project will be firm during times of drought and is expected to be delivered by 2002. This project serves as a model for the negotiation of a larger water purchase from the GBRA for the System and Bexar County. The contract allows GBRA to operate its treatment facility at full capacity, bringing down the cost of water for all of its customers. This project will deliver the first surface water into the System's distribution system.

Guadalupe River Diversion – SAWS and the SARA are working on an agreement to purchase water from the (GBRA). The purchase would bring in an additional 70,000 acre-feet or 22.8 billion gallons to San Antonio's water supply.

Under the proposed purchase, GBRA would sell its existing underutilized water rights in the lower Guadalupe River near the San Antonio Bay. Scheduled for completion in 10-15 years, GBRA would be responsible for permitting, design, and construction of the diversion facilities on the Guadalupe River. The System and SARA would be responsible for development of facilities to treat, store, and deliver this water the 132 miles to the City.

This new water source, representing almost one half of what the City pumped in 2000, would significantly increase the City's water supply and would be an important part of developing additional sources of water for the long term. It also demonstrates the cooperative regional approach to water resources development that couples with Senate Bill 1 ("SB 1") and its legislated approach to regional water planning.

LCRA Diversion – Discussions are underway between the Lower Colorado River Authority (LCRA) and the System on a proposal in which new water resources made available in the lower Colorado River basin would be shared by LCRA and San Antonio. It will probably take several years of environmental and engineering feasibility studies to gather the accurate information that will enable the water development to occur. Both the System and LCRA will

work through the public participation process to gather and include input from citizens. Legislation is pending in the 2001 Texas Legislative session to authorize this interbasin transfer of water from LCRA to the System.

Aquifer Storage and Recovery Program (ASR) – Land for the ASR is being acquired and the project concept is being finalized. The project is expected to yield approximately 30,000 af/yr by storing Edwards Aquifer rights for use during peak summer months. It is anticipated that the site will produce up to the same volume of groundwater for a few years while the ASR prototypical wells are operated. Delivery is scheduled for 2003.

LITIGATION AND REGULATION

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. As of September 30, 2000, alleged damages in lawsuits are approximately $51 million. The amount of damages in most of the pending lawsuits are capped under the Texas Tort Claims Act; therefore, the potential liability is approximated at $12.4 million which is reserved 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 amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend vigorously against the lawsuits including any and all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such lawsuits.

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

LITIGATION STATEMENT

Edwards Aquifer Sierra Club v. City of San Antonio, et. al.

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

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

Although the decision of the Fifth Circuit does not dispose of the entire claim of the Sierra Club, it does control further action in this case and creates a substantial obstacle to the Sierra Club's request for permanent injunctive relief.

San Antonio River Walk Cases

The City has filed five lawsuits against adjoining property owners and/or business operators to recover rents and to settle ownership of portions of the San Antonio River Walk. Four of the adjoining landowners have previously executed leases, acknowledging City ownership of the property. However, in the early 1990's, these property

owners disputed the City's ownership, ceased making rental payments and refused to renew their leases. Property owners have filed cross claims against the City claiming they are the rightful owners of the River Walk properties.

The City continues to contest the cases and trial for one of the locations is scheduled for June 18, 2001. Back-rentals are estimated at $750,000. If the City fails to win these cases, and/or the River Walk owners are successful in their cross claims, the potential is there for the City to lose all revenues from all current leases.

Esperanza Peace and Justice Center v. City of San Antonio

The City was sued in federal court by Esperanza Peace and Justice Center in August, 1998 for being cut from the arts budget alleging 1st and 14th amendment violations of the U.S. Constitution. The organization sponsored a lesbian and gay film festival entitled "Out of the Movies". Because they were the only organization cut from the budget they alleged it was because of view point discrimination. The liability portion of the case was tried in August, 2000. The trial judge, in an opinion issued May 15, 2001, ruled that the City had violated the 1st and 14th amendments and also the Texas Open Meetings Act. The plaintiffs have demanded $695,000 in damages and an undetermined amount of attorney's fees estimated at approximately $250,000. The damages phase of the trial will be heard either in August or September, 2001.

WATER RESOURCE LEGISLATION/EDWARDS AQUIFER AUTHORITY

As discussed below, the System supports the region wide management of the resource by the state administrative agency, created in 1993, which began operation in July 1996, as described below.

The 75th Texas Legislature established a new mechanism for statewide water planning begun in 1997 with the passage of SB 1, an omnibus bill which assesses Texas water policy in seven general areas: water planning; water resources management; marketing, and transfers; emergency authorizations and enforcement; surface water and groundwater supplies; financial assistance for water needs and conservation; small communities assistance; and water data collection and dissemination.

The regional water planning groups established under SB 1 currently in the process of developing the first regional water plans, which are due to the State in January 2001. The System is a significant factor in the South Central Texas Regional Water Planning Group which encompasses 20½ counties in south central Texas. The 76th Texas Legislature passed several bills to enhance this planning process, both from an administrative and financial standpoint. The regional water planning process established under SB 1 is expected to play a significantly positive role in future water resource development for San Antonio and the entire State.

Groundwater management was extensively debated during the 76th Texas Legislature, resulting in the creation of 13 new groundwater districts in the State. These groundwater districts are created in temporary status for two years, requiring re-ratification by the 77th Texas Legislature in 2001. Of potential impact to the System, the Lost Pines Groundwater District was established for management of the Simsboro Aquifer in Bastrop and Lee counties. The System has entered into contracts with CPS, as well as ALCOA, which secure the right to develop up to 90,000 acre-feet of water from the Simsboro Aquifer. This district is expected to play a positive role in the sustainable development and management of any potential water resources for the City from the Simsboro Aquifer.

The legislation creating the EAA was left intact, and the agency continues to move toward establishing firm regulation of the Edwards Aquifer, despite attempts to alter the authorizing legislation. The City led an aggressive effort to defeat several pieces of legislation in the 76th Legislature, which would have had a negative impact to the EAA. The Legislature's support of this regional effort to effectively and fairly manage the Edwards Aquifer was clearly legitimized in the 76th legislature with the defeat of this legislation.

The System was also instrumental in advancing various pieces of legislation which will enhance water resource management in the Edwards region and throughout the state. Among these were bills passed to enhance state support for brush control and weather modification programs, both of which are expected to be integral parts of management of the Edwards Aquifer. In summary, the System has greatly enhanced its interaction at the state legislative and regulatory levels to the benefit of the Edwards region.

The most controversial aspect of SB 1 requires any water right transferred out of its basin or origin to become junior in priority to all other rights in the basin or origin. Adoption of this measure came only after numerous attempts to reach an alternative compromise. The language should have marginal impact on the System's current plans to obtain water through negotiations with the Guadalupe-Blanco River Authority. The 76th Legislature left this limitation intact.

The System was successful in obtaining language in SB 1, which clarifies the System's right to use natural watercourses when possible to convey reuse water as part of its Water Recycling Program. Language was also included in SB 1, which will clarify the Local Government Code with regard to the right of home-rule municipalities to monitor and protect the quality of groundwater that compromises the municipality's drinking water supply. House Bill 1016, a System-supported measure enacted in the 76th Legislature will raise from $2,000 to $5,000 the maximum fee which the TNRCC can impose for review for plans under its Chapter 213 rules for protection of the aquifer. The bill also amends current statute to require fees collected under the Edwards program be used specifically for the Edwards program. The System believes these statutory changes lay the groundwork for substantial improvement to TNRCC's administration of the Edwards program.

The Texas legislature passed Senate Bill 1477 in 1993, which established a framework for a regional approach for management of the Edwards Aquifer. The Act created the EAA, a nine member appointed Board, with the power to limit pumping from the aquifer and issue water right permits. The Authority was also charged with developing a regional management plan incorporating conservation, enhanced recharge, reuse, lease or purchase of pumping rights, interbasin transfers, augmentation, and critical period strategies.

The EAA has geographic jurisdiction over the entire Edwards Aquifer and manages water usage of the Edwards Aquifer through a well permitting system limiting overall permitted withdraws and requiring water users to implement water usage reduction measures during critical dry periods. The EAA will develop and be responsible for insuring compliance with the Endangered Species Act and obtaining administrative relief from the application of the Act's provisions through an incidental take permit.

The EAA has adopted the final rules to implement the permitting system mandated by Senate Bill 1477. The EAA had previously been required to re-initiate the process of adopting rules to implement the permitting system after litigation challenging the procedure by which the initial rules were adopted. These rules include interim authorization for all users at maximum historic use with an opportunity to contract to use less than this amount. This, combined with acquisitions of additional Edwards rights through lease and purchase from other applicants, places the System in a position to meet anticipated demands in the short term. Final permits should be issued in the next several years, clarifying uncertainty concerning authorized withdrawals.

Proposed critical period management rules call for staged reductions in water usage by limiting discretionary use with successive measures based upon Aquifer levels. The City currently has a critical period management ordinance, limiting discretionary water usage through primarily restrictions in outdoor water use and lawn watering. If adopted, the System does not expect these results to materially adversely affect revenues or operations or the System's ability to supply water to its customers for primary needs.

Implementation of the legislation and management of the Edwards Aquifer will benefit the City and the System. The legislation should provide a basis for resolving disputes concerning the application of the Endangered Species Act to the 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. The legislation was the basis of the Fifth Circuit Courts ruling that the District Court should abstain in Sierra Club v. San Antonio as described above.

RECENT LEGISLATION

Senate Bill 354 ("SB 354") (which amends certain provisions in the Act and generally requires local government corporations, such as the Corporation, to comply with the same competitive bidding statutes that are applicable to the city or county which created such corporation) was passed by the Texas Legislature during the 77th Legislative Session and has been sent to the Governor for signature. Such amendments will not become effective until September 1, 2001 and will not have any negative effects on the ability of the Corporation to finance the Project or design and construct the Project pursuant to the Development Agreement described herein under "THE PROJECT – Development of the Project."

TAX MATTERS

OPINION

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, and Wickliff & Hall, P.C., San Antonio, Texas, Co-Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof, (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Co-Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See APPENDIX D - "Form of Opinion of Co-Bond Counsel" herein.

In rendering their opinion, Co-Bond Counsel will rely upon (a) the Corporation's federal tax certificate, and (b) covenants of the Corporation and the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the Corporation or the City to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The law upon which Co-Bond Counsel have based their opinion is subject to change by the United States Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such law or the interpretation thereof will not be changed in a manner, which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

Co-Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Corporation and the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Co-Bond Counsel, and no assurance can be given that the Service would agree with the opinion of Co-Bond Counsel, if the tax-exempt status of the interest on the Bonds were the subject of an audit. If an audit is commenced, under current procedures, the Service is likely to treat the Corporation and the City as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Corporation may have different or conflicting interests from the owners of the Bonds.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT

The initial public offering price to be paid for one or more maturities of the Bonds (the "Original Issue Discount Bonds") may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year. In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bonds, and (ii) the initial offering price to the public of the Original Issue Discount Bonds would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any

unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under existing law, any owner who has purchased such Original Issue Discount Bonds in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bonds equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below. Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the Bonds and ratably within each six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bonds for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to the basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bonds.

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with Subchapter C earnings and profits, owners of an interest in a FASIT and taxpayers who may be deemed to have incurred or continued indebtedness to purchase obligations.

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

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by Section 55 of the Code. Section 55 of the Code imposes a tax equal to 20% for corporations, or 26% for non-corporate taxpayers (28% for taxable income exceeding $175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Interest on the Bonds may be subject to the "branch profits tax" imposed by Section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of an obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such

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

STATE, LOCAL AND FOREIGN TAXES

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Corporation assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

INVESTMENTS

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Act") and in accordance with an Investment Policy approved by the City Council of the City. The Act requires that the City establish an investment policy to ensure that its funds are invested only in accordance with State law. The City has established a written investment policy adopted September 28, 2000. The City's investments are managed by its Finance Director, who, in accordance with the Investment Policy, reports investment activity to the City Council.

GASB 34 IMPLICATIONS FOR THE CITY

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34, "Basic Financial Statements –Management's Discussion and Analysis – for State and Local Governments." The objective of this Statement is to enhance the clarity and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The City must implement GASB 34 for its fiscal year beginning October 1, 2001. While adoption of this Statement will alter the presentation of financial information, City management believes that there will be no material adverse impact to the City's financial position, results of operation, or cash flows.

LEGAL INVESTMENTS

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states,

agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) certificates of deposit issued by a state or national bank, savings bank, or a state or federal credit union, which is domiciled in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation, guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (5) or in any other manner and amount provided by law for City deposits, (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 of Texas, (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 (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (10) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, 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.

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 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 under 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; and 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.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City 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.

ADDITIONAL PROVISIONS

Under Texas law the City is additionally required to (1) annually review its adopted policies and strategies, (2) require any investment officers' with personal business relationships or relative with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council, (3) require the registered principal of firms seeking to sell securities to the City to (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements, (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy, (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers, (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investments of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (7) restrict the investment in non-money market 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, and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

CURRENT INVESTMENTS

At December 31, 2000, 89.85% of investable City funds were invested in obligations of the United States, or its agencies and instrumentalities, and 3.99% were invested in a money market fund, with the weighted average maturity of the portfolio being less than one year. The remaining 6.16% of the City's portfolio includes $28,659,729.42 of convention center construction funds and convention center debt service reserve funds of $16,999,830, which are invested in fully collateralized repurchase agreements that are fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and City's investment policy objectives are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.09% of their book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. Texas law further provides that obligations, such as the Bonds, are eligible to secure deposits of any public funds of the State of Texas, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their market value. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the

State of Texas, the Public Funds Investment Act (Chapter 2256, Texas Government Code) requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations.

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

LEGAL MATTERS

The Corporation will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the Corporation, and based upon examination of such transcript of proceedings, the legal opinion of Co-Bond Counsel to the effect that the Bonds are valid and legally binding obligations of the Corporation and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. In their capacity as Co-Bond Counsel, McCall, Parkhurst, and Horton L.L.P., San Antonio, Texas, and Wickliff and Hall, P.C., San Antonio, Texas, have reviewed the information appearing in this Official Statement under the captions "INTRODUCTION", "PLAN OF FINANCING", "THE BONDS", "TAX MATTERS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS" and APPENDIX A – "SELECTED PROVISIONS OF THE FINANCING DOCUMENTS" to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Co-Bond Counsel have not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the Corporation for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Co-Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on issuance and delivery of the Bonds. The respective legal opinions of Co-Bond Counsel will be printed on the definitive Bonds and the form of such opinions are attached hereto as APPENDIX D.

Certain legal matters will be passed upon for the Corporation and the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by Vinson & Elkins L.L.P. Neither the Attorney General, Co-Bond Counsel, the City Attorney, nor Counsel to the Underwriters has been engaged to investigate or verify, and accordingly neither will express any opinion concerning, the financial condition or capabilities of the City or the sufficiency of the security for, or the value or marketability of, the Bonds.

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

MUNICIPAL BOND INSURANCE POLICY

MBIA

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to APPENDIX E for a specimen of the Insurer's policy.

THE MBIA INSURANCE CORPORATION INSURANCE POLICY

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of the Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA FINANCIAL INFORMATION

As of December 31, 1999, the Insurer had admitted assets of $7.0 billion (audited), total liabilities of $4.6 billion (audited), and total capital and surplus of $2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2000, the Insurer had admitted assets of $7.6 billion (audited), total liabilities of $5.2 billion (audited), and total capital and surplus of 2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

ADDITIONAL INFORMATION ABOUT THE INSURER

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. These SEC filings are available to the public over the Internet at the SEC's web site at http://www.sec.gov. The public may also read and copy any of these SEC filings at the SEC's public reference rooms in Washington D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2000, (2) the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2001, and (3) the report on Form 8-K filed by the Company on January 30, 2001 are also available, at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545. The SEC filings are also available to the public over the Internet at the Company's web site at http://www.mbia.com.

The following documents filed by the Company with the Securities and Exchange Commission are incorporated herein by reference:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2000.

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

(3) The report on Form 8-K filed by the Company on January 30, 2001.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Official Statement and prior to the termination of the offering of the securities offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

FINANCIAL STRENGTH RATINGS OF THE INSURER

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's"), rates the financial strength of the Insurer "AAA."

Fitch rates the financial strength of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guarantee the market price of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

There can be no assurances that payments made by the Insurer representing interest on the Bonds will be excluded from gross income, for federal tax purposes, in the event of nonappropriation by the City.

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION

In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificate holder is not protected by an insurance guaranty fund or other solvency protection arrangement.

RATINGS

Based upon the issuance of the Financial Guaranty Insurance policy for the Bonds, the ratings of "AAA" "Aaa" and "AAA" will be assigned by Fitch, Inc., ("Fitch"), Moody's Investor's Services, Inc., ("Moody's"), and Standard & Poor's, ("S&P"), respectively. An explanation of the significance of such ratings may be obtained from Fitch, Moody's, or S&P. The ratings of the Bonds by Fitch, Moody's, and S&P reflects only the views of said companies at the time the ratings are given, and the City makes no representation 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, and 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 Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Lease Agreement, the Corporation and the City have made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The Corporation and the City are required to observe the agreement for so long as such entity remains obligated to advance funds to pay the Bonds. Under the agreement, the Corporation and 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, as amended, Texas Local Government Code, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must file each audit report with the City Clerk. The City's fiscal records and audit reports are available for public inspection during the regular business hours of the City Clerk. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Public Information Act, Texas Government Code, Chapter 552, 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 applicable 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 in Tables 2-6 and in APPENDIX C. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any State Information Depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C 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 Corporation will provide timely notices of certain events to certain information vendors. The Corporation will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the status of the Bonds; (7) modification to rights of holders of the Bonds; (8) certificate calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds, the Financing Documents nor the Bond Resolution make any provision for liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The Corporation and 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 Corporation and the City have agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of the Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State as a SID. The address of the Municipal Advisory Council is 600 West 8th Street, Austin, Texas 78701, or Post Office Box 2177, Austin, Texas, 78768-2177 and its telephone number is (512) 476-6947.

LIMITATIONS AND AMENDMENTS

The Corporation and the City have agreed to update information and to provide notices of material events only as described above. The Corporation and the City have 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 Corporation and the City make no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Corporation and the City disclaim any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Bonds may seek a writ of mandamus to compel the Corporation or the City to comply with its agreement.

This continuing disclosure agreement may be amended by the Corporation and 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 Corporation or the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering, as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Resolution that authorize such an amendment) of the

outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the Corporation and the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and Beneficial Owners of the Bonds. The Corporation and the City may also repeal or amend the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

COMPLIANCE WITH PRIOR UNDERTAKINGS

The City has complied in all material respects with all of its previous continuing disclosure agreements in accordance with the Rule. The Corporation has not made a prior undertaking in accordance with the Rule.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

CO-FINANCIAL ADVISORS

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

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the Corporation at a purchase price of $14,252,378.20 (representing the par amount of the Bonds, less a net original discount of $120,586.10 and less an underwriting discount of $92,035.70) plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices.

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 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.

AUTHORIZATION OF THE OFFICIAL STATEMENT

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

This Official Statement has been approved by the Board of Directors of the Corporation and the City Council of the City for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R., Section 240, 15c2-12.

/s/ Bobby Pérez
President, Board of Directors
City of San Antonio, Texas
Municipal Facilities Corporation

/s/ Milo Nitschke
Acting Director of Finance
City of San Antonio, Texas

APPENDIX A

The information contained in Appendix A consists of selected provisions from the Financing Documents.

APPENDIX "A"

SELECTED PROVISIONS OF THE FINANCING DOCUMENTS

THE FOLLOWING ARE SELECTED PROVISIONS OF TRUST AGREEMENT, LEASE AGREEMENT, DEED OF TRUST AND ASSIGNMENT OF RENTS AND LEASES, AND SECURITY AGREEMENT. THE SELECTED PROVISIONS ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE FULL AND COMPLETE DOCUMENTS

References to "Sections" in the below provisions refer to the document from which such selected provision was taken unless the context requires otherwise.

SELECTED DEFINITIONS

Appropriate or *Appropriated* - The adoption by the City Council of a budget or amendments to the budget for a Fiscal Year which includes the Lease Payments and other payments required, if any, to be made by the City under the Lease during the respective Fiscal Year.

Appropriated Funds - Funds Appropriated by the City from any money that may lawfully be used with respect to any payment obligated or permitted under the Lease.

Board of Directors - The Board of Directors of the Lessor.

Bond or *Bonds* - Any bond issued pursuant to the Trust Agreement, the form of which is attached thereto as Exhibit A for the definitive bonds and Exhibit B for the Initial Bond therein defined.

Bond Counsel - An attorney at law or a firm of attorneys, acceptable to the Corporation, the City, and the Trustee, of nationally-recognized standing in matters pertaining to the issuance of tax-exempt bonds by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

Bond Payment - The semiannual payments made to each Bondholder in accordance with the Trust Agreement.

Bond Payment Date - February 15 and August 15 of each year, commencing August 15, 2001, and continuing for so long as any Bonds are Outstanding.

Bond Register - The register of owners of the Bonds, maintained by the Trustee.

Bondholder -The person in whose name any Bond is registered in the Bond Register. As used herein, an "owner" or a "holder" of Bonds means a Bondholder.

Bondholder Representative - Any individual bondholder or any director or officer of a Bondholder who is designated as such in writing for the purposes of the Trust Agreement.

City - The City of San Antonio, Texas, a duly created municipal corporation and political subdivision of the State of Texas, operating as a home-rule municipality pursuant to the Texas Local Government Code and its City Charter, together with its successors and permitted assigns.

City Change Order - A change order with respect to the Plans and Specifications or the Design/Build Contract described in Section 4.01(b) of the Lease.

City Council - The City Council of the Lessee.

City Representative - The Mayor, the City Manager, any Assistant City Manager, the City Clerk, the Deputy City Clerk, the Director of Finance, any Assistant Director of Finance and the Director of Asset Management of the City, and any other officer or employee of the City who is designated in writing by resolution or ordinance of the City Council as a City Representative for the purposes of the Trust Agreement.

Closing Date -The date of initial delivery of and payment for the Bonds.

Code - The United States Internal Revenue Code of 1986, as amended, and the regulations and revenue rulings and procedures promulgated thereunder.

Completion Date - The date upon which the Project is complete, as evidenced by the Lessee's execution and delivery to the Lessor and the Trustee of a Final Acceptance Certificate.

Corporation Representative - Any director or officer of the Corporation who is designated in writing by resolution of the Board of Directors as a Corporation Representative for purposes of the Trust Agreement.

Design/Build Contract - The Design-Build Agreement, dated as of May 29, 2001, between Lessor and the Design/Build Contractor for the acquisition, construction, equipping and installation of the Project in accordance with the Plans and Specifications and for the Guaranteed Maximum Price of the Project.

Design/Build Contractor - Southern Pecan Joint Venture, a Texas joint venture composed of Embrey Partners Ltd. and H.B. Zachry Company as the joint venturers, or its successors and permitted assigns.

Event of Default -

(i) As used in the Trust Agreement, those events of default provided for in Section 5.01 of the Trust Agreement.

(ii) As used in the Lease:

(a) failure by the Lessee to make a Lease Payment from Appropriated Funds within ten calendar days after the due date thereof.

(b) failure by the Lessor to construct the Project in accordance with the terms and conditions hereof;

(c) failure by the Lessee or the Lessor to observe and perform any covenant, condition, or agreement, on its part to be observed or performed by it hereunder, other than as referred to in (a) or (b) above, and such failure is not cured within 30 calendar days after written notice thereof is provided to the party in default by the other party hereto or the Trustee;

(d) any material statement, representation, or warranty made by the Lessee in the Lease or in any writing ever delivered by the Lessee pursuant to or in connection with the Lease is false, misleading, or erroneous in any material respect;

(e) the filing by the Lessee of a voluntary petition in bankruptcy, or failure by the Lessee promptly to lift any execution, garnishment, or attachment of such consequence as would impair the ability of the Lessee to carry on its operations at the Project, or adjudication of the Lessee as a bankrupt, or assignment by the Lessee for the benefit of creditors, or the entry by the Lessee into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Lessee in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar federal or State laws which may hereafter be enacted;

(f) any event which shall occur or any condition which shall exist the effect of which is to cause (i) more than $100,000 of aggregate indebtedness of the Lessee to become due prior to its stated due date (exclusive of any optional or mandatory redemptions permitted by the applicable documents related to such indebtedness), or (ii) a lien to be placed on the Project or the Lessee's interest in the Project, and not released within sixty (60) days; or

(g) a final judgment against the Lessee for an amount in excess of $100,000 shall be outstanding for any period of sixty (60) days or more from the date of its entry and shall not have been discharged in full or stayed pending appeal, and a lien is placed on the Project or the Lessee's interest in the Project.

Event of Nonappropriation - The failure of the City to appropriate in the budget adopted prior to the commencement of any Fiscal Year sufficient funds to pay the Lease Payments for such Fiscal Year, or the reduction of any Appropriation to an amount insufficient to permit the City to pay the Lease Payments (in which event, the Event of Nonappropriation shall be retroactive to the beginning of the Fiscal Year in which the reduction is made) from any money that may lawfully be used with respect to any payment obligated or permitted under the Lease.

Financing Documents - Collectively, the Lease, the Trust Agreement, the Mortgage, and the Security Agreement.

Final Acceptance Certificate - A certificate, in the form attached as Exhibit C, executed by the Lessee.

Fiscal Year - Each 12 month fiscal period of the Lessee commencing on October 1 and ending on September 30 of the following year, or such other annual accounting period as the Lessee may hereafter adopt.

Guaranteed Maximum Price of the Project - The amount designated as the "Guaranteed Maximum Price" in the Design/Build Contract.

Improvements - All existing improvements and improvements hereafter constructed and installed on the Land.

Inspecting Architect - The registered professional engineer or licensed architect, employed by the City to inspect the Project for conformity with the Plans and Specifications, to approve periodic draws described in Section 4.02(d) of the Trust Agreement, and to approve any change orders and perform initial reviews, and shall also include any independent professional engineer or licensed architect, employed by the Corporation to perform the functions of the Inspecting Architect as may be necessary in the event of default or termination of the Lease.

Insurance and Condemnation Account - That certain account so designated and established in accordance with Section 4.04 of the Trust Agreement.

Insurer - Municipal Bond Insurance Association, the provider of a municipal bond insurance policy to insure timely payment of principal and interest on the Bonds.

Issuance Costs - The costs of issuance incurred in connection with the sale of the Bonds and the execution and delivery of the Lease, including but not limited to the initial and first year's Trustee's fees and expenses (including fees of Trustee's Counsel), fees and expenses of the City's financial advisor, the Rating Agency, Bond Counsel, City's legal counsel, Corporation's legal counsel, printing and other costs, the Underwriters' discount (including fees and expenses of Underwriters), the examination fees of the Attorney General of Texas, filing fees, fees of the Municipal Advisory Council of Texas, the Depository Trust Company, CUSIP Bureau, and other miscellaneous costs and expenses.

Land - The real property in the City described in Exhibit B of the Lease upon which the Improvements are situated or are to be constructed or installed.

Lease - This *Lease Agreement Relating to the City of San Antonio, Texas One Stop Development Services Center Project,* dated as of May 15, 2001, by and between the Corporation and the City and any duly authorized and executed amendment thereto.

Lease Payment - (a) on August 15, 2002, and on each August 15 thereafter, while any Bonds are Outstanding under the Trust Agreement, (i) an amount of money equal to the full amount of the principal installment coming due on the Bonds on such date, either pursuant to a mandatory sinking fund redemption or upon maturity of the Bonds; and (b) on August 15, 2001, and on each Lease Payment Date thereafter, while any Bonds are Outstanding under the Trust Agreement, (i) an amount of money which, when added to the amount then on deposit in the Payment Account, will equal the amount of interest to become due on the Bonds on such Lease Payment Date, (ii) the amount of any interest on overdue principal and interest required to be paid pursuant to Section 3.11(a) of the Trust Agreement, and (iii) the amount, if any, required to replenish the Reserve Account in accordance with Section 6.05(b) of the Lease. Attached as Exhibit E-1 to the Lease is an initial schedule of Lease Payments.

Lease Payment Date - August 15, 2001, and each February 15 and August 15 thereafter for so long as the Lease is in effect.

Lessee or *City* - The *City of San Antonio, Texas* and its successors and permitted assigns.

Lessee Representative - The Mayor, the City Manager, the Deputy City Manager, any Assistant City Manager, the City Clerk, the Deputy City Clerk, the Director of Finance, any Assistant Director of Finance and the Director of Asset Management of the Lessee, and any other officer or employee of the Lessee who is designated in writing by resolution or ordinance of the City Council as a Lessee Representative for the purposes of the Lease.

Lessor or *Corporation* - The *City of San Antonio, Texas Municipal Facilities Corporation*, and its successors and permitted assigns.

Lessor Representative - The President and Vice President of the Board of Directors of the Lessor, and the Executive Director, any Assistant Executive Director and the Treasurer of the Lessor.

Mortgage - The Deed of Trust and Assignment of Rents and Leases, dated as of May 15, 2001, from the Corporation to Tamara Ellis, as mortgage trustee for the use and benefit of the Trustee.

Net Proceeds - Any insurance proceeds or condemnation award paid with respect to the Project remaining after payment of all expenses incurred in the collection thereof.

Outstanding - As of the date of determination, all Bonds theretofore issued and delivered under the Trust Agreement, except:

(1) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(2) Bonds for whose payment or redemption money in the necessary amount has been theretofore deposited in an account, other than the "Payment Account" identified in Article IV of the Trust Agreement, with the Trustee holding such money in trust irrevocably for the holders of such Bonds;

(3) Bonds in exchange for or in lieu of which other Bonds have been registered and delivered pursuant to the Trust Agreement; and

(4) Bonds alleged to have been mutilated, destroyed, lost, or stolen which have been paid as provided in the Trust Agreement.

Payment Account - That certain account so designated and established by the Trustee pursuant to Section 4.03 of the Trust Agreement.

Permitted Encumbrances - The matters described on Exhibit D to the Lease.

Permitted Investments - Any of the following, to the extent permitted by applicable law, including but not limited to Chapter 2256 of the Texas Government Code, and the Corporation's investment policy:

(i) bonds, bills, interest-bearing notes, or other direct obligations of the United States, including United States Treasury State and Local Government Series, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest;

(ii) obligations issued, or fully guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof;

(iii) certificates of deposit issued by a nationally or state chartered bank (which may include the Trustee), provided either that (A) such bank is currently rated not lower than "AA" by the Rating Agency, and the principal amount of any such certificate of deposit in excess of the amount insured by the FDIC or by the FDIC as manager for the Savings Association Insurance Fund, shall be fully secured in accordance with Section 2256.010, Texas Government Code, and collateralized by the pledge and deposit of securities described in (i) and (ii) of this definition in an amount and with maturities that meet all applicable standards established by the Rating Agency for funds held for payment of securities rated "AAA" by it, that the Trustee has a perfected first priority security interest in the collateral, that the Trustee or any agent has possession of the collateral, and that such obligations are free and clear of claims by third parties, or (B) the principal amount of and interest to be earned on any such certificate of deposit does not exceed the amount insured by the FDIC or by the FDIC as manager for the Savings Association Insurance Fund;

(iv) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations of the United States of America or its agencies and instrumentalities, in market value of not less than the principal amount of such agreement and accrued interest thereon, pledged and deposited with a third party acting solely for the Trustee, selected or approved by the Corporation, and placed through a primary government securities dealer, as defined by the Board of Governors of the Federal Reserve System, or a nationally or state chartered bank (which may include the Trustee), provided that such dealer or bank is currently rated not lower than "AA" by the Rating Agency, the Trustee has a perfected first priority security interest in the collateral, and that such obligations are free and clear of claims by third parties; and

(v) money market funds whose assets are invested exclusively in those investment vehicles set forth in (i) or (ii) of this definition, provided that such money market fund is currently rated not lower than "AA" by the Rating Agency.

Plans and Specifications - Architectural and engineering drawings and specifications approved by the Lessee and the Inspecting Architect describing the Project and any similarly approved changes thereto.

Principal Office when used with respect to the Trustee - The office of the Trustee situated at 101 Barclay Street, New York, New York 10286, at which the Trustee conducts its corporate trustee business.

Project - The real property described on Exhibit B of the Lease, together with all improvements existing or to be constructed thereon, as more fully described in the Design/Build Contract as the "Facilities" and also including any and all items of personal property situated respectively thereon by the Corporation whether now owned or hereafter acquired with proceeds of the Bonds for and on behalf and use of the Lessee, including but not limited to any and all furniture, fixtures, machinery and equipment and any and all other items of personal property as described in the Security Agreement and all items included within the definition of "Collateral" therein.

Project Account - That certain account so designated and established in accordance with Section 4.02 of the Trust Agreement.

Project Costs - All costs or, payment of, or reimbursement for, design, acquisition, construction, installation, and financing of the Project, including but not limited to acquisition of a site therefor; architectural, engineering, installation, and management costs; project coordination and supervisory costs; administrative costs; capital expenditures relating to design, construction, and installation; financing payments; sales tax, if any, on the Project; costs of feasibility, environmental, appraisal, and other reports; inspection costs; permit fees; filing and recording costs; title insurance premiums; survey costs; Issuance Costs; fees and expenses of legal counsel to the Lessor and Lessee; and all other costs related to the Project or the financing thereof, authorized by the Act.

Purchase Option Date - (i) August 15, 2011, and on any date thereafter, and (ii) in the event of damage, destruction, or condemnation of the Project, a date established pursuant to Section 4.13 of the Lease.

Purchase Option Price - (a) If Lessee delivers to the Trustee and the Lessor, not less than 120 days prior to the Purchase Option Date on which the Lessee intends to exercise its option to purchase the Project, an opinion of Bond Counsel that State law permits the Lessee to acquire real property pursuant to a lease-purchase transaction, the Purchase Option Price shall, for each Purchase Option Date prior to August 15, 2020, be an amount which will be sufficient to pay the principal of all Bonds then Outstanding, the redemption premium, if any, and accrued interest thereon to the date fixed for redemption in accordance with Section 6.01(a) of the Trust Agreement, together with any other amounts then due or past due hereunder, including the fees and expenses of the Trustee, less the funds held by the Trustee in any account of the Trust Fund (other than the Rebate Account) as of the redemption date of the Bonds. A schedule showing the Purchase Option Price, based on the original principal amount of the Bonds, is attached to the Lease as Exhibit E-2.

(b) If Lessee does not deliver an opinion described in clause (a) of this definition, the Purchase Option Price shall, for each Purchase Option Date prior to August 15, 2020, be an amount equal to the average of the fair market value of the Project determined by three independent appraisers not more than 120 days prior to the Purchase Option Date on which the Lessee intends to exercise its option to purchase the Project.

(c) For the Purchase Option Date occurring on or after August 15, 2020, the Purchase Option Price shall be equal to One Dollar ($1.00), provided that all amounts due and payable hereunder have been paid.

Rating Agency - collectively, Fitch, Inc., Moody's Investors Service and Standard & Poor's Ratings Group, a division of the McGraw-Hill Corporation.

Rebate Account - That certain account so designated by the Trustee pursuant to Section 4.08 the Trust Agreement, and referred to herein in Section 9.03.

Rebate Analyst - A certified public accountant, financial analyst, Bond Counsel, or any firm of the foregoing selected by the Corporation, experienced in making the arbitrage and rebate calculations required under the Code.

Record Date - The last business day of the month next preceding the month in which a Bond Payment Date occurs.

Redemption Account - That certain account so designated and established in accordance with Section 4.07 of the Trust Agreement.

Regulations - Any proposed, temporary, or final income tax regulations issued pursuant to sections 103 and 141 through 150 of the Code, which are applicable to the Bonds. Any reference to any specific Regulation shall also mean, as appropriate, any proposed, temporary, or final income tax regulation designed to supplement, amend, or replace the specific Regulation referenced.

Reserve Account - That certain account so designated and established in accordance with Section 4.05 of the Trust Agreement.

Reserve Account Obligation - means, to the extent permitted by law, as evidenced by an opinion of nationally recognized Bond Counsel, a surety bond or insurance policy (which, under applicable law, may not entitle the provider thereof to any right of reimbursement or repayment other than a right to subrogation upon payments being made to Bondholders) deposited in the Reserve Account to satisfy the Reserve Requirement whereby the issuer is obligated to provide funds up to and including the maximum amount and under the conditions specified in such agreement for instrument.

Reserve Requirement - means the amount required to be deposited and maintained in the Reserve Account while the Bonds are Outstanding, which amount is equal to *$590,000.00* (i.e. approximately one-half of the average annual debt service requirement on the Bonds).

Security Agreement - The Security Agreement, dated as of May 15, 2001, by and between the Corporation and the Trustee.

State - The State of Texas.

Term - The term of the Lease as determined pursuant to Section 5.01.

Trust Agreement - The *Trust Agreement Relating to the City of San Antonio, Texas One Stop Development Services Center Project*, dated as of May 15, 2001, between the Corporation and the Trustee, and any duly authorized and executed amendment thereto.

Trust Estate - All right, title, and interest of the Corporation (i) in and to the Project, the Design/Build Contract, and the Plans and Specifications, (ii) in and under the Lease and the other Financing Documents and (iii) in and to all Lease Payments and other payments paid or payable by the City pursuant to the Lease and other income, charges, and funds realized from the lease, sale, transfer, or other disposition of the Project, together with all funds and investments in the Trust Fund and all funds deposited with the Trustee pursuant to the Financing Documents, all subject to and in accordance with the Trust Agreement.

Trust Fund - The "Trust Fund" so designated and established pursuant to Section 4.01 of the Trust Agreement, consisting of the Project Account, the Payment Account, the Reserve Account, the Insurance and Condemnation Account and the Redemption Account.

Trustee - The Bank of New York, its successors and permitted assigns.

Trustee Representative - Any Executive Vice President, any Senior Vice President, any Vice President, or any other trust officer, who by virtue of his position with the Trustee has been authorized by the board of directors of the Trustee to execute trust agreements similar to the Trust Agreement and related documents.

Underwriter - Collectively, A.G. Edwards & Sons, Inc. and Ramirez & Company.

SELECTED PROVISIONS OF THE TRUST AGREEMENT

SECTION 4.01. TRUST FUND. There is hereby established with the Trustee a special trust fund to be designated the "City of San Antonio, Texas Municipal Facilities Corporation One Stop Center Project Trust Fund," referred to herein as the "Trust Fund." The Trustee shall keep the Trust Fund separate and apart from all other funds held by it. Within the Trust Fund, there are hereby established, for the benefit of the Bondholders, the separate and distinct accounts more particularly described in this Article (excluding the Rebate Account). On the Closing Date, the Trustee agrees to accept and deposit the proceeds from the sale of the Bonds, plus accrued interest, if any, and less

any Underwriter's discount on the Bonds, which amount shall thereafter be subject to and be administered pursuant to the terms of this Article, plus the City's contribution pursuant to Section 4.02(b) below.

SECTION4.02. ESTABLISHMENT AND APPLICATION OF PROJECT ACCOUNT . (a) Within the Trust Fund, there is hereby established a special account to be designated as "City of San Antonio, Texas Municipal Facilities Corporation One Stop Center Project Account," referred to herein as the "Project Account," and within the Project Account there is hereby established a subaccount to be designated as the "City of San Antonio, Texas Municipal Facilities Corporation One Stop Center Project City Contribution Subaccount," herein referred to as the "City Contribution Subaccount." The Trustee shall administer the Project Account and the City Contribution Subaccount as provided in this Article. On the Closing Date, the Trustee shall deposit to the Project Account ***$13,579,378.20*** from the proceeds from the sale of the Bonds, and shall deposit to the City Contribution Subaccount ***$1,350,000.00*** of funds contributed by the City.

(b) The acquisition price of the Land shall be paid by the Corporation to the seller from the Project Account.

(c) Disbursements to pay or reimburse the payment of the Issuance Costs shall be made by the Trustee from the Project Account only upon receipt of a Requisition Requesting Disbursement of Issuance Costs, substantially in the form attached hereto as Exhibit C, approved and executed by a City Representative and a Corporation Representative. The total amount to be paid from the Project Account for Issuance Costs pursuant to this paragraph (c) shall not exceed ***$102,734.20.***

(d) Funds on deposit in the Project Account (including the City Contribution Subaccount) shall be disbursed for the payment of Project Costs as provided in this Subsection (d).

(i) Upon the Trustee's receipt of a properly completed and executed Requisition Requesting Disbursement of Project Costs, substantially in the form attached hereto as Exhibit D, together with all riders and attachments (provided that for the payment of nonconstruction Project Costs on or after the Closing Date said form shall be revised to omit Rider 1 and Rider 2), the Trustee shall, within three Business Days of such receipt, disburse money from the Project Account in an amount sufficient to pay the Project Costs which are the subject of such requisition.

(ii) No amount shall be disbursed from the Project Account which is shown on such requisition to be attributable to a City Change Order which will cause the cost of completing the Project to exceed the Guaranteed Maximum Price of the Project unless the City has previously filed with the Trustee a "Change Order Notice" (in substantially the form set forth in Exhibit I to the Lease) and deposited with the Trustee an amount of funds sufficient to pay such increased amount of Project Costs, all as required by Section 4.01(b) of the Lease. Upon the Trustee's receipt of (i) a Change Order Notice, (ii) any amount required to be deposited to the Project Account (which amount shall be deposited by the Trustee in the City Contribution Subaccount) in connection therewith, and (iii) a certification from the Inspecting Architect in the form set forth in the Change Order Notice, the Trustee shall promptly notify the Design/Build Contractor of its acknowledgment of receipt of such notice by signing the "Acknowledgment of Receipt" on such Change Order Notice and delivering a copy of such Change Order Notice to the Design/Build Contractor. In any event, within seven Business Days of the Trustee's receipt of a properly completed and executed Requisition Requesting Disbursement of Project Costs (where such Project Costs are attributable to a City Change Order), the Trustee shall either disburse money from the Project Account sufficient to pay the Project Costs due or provide written notice to the Design/Build Contractor, the Inspecting Architect and the City that the Trustee has not received from the City an amount sufficient to pay the increased amount of Project Costs attributable to a City Change Order.

(iii) The Trustee shall not disburse money from the Project Account for any requisition for the payment of Project Costs after the Closing Date unless the Trustee has been provided with a certificate or other evidence showing that the Inspecting Architect signing such requisition has architect's professional liability insurance in effect; provided that if the Inspecting Architect's current insurance policy expires within 30 days of the date of the requisition, prior to any such disbursement the Trustee shall be provided with a certificate or other evidence showing that the Inspecting Architect has renewed such insurance or obtained new professional liability insurance.

(iv) The Trustee shall not be required to accept more than four requisitions each month except for requisitions solely for Costs of Issuance.

(v) The final disbursement from the Project Account for Project Costs shall additionally require the certification of the Inspecting Architect described in subsection 6.01(e) of the Lease.

(e) Upon receipt of a fully executed and approved Requisition Requesting Disbursement of Project Costs or of a Requisition Requesting Disbursement of Issuance Costs and the required attachments, the Trustee may rely conclusively upon such requisitions. The Trustee shall have no liability on account of any disbursement from the Project Account in accordance with such requisitions provided that it has complied with the procedure required in paragraphs (c) and (d) above with respect to such requisitions.

(f) Upon a redemption of all Outstanding Bonds pursuant to Section 6.01 hereof, all funds then on deposit in the Project Account (excluding the City Contribution Subaccount, which funds, if any, shall be returned to the City) shall be transferred to the Redemption Account in accordance with the terms of Section 4.06 hereof, and the Project Account shall be closed.

(g) Upon the earlier of May 1, 2004, or receipt by the Trustee of the Final Acceptance Certificate and receipt of the certificate of the Inspecting Architect as described in Section 6.01(e) of the Lease, (i) to the extent the amount remaining in the Project Account is at least $100,000, the Trustee shall transfer the amount remaining in the Project Account (excluding the City Contribution Subaccount, which funds, if any, shall be returned to the City) to the Redemption Account, in integral multiples of $5,000; and (ii) to the extent the amount remaining in the Project Account is less than $100,000 (excluding the City Contribution Subaccount, which funds, if any, shall be returned to the City) after making the foregoing transfer, if any, the Trustee shall transfer the amount remaining in the Project Account to the Payment Account, and the Project Account shall be closed.

(h) No amounts shall be withdrawn or transferred from or paid out of the Project Account except as provided in this Article IV.

SECTION4.03. ESTABLISHMENT AND APPLICATION OF PAYMENT ACCOUNT . (a) Within the Trust Fund, there is hereby established a special account to be designated the "City of San Antonio, Texas Municipal Facilities Corporation One Stop Center Project Payment Account" (the "Payment Account"). The Payment Account shall be maintained by the Trustee until either the Lease Payments and all other amounts payable under the Lease are paid in full, or the Purchase Option Price and all other amounts payable under the Lease are paid in full, pursuant to the terms of the Lease. On the Closing Date, the Trustee shall deposit to the Payment Account proceeds of the Bonds representing an amount equal to the accrued interest on the Bonds from May 15, 2001. Accrued interest, Lease Payments, and, subject to Section 5.12, all other funds derived from the lease, sale, sublease, or other disposition of the Project, payment of the Purchase Option Price, and such other amounts as may be paid to the Trustee as assignee of the Corporation pursuant to the Financing Documents (except money paid by the City pursuant to the Lease for deposit to the Reserve Account, the Rebate Account or the City Contribution Subaccount) and such amounts as are transferred by the Trustee upon closing of the Project Account or the Reserve Account shall be immediately deposited, as soon as practicable, by the Trustee in the Payment Account.

(b) To the extent of funds contained therein, the Trustee shall withdraw from the Payment Account, on each Bond Payment Date, an amount equal to the amount of interest and principal payments due with respect to the Bonds on such Bond Payment Date and shall cause the same to be applied to the payment of interest and principal payments due on such Bond Payment Date.

(c) Upon a redemption of all the Bonds pursuant to Sections 4.04 or 6.01, all funds in the Payment Account shall be transferred to the Redemption Account. In the event of a partial redemption of the Bonds, one business day prior to the date fixed for redemption of the Bonds, the Trustee shall transfer from the Payment Account to the Redemption Account the amount of money required to pay the redemption price of such Bonds to be redeemed, to the extent of the money contained therein.

(d) No amounts shall be withdrawn or transferred from or paid out of the Payment Account except as provided in this Article IV.

SECTION 4.04. ESTABLISHMENT AND APPLICATION OF INSURANCE AND CONDEMNATION ACCOUNT. (a) Within the Trust Fund, there is hereby established an account designated as the "City of San Antonio, Texas Municipal Facilities Corporation One Stop Center Project - Insurance and Condemnation Account" (the "Insurance and Condemnation Account"). Money received by the Trustee as the result of the damage and/or destruction of the Project (from Net Proceeds or otherwise) or as the result of a condemnation award shall be deposited into the Insurance and Condemnation Account.

(b) If the amount of Net Proceeds which is deposited into the Insurance and Condemnation Account is sufficient for the necessary repair and/or replacement of the Project, but is not equal to or greater than a Purchase Option Price, the Corporation shall make all necessary repairs and/or replacements and the Trustee shall disburse amounts from the Insurance and Condemnation Account for such purpose upon receipt of a "Requisition Requesting Disbursement from the Insurance and Condemnation Account" in substantially the form attached as Exhibit F hereto. If the amount of Net Proceeds which is deposited into the Insurance and Condemnation Account is sufficient for the necessary repair and/or replacement of the Project and is also equal to or greater than the Purchase Option Price, the City has the option of (i) making all necessary repairs and/or replacements, or (ii) exercising its option to purchase in accordance with Section 4.04(d) hereof, with amounts from the Insurance and Condemnation Account.

(c) If the amount of Net Proceeds which is deposited into the Insurance and Condemnation Account is insufficient for the necessary repair and/or replacement of the Project, in accordance with Section 4.13(a) of the Lease, the City may, within 45 days of the date of the initial deposit of Net Proceeds, deposit into the Insurance and Condemnation Account, from available funds, the amount needed for the completion of all necessary repair and/or replacement of the Project. Upon such deposit, the Corporation shall make all necessary repairs and/or replacements of the Project and the Trustee shall disburse amounts from the Insurance and Condemnation Account for such purpose upon receipt of a "Requisition Requesting Disbursement from the Insurance and Condemnation Account" in substantially the form attached as Exhibit F

(d) If the amount of Net Proceeds which is deposited into the Insurance and Condemnation Account is equal to or greater than the Purchase Option Price, in accordance with Section 4.13(a) of the Lease, the City has the option to terminate the Lease and all of the Corporation's interest in the Project by exercising its option to purchase on the next succeeding Bond Payment Date for which it is possible to give notice of intent to exercise its purchase option. Upon the City's exercise of its purchase option, all amounts on deposit in the Insurance and Condemnation Account shall be transferred to the Redemption Account.

(e) If the amount of Net Proceeds which is deposited into the Insurance and Condemnation Account is insufficient for the exercise by the City of its option to purchase, in accordance with Section 4.13(a) of the Lease, the City may, within 45 days of the date of the initial deposit of Net Proceeds, deposit into the Insurance and Condemnation Account, from available funds, an amount which together with amounts available in the Insurance and condemnation Account will be sufficient to pay the Purchase Option Price. Upon the City's exercise of its purchase option, all amounts in the Insurance and Condemnation Account shall be transferred to the Redemption Account.

(f) If the amount of Net Proceeds which is deposited into the Insurance and Condemnation Account is insufficient for the complete repair and/or replacement of the Project or for the exercise of its purchase option, and the City does not, within 45 days of the date of such deposit of Net Proceeds, deposit into the Insurance and Condemnation Account the amount needed to complete the repair and/or replacement of the Project or exercise its option to purchase, the Trustee shall transfer the entire amount on deposit in the Insurance and Condemnation Account to the Redemption Account and such amount shall thereafter be applied in accordance with Section 4.06 hereof.

SECTION4.05. ESTABLISHMENT AND APPLICATION OF RESERVE ACCOUNT . (a) Within the Trust Fund, there is hereby established an account designated the "City of San Antonio, Texas Municipal Facilities Corporation One Stop Center Project Reserve Account" (the "Reserve Account").

(b) On the Closing Date, the Reserve Requirement shall be deposited by the Trustee into the Reserve Account from the proceeds of the Bonds. Funds within the Reserve Account shall be disbursed by the Trustee to pay Bond Payments to the extent the amount on deposit in the Payment Account is not sufficient therefor. In the event that the amount on deposit in the Reserve Account is reduced to an amount less than the Reserve Requirement, the Trustee shall give notice to the City and the Corporation of the amount required to replenish the Reserve Account to an amount equal to the Reserve Requirement, and in accordance with its obligation under the Lease, the City shall replenish the Reserve Account from available funds to an amount equal to the Reserve Requirement within one year of receipt of such notice from the Trustee.

(c) Upon a redemption of the Bonds in whole, but not in part, all funds in the Reserve Account shall be transferred to the Redemption Account. When the amount of the Lease Payment to be made on any Lease Payment Date, together with the amount on deposit in the Reserve Account, is at least equal to the remaining Bond Payments, an amount of the unexpended balance of the Reserve Account equal to the amount (net of the amount of the Lease Payment made by the City) of the next Lease Payment shall be transferred to the Payment Account on such Lease Payment Date. When all amounts in the Reserve Account have been so transferred to the Redemption Account or the Payment Account, the Reserve Account shall be closed.

(d) To the extent permitted by law, as evidenced by an opinion of Bond Counsel, a Reserve Account Obligation issued in an amount equal to all or part of the Reserve Requirement for the Bonds may be used in lieu of depositing cash into the Reserve Account. In addition, a Reserve Account Obligation may be substituted for monies and investments in the Reserve Account if the substitution of the Reserve Account Obligation will not, in and of itself, cause any ratings then assigned to the Bonds by any Rating Agency to be lowered and the Corporation's resolution authorizing the substitution of the Reserve Account Obligation for all or part of the Reserve Requirement contains a finding that such substitution is cost effective.

(e) A Reserve Account Obligation permitted under (d) above, must be in the form of a surety bond or insurance policy meeting the requirements described below.

(1) (i) A surety bond or insurance policy issued to the Trustee, as agent of the Bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the Bonds (a "municipal bond insurer") if the claims paying ability of the issuer thereof shall be rated "AAA" by S&P, or (ii) a surety bond or insurance policy issued to the Trustee, as agent of the Bondholders, by an entity other than a municipal bond insurer, if the claims paying ability of the issuer thereof shall be rated "AAA" by S&P, and if the form and substance of such instrument and the issuer thereof shall be approved in writing by the Trustee

(2) The obligation to reimburse the issuer of a Reserve Account Obligation for any claims or draws upon such Reserve Account Obligation in accordance with its terms, including expenses incurred in connection with such claims or draws, to the extent permitted by law, shall be made from the deposits made to the Reserve Account as provided in this Section. The Reserve Account Obligation shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Account Obligation to reimbursement will be subordinated to the cash replenishment of the Reserve Account to an amount equal to the difference between the full original amount available under the Reserve Account Obligation and the amount then available for further draws or claims. In the event (a) the issuer of a Reserve Account Obligation becomes insolvent, or (b) the issuer of a Reserve Account Obligation defaults in its payments obligations thereunder, or (c) the claims paying ability of the issuer of the insurance policy or surety bond falls below "AAA" by S&P, the obligation to reimburse the issuer of the Reserve Account Obligation shall be subordinated to the cash replenishment of the Reserve Account.

(3) In the event (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated, or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below "AAA" by S&P, the City, in accordance with the Lease, shall either (i) deposit into the Reserve Account, in accordance with this Section, an amount sufficient to cause the cash or investments credited to the Reserve Account to accumulate to the Required Reserve Amount, or (ii) replace such Reserve Account Obligation with another Reserve Account Obligation meeting the requirements of (1) and (2) above, within one year of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the Reserve Account Obligation falls below "AAA" by S&P, or (b) the issuer of the Reserve Account Obligation defaults in its payment obligations hereunder, or (c) the issuer of the Reserve Account Obligation becomes insolvent the City, in accordance with the Lease, shall either (i) deposit into the Reserve Account, in accordance with this Section, amounts sufficient to cause the cash or investments on deposit in the Reserve Account to accumulate to the Reserve Requirement, or (ii) replace such instruments with another Reserve Account Obligation meeting the requirements of 1 and 2 above within one year of such occurrence.

(4) The Trustee shall ascertain the necessity for a claim or draw upon any Reserve Account Obligation and provide notice to the issuer of the Reserve Account Obligation in accordance with its term not later than three days (or such appropriate time period as will, when combined with the timing of required payment under the Reserve Account Obligation, ensure payment under the Reserve Account Obligation on or before the Bond Payment Date) prior to each Bond Payment Date.

SECTION 4.06. ESTABLISHMENT AND APPLICATION OF REDEMPTION ACCOUNT . Within the Trust Fund, there is hereby established an account designated the "City of San Antonio, Texas Municipal Facilities Corporation One Stop Center Project Redemption Account" (the "Redemption Account"). Money to be used for redemption of the Bonds shall be transferred to the Redemption Account at the times and in the amounts required by Sections 4.02, 4.03, 4.04, and 4.05. Said money shall be set aside in the Redemption Account solely for the purpose of redeeming the Bonds in advance of their maturity and shall be applied on or after (if Bonds are submitted for payment after the date fixed for redemption) the date fixed for redemption to the payment of the principal of and interest on the Bonds to be redeemed upon delivery of the Bonds being redeemed to the Trustee. If there is not

sufficient money available to pay in full all Trustee's fees and expenses and interest and principal then due on the Bonds to be redeemed, the Trustee shall apply the money on deposit in the Redemption Account first, to the payment of its reasonable fees and expenses, and second, to the payment of all interest due with respect to such Bonds, pro rata in proportion to the respective aggregate amount of the total amount of interest due, if necessary, and third, to the payment of the principal of such Bonds, pro rata in proportion to the respective amount of the total amount of principal due, if necessary. Any money remaining in the Redemption Account following redemption of, and payment of all principal and interest due with respect to all Bonds, shall be transferred to the City after the payment of the fees and expenses of the Trustee as provided in Section 7.06.

SECTION 4.07. DEPOSIT AND INVESTMENT OF MONEY IN THE TRUST FUND . (a) Money held in the Trust Fund shall be invested by the Trustee in Permitted Investments pursuant to written instruction of the Corporation, with the written consent of the City, or, if the Corporation does not provide written instruction for such investment, the Trustee shall invest money on deposit in the Trust Fund in any Permitted Investments of the kind described under clause (v) of the definition of Permitted Investments herein. No money in the Trust Fund shall be invested in any Permitted Investment which matures or becomes due and payable after the business day next preceding the date upon which such money will be required by the Trustee for the uses and purposes specified in this Trust Agreement. Proceeds of the Bonds are not to be directed by the Corporation for investment in any Permitted Investments except for a temporary period pending use; such proceeds are not to be used by the Corporation or the City directly or indirectly so as to cause any part of the Bonds to be or become "arbitrage bonds" within the meaning of the Code. Any money held in the Redemption Account for more than 30 days will be invested at a yield not materially higher than the yield on the Bonds. The Trustee shall not be liable for the Bonds becoming "arbitrage bonds" as a result of investments it makes pursuant to instructions as required herein.

(b) All interest or income received by the Trustee on the investment of money held in the Project Account shall be retained in the Project Account and all interest or income received by the Trustee on the investment of money held in the Reserve Account shall be transferred as received to the Payment Account. All interest or income received by the Trustee on the investment of money held in the Redemption Account shall be transferred to the Payment Account on each Bond Payment Date while the Bonds are Outstanding.

(c) Interest or income received by the Trustee on the investment of money held in the Payment Account shall be retained in that account for the purpose of making Bond Payments. On July 15, 2001 and on each January 15 and July 15 thereafter, the Trustee shall give written notice to the City, of the amount of the Lease Payment next due and the amount of such investment earnings on deposit in the Payment Account which may be applied as a credit to its next Lease Payment.

(d) Except as provided in subsection (c) hereof, amounts deposited in the Payment Account shall be applied as a credit against the Lease Payments due by the City under the Lease on the Lease Payment Date following the date of deposit.

(e) The Trustee shall act only as agent in making or disposing of any investment. The Trustee shall not be liable for any loss resulting from the making or disposition of any investment made pursuant to the provisions of subsection (a) of this Section, and any such losses or penalties shall be charged to the account with respect to which such investment was made.

* * *

SECTION 4.10. PAYMENT OF OTHER COSTS. The Corporation shall require the City, as evidenced by the City's agreement contained in Section 6.02 of the Lease, to pay (i) from lawfully available funds, all utility charges, ad valorem taxes (prior to their delinquency) which are imposed on the Project, if any, operating and maintenance costs of the Project, and premiums of insurance policies relating to the Project; and (ii) from available funds, the ordinary fees and expenses of the Trustee in accordance with the schedule provided in Exhibit E hereto.

* * *

SECTION 5.01. EVENTS OF DEFAULT. An Event of Default is the occurrence of any one or more of the following:

(a) failure by the Corporation to make the due and punctual payment of the principal of, premium, if any, or interest on any Bond when and as the same shall become due and payable, whether by acceleration or otherwise;

(b) an Event of Default as defined and described in the Lease shall have happened and is continuing;

(c) any material statement, representation, or warranty made by the Corporation in this Trust Agreement or in any writing ever delivered by the Corporation pursuant to or in connection with the Lease is determined to be false, misleading, or erroneous in any material respect;

(d) the filing by the Corporation of a voluntary petition in bankruptcy, or failure of the Corporation promptly to lift any execution, garnishment, or attachment of such consequence as would impair the ability of the Corporation to carry on its operations at the Project, or adjudication of the Corporation as a bankrupt or assignment by the Corporation for the benefit of creditors, or the entry by the Corporation into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Corporation in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar federal or State laws which may hereafter be enacted;

(e) any event which shall occur or any condition which shall exist, the effect of which is to cause (i) more than $100,000 of aggregate indebtedness of the Corporation to become due prior to its stated due date, and (ii) a lien to be placed on the Project or the Corporation's interest in the Project, and not released within 60 days; or

(f) a final judgment against the Corporation for an amount in excess of $100,000 shall be outstanding for any period of 60 days or more from the date of its entry and shall not have been discharged in full or stayed pending appeal, and a lien is placed on the Project or the Corporation's interest in the Project.

The Corporation shall provide written notification to the Trustee as soon as practicable upon the occurrence of any Event of Default identified in this Section 5.01 other than paragraph (a) hereof.

SECTION 5.02. REMEDIES UPON EVENT OF DEFAULT. (a) Upon the occurrence of an Event of Default, the Trustee shall have the right, to the extent permitted by law, at its option and without any further demand or notice, but subject to the consent of the Insurer, to take one or any combination of the following remedial steps to the extent permitted by law:

(i) with or without terminating the Lease but subject to the prior written consent of the Insurer, declare the principal of all Outstanding Bonds and all unpaid accrued interest thereon to be due and payable immediately, by a notice in writing to the Corporation and the City, and upon any such declaration, such principal and all unpaid accrued interest thereon shall become immediately due and payable; provided, however, that upon the written request of the owners of not less than 25% in principal amount of the Bonds Outstanding, the Trustee shall declare the principal of all Outstanding Bonds and all unpaid accrued interest to be due and payable immediately; or

(ii) terminate the Lease upon giving 30 days written notice to the City and the Corporation at the expiration of which period of time the City shall immediately surrender possession and control of the Project to the Trustee and the Trustee shall have the right, thereafter, to sell, lease, sublease, or otherwise dispose of the Project; or

(iii) exercise any rights, powers, or remedies it may have as a secured party under the Uniform Commercial Code of the State, or other similar laws in effect, and shall have the power to proceed with any available right or remedy granted by the Financing Documents under the laws of the State, as it may deem best, including any suit, action, mandamus, or special proceeding in equity or at law or in bankruptcy or otherwise for the collection of all amounts due and unpaid under the Financing Documents, for specific performance of any covenant or agreement contained herein or therein, or for the enforcement of any legal or equitable remedy as the Trustee shall deem most effective to protect the rights aforesaid, insofar as such may be authorized by law.

(b) Notwithstanding any other provision of this Trust Agreement or the Mortgage, the Trustee shall not exercise its option to acquire title to the Project upon an Event of Default under this Trust Agreement until (i) requested to do so in writing by Bondholders owning not less than 51% in aggregate Outstanding principal amount of Bonds and (ii) indemnified in a manner satisfactory to it for any liability and expense it might incur in carrying out the aforementioned request.

(c) If an Event of Default shall have occurred and be continuing and the Trustee shall have received a direction from the Bondholders as provided herein to foreclose on the Mortgage, or may otherwise be requested take possession of the Project under the terms of the Lease, the Trustee shall not be required to proceed with the foreclosure or otherwise take possession of the Project if the Trustee determines, in its reasonable discretion that it desires a "Phase I Environmental Report" and the Trustee is indemnified for the costs of such report and any other report recommended

therein and liability and expense it might incur in carrying out such request. Further, if the Trustee reasonably determines on the basis of the Phase I Environmental Report and any other report recommended therein that it does not desire to become, as Trustee, the owner of the property subject to the Mortgage or otherwise take possession of such property because it reasonably believes that the indemnification provided by Section 7.02(g) herein is not adequate with respect to its liability exposure with respect to environmental matters, the Trustee shall not be required to proceed with the foreclosure or otherwise take possession of the Project and shall give notice of such determination to the Bondholders, the Corporation, and the City. If the Bondholders nevertheless desire to proceed with foreclosure or for the Trustee to otherwise take possession of the property and so notify the Trustee in writing, the Trustee may resign, and such resignation shall become effective upon the acceptance of an appointment by a successor Trustee under Section 7.03 hereof. If the successor Trustee requests any indemnification for any loss, cost, or expense arising out of foreclosure or otherwise taking possession of the Project, such indemnification shall be the sole responsibility of the Bondholders.

SECTION 5.03. NOTICE OF NONAPPROPRIATION. The Corporation, in the Lease, shall require the City to provide the Corporation and the Trustee with written notice within 72 hours of an action which constitutes failure by the City Council of the City to Appropriate funds sufficient to pay the Lease Payments due during the succeeding Fiscal Year.

SECTION 5.04. DELAY; NOTICE. No delay or omission to exercise any right or power accruing upon any Event of Default or upon any Event of Nonappropriation shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee to exercise any remedy reserved to it in the Lease and this Trust Agreement it shall not be necessary for the Trustee to give any notice, other than such notice as may be required in the Lease and this Trust Agreement.

SECTION 5.05. NO REMEDY EXCLUSIVE. No remedy herein conferred upon or reserved to the parties to this Trust Agreement is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Financing Documents or now or hereafter existing at law or in equity.

SECTION 5.06. NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER. Subject to the requirements of Section 5.11, the Trustee may waive any Event of Default and its consequences and rescind any declaration of maturity of principal upon notice to the owners of the Bonds of such waiver. No waiver of any Event of Default hereunder shall extend or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon or create liability on the Trustee for doing so.

SECTION 5.07. NOTICE OF EVENT OF DEFAULT. The Trustee shall give written notice of an Event of Default or a draw on the Reserve Account by registered or certified mail to the Corporation, the City, and by first-class mail, the Bondholders, as soon as practicable upon the occurrence of an Event of Default (or an event which with the passage of time could become an Event of Default), but in no event shall such notice be given later than ten business days after the City's failure to make any Lease Payment when due (without regard to any grace period) or a draw on the Reserve Account or the occurrence of any other Event of Default of which the Trustee has actual knowledge or has received written notice. If such notice relates to a failure to make an obligated payment or transfer, it shall specify the amount. If such notice relates to a matter other than a failure to make an obligated payment or transfer, it shall specify the manner in which the City has failed to comply with the provisions of the Lease and demand such compliance. Notice under this Section is not a condition precedent to the exercise of any remedy under this Trust Agreement.

SECTION 5.08. INITIATION OF REMEDIES. All rights of action hereunder may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating thereto and any such suit or proceeding instituted by the Trustee may be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants the Bondholders. Any recovery of judgment shall be for the ratable benefit of the Bondholders.

SECTION 5.09. RIGHTS AND REMEDIES OF BONDHOLDERS. (a) No Bondholder shall have any right to institute any suit, action, or proceeding for the enforcement of this Trust Agreement, the execution of any trust hereof, or any other remedy hereunder unless:

(i) either an Event of Default has occurred, the Lease is terminated pursuant to an Event of Nonappropriation, or the Trustee has failed to make a payment to a Bondholder when due;

(ii) Bondholders owning not less than 25% of the aggregate principal amount of Bonds Outstanding shall have made written request to the Trustee and shall have offered the Trustee reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit, or proceeding in its own name;

(iii) such Bondholders have furnished the Trustee indemnification in a manner satisfactory to it for any liability and expense it might incur in carrying out the aforementioned request; and

(iv) the Trustee shall thereafter (within 60 days after receipt by the Trustee of the written request) fail or refuse to exercise the powers hereinbefore granted or to institute such action, suit, or proceeding in its, his, or their own name or names.

(b) Such request and furnishing of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of this Trust Agreement and to the initiation of any action or cause of action for the enforcement of this Trust Agreement; however, the Trustee may not, as condition precedent to the execution of the powers and trusts hereunder, request indemnification for liability arising out of the Trustee's negligent or willful action, misconduct, or failure to act.

(c) No one or more of the Bondholders shall have any right in any manner whatsoever to affect, disturb, or prejudice the lien of this Trust Agreement by its, his, or their action or to enforce any right hereunder except in the manner herein provided, and proceedings shall be instituted, had, and maintained in the manner herein provided and for the ratable benefit of all Bondholders. Nothing in this Trust Agreement shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of, premium if any, and interest on any Bond at and after the maturity thereof or the obligation of the Trustee to pay the principal of and premium, if any, and interest on each of the Bonds hereunder to the respective Bondholders thereof at the time and place, from the source, and in the manner provided in this Trust Agreement.

SECTION 5.10. TERMINATION OF PROCEEDINGS. In the event the Trustee shall have proceeded to enforce any right under the Financing Documents and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then the Bondholders, the Corporation, and the Trustee shall be restored to their former positions and rights under the Financing Documents, and all rights, remedies, and powers of the Trustee shall continue as if no such proceedings had been taken.

SECTION 5.11. WAIVERS OF EVENTS OF DEFAULT. The Trustee shall waive any Event of Default and its consequences and rescind any acceleration of maturity of principal upon the written request of Bondholders owning at least 51% in aggregate principal amount of the Bonds then Outstanding; provided, however, there shall not be waived any Event of Default in the payment of the Lease Payments unless, prior to such waiver, rescission, or the discontinuance, abandonment, or adverse determination of any proceeding taken by the Trustee on account of any such Event of Default, all arrears of Lease Payments, and all expenses of the Trustee in connection with such Event of Default shall have been paid or provided for. In case of any such waiver or rescission or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or abandoned or determined adversely to the Trustee, then the Corporation, the City, the Trustee, and the Bondholders shall be restored to their former positions and rights hereunder and under the Lease, respectively, but no such waiver or rescission shall extend to any subsequent or other Events of Default or impair any right consequent thereon.

SECTION 5.12. APPLICATION OF MONEY. Any moneys held or received by the Trustee pursuant to this Article V shall be paid to and applied by the Trustee as follows:

(a) To the payment of costs and expenses of suit, if any, and the reasonable compensation of the Trustee, its agents, attorneys and counsel, and of all proper expenses, liability and advances incurred or made hereunder by the Trustee, and then as follows.

(b) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due and payable in the order in which such installments become due and payable, and, if the amount available shall not be sufficient to pay in full any particular installment; then to the payment, ratably according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

SECOND: to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due and payable (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of this Trust Agreement), in the order of their due dates, with interest on the principal amount of the Bonds at the respective rates specified therein from the respective dates upon which the bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the Bonds due and payable on any particular date, together with the interest, then to the payment first of the interest, ratably, according to the amount of the interest due on that date, and then to the payment of the principal, ratably, according to the amount of the principal due on that date, to the person entitled thereto without any discrimination.

THIRD: to the payment of the interest on and the principal of the Bonds, to the purchase and retirement of Bonds and to the redemption of Bonds, all in accordance with the provisions of Article VI of this Trust Agreement.

(c) If the principal of all the Bonds shall have become or shall have been declared due and payable, all the moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preferences except as to any difference in the respective rates of interest specified in the Bonds.

(d) Whenever money is to be applied pursuant to the provisions of this Section, such money shall be applied at such times and from time to time as the Trustee shall determine, having due regard to the amount of such money available for such application and the likelihood of additional money becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be a Bond Payment Date unless it shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give notice to the Corporation, the City, and the Bondholders of the deposit with it of any such money and of the fixing of any such payment date and shall not be required to make payment to the owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

(e) Whenever all principal of, premium, if any, and interest on all Bonds have been paid under the provisions of this Section 5.12 and whenever all fees, expenses, and charges of the Trustee shall have been paid, and whenever all other costs and expenses have been paid, any portion of the properties comprising the Trust Estate and the Project remaining hereunder shall be paid, transferred, and assigned to the City.

SECTION 5.13. NO OBLIGATION WITH RESPECT TO PERFORMANCE BY TRUSTEE . The Corporation shall have no obligation or liability to any of the other parties or to the Bondholders with respect to the performance by the Trustee of any duty imposed upon it under this Trust Agreement.

SECTION 5.14. NO LIABILITY TO BONDHOLDERS FOR LEASE PAYMENTS OR COVENANTS . Except as expressly provided in this Trust Agreement, neither the Corporation nor the Trustee shall have any obligation or liability to the Bondholders with respect to the payment of Lease Payments by the City when due or with respect to the performance by the City of any other covenant made by it in the Lease.

* * *

SECTION7.02. RIGHTS AND DUTIES OF TRUSTEE . (a) By executing and delivering this Trust Agreement, the Trustee accepts the duties and obligations of the Trustee expressly provided in this Trust Agreement, but only upon the terms and conditions set forth in this Trust Agreement, and no implied covenants shall be read herein against the Trustee;

(b) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice (electronic, telephonic, telecopy, written, or otherwise), request, direction, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(c) Any request or direction of a Bondholder, the City, or the Corporation mentioned herein shall be sufficiently evidenced by a writing originally signed by a Bondholder Representative, City Representative, or a Corporation Representative, as appropriate;

(d) When in the administration of this Trust Agreement the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering, or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon a certificate of a Bondholder Representative, City Representative, or a Corporation Representative;

(e) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records, and premises of the City or the Corporation personally or by agent or attorney;

(f) The Trustee may consult with legal counsel, and the written advice of such counsel or any opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered, or omitted by the Trustee hereunder in good faith and in reliance thereon;

(g) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Trust Agreement at the request or direction of any of the Bondholders, unless such Bondholders shall have furnished to the Trustee security or indemnity satisfactory to it against the costs, expenses, and liabilities which might be incurred by it in compliance with such request or direction;

(h) No provision of this Trust Agreement shall require the Trustee to expend or risk its funds or otherwise incur any financial liability in the performance of any of its duties hereunder;

(i) Subject to Section 5.16(b), the Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers;

(j) The permissive right of the Trustee to do things enumerated in this Trust Agreement or in the Lease shall not be construed as duties;

(k) The Trustee shall not be personally liable for any debts contracted or for damages to persons, or personal property injured or damaged, or for salaries or non-fulfillment of contracts, relating to the Project;

(l) The Trustee shall not be bound to ascertain or inquire as to the performance of the obligations of the Corporation under this Trust Agreement or of the Corporation, the City, or any other person under the Lease, and shall not have any liability for the contents of any document submitted to or delivered to any Bondholder in the nature of a preliminary or final placement memorandum, official statement, offering circular, or similar disclosure document;

(m) Upon the occurrence of an Event of Default, the Trustee shall execute its duties under this Trust Agreement with the same degree of care and skill a reasonably prudent man would utilize in the conduct of his affairs;

(n) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder after such Bonds shall have been delivered in accordance with instructions of the Corporation or for the use by the Corporation of the proceeds from the sale of such Bonds distributed from the Project Account in accordance with the terms of this Trust Agreement. The Trustee may become the Owner of the Bonds secured hereby with the same rights as any other Bondholder.

SECTION 7.03. REMOVAL AND RESIGNATION. A bank or trust company authorized to provide corporate trust services, and which has been approved by the Insurer, may be substituted to act as successor trustee under this Trust Agreement, after payment in full of the current Trustee's fees and expenses upon written request of the Bondholders owning a majority in aggregate principal amount of the Bonds then Outstanding. Such substitution shall not be deemed to affect the rights or obligations of the Bondholders. Upon any such substitution, the Trustee agrees to assign to such substituted Trustee its rights under this Trust Agreement and the other Financing Documents and deliver all documents and funds held in connection with this Trust Agreement to such substituted Trustee. Any such successor shall have capital and surplus exclusive of borrowed capital aggregating at least $50,000,000 and shall be subject to examination or supervision by a federal or state banking authority. The Trustee or any successor may at any time resign by giving mailed notice to all Bondholders, the City, and the Corporation of its intention to resign and of the proposed date of resignation, which shall be a date not less than 30 calendar days after such notice is deposited in the United States mail with postage fully prepaid, unless an earlier resignation date and the appointment of a successor Trustee shall have been or is approved in writing by the Bondholders owning a majority in aggregate principal amount of the Bonds Outstanding. In the event that a successor Trustee is not appointed within 30 calendar days after such

notice is deposited in the United States mail, the Bondholders owning a majority in aggregate principal amount of the Bonds Outstanding or the resigning Trustee may petition the appropriate court having jurisdiction to appoint a successor Trustee. No resignation or removal of the Trustee and appointment of a successor Trustee shall become effective until acceptance of appointment by the successor Trustee.

* * *

SECTION8.01.AMENDMENT. (a) The Corporation and the Trustee, without the consent of the Bondholders or the Insurer, may amend this Trust Agreement, the Lease, or other instruments evidencing the existence of a lien as shall not be inconsistent with the terms and provisions hereof for any of the following purposes:

(i) to cure any ambiguity, inconsistency, formal defect, or omission in the Financing Documents;

(ii) to grant to or confer upon the Trustee for the benefit of the owners of the Bonds any additional rights, remedies, powers, or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee or either of them;

(iii) to subject additional revenues to the lien and pledge of this Trust Agreement;

(iv) to add to the covenants and agreements contained in this Trust Agreement other covenants and agreements thereafter to be observed for the protection of the Bondholders or to surrender or limit any right, power, or authority herein reserved to or conferred upon the Corporation;

(v) to evidence any succession by the City, the Trustee, or the Corporation and the assumption by such successor of the requirements, covenants, and agreements of the City, the Trustee, or the Corporation in the Financing Documents and the Bonds; or

(vi) to provide for the issuance of bonds to refund the Bonds or to complete the Project, if necessary.

(b) Exclusive of the aforementioned types of amendment and subject to the terms and provisions contained in this Section, and not otherwise, the Corporation and the Trustee, with the consent of the Insurer and the Bondholders owning not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall have the right, from time to time, anything contained in this Trust Agreement to the contrary notwithstanding, to amend the terms or provisions contained in this Trust Agreement; provided, however, that nothing in this Section shall permit or be construed as permitting: (i) without the consent of each Bondholder so affected, an extension of maturity of the principal of or the interest on any Bond, a reduction in the principal amount of any Bond, or a reduction in the rate of interest thereon; (ii) without the consent of all of the Bondholders, a privilege or priority of any Bond over any other Bond or a reduction in the aggregate principal amount of the Bonds required for consent to such amendment; or (iii) without the consent of all of the Bondholders, creation of any prior or parity liens on the Trust Estate.

(c) Except as provided in Subsection 8.01(a), the Trustee, without the consent of the Bondholders owning not less than a majority in aggregate principal amount of the Bonds then Outstanding, may not consent to any amendment to the Lease. Unless each Bondholder so affected consents, no amendment to the Lease shall be consented to if the amendment would result in an extension of the maturity of the principal of or the interest on any Bond or a reduction in the principal amount, or premium, if any, of any Bond, or a reduction in the rate of interest thereon. Unless all the Bondholders consent, no amendment to the Lease shall be consented to if the amendment would result in a privilege or priority of any Bond over any other Bonds, the creation of any prior or parity lien on the Trust Estate, or a reduction in the aggregate principal amount of the Bonds required for consent to such amendment.

(d) If at any time an amendment shall be proposed for any of the purposes of this Section requiring the approval of the Bondholders, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, notify all Bondholders of the proposed amendment in the manner provided by Section 8.06. Such notice shall briefly set forth the nature of the proposed amendment and shall state that copies thereof are on file at the Principal Office of the Trustee for inspection by all Bondholders. If, within 60 calendar days after mailing of the notice or such longer period not to exceed 120 calendar days as the Trustee may prescribe, the requisite number of Bondholders at the time notice of such amendment is given shall have consented to and approved the execution thereof as herein provided, no Bondholder shall have any right to object to any of the terms and provisions contained therein or the operation thereof, in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Corporation from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such

amendment, this Trust Agreement or the Lease shall be and is deemed to be modified and amended in accordance with such amendment.

(e) There shall be filed with the Trustee with respect to each amendment to this Trust Agreement or the Lease an opinion of counsel to the effect that such amendment is authorized or permitted by the Trust Agreement or the Lease, as the case may be, and that all conditions precedent with respect to the execution and delivery thereof have been fulfilled.

SECTION 8.02. DEFEASANCE. In the event the Bonds delivered pursuant hereto shall become due and payable in accordance with their terms and the whole amount of the principal, premium, if any, and interest so due and payable upon all of the Bonds shall be paid or in the event there has been deposited with the Trustee, by way of book entry delivery or actual deposit, cash or noncallable securities of the types listed in subsection (i) of the definition of Permitted Investments in an amount sufficient (together with interest earnings thereon) to provide for payment of the whole amount of the principal, premium, if any, and interest when due and payable upon all of the Bonds and there has been filed with the Trustee a certificate of an independent certified public accountant to the effect that such deposit will be sufficient to cause the said whole amount to be paid when due until all the Bonds have been paid, and an opinion of Bond Counsel to the effect that such deposit will not adversely affect the exclusion of interest on any Bond from gross income for federal income tax purposes, and that all conditions precedent herein provided for relating to the satisfaction and discharge of this Trust Agreement have been complied with, if irrevocable and satisfactory arrangements have been made with the Trustee, and if in either such event all administrative expenses and amounts due or to become due hereunder shall have been paid or provided for, then and in either such event the right, title, and interest of the Trustee and the Corporation under this Trust Agreement shall thereupon cease, terminate, and become void, and the Trustee shall assign and transfer to, or upon the order of, the City all property (in excess of the amounts required for the foregoing) then held by the Trustee (including the Lease and all payments thereunder and all balances in any fund or account created under this Trust Agreement excluding the Rebate Account) and shall execute such documents as may be reasonably required by the City in this regard.

* * *

SELECTED PROVISIONS OF THE LEASE AGREEMENT

SECTION 2.03. GENERAL ASSURANCES. The Lessor and the Lessee, subject to Section 2.01(f), each agrees that (to the extent permitted by law) it will take or cause to be taken all actions necessary to preserve its existence in full force and effect and to carry out the terms of this Lease.

* * *

SECTION4.05. LESSEE'S NEGLIGENCE; LIABILITY INSURANCE. (a)LESSEE'S NEGLIGENCE. TO THE EXTENT PERMITTED BY THE LAWS OF THE STATE, THE LESSEE ASSUMES ALL RISKS AND LIABILITIES, WHETHER OR NOT COVERED BY INSURANCE, FOR LOSS OR DAMAGES TO THE PROJECT AND FOR INJURY TO OR DEATH OF ANY PERSON OR DAMAGES TO ANY PROPERTY, WHETHER SUCH INJURY OR DEATH BE WITH RESPECT TO AGENTS OR EMPLOYEES OF THE LESSEE OR OF THIRD PARTIES AND WHETHER SUCH PROPERTY DAMAGE BE TO THE LESSEE'S PROPERTY OR THE PROPERTY OF OTHERS, IF SUCH INJURY, DEATH, LOSS, OR DAMAGE BE PROXIMATELY CAUSED BY THE NEGLIGENT CONDUCT OF THE LESSEE, ITS OFFICERS, EMPLOYEES, AGENTS, GUESTS, AND INVITEES. TO THE EXTENT PERMITTED BY THE LAWS OF THE STATE, THE LESSEE HEREBY ASSUMES RESPONSIBILITY FOR AND AGREES TO REIMBURSE THE LESSOR, FOR ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, CLAIMS, ACTIONS, COSTS, AND EXPENSES OF WHATSOEVER KIND AND NATURE, IMPOSED ON, INCURRED BY, OR ASSERTED AGAINST THE LESSOR THAT IN ANY WAY RELATE TO OR ARISE OUT OF A CLAIM, SUIT, OR PROCEEDING BASED IN WHOLE OR IN PART UPON THE CONDUCT OF THE LESSEE, ITS OFFICERS, EMPLOYEES, AGENTS, GUESTS, AND INVITEES.

(b) Liability Insurance or Coverage. During the Term of this Lease, Lessee will procure from lawfully available Appropriated Funds, and maintain continuously in effect, or cause to be procured and maintained continuously in effect, with respect to the Project, a policy of insurance or coverage of Comprehensive General (Public) Liability on an occurrence based form with a combined single limit set out in Exhibit H, against liability for injuries to or death of any person or damage to or loss of property arising out of or in any way relating to the maintenance, use, or operation of the Project or any part thereof, and shall furnish certificates evidencing such coverage to the Trustee. The Trustee and the Lessor shall be named as additional insureds. The insurance or coverage shall include coverage for premises/operations, independent contractors, products/completed operations, personal and bodily injury, contractual liability and explosion, collapse and underground property damage in the amounts set out in Exhibit H. The

insurance required under this subparagraph may be provided through an "umbrella" policy which provides coverage for any one occurrence in the minimum coverage amount previously set forth.

(c) Self Insurance Permitted in Lieu of Section 4.05(b) Requirements. The Lessee represents to the Lessor that it provides "self insurance" for third party liability claims and maintains insurance and a fully funded reserve account which meets or exceeds the insurance requirements of the State of Texas and the limits set out in Exhibit H. Notwithstanding the provisions of Section 4.05(b) above, as long as the Lessee maintains such insurance and reserve account at such levels, it will not be necessary for the Lessee to separately procure the liability policies described in Section 4.05(b) hereof.

SECTION 4.06. PROPERTY INSURANCE. (a) Property Insurance. Throughout the Term of this Lease, to the extent permitted by law, all-risk and its equivalent property insurance shall be procured and maintained in effect continuously by the Lessee with regard to the Project, in a coverage amount not less than the greater of the replacement value of the Project or the Defeasance Amount (defined as "an amount which will be sufficient, together with amounts, if any, on deposit in the Payment Account, Insurance and Condemnation Account, Redemption Account, Project Account, and Reserve Account, to pay the principal of all Bonds then Outstanding, the redemption premium, if any, and accrued interest thereon to the next succeeding date fixed for redemption, together with any other amounts then due or past due under the Trust Agreement, including the fees and expenses of Trustee, less the funds held by the Trustee in any account of the Trust Fund (excluding the Rebate Account) as of the redemption date of the Bonds; provided that all amounts due and payable under the Trust Agreement have been paid) then applicable, subject only to the exceptions, limitations and exclusions customarily contained in such policies. The Lessee shall ensure that at all times the limits of coverage are sufficient to pay for the full replacement cost of the property at the time of loss, without deduction or depreciation. All policies of insurance or coverage required by this section shall be issued to Lessee as the first named insured or such other term stipulating similar meeting. Additionally, all policies shall be carried in the names of the Lessor, the Trustee, and the Lessee as their interests may appear, but shall name Trustee as loss payee as their interest may appear. The Lessor and Lessee agree to furnish certificates evidencing such coverage to the Trustee. The cost of such insurance shall be paid by the Lessee from lawfully available funds. The Net Proceeds of insurance required by this Section shall be deposited by the Lessor, the Lessee or the Trustee to the Insurance and Condemnation Account pursuant to Section 4.04 of the Trust Agreement, and shall be applied as provided in Section 4.13 hereof.

(b) Self Insurance Permitted in Lieu of Section 4.06(a) Requirements. The Lessee represents to the Lessor that it provides "self insurance" for its properties and facilities and maintains insurance and a fully funded reserve account which meets or exceeds the amounts required by Section 4.06(a) above. Notwithstanding the provisions of Section 4.06(a) above, as long as the Lessee maintains such insurance and reserve account at such levels, it will not be necessary for the Lessee to separately procure the insurance policies described in Section 4.06(a) hereof.

SECTION 4.07. WORKER'S COMPENSATION INSURANCE. (a) Worker's Compensation Insurance. During the Term of this Lease, to the extent required by State law, Lessee shall, from lawfully available funds, carry Worker's Compensation Insurance covering all employees on, in, near, or about the Project and, upon request, shall furnish to the Lessor and the Trustee certificates evidencing such coverage throughout the Term of this Lease. Until the Completion Date and to the extent lawfully permitted, the Design/Build Contract shall require the Design/Build Contractor to maintain or cause to be maintained Worker's Compensation Insurance covering all employees working on, near, or about the Project and to furnish certificates to the Trustee evidencing such coverage.

(b) Self Insurance Permitted in Lieu of Section 4.07(a) Requirements. The Lessee represents to the Lessor that it provides "self insurance" to cover worker's compensation claims and maintains insurance and a fully funded reserve account which meets or exceeds the statutory amounts required by the State of Texas and Section 4.07(a) above. Notwithstanding the provisions of Section 4.07(a) above, as long as the Lessee maintains such insurance and reserve account at such levels, it will not be necessary for the Lessee to separately procure the insurance policies described in Section 4.07(a) hereof.

SECTION4.08. REQUIREMENTS FOR INSURANCE POLICIES. (a)General Requirements. All policies of insurance or coverage required to be obtained pursuant to Sections 4.05, 4.06, and 4.07 may be carried under a separate policy or a rider or endorsement; shall be written by an insurance company approved by a Lessor Representative, with written notice to the Trustee; shall be taken out and maintained with insurance companies organized under the laws of one of the states of the United States and qualified and licensed to write insurance or coverage in the State of the types and in the amounts required and have A.M. Best ratings of at least A-VIII. A program or plan qualifying under the Interlocal Cooperation Act, Chapter 791, Title 7, Texas Government Code, shall be deemed to meet these requirements. Additionally, all such policies or coverage shall contain a provision that the insurer shall not cancel or revise coverage thereunder without giving written notice to Lessor, Lessee and Trustee at least 30

calendar days before the cancellation or revision becomes effective. All insurance required to be obtained pursuant to Sections 4.05 and 4.06 shall name the Lessor, the Lessee, and the Trustee as the insured parties and/or joint loss payees. Certificates, in a form on which the parties can rely as evidence of binding insurance or coverage, of any such insurance or coverage shall be deposited with the Trustee with a copy to the Lessor. At least 30 days before the expiration of any such policy, the Lessee shall furnish to the Lessor and the Trustee evidence that the policy has been renewed or replaced by another policy conforming to the provisions of this Article IV, unless such insurance is no longer obtainable, in which event the Lessee shall notify the Lessor and the Trustee of this fact.

(b) Self Insurance Permitted. Notwithstanding the provisions of Section 4.08(a), the Lessee shall not be required to comply with the provisions of Section 4.08(a) as long as it maintains a program of "self insurance" which meets the requirements of Sections 4.05(c), 4.06(b) and 4.07(b) hereof.

* * *

SECTION 4.12. LIENS. The Lessee shall not, directly or indirectly, create, incur, assume, or suffer to exist any mortgage, pledge, lien, charge, encumbrance, or claim on or with respect to the Project or this Lease or the Lessee's interest herein, other than the respective rights of the Lessor and the Lessee as provided in this Lease and Permitted Encumbrances. The Lessee shall promptly take such action as may be necessary to discharge or remove any such mortgage, pledge, lien, charge, encumbrance, or claim if the same shall arise at any time, and reimburse the Lessor from any legally available funds for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance, or claim.

SECTION 4.13. DAMAGE, DESTRUCTION, AND CONDEMNATION . (a) If the Project or any portion thereof is destroyed or is damaged by fire or other casualty, and if the amount deposited into the Insurance and Condemnation Account is sufficient for the necessary repair and/or replacement of the Project, the Lessor shall make all necessary repairs and/or replacements by making requisitions through the Trustee from the Insurance and Condemnation Account pursuant to Section 4.04 of the Trust Agreement. If the amount deposited into the Insurance and Condemnation Account is insufficient for the necessary repair and/or replacement of the Project, the Lessee may deposit into the Insurance and Condemnation Account, from available funds, the amount needed for the completion of all necessary repair and/or replacement of the Project. If the Project has been damaged to an extent which results in the City's inability to use 50% or more of the Project for municipal purposes, the Lessee may exercise its option to purchase the Project in accordance with Article VII hereof, and in such event, any Net Proceeds on deposit in the Insurance and Condemnation Account shall be applied as a credit toward the Purchase Option Price. If the amount on deposit in the Insurance and Condemnation Account is insufficient for the complete repair and/or replacement of the Project, and the Lessee does not, within 45 days of the date of such deposit of Net Proceeds with the Trustee, deposit into the Insurance and Condemnation Account the amount needed to complete the repair and/or replacement of the Project or exercise its option to purchase the Project, the amount on deposit in the Insurance and Condemnation Account will be transferred into the Redemption Account by the Trustee and used in accordance with Section 4.06 of the Trust Agreement. Regardless of the insufficiency of the Net Proceeds for either the repair and/or replacement of the Project or for the purchase of the Project, the Lessee shall remain obligated to continue to pay the Lease Payments from Appropriated Funds.

(b) If title to or the temporary use of the Project or any part thereof, or the interest of Lessee, Lessor, or the Trustee in the Project or any part thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm, or corporation acting under governmental authority, the Lessee shall have the rights and obligations specified in this Section with respect to the Net Proceeds of any condemnation award. The Lessor and Lessee shall promptly deposit the Net Proceeds of any condemnation award with the Trustee for credit to the Insurance and Condemnation Account. If the Net Proceeds of any condemnation award are sufficient to replace the Project or any portion thereof taken, the Trustee shall disburse amounts from the Insurance and Condemnation Account for such replacement in accordance with Section 4.04 of the Trust Agreement. If the Net Proceeds of any condemnation award are insufficient to replace the Project or the portion thereof taken, the Lessee may deposit into the Insurance and Condemnation Account, from available funds, the amount needed for the replacement of the Project. If the City is unable to use 50% or more of the Project for municipal purposes as a result of such eminent domain proceeding or taking, the Lessee may exercise its option to purchase the Project in accordance with Article VII hereof, and, in such event, the Net Proceeds of any condemnation award which have been deposited in the Insurance and Condemnation Account shall be applied as a credit toward the Purchase Option Price. If the Net Proceeds are insufficient to pay in full the cost of the replacement of all or any portion of the Project, and the Lessee does not within 45 days of such deposit of Net Proceeds with the Trustee, purchase the Project or deposit into the Insurance and Condemnation Account an amount which together with the Net Proceeds so deposited with the Trustee will be sufficient to replace the Project or the portion thereof taken, the amount on deposit in the Insurance and Condemnation Account will be transferred to the Redemption Account by the Trustee and applied in accordance with the Trust

Agreement. Regardless of the insufficiency of the Net Proceeds for the replacement of the Project, the Lessee shall remain obligated to continue to pay the Lease Payments from Appropriated Funds.

(c) Notwithstanding anything to the contrary contained in subparagraph (b) above, or anywhere else in this Lease, if title to or the temporary use of the Project or any part thereof, or the interest of the Lessor or the Trustee in the Project or any part thereof, shall be taken under the exercise of the power of eminent domain by the Lessee, the Lessor and the Lessee hereby expressly acknowledge and agree, to the extent permitted by law, and pursuant to the requirements of Section 21.012 of the Texas Property Code, that the damages payable to the Lessor or the Trustee, as the case may be, pursuant to such exercise of the power of eminent domain by the Lessee shall be an amount which will be sufficient on the date payment is made by the Lessee to the Lessor, the Trustee, or the clerk of the court of a court of competent jurisdiction, together with amounts, if any, on deposit in the Payment Account, the Redemption Account and the Project Account, to pay an amount equal to the Defeasance Amount. The Lessee agrees that the provisions of this subparagraph (c) shall survive the termination of this Lease, notwithstanding anything herein to the contrary.

* * *

SECTION 5.01. TERM OF LEASE. This Lease shall be and remain in effect with respect to the Project for a Lease term (the "Term") commencing on the date hereof and continuing until August 15, 2020 or until earlier terminated upon the occurrence of the first of the following events:

(a) upon the exercise by the Lessee of its option to purchase pursuant to Article VII of this Lease, and the payment of all amounts due and owing thereunder;

(b) at the end of the Fiscal Year in which an Event of Nonappropriation occurs;

(c) upon the occurrence of an Event of Default and the Lessor elects to terminate this Lease pursuant to Section 10.03; or

(d) the payment by Lessee of all Lease Payments and all other amounts required to be paid by Lessee hereunder.

* * *

SECTION 6.02. LEASE PAYMENTS. During the term of this Lease, the Lessee shall pay to the Trustee for the account of the Lessor the Lease Payments from Appropriated Funds on the Lease Payment Dates. The Lessee further agrees to pay from lawfully available funds other amounts related to the operation and maintenance of the Project, including without limitation, utility charges, ad valorem taxes (which shall be paid prior to their delinquency, except as provided in section 4.10 hereof) which are imposed on the Project, if any, the operating and maintenance costs of the Project, and the premiums of insurance policies relating to the Project, each in the amounts and at the times as provided herein or in the Trust Agreement. The Lessee agrees to pay, from Appropriated Funds, the fees for ordinary services and expenses of the Trustee based upon the Trustee's Fee Schedule attached as Exhibit E to the Trust Agreement. The Lessee shall be entitled to a credit against such Lease Payments, at the times and in the amounts set forth in, and determined in accordance with, the Trust Agreement, if any. The Lease Payments shall be payable in immediately available funds to the Trustee at its address specified in the Trust Agreement, or to such other person or entity and at such other address as the Trustee may designate by written notice to the Lessee, in lawful money of the United States of America no later than 10:00 a.m. Eastern Standard Time on the date Lease Payments are due. All Lease Payments received by Trustee shall be applied in the manner required by the Trust Agreement.

SECTION 6.03. CURRENT EXPENSES. The obligations of the Lessee under this Lease, including its obligation to pay the Lease Payments, shall constitute a current expense of the Lessee in each Fiscal Year, and shall not constitute an indebtedness of the Lessee within the meaning of the laws of the State. Nothing herein shall constitute a pledge by Lessee of any taxes or other money, other than Appropriated Funds for the current Fiscal Year, to the payment of Lease Payments due hereunder.

SECTION 6.04. LESSEE'S OBLIGATION. (a) Subject to subsection (b) of this Section, the obligation of the Lessee to make Lease Payments shall be absolute and unconditional. Notwithstanding any dispute arising with regard to the Project, the Lessee shall make all Lease Payments when due and shall not withhold Lease Payments pending final resolution of any dispute related to the Project, nor shall Lessee assert any right of set-off or counterclaim against its obligation to make such Lease Payments. The Lessee's obligation to make Lease Payments shall not be abated through accident or unforeseen circumstances.

(b) The obligation of the Lessee to make Lease Payments is subject to the sufficiency of Appropriated Funds. The Lessee presently intends to continue this Lease for the entire Term and to pay all Lease Payments or other payments required hereunder. The Lessee reasonably believes, based upon current State law, the City's financial practices, and other factors, that Appropriated Funds in an amount sufficient to make all such Lease Payments or other payments will be available for such purposes. The Lessee's obligation under this Section 6.04 is subject to Section 2.01(f).

SECTION 6.05. RESERVE ACCOUNT. (a) On the Closing Date, the Trustee shall deposit in the Reserve Account established in Section 4.04 of the Trust Agreement from Bond proceeds an amount equal to the Reserve Requirement. The Trustee will disburse funds within the Reserve Account in accordance with the terms of the Trust Agreement.

(b) In the event that the amount on deposit in the Reserve Account is reduced below an amount less than the Reserve Requirement, for purposes permitted under the Trust Agreement, the Lessee shall replenish the Reserve Account to an amount equal to the Reserve Requirement within one year of its receipt from the Trustee of notice of the amount to be paid; provided, however, payments under this Section 6.05(b) shall only be made from Appropriated Funds.

* * *

SECTION 7.01. WHEN AVAILABLE. On each Purchase Option Date, the Lessee shall have the option to purchase the Lessor's interest in the Project for an amount equal to the Purchase Option Price; provided, however, if the Purchase Option Price is determined in accordance with the provisions of subparagraph (b) of the definition of the term "Purchase Option Price," and such Purchase Option Price is less than the amount required to pay all outstanding principal and unpaid interest on the Bonds on the Purchase Option Date selected by the Lessee, the Lessee shall not have the option to purchase the Lessor's interest in the Project.

SECTION 7.02. EXERCISE OF OPTION. The Lessee shall give notice to the Lessor and Trustee of its intention to exercise its option to purchase not less than 60 calendar days prior to the Purchase Option Date on which the option to purchase is to be exercised and shall deposit with the Trustee not less than 45 calendar days prior to such Purchase Option Date an amount equal to any and all unpaid Lease Payments to the extent not otherwise included within the calculation of Purchase Option Price, and any other amounts then due or past due and the applicable Purchase Option Price less the funds held by the Trustee in the Project Account, the Reserve Account, the Payment Account, the Insurance and Condemnation Account and the Redemption Account, on such Purchase Option Date and available to redeem the Bonds pursuant to the terms of the Trust Agreement. The Trustee shall use the money so deposited to redeem the Bonds in accordance with the terms of the Trust Agreement.

SECTION 7.03. RELEASE OF LESSOR'S INTEREST. Upon Lessor's and Trustee's receipt of Lessee's notice of intention to exercise its option to purchase, the Lessor and the Trustee shall, concurrently therewith or as soon as practicable thereafter, take all reasonable actions at the request and expense of Lessee, necessary to authorize, execute, and deliver to the Lessee any and all documents necessary to vest in the Lessee all of the Lessor's right, title, and interest in and to the Project, free and clear of all liens, leasehold interests, and encumbrances not created by the Lessee, including, if necessary, a release of any and all items or interests created under the provisions of this Lease, the Trust Agreement, the Mortgage and the Security Agreement. Upon deposit by Lessee in full of all amounts required by Section 7.02 hereinabove and upon satisfaction of all requirements under Section 8.02 of the Trust Agreement, the Lessee shall have no further obligations under this Lease, and the Lessor and Trustee shall concurrently therewith or as soon as practicable thereafter deliver to the Lessee any and all documents necessary to vest in the Lessee all of the Lessor's right, title, and interest in and to the Project, free and clear of all liens, leasehold interests, and encumbrances not created by the Lessee, including, if necessary, a release of any and all liens or interests created under the provisions of this Lease, the Trust Agreement, the Security Agreement and the Mortgage.

* * *

SECTION 8.01. ASSIGNMENT BY LESSOR. (a) The Lessor may assign its right, title, and interest in this Lease. The Lessee acknowledges that the Lessor will assign its right, title, and interest, but not its obligations, responsibilities, or liabilities, in this Lease to the Trustee for the benefit of the Bondholders. The Lessee shall pay all Lease Payments and all other amounts required to be paid by this Lease to or at the direction of Trustee. The Lessor and the Lessee each represents, warrants, covenants, and agrees that it will do, execute, acknowledge, and deliver all and every further act, deed, conveyance, transfer, and assurance necessary or proper for the perfection of any and all of the liens or security interests in the Project provided for in the Trust Agreement, the Mortgage or the Security

Agreement including, but not limited to, executing or causing to be executed such financing statements and continuation statements as shall be necessary under applicable law to perfect and maintain such security interests.

(b) Any rights of and obligations owed hereunder to the Trustee by the Lessee or the Lessor shall be owed to the Trustee in its capacity as assignee of Lessor's rights hereunder except for the Lessee's obligation to pay the Trustee's fees and expenses in accordance with Exhibit E to the Trust Agreement.

SECTION 8.02. ASSIGNMENT BY LESSEE. During the Term of this Lease, the Lessee's interest in the Project may not be assigned or subleased by the Lessee without the prior written consent of the Lessor, the Trustee and the Insurer.

* * *

SECTION 10.01. REMEDIES ON EVENT OF DEFAULT OF LESSEE. (a) Upon an Event of Default of the Lessee, the Lessor, or the Trustee as the assignee of the Lessor under the Mortgage, shall have the right, to the extent permitted by law and subject to the consent of the Insurer, to take one or any combination of the following remedial steps:

(i) with or without terminating this Lease but only with the prior written consent of the Insurer, declare all Lease Payments due or to become due during the then current Fiscal Year to be immediately due and payable by Lessee to the extent of Appropriated Funds, whereupon such Lease Payments shall be, to the extent permitted by State law, immediately due and payable; or

(ii) with or without terminating this Lease, re-enter and take possession of the Project and exclude the Lessee from using the Project; however, if this Lease has not been terminated, the Lessor shall return possession of the Project to the Lessee when the Event of Default is cured (including payment of all costs and expenses incurred by the Lessor, the Trustee, or the Bondholders resulting therefrom), and, further, the Lessee shall, during such period of repossession by the Lessor without termination of this Lease, to the extent of Appropriated Funds, continue to be responsible for the Lease Payments due or to become due during the Term of this Lease;

(iii) terminate this Lease upon giving 30 days written notice to the Lessee at the expiration of which period of time the Lessee shall immediately surrender possession and control of the Project to Trustee and the Trustee shall have the right, thereafter, to sell, lease, sublease, or otherwise dispose of the Project; or

(iv) take whatever action at law or in equity may appear necessary or desirable to collect the Lease Payments then due and thereafter to become due during the Term of this Lease or to enforce performance and observance of any other obligation, agreement, or covenant of the Lessee under this Lease; or

(v) sell, transfer, or otherwise dispose of the Project or any interest in the Project, including, but not limited to, any interest in the real property, personal property, or mixed property constituting any component or portion of the Project and including any lease, sublease, license, privilege, or right acquired as the result of the exercise of any of the other remedies specified in this Lease.

(b) Upon the termination of this Lease by the Lessor, the Lessee shall immediately surrender possession of the Project to the Lessor.

SECTION 10.02. NOTICE OF APPROPRIATION. On or before the last day of each Fiscal Year, the Lessee shall deliver to the Lessor and the Trustee written certification of its Appropriation of available funds sufficient to pay Lease Payments and other payments required, if any, to be made by the Lessee under this Lease during the succeeding Fiscal Year, such certification to be in substantially the form attached as Exhibit "J" hereto (the "Certificate of Appropriation").

SECTION 10.03. NOTICE OF NONAPPROPRIATION; TERMINATION ON EVENT OF NONAPPROPRIATION. (a) The Lessee shall provide the Lessor and the Trustee with written notice within 72 hours of (i) action by the City Council which would constitute a failure to Appropriate funds sufficient to pay Lease Payments, and any other payments, if any, required to be made by the Lessee in accordance with this Lease due during the succeeding Fiscal Year or (ii) a legal inability to adopt a budget.

(b) In the event that the Trustee does not receive the Certificate of Appropriation from the Lessee within the time period required in Section 10.02 hereof, the Trustee shall promptly give written notice thereof to the Lessee and

the Lessor. Thereafter, if the Lessee fails to deliver the Certificate of Appropriation within ten days of its receipt of the foregoing notice from the Trustee, the Trustee shall promptly give written notice to the Bondholders of its failure to timely receive the Certificate of Appropriation. The Trustee shall also give prompt written notification to the Bondholders of its receipt of a notice from the Lessee pursuant to paragraph (a) of this Section.

(c) Upon the occurrence of an Event of Nonappropriation, without further demand or notice, this Lease shall terminate at the end of the Fiscal Year for which sufficient Appropriations have been made, and the Lessee shall immediately, upon the expiration of the said Fiscal Year, surrender possession and control of the Project to the Lessor or the Trustee.

(d) Upon termination of this Lease pursuant to Section 10.03(c), if the Lessee has not delivered possession and control of the Project to the Lessor and conveyed or released its interest in the Project as therein required, the termination shall nevertheless be effective, but the Lessee shall be responsible, from and to the extent of Appropriated Funds as provided in this Lease and the Trust Agreement, for the payment of damages in an amount equal to the amount of Lease Payments which thereafter would have come due in the absence of an Event of Nonappropriation which are attributable to the number of days during which the Lessee fails to take such actions.

(e) Upon receipt of written notice that the Lessee is legally unable to adopt a budget, the Trustee shall have the right, but not the obligation, to (i) terminate the Lease and the Lessee shall immediately surrender possession and control of the Project to the Lessor or the Trustee and the Lessor (or the Trustee at the Lessor direction) shall have the right, thereafter, to sell, lease, sublease, or otherwise dispose of the Project, or (ii) without terminating the Lease, permit the Lease to continue in effect, to the extent permitted by law, and continue to permit Lessee to exercise and enjoy its rights of quiet enjoyment, use, occupancy and control of the Project.

SECTION 10.04. REMEDIES ON EVENT OF DEFAULT OF LESSOR. Upon an Event of Default of the Lessor, the Lessee or the Trustee shall have the right, to the extent permitted by law, at its option, upon ten days written notice delivered to the Lessor, by the Lessee or the Trustee, to take one or any combination of the following remedial steps:

(a) bring suit for specific performance requiring Lessor to complete construction of the Project in accordance with the terms and provisions hereof; or

(b) take whatever action at law or in equity may appear necessary or desirable to enforce performance and observance of any other obligation, agreement, or covenant of the Lessor under this Lease.

* * *

ARTICLE XI
TITLE

During the Term of this Lease, legal title to the Project and any and all repairs, replacements, substitutions, and modifications to the Project shall be in the Lessor. The Lessee shall not permit any lien or encumbrance of any kind to exist against the title to the Project, other than the Permitted Encumbrances. Upon termination of this Lease under Sections 5.01(a) or (d) hereof, full and unencumbered, with the exception of the Permitted Encumbrances, legal title to the Project shall immediately be conveyed by Lessor to the Lessee, and the Lessor and the Trustee shall execute and deliver to the Lessee such documents as the Lessee may request to evidence the conveyance of such title to the Lessee and the termination of the Lessor's and the Trustee's interest in the Project.

* * *

SELECTED PROVISIONS OF THE DEED OF TRUST AND ASSIGNMENT OF RENTS AND LEASES

The Issuer, in consideration of the premises and of the issuance and sale of the Bonds by the Issuer and of the debts, covenants, and agreements hereinafter mentioned and the sum of One Dollar ($1.00), in lawful money of the United States of America, to it duly paid at or before the execution and delivery of these presents and for other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, in order to secure the payment of the Issuer's obligations under the Trust Agreement and the Bonds, according to their tenor and effect, and all other Indebtedness (as hereinafter defined) and the performance and observance by the Issuer of all of the covenants contained in the Lease, the Security Agreement, and this Mortgage, does hereby bargain, sell, grant, convey, transfer, mortgage, pledge, and assign to the Mortgage Trustee and his successors and substitutes in trust hereunder, the

following described real property, rights, titles, interests, and estates (herein collectively called the "Mortgage Trust Estate"), to-wit:

GRANTING CLAUSE FIRST

All the right, title, estate, and interest of the Issuer in and to, but none of its obligations, responsibilities, or liabilities with respect to, the real property situated in Bexar County, Texas, described in Exhibit A attached hereto (the "Project"), together with all buildings, structures, additions, improvements, and fixtures now or hereafter located thereon or therein, or on any part or parcel thereof, with the tenements, hereditaments, servitudes, appurtenances, rights, privileges, and immunities now or hereafter thereunto belonging or in anywise appertaining, together with all and singular the easements and riparian and littoral rights now or hereafter thereunto belonging or in anywise appertaining, and including all rights of ingress and egress to and from adjoining property (whether such rights now exist or subsequently arise), together with the reversion or reversions, remainder and remainders, rents, issues, and profits thereof, together with the soil, flowers, shrubs, crops, trees, timber, and other emblements now or hereafter on said property or under or above the same or any part or parcel thereof, together with all of the water, sanitary, and storm sewer systems which are now or hereafter located by, over, and upon the property hereinbefore described, or any part and parcel thereof, which water system includes all water mains, service laterals, hydrants, valves and appurtenances, and which sewer system includes all sanitary sewer lines, including mains, laterals, manholes, and appurtenances, together with all paving for streets, roads, walkways, or entrance ways which are now or hereafter located on the property hereinbefore described or any part or parcel thereof, it being the intention of the parties hereto that, so far as may be permitted by law, all property of the character hereinabove described which is affixed or attached or annexed to the Project shall be and remain or become and constitute a portion of the Project and the collateral encumbered by and subject to the lien of this Mortgage.

GRANTING CLAUSE SECOND

All the right, title, and interest of the Issuer in and to, but none of its obligations, responsibilities or liabilities with respect to (a) all of the rents, issues, profits, revenues, income, receipts, money, royalties, rights, and benefits of and from the Project and from and in connection with the Issuer's ownership of the Project, including, without limiting the generality of the foregoing, rents and revenues under any and all leases of the Project or any agreement for the operation of or management of the Project, and proceeds of insurance, condemnation awards, and performance, labor, and material payment bonds relating to the Project, and (b) all Leases of all or part of the Project, now existing or hereafter made, executed, or delivered, whether oral or written, together with any and all renewals, extensions, replacements, and modifications thereof and any guarantees of the lessees' obligations under any thereof and any and all tenant contracts, rental agreements, franchise agreements, management contracts, construction contracts, and other contracts, licenses, permits, and utility capacity now or hereafter affecting the Project or any part thereof.

IN EACH CASE, whether now owned or hereafter acquired by the Issuer and howsoever its interest therein may arise or appear (whether by ownership, lien, security interest, claim, or otherwise) and whether due or to become due and whether or not earned by performance;

TO HAVE AND TO HOLD the said Mortgage Trust Estate, whether now owned or held or hereafter acquired, unto the Mortgage Trustee, his successors and assigns, forever.

SUBJECT, HOWEVER, to "Permitted Encumbrances" as defined in Section 1.01 of this Mortgage;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth to secure the payment of the Indebtedness, present and future, owing and to become owing, and to secure the performance of and compliance with the obligations, covenants, and conditions of the Issuer set forth in the Trust Agreement, the Security Agreement, and this Mortgage, all as herein set forth.

IT IS HEREBY COVENANTED, DECLARED, AND AGREED that the lien or interest created by this Mortgage to secure the payment of any of the Indebtedness, both present and future, shall be first, prior, and superior to any lien, reservation of title, or other interest heretofore, contemporaneously, or subsequently suffered or granted by the Issuer, its legal representatives, successors, or assigns, except only those (if any) expressly hereinafter referred to or described and that the Mortgage Trust Estate is to be held, dealt with, and disposed of by the Mortgage Trustee, upon and subject to the terms, covenants, conditions, uses, agreements, and trusts set forth in this Mortgage as follows:

ARTICLE I
DEFINITIONS AND INTERPRETATIONS

SECTION 1.01. DEFINITIONS. Certain words and terms used in this Mortgage are defined herein. When used herein, such words and terms shall have the meanings given to them by the language employed in this Article I defining such words and terms, unless the context clearly indicates otherwise. In addition to the words and terms defined elsewhere herein, the following words and terms are defined terms under this Mortgage:

"Beneficiary" means The Bank of New York, as Indenture Trustee under the Trust Agreement.

"Bonds" means the Issuer's revenue bonds designated *"City of San Antonio, Texas Municipal Facilities Corporation Lease Revenue Bonds, Series 2001"* (the "Bonds"), in the aggregate principal amount of $14,465,000, dated as of May 15, 2001.

"Bondholder" means the person in whose name any of the Bonds are registered on the books kept and maintained by the Indenture Trustee as bond registrar. As used herein, an "owner" or a "holder" of Bonds means a Bondholder.

"City" means the party named as such in the recitals of this Mortgage, together with any successors or assigns.

"Event of Default" means any of the events specified in Section 5.01 of the Trust Agreement.

"Indebtedness" means:

(a) all Bond Payments (as defined in the Trust Agreement) under the Trust Agreement;

(b) any and all sums, together with interest accruing thereon as provided in the Lease, which may hereafter be advanced by the Indenture Trustee under the terms of the Trust Agreement or the Lease on account of the failure of the City to keep, observe, or perform the City's covenants under the Lease;

(c) any other amounts now payable or subsequently becoming payable by the Issuer pursuant to the Trust Agreement;

(d) any renewals, extensions, and rearrangements of any of the amounts described in (a), (b), or (c) above.

"Indenture Trustee" means the beneficiary named as such on the first page of this Mortgage, together with any successors or assigns.

"Issuer" means the party named as such on the first page of this Mortgage together with any successors or assigns.

"Lease" is defined in the recitals of this Mortgage.

"Leases" is defined in Section 5.01(b) of this Mortgage.

"Lease Payments" means the amounts payable by the City to the Issuer pursuant to the Lease.

"Mortgage Trustee" means the party named as such on the first page of this Mortgage together with any successor or substitute in such capacity.

"Mortgage Trust Estate" means any of the property subject to the operation of the granting clauses contained in this Mortgage.

"Permitted Encumbrances" means, as of any particular time, (i) the Trust Agreement, the Security Agreement, this Mortgage, the Bond and the Lease; (ii) presently existing utility, access, and other easements and rights of way, restrictions, and exceptions (other than liens) described in the title policy delivered to the Trustee at the time of execution of the Lease required hereby; and (iii) inchoate mechanics' and materialmen's liens which arise by operation of law, but which have not been perfected by the required filing of record, for work done or materials

delivered after the date of recording the Lease in connection with the Project (provided that no such liens will be permitted which will be superior to the liens of the Lease).

"Project" means the real property described in Exhibit A hereto, together with all improvements existing or to be constructed thereon, including but not limited to the new One Stop Development Services Center to be constructed thereon pursuant to the Lease.

"Resolution" is defined in the recitals of this Mortgage.

"Security Agreement" means that certain Security Agreement Relating to the City of San Antonio, Texas One Stop Development Services Center Project dated as of May 15, 2001, by and between the Issuer and the Trustee.

"Trust Agreement" means that certain Trust Agreement as defined in the recitals of this Mortgage.

* * *

SECTION 3.01. REMEDIES UPON EVENT OF DEFAULT. If an Event of Default as defined in Section 1.01 of this Mortgage shall occur and is continuing, the Indenture Trustee shall have the right and option to direct the Mortgage Trustee to enforce this trust by exercising any or all of the following remedies, or any or all other remedies then provided by law or in equity:

(a) The Mortgage Trustee may proceed to protect and enforce its rights under this Mortgage by suit in equity, action at law, or other appropriate proceedings, including actions for the specific performance of any covenant or agreement contained in this Mortgage or in aid of the exercise of any power granted in this Mortgage, or may proceed in any other manner to enforce the payment of the Indebtedness and any other legal or equitable right of the Mortgage Trustee.

(b) The Issuer, upon the demand of the Mortgage Trustee, shall forthwith surrender the actual possession of, and it shall be lawful for the Mortgage Trustee, by such officer or agent as it may appoint, with or without force or process of law, to enter and take possession of, and exclude the City and the Issuer and their agents and servants wholly from, all or any part of the Mortgage Trust Estate together with the books, papers, and accounts of the Issuer pertaining thereto, without the appointment of a receiver, or an application therefor, and to hold, operate, store, use, control, and manage the same and conduct the business thereof and from time to time make all necessary and proper repairs, maintenance, renewals, restorations, replacements, and improvements and procure all necessary and proper insurance as directed by the Indenture Trustee; and the Indenture Trustee may lease the Mortgage Trust Estate or any part thereof in the name and for the account of the Issuer and collect, receive, and sequester the rents, revenues, issues, earnings, income, products, and profits therefrom and, out of the same and any money received from any receiver of any part thereof, pay, and/or set up proper reserves for the payment of, all proper costs and expenses of so taking, holding, and managing the same, including reasonable compensation to the Indenture Trustee and its agents and counsel and for any charges of the Indenture Trustee hereunder, any taxes and assessments and other charges prior to the lien of this Mortgage which the Indenture Trustee pays, and all expenses of such maintenance, repairs, and improvements of the Mortgage Trust Estate and apply the remainder of the money so received in accordance with the provisions of Section 3.03 hereof. The Issuer shall reimburse the Indenture Trustee for all expenses incurred by the Indenture Trustee in connection with its custody, use, or operation of the Mortgage Trust Estate, together with interest at the highest lawful rate, and such amounts shall become part of the Indebtedness. Risk of loss or damage to the Mortgage Trust Estate is undertaken by the Issuer, and the Indenture Trustee shall have no liability for the decline in value of the Mortgage Trust Estate, nor for the failure to obtain or maintain insurance thereon. Whenever all that is presently due upon the Indebtedness shall have been paid and all Events of Default have been made good, the Indenture Trustee shall surrender possession to the Issuer, the same rights of entry provided in this Section 3.01(b), however, to exist upon any subsequent Event of Default. The Indenture Trustee may complete the construction of any improvements which have been undertaken but not completed, and the Indenture Trustee for such purpose may use all available materials and equipment at the Mortgage Trust Estate and may acquire all other necessary materials and equipment and employ contractors and other employees. All sums expended by the Indenture Trustee for such purposes shall constitute advancements and shall be secured by this Mortgage and shall forthwith be due and payable by the Issuer to the one making the advancement. While in possession of such property, the Indenture Trustee shall render annually to the Issuer a summarized statement of income and expenditures in connection therewith. The authority and agency conferred hereby upon the Indenture Trustee shall be deemed to create a power coupled with an interest and shall be irrevocable.

(c) Subject to compliance to the extent applicable with Texas Property Code §51.002(d) providing that the debtor be given at least 20 days to cure a default before the entire debt is due and notice of sale is given, the Indenture Trustee may, at its option, declare all of the Indebtedness at once due and payable without demand, and request the Mortgage Trustee to sell the Mortgage Trust Estate. The Mortgage Trustee of this Mortgage shall then sell, or offer for sale, the Mortgage Trust Estate at public auction to the highest bidder for cash between the hours of 10:00 a.m. and 4:00 p.m. on the first Tuesday of any month, at the courthouse of any county in the State of Texas in which any part of the Mortgage Trust Estate is situated, after having given and posted notice of the earliest time at which the sale will occur, the place and the terms of said sale in accordance with the laws of the State of Texas then in force and governing sales of real property under powers conferred by deeds of trust. The sale shall take place at the area of the county courthouse designated by the county commissioners for such sales, or, if no area has been designated by the county commissioners, in the area designated in the notice of sale. The Mortgage Trust Estate shall be sold by filing notice of the Mortgage Trustee's sale in accordance with the laws of the State of Texas and by posting, or causing to be posted, at least 21 consecutive days prior to the date of said sale, written or printed notice thereof at the courthouse door in each of the counties in which the Mortgage Trust Estate will be sold. A copy of the notice of such sale shall also be filed in the office of the County Clerk for the county in which the Project is situated at least 21 days preceding the date of said sale. A copy of the notice of such sale shall also be given by certified mail at least 21 days before the date of the sale to each debtor who, according to the Beneficiary's records, is obligated to pay any part of the debt secured by this Mortgage. The sale must begin at the time stated in the notice of sale as the earliest time at which the sale will occur or not later than three hours after that time. In no event shall the Mortgage Trustee be required to exhibit, present, or display at any foreclosure sale of the Mortgage Trust Estate any of the Mortgage Trust Estate that may be sold at such sale. The Beneficiary shall have the right to become the purchaser at any such sale held by any Mortgage Trustee or substitute or successor Mortgage Trustee, or by any receiver or public officer. Any Beneficiary purchasing at any such sale shall have the right to credit the secured Indebtedness owing to such Beneficiary upon the amount of its bid entered at such sale to the extent necessary to satisfy such bid, except as otherwise provided herein; or if such Beneficiary holds less than all of such Indebtedness, to prorate part thereof owing to such the Beneficiary, accounting in cash to all other Beneficiaries not joining in such bid for the portion of such bid or bids apportionable to such non-bidding the Beneficiary or Beneficiaries. The Issuer authorizes and empowers the Mortgage Trustee to sell the Mortgage Trust Estate, in lots or parcels or as a whole, and to execute and deliver to the purchaser or purchasers thereof good and sufficient deeds of conveyance thereto of the estate of title then existing on the Mortgage Trust Estate with covenant of general warranty. The Issuer agrees to accept proceeds of said sale, if any, which are payable to the Issuer as provided herein. Proceeds of sale of the Mortgage Trust Estate shall be applied in the following order:

(A) to the payment of all necessary costs and expenses incident to the execution of said trust, including reasonable fees and expenses to the Mortgage Trustee and Indenture Trustee;

(B) to the payment of the principal, costs, and interest legally due and secured hereby, in such order and priority as set forth in Section 5.12 of the Trust Agreement;

(C) to the payment of any other indebtedness hereby secured; and

(D) the remainder, if any, to be paid to the Issuer or such other persons or entities entitled thereto by law.

Payment of the purchase price to the Mortgage Trustee shall satisfy the obligation of the purchaser at a foreclosure sale, and such purchaser shall not be responsible for the application of the sales proceeds.

In addition to the posted notice hereinabove provided, and for so long as required by law, no foreclosure under the power of sale herein contained shall be held unless the Beneficiary, at least 21 days preceding the date of sale and in the manner prescribed by law, shall have served written notice of the proposed sale by certified mail on each person or entity who, according to the Beneficiary's records, is obligated to pay the Indebtedness. Service of such notice shall be completed upon deposit of the notice, postage prepaid, properly addressed to each such person or entity at the most recent address as shown by the records of the Beneficiary in a Post Office of the United States Postal Service or in an official depository under the care and custody of the United States Postal Service. The affidavit of any person having knowledge of the facts to the effect that such service was so completed shall be prima facie evidence of the fact of service.

(d) If an Event of Default occurs, the Beneficiary at its option may proceed with foreclosure in satisfaction of only that portion or installment of Indebtedness secured hereby as to which a default has

occurred, either through the courts or by directing the Mortgage Trustee to proceed as if under a full foreclosure, conducting sale as hereinbefore provided, but without declaring the entire Indebtedness due, and provided that if said sale is made because of such default, such sale may be made subject to the unmatured part of such Indebtedness; such sale, if made, shall not in any manner affect the unmatured part of the Indebtedness secured by this Mortgage, but as to such unmatured part, this Mortgage shall remain in full force as though no sale had been made. Several sales may be made without exhausting the right of sale with respect to any unmatured part of said Indebtedness. The Beneficiary shall also have the right to sell the Mortgage Trust Estate for any other part of said Indebtedness, whether matured at the time or subsequently maturing, it being the purpose and intent hereof to provide for a foreclosure and the sale of the Mortgage Trust Estate for any matured portion of said Indebtedness without exhausting the power of foreclosure.

(e) The sale or sales by the Mortgage Trustee of less than the whole of the Mortgage Trust Estate shall not exhaust the power of sale herein granted, and the Mortgage Trustee is specifically empowered to make successive sale or sales under such power until the whole of the Mortgage Trust Estate shall be sold; and if the proceeds of such sale or sales of less than the whole of the Mortgage Trust Estate shall be less than the aggregate of the Indebtedness including the expenses of such sale, this Mortgage and the lien, and assignment hereof shall remain in full force and effect as to the unsold portion of the Mortgage Trust Estate just as though no sale or sales had been made; provided, however, that the Issuer shall never have any right to require the sale or sales of less than the whole of the Mortgage Trust Estate, but the Beneficiary shall have the right, at its sole election, to request the Mortgage Trustee to sell less than the whole of the Mortgage Trust Estate.

(f) The purchase at any foreclosure sale may disaffirm any easement granted, or rental, lease, or other contract made in violation of any provision of this Mortgage, and may take immediate possession of the Mortgage Trust Estate free from, and despite the terms of, such grant of easement and rental or lease contract.

(g) At any time during the bidding, the Mortgage Trustee may require identification of a bidding party (full name, state and city of residence, occupation, and specific business office location), and the name and address of the principal the bidding party is representing (if applicable), and require the bidding party to demonstrate reasonable evidence of the bidding party's financial ability (or, if applicable, the financial ability of the principal), as a condition to the bidding party submitting bids at the foreclosure sale. If any such bidding party (the "Questioned Bidder") declines to comply with the Mortgage Trustee's requirement in this regard, or if such Questioned Bidder does respond but the Mortgage Trustee on the instruction of the Indenture Trustee deems the information or the evidence of the financial ability of the Questioned Bidder to be inadequate, then the Mortgage Trustee may continue the bidding with reservation; and in such event (i) the Mortgage Trustee shall be authorized to caution the Questioned Bidder concerning the legal obligations to be incurred in submitting bids, and (ii) if having been the highest bidder the Questioned Bidder fails to deliver the cash purchase price payment promptly to the Mortgage Trustee, all bids by the Questioned Bidder shall be null and void and the Mortgage Trustee may elect to accept the next highest bid or to terminate the foreclosure proceeding. If the Questioned Bidder is not the highest bidder, then all bids by the ultimate purchaser shall be fully valid and enforceable. The Mortgage Trustee may, on the instruction of the Indenture Trustee, determine that a credit bid may be in the best interest of the Beneficiary, and elect to sell the Mortgage Trust Estate for credit or for a combination of cash and credit; provided, however, that the Mortgage Trustee shall have no obligation to accept any bid except an all cash bid. In the event the Mortgage Trustee requires a cash bid and cash is not delivered within a reasonable time between 10:00 a.m. and 4:00 p.m. on the day of sale, then said sale shall be null and void and any subsequent sale shall begin as if no prior bids were made or accepted.

(h) In case of any sale hereunder, all prerequisites to the sale shall be presumed to have been performed; and in any conveyance given hereunder, all statements of facts or other recitals made therein as to any of the following shall be taken in all courts of law or equity as prima facie evidence that the facts so stated or recited are true, including but not limited to, the non-payment of money secured hereby; the request to the Mortgage Trustee to enforce this trust; the proper and due appointment of any substitute Mortgage Trustee; the advertisement and notice of sale or time, place, and manner of sale; or any other preliminary fact or thing. In the event any sale hereunder is not complete or is defective in the opinion of the Beneficiary, such sale shall not exhaust the power of sale hereunder, and the Beneficiary shall have the right to cause a subsequent sale or sales to be made hereunder.

(i) In the event any foreclosure hereunder shall be commenced by the Mortgage Trustee or his substitute or successor, the Beneficiary may, at any time before the sale of the Mortgage Trust Estate, direct

the said Mortgage Trustee to abandon the sale, and may then institute suit for the collection of the amounts due and payable under the Trust Agreement and any other secured Indebtedness, and for judicial foreclosure of this Mortgage. It is agreed that if the Beneficiary should institute any suit for the collection of the amounts due and payable under the Trust Agreement or any other secured Indebtedness and for judicial foreclosure of this Mortgage, the Beneficiary may, at any time before the entry of a final judgment in said suit, dismiss the same and require the Mortgage Trustee, his substitute or successor, to sell the Property by sale in accordance with the provisions of this Mortgage.

Nothing herein shall limit the Mortgage Trustee from exercising any and all other remedies available to it at law or in equity.

* * *

SECTION3.03. APPLICATION OF PROCEEDS. The Mortgage Trustee shall pay, distribute, and apply the proceeds of any disposition of the Mortgage Trust Estate to the Indenture Trustee for deposit and use as provided in the Trust Agreement. Said disposition shall forever be a bar against the Issuer, its legal representatives, successors and assigns, and all other persons claiming under any of them. It is expressly agreed that the recitals in each conveyance to the purchaser shall be full evidence of the truth of the matters therein stated, and all lawful prerequisites to said disposition shall be conclusively presumed to have been performed.

SELECTED PROVISIONS OF THE SECURITY AGREEMENT

SECTION 1. GRANT OF SECURITY INTEREST. The Issuer hereby grants to the Trustee a continuing security interest in all of the Issuer's right, title, and interest in (but not in any property of the City not acquired with proceeds of the Bonds) and to the following (the "Collateral"):

(a) all machinery, equipment, or other property at any time installed or located on the real property described in Exhibit A hereto, and substitutions or replacements therefor, or which under the terms of the Trust Agreement is to become the property of the Issuer or is to be subjected to the lien of this Security Agreement, and, without limiting the foregoing, all of the property of the Issuer at any time installed or located on the real property described in Exhibit A attached hereto together with all machinery, apparatus, equipment, fittings, fixtures, whether actually or constructively attached to said property and including all trade, domestic, and ornamental fixtures and articles of personal property of every kind and nature whatsoever now or hereafter located in, upon, or under said property or any part thereof and used or usable in connection with any present or future operations of said property, including, without limiting the generality of the foregoing, all heating, air-conditioning, freezing, lighting, laundry, incinerating, and power equipment, gas and electric fixtures, engines, machinery, pipes, pumps, tanks, motors, conduits, switchboards, plumbing, lifting, cleaning, fire prevention, fire extinguishing, refrigerating, ventilating, and communications apparatus, safety equipment, boilers, ranges, furnaces, oil burners, or units thereof, appliances, air-cooling and air-conditioning apparatus, washers, dryers, water heaters, mirrors, mantels, vacuum cleaning systems, elevators, escalators, shades, awnings, screens, storm doors, and windows, stoves, wall beds, refrigerating plants, refrigerators, attached cabinets, partitions, ducts, and compressors, rugs and carpets and other floor coverings, draperies, furniture and furnishings, together with all building materials and equipment now or hereafter delivered to the property and intended to be installed therein, including but not limited to, lumber, plaster, cement, shingles, roofing, plumbing, fixtures, pipe, lath, wallboard, cabinets, nails, sinks, toilets, furnaces, heaters, brick, tile, water heaters, screens, window frames, glass, doors, flooring, paint, lighting fixtures and unattached refrigerating, and cooking, heating, and ventilating appliances and equipment, together with all additions and accessions thereto and replacements thereof (any and all such property described in this paragraph (a) being referred to herein as the "Equipment");

(b) all of the accounts, documents, chattel paper, instruments, and general intangibles arising in any manner from the Issuer's ownership and operation of the Project, including, but not limited to, all amounts due from tenants of the Project (any and all such property described in this paragraph (b) being referred to herein as the "Revenues");

(c) all of the inventory now or hereafter located at the Project in all of its forms, including, without limitation, all goods, materials, supplies, stores of food, drugs, and linens now or hereafter held for sale and use or consumption, whether by the Issuer or by another person pursuant to a service contract, at the Project, together with all documents, documents of title, dock warrants, dock receipts, warehouse receipts, bills of lading, or orders for the delivery of all or any portion of the foregoing, all goods in which the Issuer has an interest in mass or a joint or other interest or right of any kind, all goods which are returned to or repossessed by the Issuer, and all accessions thereto and products thereof (any and all such property described in this paragraph (c) being referred to herein as the "Inventory");

(d) any and all tenant contracts, rental agreements, franchise agreements, management contracts, construction contracts, and other contracts, licenses, and permits now or hereafter affecting the Project or any part thereof; and

(e) all proceeds of any or all of the foregoing, including, without limiting the generality of the foregoing, all inventory, accounts, chattel paper, documents, equipment, instruments, farm products, consumer goods, and general intangibles constituting proceeds acquired with cash proceeds of any or all of the Collateral and, to the extent not otherwise included, all payments of insurance (whether or not the Issuer is the loss payee thereof) and any indemnity, condemnation award, performance, labor, and material payment bond, warranty, or guaranty payable by reason of loss or damage to, or otherwise with respect to, any of the Collateral; in each case, whether now owned or hereafter acquired by the Issuer and howsoever its interest therein may arise or appear (whether by ownership, security interest, claim, or otherwise).

SECTION 2. SECURITY FOR OBLIGATIONS. This Security Agreement secures the payment of all obligations of the Issuer under the Bonds, the Trust Agreement, the Mortgage, and this Security Agreement, together with all renewals, extensions, replacements, consolidations, and modifications thereof, in each case whether for principal, premium, if any, interest, fees, expenses, for taxes or payments in lieu of taxes equal to the amount of assessed taxes by the affected entities, assessments, or insurance premiums, or for the performance of any of the Issuer's obligations hereunder or under the Trust Agreement, the Bonds, the Mortgage, or otherwise (all such obligations of the Issuer being referred to herein as the "Obligations").

* * *

APPENDIX B

The information contained in Appendix B consists of general information regarding the City of San Antonio, Texas and Bexar County.

CITY OF SAN ANTONIO
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

This Appendix contains a brief discussion of certain economic and demographic characteristics of the City 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 to verify the accuracy or completeness of such information.

Population And Location

The 2000 United States Census Bureau cites the population of the City to be 1,144,646. The United States Census Bureau ranks the City as the third largest in the State of Texas and the ninth largest in the United States.

Area And Topography

The area of the City has increased through numerous annexations, and now contains approximately 430.0188 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous spring fed streams with underground water. The average elevation is 788 feet above mean sea level.

Annexation Plan

Established in 1837, the City originally encompassed 36 square miles. The boundaries remained virtually unchanged until when the City annexed approximately 4.2830 square miles between May 6, 1940 and May 31, 1940. The 1940 annexation was the first significant change to the corporate limits of the City in 103 years. Since then, the City has grown to an estimated 430.0188 square miles with a total market valuation of $ 40.469 billion for fiscal year 2001.

In May, 1999, the Texas Legislature passed a new annexation statute (Senate Bill 89 effective September 1, 1999) which changed the way Texas municipalities annex land. The new statute allows municipalities to continue to annex property as before the passage of the bill, with added provisions, until December 31, 2002. The City has responded by passing new policies which give it greater flexibility in the annexation of territory through December, 2002. Subsequently, the City will need to adopt a Three Year Annexation Plan to continue to annex beyond December 31, 2002.

Additionally, the City has prepared a strategy to annex territory that will be exempted from stricter provisions of the annexation law that will be in place beginning in January of 2003. Finally, the City will develop a strategy next calendar year to address the new statutory requirements that will be in place for any annexation that the City may undertake in 2004 and beyond. In summary, San Antonio expects to continue to utilize annexation as a growth and development management tool, as well as an opportunity to enhance the City's fiscal position.

(The remainder of this page intentionally left blank.)

Population

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

Year	City of San Antonio	Bexar County	San Antonio MSA
1920	161,399	202,096	238,639
1930	231,542	292,533	333,442
1940	253,854	338,176	376,093
1950	408,442	500,460	542,209
1960	587,718	687,151	736,066
1970	654,153	860,460	888,179
1980	786,023	988,971	1,088,881
1990	935,933	1,185,394	1,324,749
2000	1,144,646	1,392,931	1,592,383

Source: United States Department of Commerce, Census Bureau, 1920-2000.

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 hotel/motel 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, golf courses, parking, and solid waste operations.

Electric and gas services to the San Antonio area are provided by City Public Service ("CPS"), an electric and gas utility owned by the City that maintains and operates infrastructure, which includes a 16 generating unit electric system. In addition, the gas system which serves the San Antonio area is operated by CPS. CPS' operations and debt service requirements for capital improvements are paid for from revenues charged to its customers. CPS revenue transfers to the City for its fiscal year ending January 31, 2000 were $145,473,968.

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System ("SAWS"), another City-owned and operated utility. SAWS also provides stormwater services for the City and manages and develops water resources in the San Antonio region. SAWS is in its eighth year as a separate, consolidated entity that addresses water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid for from revenues charged to its customers. The City's sole source of water supply is the Edwards Aquifer.

Employees

The following table shows the total full-time and part-time employee positions authorized and number of positions filled. Seasonal and temporary positions are excluded. The number of filled positions shown reflects employees on the payroll for fiscal year ending September 30, 1997 through budgeted 2001, and the number of employee authorized positions shown reflects positions adopted in the fiscal year budget.

	1997		1998		1999		2000		Budgeted 2001	
	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled*	Authorized
Police	1,814	1,893	1,838	1,943	1,820	1,952	1,857	1,963	1,889	1,978
Police Grant Funded	67	68	24	24	24	34	32	42	32	52
Total Police	1,881	1,961	1,862	1,967	1,844	1,986	1,889	2,005	1,921	2,030
Fire	1,268	1,320	1,280	1,338	1,341	1,359	1,349	1,394	1,344	1,436
Fire Grant Funded	-	-	-	-	-	-	-	-	-	-
Total Fire	1,268	1,320	1,280	1,338	1,341	1,359	1,359	1,394	1,344	1,436
Total Police & Fire	3,149	3,281	3,142	3,305	3,185	3,345	3,238	3,399	3,265	3,466
Civilian	5,655	7,156	5,756	7,244	5,931	7,402	6,054	7,537	6,054	7,823
Civilian Grant Funded	648	677	715	785	753	855	749	888	756	787
Total Civilian	6,303	7,833	6,471	8,029	6,684	8,257	6,803	8,425	6,810	8,610
Total Employees	9,452	11,114	9,613	11,334	9,869	11,602	10,041	11,824	10,075	12,076

*At October 31, 2000.

Financial Accounting And Financial Policies

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, 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, 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. These fund types include Government Funds, Proprietary Funds and Fiduciary Funds described below.

Government 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 that those financed by Proprietary Funds and Trust Funds).

Proprietary Funds

Enterprise Funds - The Enterprise Funds are used to account for operations (a) 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 (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

Fiduciary Funds

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

Account Groups

The General Fixed Assets Account Group and the General Long-Term Debt Account Group are self-balancing groups of accounts that are concerned only with the measurement of financial position. They are not involved with the measurement of results of operations.

General Fixed Assets Account Group - The General Fixed Assets Account Group is used to account for fixed assets used in governmental fund type operations. Public domain ("infrastructure") improvements, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are capitalized along with other general fixed assets. No depreciation is recorded for general fixed assets.

General Long-Term Debt Account Group - The General Long-Term Debt Account Group is used to account for long-term liabilities expected to be financed from governmental funds.

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 that include debt financing. Infrastructure, as referred to by the City, means those 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 general obligation bonds which are secured by ad valorem taxes and certificates of obligation which are typically secured by a pledge of revenues and ad valorem taxes and are issued for smaller programs that support the major infrastructure facilities and for certain revenue producing facilities. Revenue bonds are utilized to finance long-term capital improvements to proprietary enterprise and self-supporting operations. Currently, revenue bonds have provided the financing required for the City's International Airport facilities, the City's Parking System and the Henry B. Gonzalez Convention Center Expansion.

The long-term infrastructure financing process commences with the identification of major projects throughout the City to be financed with general obligation bonds or certificates of obligation. These Citywide projects typically involve public safety, street improvements, drainage, flood control, construction and improvements to municipal facilities, as well as quality of life enhancements related to municipal parks. Major projects that are financed with general obligation bonds and supported by ad valorem taxes are presented to the electorate for approval. The City utilizes a debt management plan as a means of projecting debt issuance. Upon voter approval, the City is authorized

to issue general obligation 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 "Aa2", "AA+" and "AA+" bond ratings by Moody's Investors Service, Standard & Poor's Ratings Services and Fitch, Inc., respectively. The positive trend in the City's credit strength is evidenced by the Standard & Poor's rating upgrade in December, 1998 from "AA" to its current "AA+" and Fitch, Inc.'s rating upgrade in October, 1999 from "AA" to "AA+".

Debt Service Tax Rate

The combination of successful refundings, favorable economic activity and low interest rates for bond and certificate of obligation sales has resulted in a decrease in the projected maximum debt service tax rate of $0.3049 per $100 valuation prior to the 1992, 1993, 1996 and 1998 refundings to a projected maximum debt service tax rate of $0.2620 per $100 in fiscal year 2011. This estimated maximum debt service tax rate includes the issuance of the remaining $81,970,000, 1999 authorized bonds, and $79,345,000 certificates of obligation.

(The remainder of this page intentionally left blank.)

Convention Activity

The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows convention activity at December 31, for the years indicated:

Calendar Year	Convention	Attendance	Number of Room Nights [1]	Estimated Dollar Value[2]
1991	1,142	536,701	764,825	$ 386,300,000
1992	1,219	513,205	786,591	369,400,000
1993	1,597	576,720	976,732[3]	472,200,000
1994	1,647	488,979	947,753	400,400,000
1995	1,536	512,045	982,045	419,300,000
1996	1,391	575,668	959,543	471,400,000
1997	1,502	571,950	944,807	468,300,000
1998	1,497	607,890	1,038,472	497,752,490
1999	1,511	552,234[4]	938,992	452,180,243
2000	1,321	515,483[4]	921,495	422,087,790

(1) Reported by the Convention and Visitors Bureau and the Hotel Community.

(2) 1991-1992 — The estimated dollar value is calculated in accordance with a Laventhol and Horwath study for the International Association of Convention and Visitors Bureau which reflected an average expenditure of $719.77 generated per convention and trade show delegate. For the periods of 1993-1998 — the estimated dollar value is calculated in accordance with a 1993 Deloitte and Touche study for the International Association of Convention and Visitors Bureau which reflected the average expenditure of $818.82 generated per convention and trade show delegate.

(3) Calendar year 1993 was an exception to the growth trend due to three major conventions requiring approximately 115,500 room nights. Adjusting the 1993 room nights by 115,500 would result in a yearly total of 861,732 room nights.

(4) The decline in Convention Center activity has occurred due to disruptions during construction of the Convention Center expansion. Construction for the new facility has been completed. Construction activity on the previous existing Convention Center facilities is underway and is scheduled to be complete in June 2001. Currently, booking pace activity shows a substantial increase in Convention Center bookings for fiscal year 2001.

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

(The remainder of this page intentionally left blank.)

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
1991	1,227	$ 67,352,963	8	$ 690,700	11,920	$ 395,904,712
1992	2,157	132,642,497	20	10,183,789	12,255	419,839,275
1993	2,858	194,055,482	91	34,177,025	12,151	388,857,924
1994	3,987	262,104,759	166	68,097,513	13,302	421,324,638
1995	3,925	237,796,446	353	63,396,919	11,588	420,001,031
1996	4,306	261,540,367	171	64,282,630	9,055	578,225,607
1997	4,240	257,052,585	155	42,859,473	8,170	717,988,779
1998	5,630	363,747,169	85	23,194,475	8,193	892,766,648
1999	5,771	398,432,375	404	157,702,704	9,870	911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435

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

Education

There are 15 independent school districts in Bexar County with 224 elementary schools, 72 middle schools, and 44 high schools. Currently, there are 14 additional primary and secondary schools under construction. Generally, students attend school in the districts in which they reside. There is no busing between school districts in effect. In addition, San Antonio has 91 accredited private and parochial schools, 60 alternative instructional schools, and 21 charter schools at all education levels. Excluding business and professional schools, higher education facilities in the City include five accredited universities and four community colleges with a combined enrollment of 72,643 students for the fall 2000 enrollment.

Medical and Research Facilities

The City's health care sector provides major health care services through its medical, research, education, and development facilities. The Greater San Antonio Chamber of Commerce's Biomedical Economic Impact Study 2000 announced that the health care industry is now the largest industry in San Antonio with a total direct economic impact of $7.45 billion in 1999. The health care industry provides 14.8% of all jobs in the San Antonio area, employing more than 99,000 with an annual payroll of $2.8 billion. In the San Antonio area, between 1990 and 1999, the economic impact of the health care industry nearly doubled (97.2% increase). Employees in the health care sector earn more than the San Antonio average wage.

The South Texas Medical Center has 12 major hospitals and nearly 80 clinics, professional buildings and health agencies. Its combined budgets, including research, held steady at slightly over $2 billion for fiscal year 2000. Employment of both full time and part-time employees held steady at slightly less than 26,000 and treated nearly 4.4 million patients. Planned construction projects at the South Texas Medical Center totaled $156.3 million for fiscal year 2000. Investment in plant and equipment total approximately 1.935 billion for fiscal year 2000 and represent a 143% increase since 1990.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio with its five professional schools, its Research Imaging Center, and a $300 million annual budget, supporting doctoral studies in medicine, dentistry, basic sciences and nursing with master's programs in allied health.

Southwest Research Institute is one of the original and largest independent, nonprofit, applied research and development organizations in the United States, serving industry and government around the world in the engineering and physical sciences.

The Southwest Foundation for Biomedical Research is one of the largest and internationally renowned independent, non-profit, biomedical research institutions in the United States, which conducts fundamental and applied research in the medical sciences.

The Texas Research Park generates more than $200 million in economic activity for San Antonio each year. The park is owned and operated by the Texas Research Park Foundation whose mission is to build a world-class center for lifescience research and medical education, and economic development through job creation.

Additionally, San Antonio has three major military hospitals which have positively impacted the City for decades. The United States Air Force's largest medical facility, Wilford Hall Medical Center (WHMC) is an acute care facility which provides complete medical care to military healthcare beneficiaries in the south central United States, and specialized care to patients from all over the world. The Brooke Army Medical Center (BAMC) is an ultra modern, state-of-the-art acute care facility that provides trauma care and graduate medical education, and contains the world-renowned Institute of Surgical Research Burn Center. The Audie L. Murphy Memorial Veterans Hospital is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, and The Audie L. Murphy Research Services dedicated to medical investigations.

Source: Greater San Antonio Chamber of Commerce and San Antonio Medical Foundation.

Employment Statistics

The following table indicates the total civilian employment in the San Antonio MSA for the period January, 2001, as compared to the prior periods of December, 2000 and January, 2000.

	January 2001	December 2000	January 2000
Civilian Labor Force	783,244	783,218	762,067
Total Unemployment	26,075	21,128	27,910
Total Employment	757,169	762,090	734,157
Unemployment Rate	3.3%	2.7%	3.7%

The following table shows certain nonagricultural wage and salary employment by industry in the San Antonio MSA for January, 2001, as compared to the prior periods of December, 2000 and January, 2000.

	January 2001	December 2000	January 2000
Mining	2,000	2,100	2,000
Construction	39,400	39,500	37,500
Manufacturing	54,800	55,000	53,800
Transportation, Communication, and Utilities	38,700	38,800	35,900
Trade	176,000	180,600	171,500
Finance, Insurance, and Real Estate	50,500	50,900	50,200
Services and Miscellaneous	231,600	232,400	219,500
Federal Government	28,900	29,200	31,800
State Government	15,000	15,000	15,000
Local Government	86,700	87,100	85,000
Total	723,600	730,600	702,200

Source: Texas Workforce Commission, Labor Market Review, March, 2001.

Comparative Annual Statistical Data
GROWTH INDICES

Calendar Year	Electric Customers[1]	Gas Customers[1]	Water Customers[2]
1991	476,412	287,325	243,129
1992	485,345	290,497	247,365
1993	493,763	292,111	253,902
1994	504,810	295,092	257,733
1995	516,679	297,654	266,308
1996	525,085	298,604	269,405
1997	528,739	300,185	273,276
1998	548,468	301,842	270,897
1999	560,628	302,991	279,210
2000	575,308[3]	304,675[3]	285,887[3]

(1) CPS only.
(2) SAWS only.
(3) At September 30, 2000.
Sources: City of San Antonio, City Public Service and San Antonio Water System.

(The remainder of this page intentionally left blank.)

City Of San Antonio
Tax Phase-In Agreements

Company	Phase-In Period	Phase-In Term (Years)	Percent of Phase-In (Type of Property)
AMR/On-Point	1992-2001	10	Real @ 100%
Greystone Resort	1993-2002	10	Real & Personal @ 100%
H.E.B. (City Kitchen)	1993-2002	10	Real @ 50%
I.B.C./Southwestern Bell Corporation	1994-2003	10	Real @ 100%
Gruma/Mission Foods	1995-2004	10	Real @ 50%
McCarley/Texas Beverages	1995-2004	10	Real @ 50%
Security Capital/Gaylord Containers	1995-2004	10	Real @ 100%; Personal @ 80%
World Savings & Loan	1995-2004	10	Real & Personal @ 100%
York International	1995-2004	10	Real @ 75%
Security Capital/Johnson Controls	1996-2001	6	Real @ 50%
Silver Rio (Westin Riverwalk Hotel)	1997-2006	10	Real & Personal @ 100%
BDS Properties (Diamond Shamrock)	1997-2006	10	Real @ 100%; Personal @ 80%
HBE Corporation (Adams Mark Hotel)	1997-2006	10	Real & Personal @ 100%
Richter's Bakery	1997-2006	10	Real @ 100%; Personal @ 50%
Takata Seat Belts	1997-2006	10	Real @ 100%; Personal @ 50%
Cadillac Lofts	1998-2007	10	Real @ 90%
Frito Lay	1998-2003	6	Real @ 100%; Personal @ 50%
Boeing Aerospace (1)	1999-2008	10	Personal @ 90%
Capital Group	1999-2008	10	Real & Personal @ 100%
LCWW Partners (Westin La Cantera Resort Hotel)	1999-2008	10	Real 100% & Personal @ 50%
Amnitek Limited (1)	2000-2009	10	Real @ 100%; Personal @ 75%
Clark American (1)	2000-2005	6	Real @ 100%
ALCOA, Inc. (1)	2001-2010	10	Personal @ 100%
Dee Howard (1)	2001-2010	10	Real @ 100%
Coilplus Texas (1)	2001-2006	6	Real @ 100%
PacifiCare Health Systems/Opus South (1)	2001-2006	6	Real @ 100%
Chase Bank Credit Card Services – Phase 1 (1)	2001-2004	10	Personal @ 100%
Chase Bank Credit Card Services – Phase 2 (1)	2003-2012	10	Real & Personal @ 100%
ITT Sheraton (1)	2004-2013	10	Real & Personal @ 50%

(1) Tax Phase-In Agreement requires a living wage standard to be met.

Net Taxable Assessed Valuation For Tax Years 1991-2000

Tax Year	Net Taxable Assessed Valuation	Change From Preceding Year Amount	Percent
1991	$ 22,567,235,320	$ (982,808,300)	(4.17%)
1992	21,950,834,822 (1)	(616,400,498)	(2.73%)
1993	22,480,584,590	529,749,768	2.41%
1994	24,309,875,164	1,829,290,574	8.14%
1995	26,793,724,971	2,483,849,807	10.22%
1996	28,320,799,143	1,527,074,172	5.70%
1997	29,422,284,674	1,101,485,531	3.89%
1998	31,253,551,025	1,831,266,351	6.22%
1999	33,315,478,862	2,061,927,837	6.60%
2000	36,166,759,124 (2)	2,851,280,262	8.56%

(1) Decrease in assessed valuation in 1992 is due to general economic decline.
(2) Tax Year 2000 Net Taxable Assessed Valuation certified by Bexar Appraisal District at February 9, 2001.
Source: City of San Antonio, Finance Department.

San Antonio Electric And Gas Systems

Recent Financial Transactions

On November 30, 2000, the City delivered $170,770,000 in City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2000A and $50,425,000 City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2000B for the benefit of the System.

On June 2, 2000, CPS entered into a financial transaction with an affiliate of the Unicom Corporation ("Unicom") involving CPS' J.K. Spruce Unit No. 1 coal-fired electric generation unit. The transaction included a headlease by CPS of the unit to an affiliate of Unicom for a term of approximately 65 years and a leaseback of the facility from the Unicom affiliate to CPS for approximately 32 years. CPS retains fee simple title to and operating control of the facility and retains all revenues generated from sales of electricity produced from the facility. Unicom paid CPS the appraised fair market value of the unit, $725 million, in prepaid rent as compensation for the headlease. CPS has made arrangements through a trust to prepay the Unicom affiliate the total costs of the lease back during the current fiscal year. At the end of the 32-year term of the leaseback, CPS has the option to cancel the headlease by making a payment to Unicom's affiliate. CPS entered into a collateralized payment undertaking agreement ("CPUA") with AIG Financial Products Corporation, that will generate funds sufficient to fund the cancellation option payment, should CPS elect to exercise that option. The CPUA is collateralized with U.S. agency securities that are marked to market periodically. After the leaseback payments and transaction expenses, CPS' gross benefits were approximately $87 million. CPS paid $12 million, or 14% of this gross benefit, into the general fund of the City of San Antonio. CPS' remaining net benefit from the transaction will be amortized over the 32-year lease back term.

The transaction documents contain certain additional covenants of CPS and the City, principally relating to the ownership and use of the J.K. Spruce Unit No. 1. In the event of a default on the part of CPS, remedies could include the obligation of the City and CPS to make payments to the Unicom affiliate in excess of the benefits expected under the transaction. In addition, if the J.K. Spruce Unit No. 1 is sold by the City prior to the termination of the headlease, the City and CPS would owe a termination payment to the Unicom affiliate based upon the present value of the transaction as of the date of the sale plus any resulting tax liability suffered by the Unicom affiliate as a result of the sale. This amount could also exceed the expected benefits of the transaction. CPS expects to fully comply with all of its obligations under the transaction and does not believe that a decision will be made to sell the J.K. Spruce Unit No. 1 during the term of the headlease.

San Antonio Water System

Recent Financial Transactions

On March 8, 2001, the City Council adopted Ordinance No. 93532 authorizing the placement of $58,700,000 City of San Antonio Senior Lien Water System Revenue and Refunding Bonds, Series 2001.

On March 8, 2001, the City Council adopted Ordinance No. 93533 authorizing the placement of $9,715,000 City of San Antonio Junior Lien Water System Revenue Bonds, Series 2001.

On March 8, 2001, the City Council adopted Ordinance No. 93534 authorizing the placement of $15,435,000 City of San Antonio Junior Lien Water System Revenue Bonds, Series 2001-A.

Airport System

General

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

San Antonio International Airport (the "International Airport" or the "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. 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 28 gates. Presently, domestic air carriers providing service to San Antonio are American, America West, Atlantic Southeast, Continental, Delta, Midwest Express, Northwest, Southwest, Sun Country, United, and TWA. Mexicana, Aerolitoral, and Aeromar are Mexican airlines that provide passenger service to Mexico. The Airport Master Plan design allows for an increase from 28 to 60 gates. It is estimated that current gate facilities are being used at 88% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses including nine rental car companies which lease facilities at the International Airport and Stinson Municipal Airport.

Stinson Municipal Airport ("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. An Airport Master Plan for Stinson was initiated in March 2001 to facilitate the development of Stinson to expand its role as a general aviation reliever to the International Airport.

Capital Improvement Plan

General

The Airport System's overall CIP for Fiscal Years 2001 to 2009, as contained in the application to the FAA to impose a PFC and which may change as circumstances permit, is estimated to be approximately $352.2 million. The anticipated sources of funding for the CIP are as follows:

Funding Sources	Anticipated Funding
Federal Grants	
Entitlements	$39,298,046
General Discretionary	30,097,620
Noise Discretionary	12,055,364
Passenger Facility Charges	
Pay-As-You-Go	56,193,958
PFCs Secured Bonds	65,864,600
Other Funding	
Airport Funds	80,357,215
General Airport Revenue Bonds	68,335,286
Total – All Sources	$352,202,089

The above funding sources do not reflect the LOI grant receipts of approximately $20 million projected to be received by the City in Fiscal Year 2010 and Fiscal Year 2011, which will reimburse the Department for airport funds used in earlier years to pay for LOI-eligible project costs.

The CIP includes capital improvements planned at the Airport and the Stinson Airport, and are generally described as follows:

Improvement	Amount
Terminal/Gate Expansion	$116,800,000
Airfield Improvements	131,849,660
Cargo Facilities	6,584,000
Roadway Improvements	15,225,000
Parking Improvements	31,044,963
Noise Abatement	14,569,205
Aircraft Apron	7,600,000
Stinson Airport	4,900,000
Land Reclamation and Acquisition	13,000,000
Other (Building Imp., Drainage, Radio System, Etc.)	10,629,261
Total	$352,202,089

Proposed PFC Projects

Public agencies wishing to impose PFCs are required to apply to the FAA for such authority and must meet certain requirements specified in the PFC Act (defined below) and the implementing regulations issued by the FAA.

The City, as the owner and operator of the Airport, has submitted an application to the FAA, requesting authority to "impose and use" PFCs at the $3 level on seven new projects and to "impose" PFCs on five additional new projects. A total of approximately $104.4 million of PFCs will be required to provide funding for these projects.

Cargo Activity: Cargo has been one of the fastest growing activities at the International Airport over the last ten years. The 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. The East Cargo Area is specially 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 recently constructed its own facility. Expansions of the cargo apron were completed in 1997 and 1999 to accommodate future growth and additional warehouse and office facilities are planned for 2001 and 2002. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2000 totaled 137,430 tons.

Parking Improvements: The Airport System operates and maintains approximately 6,100 parking spaces and 1,000 employee parking spaces for a total of 7,100 parking spaces. A parking study is currently being developed for the International Airport by AGA Consulting, Inc. The study is expected to be completed in the summer of 2001. The preliminary finding from the study indicates that projected peak period demand for airport parking will exceed the available supply by the end of 2002. It is estimated that 2,400 additional parking spaces will be required in 2003 to satisfy projected demand over the next 10 years. The City is in the process of coordinating the facility layout for the new parking improvements with the programming for the additional terminal facilities. The construction of new parking facilities is expected to start in 2002 and the costs are included in the CIP.

Terminal Renovations: A comprehensive terminal renovation project is underway to improve the quality of services provided to passengers at the International Airport. The project, which is estimated to cost $27.5 million, and is included in the CIP, will include state-of-art terminal building amenities and implementation of recommendations from a recently completed Concession Redevelopment Study. Included in the terminal renovations will be redesigned, high-quality retail and food establishments offering a mix of regional and local products at street prices. Concession space will be 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 will be at airside locations.

(The remainder of this page left blank intentionally.)

APPENDIX C

The information contained in Appendix C consists of selected portions of the City's Annual Financial Report for the fiscal year ended September 30, 2000 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.

CITY OF SAN ANTONIO

OFFICE OF THE CITY MANAGER
P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966
TEL: 210-207-7080
FAX: 210-207-4217

February 23, 2001

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2000. Through our dedication and commitment to excellence, the City maintained its bond ratings with the nationally recognized rating agencies: Fitch, Inc., at AA+ which was recently upgraded in 1999, Standard & Poor's Public Finance Ratings Services at AA+, and Moody's Investors Service at Aa2. The ratings reflect strong financial management and position with continued strong economic and tax base growth.

This report is prepared and presented by the City's Finance Department. Accordingly, the responsibility for the accuracy, completeness and fairness of the data and presentation, including all disclosures, rests with the City of San Antonio. The public accounting firms KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA, have audited the financial statements and supplemental schedules contained herein. As reflected in the City's independent auditors' report, the data in the CAFR, including the City's financial position, results of our operations, and the liquidity of its various funds and account groups is presented fairly in all material respects.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical.

- The Introductory Section contains the transmittal letter, a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, City of San Antonio organizational chart, and a list of principal officials.
- The Financial Section includes the Independent Auditors' Report, the general purpose financial statements, and the combining individual fund and account group financial statements.
- The Statistical Section consists of selected financial and demographic information presented on a multi-year basis.

In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and related OMB Circular A-133, and the State of Texas Single Audit Circular. The Independent Auditors' Report on the general purpose financial statements, combining and individual fund statements, and 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, OMB Circular A-133, and the State of Texas Single Audit Circular are in a separate document. As in the past, the City will prepare and submit recommendations on any single audit findings of noncompliance with applicable regulations for corrective action in order to achieve compliance in the future.

THE REPORTING ENTITY AND CITY SERVICES

Reporting Entity

The City of San Antonio is a home rule City that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two year terms, limited to two concurrent terms. San Antonio is located in South Central Texas, approximately seventy-five miles south of the State Capital in Austin and serves as the county seat for Bexar County. As of September 30, 2000, its geographic area was approximately 417.74 square miles. The United States Census Bureau cites the City of San Antonio as the second largest city in the state of Texas and eighth largest city in the country. The estimated population grew from 1,187,600 in fiscal year 1999 to 1,207,500 in 2000, an increase of 1.68%.

Pursuant to the reporting standards contained in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Reporting Entity," other related entities are included in the Comprehensive Annual Financial Report as blended or discretely presented component units. Blended component units are those entities that are considered as part of the City's operations but are legally separate entities. Those entities are the City of San Antonio Health Facilities Development Corporation, the City of San Antonio Industrial Development Authority, the San Antonio Fire and Police Pension Fund, and the San Antonio Fire and Police Retiree Health Care Fund.

Entities that require discrete presentation are the San Antonio Development Agency (SADA), the City of San Antonio Higher Education Authority (SAHEA), the Greater Kelly Development Authority (GKDA), the San Antonio Housing Trust Foundation, Inc. (SAHTF), the San Antonio Local Development Company, Inc. (SALDC), the San Antonio Water System (SAWS) and City Public Service (CPS). SAWS and CPS are independently managed, municipally owned utility systems that operate under quasi-independent boards of trustees.

For additional details on each of these entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, Footnote No. 1, entitled "Reporting Entity".

Services

The City of San Antonio 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, 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 tax, sales taxes, grants, user fees, revenues from municipally owned utilities, and bond proceeds.

City Public Service (CPS) provides electric and gas services through two coal fired and five natural gas fired plants. The City owned utility owns 28% of the South Texas Project nuclear plant on the Gulf coast and delivers natural gas through its 4,183 miles of 2 to 16-inch steel mains and 1¼ to 6-inch high density polyethylene (plastic) mains. In fiscal year 2000, CPS obtained its generation from the following sources: Coal, 49%; Nuclear, 31%; and Natural Gas, 20%. In June of 2000, a combined cycle gas-fueled 512-MW power plant (the Arthur von Rosenberg Plant) went into commercial operation. CPS operations and debt service requirements for capital improvements are funded by revenue derived from charges to its customers. The City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. In this report, CPS is included as a significant discretely presented Proprietary Component Unit Fund. Additional information regarding CPS is discussed in the section "Infrastructure and Development".

THE REPORTING ENTITY AND CITY SERVICES (Continued)

Services (Continued)

San Antonio Water System (SAWS) provides water, wastewater, chilled water, steam and reuse water services to the San Antonio area. SAWS is a City owned, separate consolidated entity that addresses water related issues in a coordinated and unified manner. SAWS' operations, capital improvements, and related debt service requirements are funded by revenues from its customers. Similar to CPS, the City Charter requires that rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. SAWS is included as a significant discretely presented Proprietary Component Unit Fund, and it is discussed further in the "Infrastructure and Development" section. In January 2001, SAWS will implement a Water Supply Fee (WSF) to fund the development of additional water resources. The WSF is anticipated to generate $20.2 million in revenue the first year and is the beginning of a five year financing plan of water resource development.

The San Antonio Development Agency's (SADA) mission is to focus on housing with emphasis on activities inside Loop 410 while continuing the implementation of the City's Urban Renewal Program. It may designate for urban renewal such areas as it deems advisable, subject to approval by the City Council and the federal agency that administers the overall program. A majority of SADA's funding is provided from the City as pass-through grants. The board of SADA is composed of seven members appointed by the City Council.

The City of San Antonio Higher Education Authority (SAHEA) was established in accordance with State law for the purpose of aiding non-profit institutions of higher education in providing educational and dormitory facilities. This corporation is authorized to issue revenue bonds for the purposes previously mentioned, but said bonds are not obligations of the City. The SAHEA is governed by an eleven member Board of Directors appointed by the City Council for two year terms.

The Greater Kelly Development Authority (GKDA) is charged with the task of all issues related to the closure, conversion, redevelopment, and future use of Kelly Air Force Base. The GKDA is also responsible for reviewing all options related to the most appropriate uses of the property on the base and surrounding areas. The GKDA is governed by an eleven member Board of Directors appointed by the City Council.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) was organized for the purposes of supporting charitable, educational and scientific undertakings, and to provide housing for low and moderate income families. The SAHTF is also responsible for the administration and operations of the City's Housing Trust Fund, established for the same purpose noted above. The SAHTF is governed by an eleven member Board of Directors appointed by the City Council.

The San Antonio Local Development Company, Inc. (SALDC) participates in the Neighborhood Business Revitalization Program (NBRP), which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration (EDA), and the U.S. Department of Housing and Urban Development (HUD). The SALDC administers and operates the NBRP revolving loan fund that provides qualifying local businesses with loans under economic development programs administered by the SBA. The SALDC also administers, by agreement with the City, a U.S. Department of Commerce Title IX revolving loan fund, and an SBA MicroLoan Program. The SALDC is governed by a thirty-three member Board of Trustees, appointed by the City Council, and an eleven member Board of Directors appointed from the Board of Trustees.

ECONOMIC OVERVIEW

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 been integral

ECONOMIC OVERVIEW (Continued)

to these efforts. It is undertaking on-going infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as providing incentive, assistance and attraction programs that are geared to businesses of all sizes. Both government and citizens are working toward increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in San Antonio. In the wake of the North American Free Trade Agreement ("NAFTA"), San Antonio has been able 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 it enjoys close cultural and business ties to that nation. San Antonio's leading industries include biomedical research and health services, international trade and distribution, telecommunications, tourism, and financial services.

Employment Sectors

San Antonio's employment sectors (nonagricultural) distribution as of September 2000, according to statistics provided by the Texas Workforce Commission, are as follows:

Industry Sector	Percentage of Total Employment	Jobs Gained/Lost (9/99 to 9/00)	%Increase (9/99 to 9/00)
Services	31.96%	5,800	2.57%
Retail & Wholesale Trade	24.21%	3,500	2.04%
Government	18.46%	(100)	(.08%)
Manufacturing	7.64%	1,700	3.17%
Finance, Insurance & Real Estate	7.18%	2,000	4.00%
Construction	5.44%	1,500	3.96%
Other	5.11%	500	0.00%
Total	100.00%	14,900	2.10%

The total number of San Antonio's nonagricultural jobs in September 2000 was 723,800, a gain of 14,900 jobs (or 2.10%) over September 1999. The City's largest employment sectors are Services, Retail and Wholesale Trade, and Government, which comprise about 75% of the area's employment. The Services sector posted the greatest gain in sheer numbers and the Finance, Insurance and Real Estate sector posted the greatest gain in terms of percentage growth. Within the Services sector, the largest gain was in Business Services, the sector accounted for 43.10% (2,500 jobs) of services employment.

The City's health care sector provides major health care services through its medical, research, education, and development facilities. The Greater San Antonio Chamber of Commerce's Biomedical Economic Impact Study 2000 announced that the health-care industry is now the largest industry in San Antonio with a total direct economic impact of $7.45 billion in 1999. The health care industry provides 14.8% of all jobs in the San Antonio area, employing more than 99,000 with an annual payroll of $2.8 billion. Between 1990 and 1999, the economic impact of the health care industry nearly doubled (97.2% increase). Employees in the health care sector earn more than the San Antonio average wage.

San Antonio has several distinguished centers of research, medicine and high-technology facilities. One such facility is the Southwest Foundation for Biomedical Research, which is one of the largest independent and internationally renowned, non-profit biomedical research facilities in the nation. Major research programs include cardiovascular diseases, infectious diseases, the role of genetics in human diseases, respiratory diseases of the newborn, fetal growth and development, hormonal research, behavioral medicine, and cancer research. Another major biomedical research complex is the Texas Research Park, which generates more than $200 million in economic activity for San Antonio each year. Institutions in the Texas Research Park include the University

Employment Sectors (Continued)

of Texas Health Science Center and San Antonio's Institute of Biotechnology/Department of Molecular Medicine, which is making tremendous advances in breast cancer gene research.

Additionally, San Antonio has three major military hospitals which have positively impacted the City for decades. The United States Air Force's largest medical facility, Wilford Hall Medical Center (WHMC) is an acute care facility which provides complete medical care to military healthcare beneficiaries in the south central United States, and specialized care to patients from all over the world. WHMC contains the only Eye Bank within the Department of Defense and operates the only military programs for liver transplantation and allogenic bone marrow transplantation. The Brooke Army Medical Center (BAMC) is an ultra modern, state-of-the-art acute care facility that provides trauma care and graduate medical education, and contains the world-renowned Institute of Surgical Research Burn Center. Both WHMC and BAMC support the surrounding local communities by participating fully in the trauma and emergency medical care of the San Antonio and South Texas civilian communities. The Audie L. Murphy Memorial Veterans Hospital is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, and The Audie L. Murphy Research Services, which is dedicated to medical investigations. It serves forty-one counties and a veteran population of 300,000 throughout South Texas.

The hospitality industry represents another major component of the Services sector. San Antonio's natural, historic, cultural and recreational attractions have long made it one of the top vacation and convention destinations in the country. This has resulted in an increase in tourism activity, economic impact and employment opportunities related to the hospitality industry. The City's proactive management practices and marketing efforts resulted in approximately 1,275 conventions in 2000, with 943,996 associated room nights and an estimated economic impact of $454.7 million. The San Antonio Convention & Visitors Bureau (SACVB) has booked approximately 1.6 million room nights through 2015.

Significant hospitality industry developments include the grand opening of Phase I of the Henry B. Gonzalez Convention Center Expansion and Renovation Project. Phase I encompasses a bright new addition to the center that is integrated into San Antonio's River Walk and the surrounding HemisFair Park. Phase II will consist of improvements made to the existing convention facilities. The Convention Center project, which will double the size of convention and meeting room space, will be completed in May 2001. Other major hospitality events include the recent opening of the 508 room Westin La Cantera Resort, additional attractions added to Six Flags Fiesta Texas theme park, and the 474 room Westin River Walk, a full-service hotel that opened in the Fall of 1999.

The military continues to represent a principal component of the San Antonio economy. As of September 30, 2000, the military employed approximately 71,252 military, civilian and part-time reserve personnel with an aggregate payroll of about $1.98 billion. Five major installations comprise the military sector: Brooks, Lackland, Randolph, and Kelly AFBs, and Fort Sam Houston (including Brooke Army Medical Center).

Additionally, San Antonio's stature as a location for corporate headquarters is growing. SBC, Inc., a leading telecommunication business, has successfully used its San Antonio base for growing its business not only in the Southwestern and Western states, but also in the Northeast. United Services Automobile Association (USAA), a leading insurance agency, is undergoing a major expansion of its headquarter operations in the City and continues to be the City's largest private sector employer. Clear Channel Communications, Inc., also headquartered in San Antonio, is a global leader in the out-of home advertising industry with radio and television stations, and other entertainment venues in 40 countries around the world. New headquarters have also been built for San Antonio's two biggest energy companies, the Valero Energy Corporation, which opened a major new office structure near

Employment Sectors (Continued)

downtown in 1999, and Ultramar Diamond Shamrock, which recently completed a campus-style headquarters near the University of Texas at San Antonio. Clarke American Checks, the third-largest producer of checks and financial forms in the country with headquarters in San Antonio, expanded its local presence in 1999 with the addition of a major customer service center.

San Antonio is being recognized as a center for national and international business service operations. This is evidenced by companies such as CitiCorp, WorldCom, World Savings & Loan, QVC, Kraft, Providian Financial and other companies which have established substantial business operations in San Antonio that provide billing services, technical and communications services, financial services, customer service and other functions to their entire organizations.

Business Climate and Outlook

San Antonio's healthy economy and positive business climate are enhanced by elements key to continued economic growth, such as an advanced telecommunications system, significant recent accomplishments in the area of higher education, and strong workforce development programs. Also enhancing San Antonio's business appeal is the high quality-of-life the City offers and a cost-of-living that is well below the national average. 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.

The City's Economic Development Department (EDD), in coordination with the private, non-profit San Antonio Economic Development Foundation, continues to attract major corporations to the area and help local businesses expand. In 2000, approximately 4,402 jobs were created through economic development programs. Among the new companies that located in San Antonio is Amnitech, a partnership of two Singapore-based companies, which will manufacture computer components.

The Military Initiatives Division of the City's EDD continues to focus on working with the Greater Kelly Development Authority in the successful redevelopment of Kelly Air Force Base which is scheduled for closure and realignment in July 2001. The Division is also working with community groups and the other military bases, such as Brooks AFB and Fort Sam Houston Army Base, to explore ways that the City can help these local installations become more cost efficient, preserve jobs and enhance economic development opportunities.

Kelly Air Force Base

In July 1995, the Defense Base Closure and Realignment Commission recommended the closure and realignment of Kelly Air Force Base ("Kelly AFB"). Following this decision, the City Council created a large citizens committee to map out the community vision for the future of Kelly AFB. This committee, the Initial Base Adjustment Strategy Committee, published a report in December 1995, recommending that the goal for the redevelopment should be to create or retain 21,000 well-paying jobs in San Antonio by 2006.

In January 1996, the City Council created the Greater Kelly Development Corporation ("GKDC") as the organization responsible for overseeing the redevelopment of the base and for implementing the community's vision. The GKDC completed its Master Plan in March 1997 and submitted the plan and other documents to the U.S. Department of Housing and Urban Development and the Secretary of the Air Force for review and certification of compliance with the law. This review ultimately led to the Air Force's Disposal Record of

Business Climate and Outlook (Continued)

Decision, the negotiation of an Economic Development Conveyance Agreement, and to the execution of a Master Lease in Furtherance of Conveyance for approximately 1,800 acres of surplus property at Kelly AFB.

In November 1999, City Council approved the establishment of the Greater Kelly Development Authority ("GKDA"), as the local redevelopment authority for Kelly AFB, in accordance with legislation that was passed during the 1999 State of Texas legislative session. The GKDA replaces the GKDC. Also, in November 1999, City Council appointed new board members to the GKDA. The 1999 legislation remedied some of the deficiencies associated with setting up the former GKDC as a public, not-for-profit corporation under the Development Corporation Act. In addition, the GKDA Board approved the marketing of the redevelopment effort under the trademark of KellyUSA.

The transference of Air Force buildings and land at Kelly AFB to the GKDA continues as the Air Force prepares for base closure scheduled for July 2001. As of October 2000, GKDA had assumed control of over six million square feet of Air Force facilities and was providing facility support services to East Kelly and most of main Kelly through a cooperative agreement with the Air Force. As of December 1999, GKDA had secured twenty-two commercial tenants providing over 4,400 jobs. The primary anchor tenants at KellyUSA include the Boeing Company and Lockheed-Martin, two of the world's major aviation industry players. Other major commercial tenants at KellyUSA, as of October 2000, include Pratt & Whitney, EG&G, Ryder Integrated Logistics, Railcar America, General Electric, Cooperheat-MQS Inc., Standard Aero, and Clark Freight Lines, Inc.

On February 20, 1998, the Boeing Company announced its intent to create a new aircraft maintenance and modification business at Kelly and to set up operations in facilities vacated by the transfer of C-5 maintenance workload to Warner Robins AFB, Georgia. Boeing set up operations in August 1998, and by December 1999, had created over 1,500 jobs, with employment projected to reach 2,000 by the close of the year 2000. Boeing is currently looking to expand operations and facilities at KellyUSA in two phases over the next 12-18 months that could raise their employment levels to 3,000 by 2002.

In 1998, the Air Force conducted a major public-private competition for depot maintenance work involving the Jet Engine Propulsion Business Area (PBA), affecting approximately 3,000 jobs. On February 12, 1999, the Air Force announced that this contract was awarded to the public bidder, Oklahoma City Air Logistics Center (ALC) and its primary partner, Lockheed Martin Corporation. Lockheed-Martin and its commercial partners retained over 1,450 jobs at Kelly to perform its portion of the PBA workload. The Lockheed-Martin team is also expanding their operations and is expected to grow in 2001.

GKDA also initiated the design and construction of two new facilities in 2000 with occupancy scheduled in 2001. One facility nearing completion is an 80,000 square foot administration building located at the main entrance to KellyUSA. The other new facility pending construction is a new 130,000 square feet hangar facility to accommodate an expansion by Boeing. These new facilities will provide necessary infrastructure improvements called for in the Kelly Master Plan to help create a world class business and industrial park.

Brooks City Base

Over the past two years, the Mayor has appointed a community Brooks Opportunities Task Force and two citizen advisory committees (Property Development and Partnerships). These entities instituted a proactive approach to planning the future of Brooks Air Force Base ("Brooks AFB") in the San Antonio community. The City's primary focus has been on retaining over 4,000 jobs at Brooks AFB by making Brooks AFB more cost efficient and enhancing economic development opportunities for the surrounding community. Through joint planning efforts with Brooks AFB, the Air Force secured legislation in October 1999, authorizing the establishment of a

Business Climate and Outlook (Continued)

pilot program aimed at reducing costs through an initiative called the "City Base." The City Base concept allows the Air Force the opportunity to transfer base property to the City and to then lease back property from the City for Air Force missions.

In November 1999, City Council approved the Mayor's Brooks Property Development Committee recommending City staff proceed in negotiating with the Air Force to transfer Brooks' property to the City. As a result, the City and the Air Force adopted a joint vision of leveraging the existing assets at Brooks AFB and creating a world class business and technology park to foster the development of key industry sectors, such as bio-technology. Under this scenario, the City would assume ownership of the base, provide municipal services and retain a third-party to manage and develop the property.

The City and Brooks AFB are currently in negotiations to transfer the ownership of this Federal installation to the City. The City intends for the business and technology park to operate as a financially self-sustaining enterprise. The first step in transferring ownership occurred in December 2000 with the City Manager and the Secretary of the Air Force signing a non-binding Letter of Intent between the City and the United States Air Force. This Letter of Intent sets forth the general terms and conditions for the transfer of base ownership. It is anticipated that the contractual documents will be executed by Summer of 2001, with transition and implementation beginning on October 1, 2001.

Aviation Industry Development

The City of San Antonio possesses three airport facilities: San Antonio International Airport, Stinson Municipal Airport and Kelly Air Force Base. The International Airport and Stinson Airport are owned by the City and operated by the City's Aviation Department. Kelly Air Force Base is in the process of transition from an Air Force facility to the GKDA. These airport facilities provide San Antonio with a variety of properties, facilities and assets that comprise the nucleus for a viable and expanding aviation industry. The City, in coordination with GKDA, the City's Economic Development Department, the San Antonio Economic Development Foundation and the San Antonio Free Trade Alliance are currently developing a comprehensive strategic plan for the utilization of San Antonio's aviation facilities to maximize economic development opportunities. This plan will integrate San Antonio's primary aviation facilities into a coordinated system that will capitalize on market opportunities relating to air cargo operations, aircraft modification, maintenance and manufacturing, and general aviation. The strategic plan will also address complementary and/or unique business opportunities for each facility, including a recommended strategic direction, and provide an implementation plan to guide economic development efforts over the next ten years.

Fort Sam Houston

Fort Sam Houston has also initiated activities to reduce infrastructure costs and pursue asset management opportunities. In December 1999, Fort Sam Houston announced a Notice of Availability to Lease the former Brooke Army Medical Center (BAMC) and the associated two-building Beach Pavilion complex—over 500,000 square feet of potential rental space. Through a competitive source selection process, the Army selected a private developer, Roy F. Weston, Inc., to partner with the Army in building a business and leasing plan for more efficient utilization of these available real estate assets. The plan will include financing strategies for proposed leasing arrangements and development of the properties. The City is partnering with the Army in this initiative to ensure compatibility with community development needs and goals. The Army and its partner expect to complete a business plan by March 2001 and begin renovations in the leased facilities in Summer 2001. These facilities will then be marketed for leasing to private sector commercial tenants.

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

San Antonio Technology Accelerator Initiative (SATAI)
SATAI is a collaborative effort that identified opportunities for economic development for San Antonio's technology industries. Four technology cluster groups; biosciences, information technology, telecommunication, and aviation were identified as San Antonio's competencies. The results of the collaborative effort is the development of the SATAI Network. An industry driven and multi-stakeholder organization that will accelerate the entrepreneurial job creation plus increase community income through the growth of the technology sector of the San Antonio economy.

New Business Prospects
The San Antonio Economic Development Foundation, Inc. reported in the Fiscal Year 2000 Summary and Fourth Quarter Report that the City had ninety active business prospects. These new businesses are categorized as business services and insurance, fabricated metal products, industrial machinery, electronics, rubber and plastics, nondurable distribution, transportation equipment, miscellaneous manufacturing, measuring instruments and others.

Downtown Development Projects
At the end of fiscal year 2000, there were several downtown development projects being proposed. These included public and private projects which varied in developmental stage from conceptual to completed. A major private/public economic development plan includes in excess of $100 million of private and public improvements were made to a section of the central business district's Houston Street. Public improvements include, among other things, riverwalk, street, sidewalk, landscaping and pedestrian way improvements. Private improvements include renovations to eight buildings located on Houston Street as well as soliciting new entities to be built in this area. The planned private developments include specialty retail outlets, restaurants, office space, housing units, clubs and other venues. In addition to the aforementioned improvements, the City is constructing a 716 space multi-level parking garage in the area of Travis and St. Mary's streets.

International Trade
The Directory of San Antonio Exporters and Support Organizations (published by the City's International Affairs Department) has identified over 750 local companies that export to other nations or provide export assistance. During fiscal year 2000, the International Affairs Department worked with 130 international delegations that included 2,455 delegates that visited the City of San Antonio. Delegations represented South Africa, Spain, Germany, Korea, Taiwan, Mexico, India, Columbia, France, Czech Republic, Norway, Puerto Rico, Chile. Argentina, Turkey, China, The Canary Islands, Russia, Belgium, and Malaysia. The value of exports has increased from $563.9 million in 1993 to $2,033.7 million in 1999, the most recent year for which such information is available. Another component of the City's international trade is the activity of the North American Development Bank ("NADBank") which is located in San Antonio. The International Affairs Departments' Annual Report for fiscal year 2000 cites NADBank activity since its establishment as having authorized loans, guaranties and/or border environment infrastructure fund grants totaling approximately $273.26 million to partially finance thirty-one infrastructure projects. These projects will present a total investment of approximately $866 million benefiting an estimated five million residents in the United States and Mexico.

At the end of September 2000, NADBank signed a loan and/or Border Environment Infrastructure Fund (BEIF) agreement for eighteen of the thirty-one projects with approved financing for seven loans totaling $11.12 million and sixteen BEIF grants totaling $137.09 million. In addition, approximately $59.6 million in NADBank loans and/or BEIF grants funds have been disbursed for fifteen of these projects. The NADBank is currently involved in 83 institutional strengthening projects assisting sixty communities; twenty-eight projects have been completed and delivered to the utilities and fifty-five projects are in progress.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development

The City recognizes its obligation to address infrastructure needs and to provide the services required to maintain and continuously improve the living standards of its citizens. Infrastructure, the basic framework or underlying foundation provided by government to support a community's basic needs, including its various components that ensure economic activity, safety, education, and quality of life, are discussed below.

Basic Infrastructure Components

Street/Highway System
San Antonio is located at the crossroads of two important Freeways – IH-10 (running east-west) and IH-35 (running north-south) – and is located mid-way between the East and West Coasts. San Antonio's highway system, consisting of approximately 3,968 roadway miles, facilitates the movement of commerce within and through the City. Freeway arteries that intersect the downtown business district include IH-10, IH-35, IH-37, US-90, and US-281. There are three freeway loops including a downtown loop, IH 410, and an outer loop, Loop 1604. Recently completed or ongoing improvements include the expansion of IH-10 between IH 410 and Loop 1604, the widening of segments of Loop 1604, the construction of new interchanges of IH 410 and IH-10, and a new transportation corridor, the Wurzbach Parkway. The Texas Department of Transportation's TransGuide or "smart highway" project went on-line in San Antonio in July 1995, with ongoing additional expansions and equipment updates. This traffic management system utilizes high speed computer technology to inform drivers about traffic conditions ahead, thereby enhancing safety, reducing congestion, and providing for more efficient traffic flow. Additionally, the Texas Department of Transportation is currently planning the construction of a four-level IH 410/US-281 interchange.

Public Safety
Fiscal year 2000 was the fourth year of the Vision 2001 Plan. During the year, construction for the improved Dispatch Facility was completed. Funded with 1998 Certificates of Obligation, the improved facility will accommodate the requirements for a new public radio system currently under design and scheduled to become operational in 2002.

In June 2000, the Police Department presented the 2000 Police Staffing Plan to City Council. Although not a mandate, the Plan served as a guide in the fiscal year 2001 budget process. The major goals proposed by the plan are filling police officer vacancies within six months of their occurrence, maintaining an average City-wide Patrol Availability Factor of 42.5% and implementing a dedicated directed patrol on each shift.

Vision 2001, a comprehensive five-year strategic plan augmented with the Management Accountability Program, continues to provide the guidance for advancement in public safety. This plan is goal oriented and focuses on enhanced enforcement programs, training, support services, human resource management, and equipment and technological initiatives whose focus is improved service delivery. As evidence of the City's commitment to public safety, violent crime in the categories of murder, rape and robbery continued to decline in fiscal year 2000 by 7.3% from fiscal year 1999.

The 1999 Bond Program earmarked $17.4 million for three Vision 2001 technology systems: Field Entry Reporting, Optical Disk Storage and Retrieval, and Supplementary Report Management System. This "Public Safety Integrated Technology System" will provide a comprehensive information management system to increase police officer and detective effectiveness while enhancing customer service. The system will enable officers to enter reports from the field, as well as improve the filing, preparation and storage of important case information. Through the Information Services Department, the Police Department currently has a contract with Open Systems Group for the development of a software base for this system. In addition, 1999 General Obligation

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Safety (Continued)
Bonds totaling $3 million were allocated to Police Substation Expansion Projects for West, South, North and Northwest Substations.

The City continues to promote and provide for its Public Safety infrastructure by allocating funding through the budget process for police, fire and Emergency Medical Service (EMS). As of September 30, 2000, Public Safety Infrastructure included 6 police stations, 47 fire stations, which house 45 engine companies, 17 truck companies, 1 quint, 7 brush trucks, 8 Fire command units, 5 EMS command units, 24 full-time EMS units and up to 10 peak period units. With regard to Fire and EMS services, fiscal year 2000 included the continued implementation of the Fire Department Master Plan, a five-year rolling plan of comprehensive improvements targeted to enhance fire suppression, fire prevention, and emergency medical services. Improvements implemented included the decentralization of the Fire Prevention Unit; replacement of 1 Arial ladder truck and 5 pumpers through lease purchases; replacement of 3 ambulances; placing all EMS ambulances in the replacement fund; the addition of 4 first responder vans, bringing the total to 14 which are part of an initiative by the Fire Department to increase the useful life of the more expensive firefighting apparatus; the addition of one full-time EMS unit bringing the total number of EMS units to 24. Technology and equipment enhancement related improvements included the purchase of Cellular Digital Packet Data (CDPD) units, which replaced 40 outdated Mobile Data Terminals (MDTs) and the equipping of 2 trucks with medium rescue equipment bringing the citywide total to 3.

Parks and Recreation Department
As of September 30, 2000, the City's Parks and Recreation infrastructure included over 168 neighborhood, community and large urban parks, numerous sports complexes, 25 recreation centers, 23 swimming pools, and other special facilities, such as the River Walk, Botanical Gardens, Tower of the Americas, Spanish Governor's Palace, Market Square and La Villita. The total park area covers 7,898 acres. During fiscal year 2000, approximately 36 Parks and Recreation capital improvement projects were completed at a cost of over $11.5 million, and an additional 82 Parks and Recreation capital improvement projects were under construction, bidding, or under design at the end of the fiscal year.

On May 6, 2000, San Antonio voters approved the collection of an additional 1/8 cent sales and use tax aggregating up to $65 million to purchase and develop as appropriate; (a) large tracts of parkland containing sensitive natural areas over the Edwards Aquifer ($5 million), and (b) linear tracts of land for greenway development along Leon Creek and Salado Creek ($20 million), as well as a 10% operations and maintenance endowment for the Edwards Aquifer Parkland. The parks proposal was the only one of four ballot issues presented to voters on May 6, 2000 that was approved, and will be funded through a temporary 1/8 cent increase in San Antonio's sales and use tax. It is anticipated that the $65 million will be remitted to the City by July 2004.

Planning Department
In fiscal year 2000, budget appropriations were made for the Neighborhood Challenge Program. The Challenge Program provides neighborhood-based organizations the opportunity to implement small, public improvement projects in partnership with private groups. Individual neighborhood projects are allotted a minimum of $2,500 up to a maximum of $5,000 in City funds to be matched equally by a private source of funds, labor, or in-kind contributions. A total of $61,155 was awarded to fifteen projects through this program in fiscal year 2000. It is anticipated that most of these projects will be completed by November 2001.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)
The Planning Department staff continues to assist Freilich, Leitner and Carlisle of Kansas City, Missouri (FLC) in updating the Unified Development Code (UDC). The updating process for the UDC involves enhancement of the land use policies to meet the needs of the future. Objectives of the revision include reduction in urban sprawl, better management and conservation of natural resources, increased emphasis on urban design standards, facilitation of inner city redevelopment, recognition and preservation of older neighborhoods, renewed emphasis on public parks and improved traffic circulation. The UDC is scheduled for adoption in March 2001.

In order to provide high quality customer service, the Planning Department has implemented a Case Management System reviewing the zoning process. All new zoning cases are assigned to a case manager. The case manager has responsibility for the case including case preparation, analysis, and making the recommendation on the proposed zoning change. Case managers provide applicants, nearby neighborhood associations, zoning commissioners and City Council members with a clear point of contact for zoning cases. Case managers are available to answer questions and resolve issues associated with their assigned cases.

In January 2000, the Special Use Permit (SUP) Ordinance was revised and adopted by City Council. The SUP is designed to provide for land use within areas that are not permitted by the established zoning district but due to individual site considerations or unique development requirements would be compatible with adjacent land uses under given conditions. This revised ordinance will provide more flexibility for administering the Zoning Ordinance and for evaluating zoning change requests. The granting of a "Special Use Permit" shall not be for all of the uses permitted in given districts but only for the "Special Use" as named in Ordinance 91292.

Library Facilities
The San Antonio Public Library System consists of a Central Library facility, 18 branches, 1 joint-use facility at the Ronald Reagan High School (a partnership between the City and Northeast Independent School District), and 2 bookmobiles. The Central Library, 9 of the branch libraries and Ronald Reagan High School offer weekday and weekend service, while the remaining 9 Library branches are open weekdays and Saturday. Beginning in March 2001, five of those 9 branches will open on Thursday evenings for an additional three hours of service each week. Four more branches will add Thursday evening service beginning in July 2001. The Library system provides approximately 1,836,150 items. Library facilities were visited by approximately 3.2 million people and approximately 4.1 million items were circulated during the past year. The Central Library encompasses 240,000 square feet, including an art gallery, study and meeting rooms, and an auditorium for up to 150 people, which is available for rent. Public accessibility is accommodated by the use of mass transit and a parking garage with parking capacity for 420 vehicles. The Library system also features "state of the art" computer technology, including an on-line public access catalog, a Library Web site (annual hits in excess of two million), Internet access in all locations, CD-ROM databases and encyclopedias, and online periodicals and newspaper databases.

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

San Antonio International is located on approximately 2,600 acres of land that is adjacent to Loop 410 freeway and US 281 Highway, and is eight miles north of the City's downtown business district. The International

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
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 28 gates. Presently, domestic air carriers providing service to San Antonio are American, America West, Atlantic Southeast, Continental, Delta, Midwest Express, Northwest, Southwest, Sun Country, United and TWA. Mexicana, Aerolitoral and Aeromar are Mexican airlines that provide passenger service to Mexico. The Airport Master Plan design allows for an increase from 28 to 60 gates. It is estimated that current gate facilities are being used at 88% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses including nine rental car companies which lease facilities at the International Airport and Stinson Municipal Airport.

Cargo has been one of the fastest growing activities at San Antonio International Airport over the last ten years. The 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. The East Cargo Area is specially 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 recently constructed its own facility. Expansions of the cargo apron were completed in 1997 and 1999 to accommodate future growth and additional warehouse and office facilities are planned for 2001 and 2002. Foreign trade zones exist at both cargo areas should any of the tenants desire to utilize these facilities. Enplaned and deplaned cargo for 1999 totaled 148,000 tons.

In July 1996, the City sold $38 million Airport System Improvement Revenue Bonds, Series 1996, of which approximately $33 million was utilized for a new long-term parking garage, as well as a new exit plaza, additional surface parking and roadway improvements. The Airport System operates and maintains approximately 6,200 public parking spaces and 1,000 employee parking spaces. The parking expansion project provided for a 50% increase in public parking capacity, which along with operational changes and fee adjustments has resulted in a substantial gain in net parking revenues. The City has recently undertaken another Parking Expansion Study for future parking improvements.

In 1999, the Aviation Department completed a Re-engineering Study of its Airports' operations. The study focused on cost efficiency and customer service improvements as well as revenues enhancements. The goal is to achieve a "balance" approach that would weigh costs against level of services that the Department provides to the public. In addition, the Re-engineering Study included recommendations on performance targets to be achieved over a three-year period, as well as an on-going evaluation process to monitor the status of the changes. The recommendations involve a net reduction of 26 positions. This is in addition to the 12 full-time and 36 part-time positions which were eliminated following the completion of the recent parking improvements.

In total, it is estimated that by the end of fiscal year 2002, the re-engineering recommendations will result in an annual operating cost savings of $1.2 million and additional operating revenues of $1.9 million. The combination of the two will produce an annual increase of approximately $3.1 million to the Airport Operating Fund. Contractually, approximately half of this sum will utilized in reducing the cost of facilities and services to the airlines, while the remaining funds will be available for new capital facility improvements at International and Stinson Airports. In fiscal year 1999, airline cost per enplaned passenger was $3.60.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
As an adjunct to the re-engineering improvements, a comprehensive terminal renovation project is underway to improve the quality of services provided to passengers at the San Antonio International Airport. The project, which is estimated to cost $26.8 million, will include state-of-art terminal building amenities and implementation of recommendations from a recently completed Concession Redevelopment Study. Included in the terminal renovations will be redesigned, high-quality retail and food establishments offering a mix of regional and local products at street prices. Concession space will be 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 will be at airside locations.

The City is planning the implementation of a ten (10) year Capital Improvement Program (CIP) pursuant to the Master Plan for San Antonio International Airport. The CIP addresses both terminal and airfield improvements. The capital program includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements and the extension and improvement to two runways along with supporting taxiways and aircraft apron. The preliminary cost estimates are $122 million for terminal related improvements, $23 million for parking, $15 million for roadway improvements and $108 million for the airfield. The City plans to pursue a phased approach in the construction of the improvements, whereby capacity is increased to coincide with demand. The City also desires to limit to the extent possible the impact on airline rates and charges. Currently, under development is a long-term financing plan for the improvements. The City is exploring the use of a Passenger Facility Charge and Letter of Intent with the FAA for the commitment of future grants as possible funding sources for some of the planned capital improvements.

Stinson Municipal Airport, established in 1915 and named for the Stinson family, aviation pioneers, is one of the country's first municipally owned airports. An Airport Master Plan for Stinson was initiated in March 2000. The Planning effort will facilitate the development of the Airport to expand its role as a general aviation reliever to San Antonio International Airport.

City Public Service
City Public Service (CPS) is one of the nation's largest municipally owned utilities in the country and serves approximately 550,000 customers throughout its 1,566 square mile service area. CPS generates power for its customers at two coal and five natural gas-fired power plants with 4,183 miles of gas lines that supply 302,000 natural gas customers in the San Antonio urban area. In July of 1999, CPS began construction of the 59 mile South Gate Pipeline. It is expected to be completed in early 2001. The pipeline will fuel the combined cycle gas generation plant at Braunig Lake. Last year, CPS obtained its generation from the following sources: Coal, 49%; Nuclear, 31%; and Natural Gas, 20%. CPS also owns 28% of the South Texas Project nuclear plant on the Texas Gulf coast.

To the citizens' benefit, CPS rates are lower than any major Texas city and among the lowest in the nation. The average CPS residential gas and electric bill ranked second lowest among the 20 largest cities in the United States for fiscal year 2000. In addition, CPS has remitted approximately $167.14 million to the City of San Antonio for the fiscal year ended September 2000.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Waterworks, Wastewater and Water Reuse System
The City's waterworks system, initially acquired in 1925, was included in a consolidation in May 19, 1992, of all City owned water related utilities including water, wastewater, and water reuse systems. This consolidation created the San Antonio Water System (SAWS), which now provides water and wastewater service, through 8,735 miles of water and sewer mains. At the end of September 2000, SAWS had 291,263 residential, commercial, and industrial water customers and 333,108 wastewater customers.

Housing and Neighborhood Development
The City of San Antonio's administration of housing and infrastructure development initiatives are being accomplished through programs such as Community Revitalization Action Group (CRAG), Neighborhood Sweeps, Neighborhood Commercial Revitalization, Rental Rehabilitation, Affordable Parade of Homes and Tax Increment Financing.

In continuation of the Mayor and City Council's CRAG efforts, the CRAG 2000 project focuses on developing public policies that would support inner city revitalization in distressed areas. Neighborhood Action staff organized and participated in eight (8) public hearings as part of the CRAG 2000 project. The goal of the public hearings was to establish priorities, service needs, and concerns of the average resident covering topics such as balanced growth, transportation, infrastructure, health, public safety, housing; economic development, education, and human development.

As part of the CRAG 2000 project's next step toward inner-city revitalization, the Neighborhood Action Department developed the concept and strategy for the City's newly created "Incentive Tool Kit." A tiered strategy was created to support the goals of balanced growth, mixed income development and increased housing options in target areas. Four (4) incentive target areas were developed based on housing needs and conditions and will impact San Antonio's oldest neighborhoods the most. In addition to the tiered system, an "Application for Redevelopment" will be developed and used for tracking and informing developers of potential incentives offered by the City. In support of the "Incentive Tool Kit" the "Infill Fee Waiver Policy" was created. This policy waives building permit fees for single family infill and conversion of pre-existing non-residential structures for residential purposes.

The Neighborhood Action Department coordinated a Memorandum of Understanding (MOU) with the local U.S. HUD Community Builder. The results were an agreement between 10 (ten) local organizations as part of the U. S. Department of Housing and Urban Development, the National Association of Home Builders, and the U.S. Conference of Mayors "Building Homes in America's Cities Partnership." The MOU localized this national agreement and formalized a partnership between governmental, non-profit, and private sector organizations toward the completion of the Spring View HOPE VI Redevelopment project. The City's role is providing technical assistance in the implementation of the "Affordable Parade of Homes" component of this multi-faceted project.

Neighborhood Action staff developed an Employee Assisted Housing Program that offers an array of services including financial assistance to income-qualified City employees. The program has a two pronged approach toward achieving the program's goals, the first being to encourage uniformed employees to live in "distressed areas". The second goal is to offer informational/financial assistance to eligible civilian employees.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Housing and Neighborhood Development (Continued)
The Department coordinated and delivered 24 neighborhood sweeps during fiscal year 2000, which now brings the total to 63. This equates to 63 communities throughout the City which have been serviced over the last 3 years by means of code enforcement and street maintenance/repair to name a few. The neighborhood sweeps represent an inclusive package of city services (i.e. code investigations, brush collection, street/pothole repair, graffiti abatement) which are delivered to a 55 block area over a period of 2 weeks. The program is designed to accomplish immediate short term "clean-up" goals as well as critical community development goals of accessing safe, decent housing and assisting special need populations.

Neighborhood Commercial Revitalization
The Neighborhood Action Department also administers the Neighborhood Commercial Revitalization Program (NCRP). The NCRP partners with businesses and residents in older business districts as a means to increase economic activity. This is accomplished through private investment in new and expanding businesses, which serve the needs of the resident consumers and create jobs while enhancing the quality of life. Through financial and technical assistance, the participant organizations identify various niches. The market opportunities are capitalized and renew the economic base of the targeted districts and help them become competitive again.

Rental Rehabilitation Program
It has been noted that much of the rental housing stock within the inner city is substandard and in need of rejuvenation. There are numerous challenges associated with ensuring revitalization such as historic integrity, environmental hazard, deferred maintenance and elderly property owners. The Rental Rehabilitation Program has a loan product specifically targeted for single-family dwelling to address these issues. Property owners can borrow up to 100% of the rehabilitation costs; 50% is paid to the City at 5% interest; 50% is forgiven during the Period of Affordability, provided the owner complies with the program guidelines. Failure to comply waives the forgiveness.

Tax Increment Financing
In order to stimulate major new construction and rehabilitation throughout the City during fiscal year 2000 the Neighborhood Action Department diligently utilized the Tax Increment Financing program. This program provides a means of presenting incentives that carry real costs by paying those costs from the increased tax revenues generated by the project itself. The public purposes of TIF's are the redevelopment of blighted areas, construction of low and moderate-income housing, provision of employment opportunities, and improvement of the tax base. The Department was instrumental in the adoption of new TIF Guidelines in fiscal year 2000. Subsequently, during fiscal year 2000 the City created 2 residential Tax Increment Revitalization Zones (TIRZ) and 1 commercial TIRZ. The residential TIRZ's previously established has yielded the construction of 294 housing units. Based on the number of pending applications being processed, the City anticipates the creation of at least 3 new TIF projects (2 residential and 1 commercial/residential) during fiscal year 2001.

Community Initiatives Department
The Department of Community Initiatives (DCI) serves as the primary human development agency for the City of San Antonio. DCI provides and coordinates a wide range of community-based human services through programs operated by City staff and a multitude of social-service contractors throughout the community. In this capacity, the Department acts as a vehicle for collaboration between public and private organizations to maximize the capacity of the community's resources. DCI facilitates the coordination of community assets to empower

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Community Initiatives Department (Continued)
citizens, promote self-sufficiency, and ensure the best possible results for families and children in San Antonio. Community Initiatives consists of the following six divisions: Children's Resources, Youth Services, Community Action, Literacy Services, Elderly and Disabled Services, and Community Centers. DCI is also comprised of four special projects: San Antonio Education Partnership, Carver Community Cultural Center, ASCEND – Welfare to Work, and the Youth Opportunity Program.

The DCI budget supports the City's strong commitment to strengthening long-term economic viability in San Antonio through investment in human development. DCI funds 58 delegate agencies that operate 95 programs in the community.

In fiscal year 2001 DCI will invest over $115 million in human services into San Antonio and the Alamo Region. These dollars are spent to invest and develop the human capital of San Antonio. Continued efforts and coordination from DCI and the various delegate agencies will insure improved and healthier lifestyles for the children, family, and seniors of San Antonio.

Medicine and Healthcare
The City is cognizant of the importance of, and continues to support, its Medical infrastructure. The City is actively involved in promoting the industry, recognizing its significance to San Antonio and its citizens. Major medical research, manufacturing, training and health care facilities located in San Antonio include the Southwest Biomedical Research Institute, high technology biomedical manufacturing, the University of Texas Health Science Center at San Antonio (medical school, dental school, nursing school, allied health sciences school), the University Health System, Wilford Hall Medical Center (United States Air Force), Brooke Army Medical Center, a world renowned burn treatment and research center, and the South Texas Medical Center. The Medical Center contains numerous hospitals, specialized treatment center and the renowned Cancer Treatment and research Center that attract patients nationally and internationally. In addition, Brooks Air Force Base is a major medical and environmental research facility unique to the U.S. Air Force.

The San Antonio Metropolitan Health District operates from its main building at 332 W. Commerce and numerous satellite clinics and facilities. It provides preventive health services, health code enforcement, clinical services, environmental monitoring, animal control, disease surveillance, health education, dental (screenings and treatments) and issues birth and death certificates.

Supporting Infrastructure Components

Convention Center Expansion
The Convention Center Expansion and Renovation Project continued throughout fiscal year 2000. This project, is financed from the proceeds of Hotel Occupancy Tax Revenue Bonds sold in March of 1996, whose debt service payments are paid from the collection of a 2% Hotel Occupancy Tax. This construction represents the first major expansion and improvement of the Henry B. Gonzalez Convention Center since 1987. The Convention Center was originally built in 1968 for the San Antonio Worlds Fair, HemisFair. The Convention Center is located within the downtown area of San Antonio and is within walking distance of numerous hotels, retail shops, restaurants, historic amenities, and the City's Riverwalk.

ECONOMIC OVERVIEW (Continued)

Supporting Infrastructure Components (Continued)

Convention Center Expansion (Continued)
On August 28, 1999, the project celebrated its first phase grand opening. The first phase consisted of adjacent exhibition space of 200,000 square feet, and the addition of approximately 83,000 square feet of meeting rooms and a 40,000 square foot ballroom. The renovation of the existing facility and river extension will be substantially completed during calendar year 2000 and will be ready to accommodate customers in 2001 bringing the total Convention Center to 1.3 million square feet. As a result of the expansion, the Henry B. Gonzalez Convention Center will move from 22nd to 17th in the nation for available convention exhibit space.

Alamodome
The Alamodome is a 65,000 seat multi-purpose sports, entertainment, and convention facility. Since opening in May 1993, it has held more than 695 events and has hosted over eleven million visitors. The Alamodome has enhanced San Antonio's ability to attract major public sporting and entertainment events. The Alamodome will be listed third in Amusement Business Magazine "Year End Boxscore Chart for Stadiums" with seating capacities over 40,000.

The Alamodome maintains a strong reputation as a venue capable of hosting major events. As a result, the diversity of events that are brought to San Antonio continues to expand. The NCAA will again host the Men's Midwest Regional Basketball in March 2001, as well as the Rotary International Convention in 2001. Another significant first for the Alamodome in 2001 are seven performances by the Ringling Brothers & Barnum & Bailey Circus and Disney on Ice show performances. Future events include the NCAA Women's Final Four in 2002 and the Men's Final Four Basketball Tournament in 2004.

Nelson W. Wolff Municipal Stadium
The Nelson W. Wolff Municipal Baseball Stadium opened in April 1994 and has a seating capacity of 6,500. It has multi-purpose design which allows for events such as professional baseball, boxing, high school, college, and amateur sports and concerts. The stadium is home to the San Antonio Missions. In 2000, the San Antonio Missions became the minor league affiliate of the Seattle Mariners.

Other Amenities
The City supports and promotes various other tourism and quality-of-life amenities, including performing arts and cultural entertainment facilities, museums, the San Antonio Zoo, and the preservation of the Alamo, as well as enterprises such as Sea World of Texas, and Six Flags Fiesta Texas. The City also provides support and funding for cultural organizations, from dance performance companies to the Symphony Society of San Antonio, and for facilities including the Witte Museum, the San Antonio Museum of Art, the Southwest Craft Center, the Carver Community Cultural Center, and the Guadalupe Cultural Arts Center.

In addition, San Antonio is home to various professional sports teams including the San Antonio Iguanas Hockey team, the San Antonio Spurs; and the San Antonio Missions. San Antonio is also host City to the annual Westin Texas Open PGA Tour Event, and to the annual Senior PGA Tour Event played at the Dominion Country Club.

International Outlook

In a new international initiative, the City of San Antonio's International Affairs Department developed an economic development program that focuses on small to medium size San Antonio companies with a high potential and strong commitment to develop and expand international markets. The San Antonio Export Leaders Program is a competitive eight month program that offers the tools, training, consultation and coaching necessary

ECONOMIC OVERVIEW (Continued)

International Outlook (Continued)

for about 20 companies to be successful in exporting and offers the participants a new export experience. In its first year, the program enrolled 14 companies.

San Antonio continues to develop itself as an INLAND PORT for imports and exports to/from Mexico, Latin America and other regions of the world. This encompasses transportation, manufacturing and logistics facilities, professional services and value-added services involved in producing, marketing and moving freight within, into and out of the San Antonio area. Over the past nine years, the City of San Antonio has operated 3 commercial trade offices in Mexico's three largest cities; Mexico City, Guadalajara, and Monterrey. The trade office in Mexico City has expanded to service seven southeastern Mexican states of Oaxaca, Chiapas, Quintana Roo, Veracruz, Campeche, Tabasco and Yucatan.

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

MAJOR INITIATIVES

The adopted consolidated annual budget for fiscal year 2001 totals $1.175 billion. The budget continues to build up basic services in the community while addressing critical priority initiatives of the City Council as expressed in the 2000 Goals and Objectives Worksession. The General Fund budget did not require an increase in the property tax rate for the eighth consecutive year, and increased the Reserve for Revenue Loss by $2.3 million to $23.168 million at the end of fiscal year 2001. The General Fund budget expenditures and transfers totals $569.3 million for 2001, representing an increase of 7.32% over the previous year. For the tax roll year 2000 (fiscal year 2001), the total adopted tax rate of $0.57979 remained unchanged in total from the prior year. The fiscal year 2001 tax rate is now comprised of $0.35079 per $100 valuation for the maintenance and operations component, and $0.22900 per $100 valuation for the debt service component.

The adopted 2001 budget focused on program improvements to enhance City services. Included are significant General Fund enhancements to City services in high Council Budget Priority areas such as Better/Jobs Education ($2.1 million), Community Revitalization Action Group (CRAG) (2.5 million), Economic Development/Strategic Plan ($2.58 million), Performance Reviews ($525,701), Street Maintenance ($895,855), Police & Fire Master Plans ($3.45 million), and Water Supply and Quantity ($368,012). In addition, $12.84 million in mandated improvements are included in the General Fund budget for fiscal year 2001.

Budgetary Controls

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as 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. For the fiscal year beginning October 1, 1999, The Government Finance Officers Association of the United States and Canada ("GFOA") presented an award of Distinguished Budget Presentation to the City of San Antonio.

FINANCIAL INFORMATION

Activities of the General Fund, the Special Revenue Funds (excluding the Home Program, Categorical Grants-in Aid, Housing and Urban Development 108 Loan Program, Community Development Block Grant Program, which are budgeted on a grant year basis; the San Antonio Industrial Development Authority, and the San Antonio Health Facilities Development Corporation, which are blended component units) and the Debt Service Funds, are included in the annual appropriated budget. Project-length financial plans are adopted for the Capital Projects Funds. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end, however, encumbrances generally are appropriated as part of the following year's budget.

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

Funds and Accounting Overview

GENERAL GOVERNMENT FUNCTIONS

Activities of the Primary Government's General Fund, Special Revenue Funds, and Debt Service Funds are considered general government functions. The General Fund is the City's general operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted as to expenditure. The Debt Service Funds are used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations.

The following schedule presents a summary of General Fund, Special Revenue Funds, and Debt Service Funds revenues for the fiscal year ended September 30, 2000, and the amounts and percentages of increases and decreases as compared to the prior year.

Revenues and Other Financing Sources	Amount	Percent of Total	Increase (Decrease) from 1999	Percent of Increase (Decrease)
Taxes	$ 399,114	41.23%	$ 23,563	6.27%
Licenses and Permits	12,258	1.27	94	.77
Intergovernmental	164,635	17.01	11,796	7.72
Revenues from Utilities	172,301	17.80	22,345	14.90
Charges for Services	65,530	6.77	5,334	8.86
Fines and Forfeits	11,593	1.20	(245)	(2.07)
Miscellaneous	34,907	3.61	(139)	(.40)
In-Kind Contributions	12,744	1.32	5,244	69.92
Transfers-In	94,788	9.79	2,429	2.63
Proceeds of Bond Issuance	0	0	(27,100)	(100.00)
Totals	**$ 967,870**	**100.00%**	**$ 43,321**	

(Monetary Amounts Are Expressed in Thousands)

Funds and Accounting Overview (Continued)

GENERAL GOVERNMENT FUNCTIONS (Continued)

Revenues from taxes increased by $23,563 which was primarily attributable to: (1) a $8,119 or 6.42% increase in sales tax revenue for the General Fund, (2) a $3,963 or 9.80% increase in Hotel Motel tax revenue in the Special Revenue Fund, and (3) a $11,931 or 6.55% increase in Ad Valorem tax collection for the General Fund and Debt Service funds as a result of increased property valuation, new construction, and annexation. The increase of $5,334 in charges for services is essentially the result of a 10.20% or $3,930 increase in revenues associated with Stormwater operations. Intergovernmental Revenues increased by $11,796 or 7.72%, which is principally attributable to the Job Training, Neighborhood Revitalization and Economic Development Programs funded from revenues resulting from the City Public Service Lease/Leaseback transaction. Revenues for the utilities category which is represented in the City's General Fund increased by $22,345 or 14.90% which is primarily attributed to an increase of $21,968 in revenues for City Public Service which are impacted by local weather conditions, fuel prices and an increase in gas and electric customers.

In-Kind Contributions increased by $5,244 or 69.92% and was primarily attributable to the Headstart program reported in the categorical Grant-In Aid Fund.

The reduction in Proceeds of Bond Issuance in the amount of $27,100 is attributable to the issuance of refunding obligations during fiscal year 1999, which did not recur in fiscal year 2000.

The following schedule shows the Primary Governments General Fund, Special Revenue Funds and Debt Service Funds expenditures for the fiscal year ended September 30, 2000, and the amounts and percentages of increases from the prior year.

Expenditures and Other Uses	Amount	Percent of Total	Increase (Decrease) from 1999	Percent of Increase (Decrease)
General Government	$ 55,543	5.89%	$ 4,832	9.53%
Public Safety	319,867	33.91	19,348	6.44
Street and Roadways	62,231	6.60	(1,658)	(2.60)
Health Services	63,629	6.75	2,684	4.40
Environmental Protection and Control	135	0.01	35	35.00
Sanitation	2,601	.28	202	8.42
Welfare	101,100	10.72	9,263	10.09
Culture and Recreation	57,744	6.12	4,518	8.49
Convention and Tourism	38,712	4.11	4,240	12.30
Conservation	9	0.00	(7)	(43.75)
Urban Redevelopment and Housing	18,433	1.95	(797)	(4.15)
Economic Development and Opportunity	21,350	2.26	(790)	(3.57)
Principal Retirement	40,750	4.32	4,655	12.90
Interest	49,716	5.27	837	1.71
Pmts and Contrib's, Escrow Agents	0	0.00	(27,214)	(100.00)
Issuance Costs	202	0.02	(442)	(68.63)
Transfers-Out	111,237	11.79	3,798	3.54
Total	**$ 943,259**	**100.00%**	**$ 23,504**	

Funds and Accounting Overview (Continued)

GENERAL GOVERNMENT FUNCTIONS (Continued)

The total fund balance of the General Fund at year-end was $93,145, an increase of $8,609 from the total fund balance for the close of fiscal year 1999. The undesignated fund balance in the General Fund at the close of the fiscal year was $50,406, an increase of $2,610 from the previous year's undesignated balance. The undesignated fund balance represents amounts available for additional appropriations.

PROPRIETARY OPERATIONS

Enterprise Funds: During the fiscal year, the Primary Government included four separate and distinct enterprise activities: the Airport System, Parking Facilities, the Golf Course System, and the Solid Waste System.

Airport System: The Airport System operations consist of San Antonio International and Stinson Municipal Airports. San Antonio International Airport was opened in 1942, and occupies approximately 2,600 acres of land. It consists of 3 runways, 2 terminals, and 28 gates, which accommodates many of the world's major airlines. For the calendar years 1999 and 2000, total enplaned passengers were 3,538,243 and 3,647,094, respectively. Airport System retained earnings as of September 30, 2000, totaled $93,087 of which $5,683 was unreserved.

Parking Facilities: The City's Parking Facility operation includes 5 parking garages with 3,347 parking spaces, 11 City-owned and 9 leased surface parking lots providing approximately 4,640 parking spaces, and 1,902 on-street parking meters for a total of 9,889 parking spaces. It also includes over 42,000 square feet of retail/office space. Retained earnings as of September 30, 2000 totaled $10,150 of which $3,002 was unreserved.

Golf Course System: Operations include six, 18-hole golf courses, two, par 3 nine-hole golf courses, and 4 driving and practice ranges. Retained earnings as of September 30, 2000 totaled ($862) of which ($186) was unreserved.

Solid Waste System: The Solid Waste Systems operation includes the disposal of curbside solid waste, brush collection, and recycling, for over 286,000 residential customers, and the maintenance and monitoring of the City's eight closed landfills. Retained earnings as of September 30, 2000 totaled $6,572 of which $5,138 was unreserved.

Discretely Presented Proprietary Component Units: The San Antonio Water System (SAWS), City Public Service (CPS), the San Antonio Development Agency (SADA), the San Antonio Higher Education Authority (SAHEA), the Greater Kelly Development Authority (GKDA), the San Antonio Housing Trust Foundation Inc. (SAHTF), and the San Antonio Local Development Company, Inc. (SALDC), are entities which operate under quasi-independent boards of trustees and are managed independently. Considering the criteria set forth in GASB Statement No. 14, management has determined that these entities are required to be discretely presented with the City's financial statements.

Internal Service Funds: The Internal Service Funds were established to account for goods or services provided by a centralized department or agency to other departments or agencies of the City on a cost reimbursement basis. The City's Internal Service Funds are divided into three sections: Other Internal Services, Information Services, and the Self-Insurance Programs.

PROPRIETARY OPERATIONS (Continued)

Other Internal Services: The Other Internal Service Funds include activity pertaining to Central Stores, Motor Pool, Communications Service, Automotive Repair and Temporary Services.

Information Services: The Information Services Fund includes activity pertaining to data processing, programming, and related computer services to other City departments.

Self-Insurance Programs: The Self Insurance Programs include funds used to account for the administration of all tort claims against the City, and for the operation of the City's Employee Benefits Program, Worker's Compensation Program, Unemployment Compensation Program, Extended Sick Leave Program, and Employee Wellness Program.

FIDUCIARY OPERATIONS

Fiduciary Funds consist of Trust and Agency funds. Trust funds are used to account for assets held by the City in the capacity of trustee. Agency funds are used to account for assets held by the City in an agency relationship with individuals, private organizations, other governments and/or funds.

The Fire and Police Pension Fund is used to account for resources of the pension fund established for the City's firefighters and police officers, as provided for under state law. Resources are contributed by Fire and Police employees and the City at rates fixed by state law. In fiscal year 2000, Fire and Police employees contributed 12.16% of covered payroll while the City contributed 24.32% of covered payroll, as indicated in Footnote No. 8 entitled "Pension and Retirement Plans".

Regarding the Fire and Police Pension Fund, an actuarial study of the funds as of October 1, 2000 determined an Actuarial Accrued Liability (AAL) of $1,339,954. The Actuarial value of assets for the same valuation date was $1,181,582 resulting in an unfunded Actuarial Accrued Liability of $158,372.

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 post employment healthcare benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund ("Health Fund") was created to provide these post employment healthcare benefits for eligible uniformed employees of the City. For the year ended September 30, 2000, contributions to the Health Fund were comprised of 9.4% of base pay plus longevity for both firefighters and police officers.

GENERAL FIXED ASSETS ACCOUNT GROUP

The City accounts for all its fixed assets in this Account Group, except for those accounted for in the Proprietary Funds and the Pension Trust Fund. General Fixed Assets amounted to $2,208,380 at year-end compared to $2,065,702 at the beginning of the year, a net increase of $142,678.

GENERAL LONG-TERM DEBT ACCOUNT GROUP

The City accounts for all long-term liabilities expected to be funded from governmental funds in this Account Group. Long-term debt of governmental funds increased by $35,628 from $980,811 at the end of fiscal year 1999 to $1,016,439 at the end of fiscal year 2000.

Fiscal Management and Administrative Topics

Texas Municipal Retirement System

The City is a member of the Texas Municipal Retirement System (TMRS), which administers the City's retirement benefits program for civilian employees. Contributions to the system are actuarially determined. The required contribution from City employees is 6%, while the City matches at a rate of approximately 11.89%. Both the City and its covered employees made the required contributions of $10,211 and $19,352 respectively, as indicated in Footnote No. 8 entitled "Pension and Retirement Plans".

Cash and Investment Management

The City's investment policies are governed by State statute and the City's own written investment policies. Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; investment diversification, yield, maturity, and the quality and capability of investment management; and include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "investment strategy statement" that specifically addresses each 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.

The City is authorized to use demand accounts, time accounts, and 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 includes the investment in callable obligations, but does not contain any other derivative products nor does the City leverage its investments. Further, it is not the City's policy to use such investment vehicles or strategies in its portfolio.

At September 30, 2000, investable City funds were 88.05% invested in obligations of the United States, or its agencies and instrumentalities, and 2.36% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 9.59% of the City's portfolio included $39,610 of convention center construction funds and convention center debt service reserve funds of $16,999, which are invested in fully collateralized repurchase agreements that are fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law and the City's investment policy. Excluding the aforementioned convention center repurchase agreements, at September 30, 2000, the City's investment portfolio had a par value of $519,629, with an average life of 232 days and a weighted average yield of 6.38%.

Risk Management Programs

In fiscal year 2000, the financial status and development of the City's Risk Management and Self-Insurance Services and Programs reflected, for the third time in ten years, both the Liability Reserve Fund and the Workers' Compensation Fund ending with positive retained earnings in the amounts of $7,346 and $7,471 respectively. To fully appreciate the extent of the favorable financial status, it is important to note that beginning October 1, 1987, the City changed its accounting procedures to record accrued claims liabilities related to Workers' Compensation and Property Casualty (general liability), which previously had been accounted for in the General Long-Term Debt Account Group, to the respective Internal Service, Self-Insurance Program Funds. This change resulted in considerable negative account balances in the related funds.

Fiscal Management and Administrative Topics (Continued)

Risk Management Programs (Continued)
The $7,346 positive retained earnings in the City's Insurance Reserve Fund is an improvement of $2,842 from the prior year-end, which presented a positive balance of $4,504. The fund carried cash and investments at September 30, 2000 in the amount of $25,729.

The Risk Management Division Safety Office has completed several Accident Prevention/Loss Control projects this fiscal year. Hazardous chemical risk assessments have been completed for each facility storing and/or using chemicals. Comprehensive reports reflecting compliance with the Texas Hazard Communication Act and accompanying public right-to-know legislation have been sent to City Departments subject to the regulations. The Safety Office has trained 2,593 City employees this year in scheduled formal training classes on such topics as defensive driving, first aid and CPR, drug and alcohol awareness training for commercial drivers and their supervisors, new employee safety orientations, professional truck driving, supervisor's accident investigation training, hazardous chemicals training, and other specialized training courses. The Safety Office has also provided technical assistance and one-on-one training on a variety of safety and health topics this year. Preventing cumulative trauma and repetitive motion injuries have been addressed this year by inspection and evaluation of employee work environments and work practices, with recommendations for adjustments or changes as needed. Safety-related policies and procedures have been reviewed, and necessary wording revisions and additions have been submitted for City adoption.

Employee Benefits Programs
The City continually seeks improved cost containment methods, and utilizes hospital pre-certification, large case management, hospital bill audits, and a preferred provider organization program in managing and administering health benefits. Such strategies have been very effective for the City in managing medical costs in a changing health care industry. The City will continue to strive for further enhancements, improved efficiencies, and cost minimization. In fiscal year 2000, the Employee Benefits Fund had retained earnings of $12 and cash reserves of $5,496.

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

At September 30, 2000, the City's gross principal amount of outstanding indebtedness that is secured by an ad valorem tax pledge was $780,378. The table shown below illustrates the composition of the City's long-term indebtedness payable from ad valorem taxes.

Fiscal Management and Administrative Topics (Continued)

Debt Administration (Continued)

LONG-TERM INDEBTEDNESS
PAYABLE FROM AD VALOREM TAXES

General Improvement and Refunding Bonds	$ 663,558
Tax-Exempt Commercial Paper Notes	15,000
Taxable Combination Tax and Revenue Certificates of Obligation	16,070
Combination Tax and Revenue Certificates of Obligation	85,750
Total Debt Payable from Ad Valorem Taxes	780,378
Less Self-Supporting Debt	24,795
Net Debt Payable from Ad Valorem Taxes	$ 755,583

The total and net debt amounts contained in the schedule above are equal to 2.34% and 2.27% respectively of the tax roll year 2000 net taxable assessed valuation of $33,315,479. Authorized but unissued debt as of September 30, 2000 equaled $129,860, of which the City does not intend to issue $16,660 authorized by the January 26, 1980 election. This results in net authorized but unissued debt totaling $113,200 as of the fiscal year-end.

In November 1999, the City issued the following: $12,000 General Improvement Bonds, Series 1999; and $4,230 Combination Tax and Revenue Certificates of Obligation, Series 1999. Concurrently with the issuance of the 1999 bond issuance obligations, the City authorized the implementation of a $50,000 General Improvement Commercial Paper Program. As of September 30, 2000 the City has issued $15,000 of the Tax Exempt Commercial Paper Notes. In February 2000, the City issued the following: $27,565 General Improvement Bonds, Series 2000; and $8,490 Combination Tax and Revenue Certificates of Obligation, Series 2000. The bonds and tax-exempt commercial paper notes are secured by a pledge of ad valorem taxes while the certificates are secured by a pledge of ad valorem taxes and revenues from certain revenue generating operations.

Proceeds from the General Improvement Bonds, Series 1999 will be utilized to fund capital improvement projects to include parks, public safety, library, flood control, drainage, and street improvements. Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 1999 will be utilized to fund Capital improvements to include public safety, street, sidewalk, and drainage improvements; improvements and renovations.

On November 30, 2000, the City Council approved the sale of the following obligations: $15,615 General Improvement Bonds, Series 2000A; $8,810 Combination Tax and Revenue Certificates of Obligation, Series 2000A; $1,775 Taxable Combination Tax and Revenue Certificates of Obligation, Series 2000B; and $6,415 Combination Tax and Revenue Certificates of Obligation, Series 2000C.

Delivery of the proceeds from the Series 2000A obligations will be utilized to finance the construction of general improvements to the City, including streets and pedestrian improvements, drainage improvements, flood control with park improvements, park and recreation facilities improvements library system improvements, and safety improvements.

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics (Continued)

Debt Administration (Continued)
Delivery of the proceeds from the 2000B obligations will be utilized to construct, acquire, quip renovate, and repair public works including improvements to municipally owned facilities including the Alameda Theater.

Delivery of the proceeds from the series 2000C obligations will be utilized in connection with the Houston Street Redevelopment Project. The Houston Street Redevelopment Project is a $100,000 private and public economic development venture to revitalize commercial activity in San Antonio's downtown district.

On November 9, 2000 the City Council separately approved issuance of $35,000 Sales Tax Commercial paper Notes, Series A. The proceeds from the sale of the Notes are to provide for the planning, acquisition, establishment, development, construction, or renovation of the "Parks Development and Expansion Venue Project" authorized at an election held on May 6, 2000 which includes the acquisition of open space over the Edwards Aquifer Recharge Zone ("Open Space Parks") and linear parks along Leon Creek and Salado Creek, ("Linear Parks") and the construction and improvements or additions to such Open Space Parks and Linear Parks.

The City Charter limits the amount of general obligation debt to a maximum of ten percent (10%) of the total assessed valuation. Texas law and the City Charter provide that the City may levy an ad valorem tax rate not to exceed $2.50 per $100 assessed valuation. There is no limitation within the $2.50 rate for interest and sinking fund purposes. The ad valorem tax rate approved by City ordinance for the fiscal year ended September 30, 2000, was $0.57979 per $100 assessed valuation, of which the debt service component is $0.23400 and the maintenance and operation portion is $0.34579. NOTE: Tax rates in this "Debt Administration" section are not expressed in thousands.

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, Standard & Poor's Public Finance Ratings Services and Fitch, Inc., respectively. The positive trend in the City's credit strength is evidenced by the Standard & Poor's rating upgrade in December, 1998 from "AA" to its current "AA+" and Fitch IBCA, Inc.'s rating upgrade in October, 1999 from "AA" to "AA+".

OTHER INFORMATION

INDEPENDENT AUDIT

State statutes require that an annual audit by an independent certified public accountant be conducted. The City's Audit Committee selected the accounting firms KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA in 1997. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and related OMB Circular A-133. The Independent Auditors' Report on the general purpose financial statements, combining and individual fund statements, and 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 are in a separate document.

OTHER INFORMATION (Continued)

AWARDS

San Antonio's appeal to its citizens, potential businesses and visitors stem from its historical beauty, high quality of life and low cost of living. In 1999, the International City/County Management Association recognized the City Manager's Office for the creation of the Leadership Development Program. The educational program identifies and develops new talent in local government management. In addition, the Purchasing Department received an Excellence in Procurement Award for 1999 from the National Purchasing Institute, Inc. San Antonio is one of 17 cities to receive the award for the past two years. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 1999. This was the 24th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. The Certificate of Achievement is valid for a period of one year and we believe the current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements.

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2000, 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, Assistant City Managers, Assistants to the City Manager, Executive Directors, and their staff, for their continued support.

Respectfully Submitted,

Terry M. Brechtel

Terry M. Brechtel
Interim Finance Director/
Executive Director

Alexander E. Briseño
City Manager

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, 1999

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

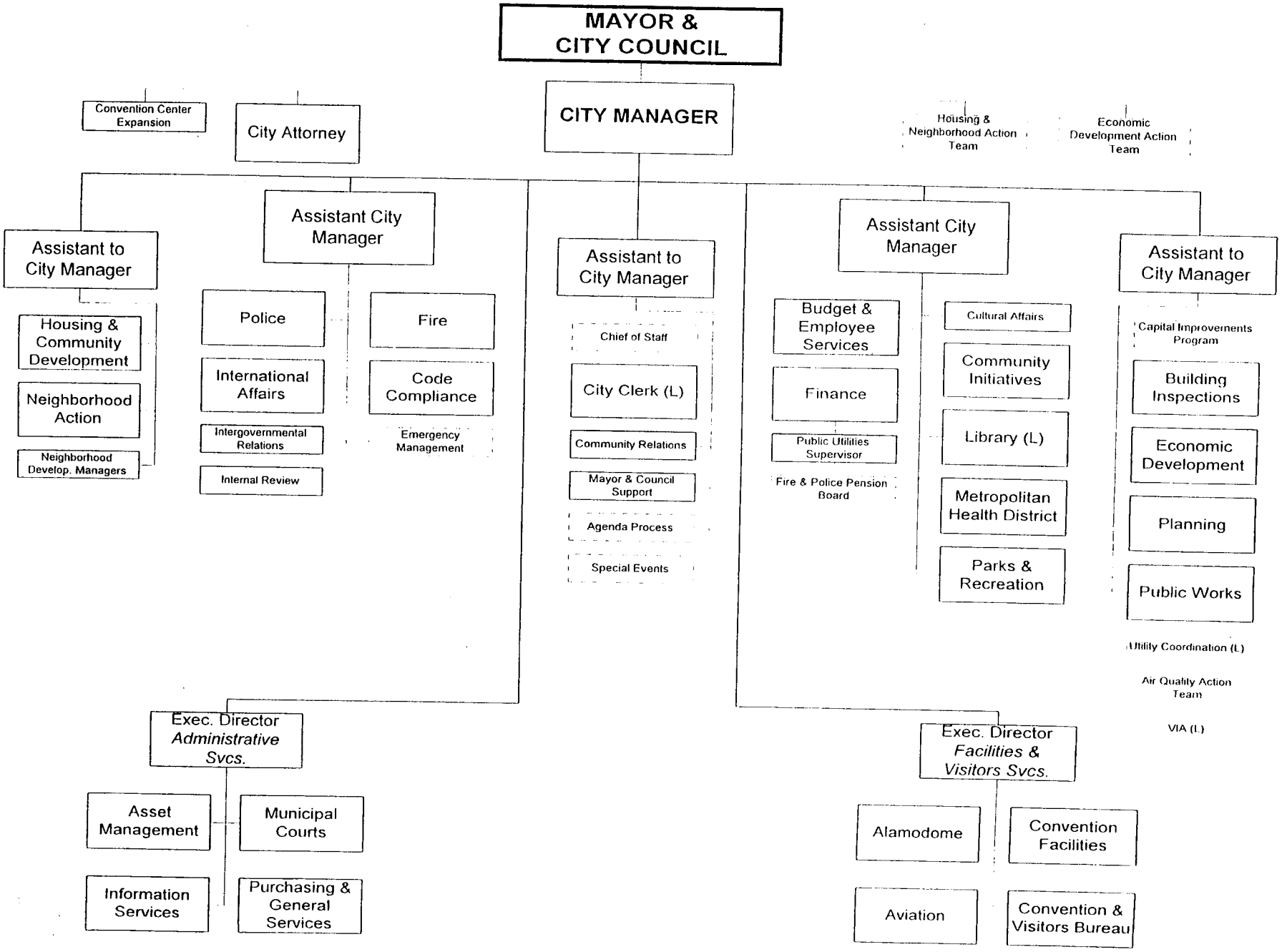
Executive Director

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 of San Antonio for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 1999. This was the 24th consecutive year that the City has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

City of San Antonio



Dashed boxes represent functional responsibility
(L) Denotes Liaison

February 1, 1999

CITY OF SAN ANTONIO, TEXAS

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

CITY COUNCIL
Howard W. Peak, Mayor

Bobby Perez
Mario Salas
Debra Guerrero
Raul Prado
David A. Garcia
Enrique M. Barrera
Ed Garza
Bonnie Conner
Tim Bannwolf
David Carpenter

CITY MANAGER
Alexander E. Briseño

ASSISTANT CITY MANAGER
J. Rolando Bono

ASSISTANT CITY MANAGER
Melissa Byrne Vossmer

ASSISTANT CITY MANAGER
Travis M. Bishop

ASSISTANT CITY MANAGER
Christopher J. Brady

ASSISTANT TO THE CITY MANAGER
George V. Pedraza

ASSISTANT TO THE CITY MANAGER
Frances A. Gonzalez

INTERIM FINANCE DIRECTOR/
EXECUTIVE DIRECTOR
Terry M. Brechtel

EXECUTIVE DIRECTOR
Roland A. Lozano

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

In Memoriam

Statement from City Manager Alexander E. Briseño

Today, we are remembering our friend and colleague Finance Director Octavio Peña. Sadly, Octavio passed away December 27 in Utah while on a skiing trip. Thoughts and prayers from Octavio's City family now are with the Peña family: his daughters Valerie, 15 and Stephanie, 13; parents Noe and Gloria; his sister Maria Rodriguez; and brothers Noe, Jr. and Arnold and their families.

Octavio put the interests of San Antonio taxpayers first and we will miss his integrity and commitment to public service. Because of his work and leadership, San Antonio has reaped many benefits. Octavio helped San Antonio attain bond rating upgrades from Fitch and Standard & Poor's, significant achievements which paved the way for the City to garner favorable interest rates. His assistance in helping manage the debt plan enabled the City to save more than $50 million in the last several years while issuing an additional $250 million in bond money for improvements to our libraries, streets, drainage and parks. Under his leadership, the 100 employees of the Finance Department continued to be recognized by the Government Finance Officers Association for excellence in financial reporting. These accomplishments were possible because of the talented staff he helped nurture. I know his staff appreciated the credit Octavio was quick to bestow and his loss is felt deeply by them. An integral part of the City's executive team, Octavio was a tireless contributor and we sought his sound financial advice in a number of issues.

On the personal side, we knew Octavio to be a dedicated family man devoted to his daughters who participated in every part of their lives. His caring attitude and love for his community is further expressed by Octavio's desire to be an organ donor. He was a friend to many of us known for his quiet demeanor and sharp wit.

Octavio was a native of San Antonio and graduated from Highlands High School. He was a certified public accountant who earned a bachelor's degree from the University of Texas at Austin. He was active in the Government Finance Officers Association of Texas and was a Diplomat of the American Board of Forensic Accounting. He also was a member of the American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants and the local and national chapters of the Financial Executives Institute.

He served the City of San Antonio for more than 11 years including service as Internal Review Director, Assistant Director of Finance and City Controller. Octavio Peña was a faithful public steward who was successful in every sense of the word. To him I dedicate the following written by Ralph Waldo Emerson:

To laugh often and much; to win the respect of intelligent people and the affection of children; to earn the appreciation of honest critics and endure the betrayal of false friends; to appreciate beauty, to find the best in others; to leave the world a bit better, whether by a healthy child, a garden patch or a redeemed social condition; to know even one life has breathed easier because you have lived. This is to have succeeded.

San Antonio is better today because Octavio Peña lived and worked here.

City of San Antonio
Texas

Financial Section

City of San Antonio
Texas

Independent Auditors' Report

KPMG

112 East Pecan, Suite 2400
San Antonio, TX 78205-1585

RJW

Robert J. Williams
Certified Public Accountant
P.O. Box 34058
San Antonio, TX 78265-4058

GARZA/GONZALEZ
& Associates
Certified Public Accountants
212 Stumberg, Suite 208
San Antonio, Tx 78204

Independent Auditors' Report

To the Honorable Howard W. Peak, Mayor
and Members of City Council
City of San Antonio, Texas:

We have audited the accompanying general purpose financial statements of the City of San Antonio, Texas, as of and for the year ended September 30, 2000 as listed in the accompanying table of contents under "General Purpose Financial Statements." These general purpose financial statements are the responsibility of the City of San Antonio, Texas' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. KPMG LLP and Robert J. Williams did not audit the financial statements of the discretely presented component units, with the exception of the City Public Service Board, representing 26% and 20% of the total assets and total revenues, respectively, of the related combined total of the discretely presented component units. Garza/Gonzalez and Associates did not audit the financial statements of the discretely presented component units, with the exception of the San Antonio Water System and Greater Kelly Development Authority, representing 74% and 81% of the total assets and total revenues, respectively, of the related combined total of the discretely presented component units. Except as noted above, those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors.

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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the general purpose financial statements referred to above present fairly, in all material repects, the financial position of the City of San Antonio, Texas, as of September 30, 2000, and the results of its operations, the cash flows of its proprietary fund types and the changes in plan net assets of its pension trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Schedules of Funding Progress on pages 88-89 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied to the Schedules of Funding Progress certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP Robert J Williams CPA Garza/Gonzalez & Associates

February 23, 2001

City of San Antonio
Texas

General Purpose Financial Statements

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2000
(With comparative totals for September 30, 1999)
(In Thousands)

ASSETS AND OTHER DEBITS	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	COMPONENT UNITS		TOTALS (MEMORANDUM ONLY) REPORTING ENTITY	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	PRIMARY GOVERNMENT	GOVERNMENTAL	PROPRIETARY	2000	1999
Assets:														
Cash and Cash Equivalents	$ 9,346	$ 15,210	$ 18,599	$ 61,973	$ 2,902	$ 13,499	$ 71,805	$ 0	$ 0	$ 193,334	$ 6,959	$ 7,627	$ 207,920	$ 242,206
Security Lending Collateral-Cash and Cash Equivalents							135,554			135,554			135,554	110,166
Investments	41,881	58,405	65,417	108,751	14,844	68,923	1,442,620			1,800,841	445	126,091	1,927,377	1,651,237
Receivables:														
Taxes, Including Interest, Penalties and Liens	18,678		12,639							31,317			31,317	29,193
Less Allowances for Uncollectibles	(3,322)		(2,248)							(5,570)			(5,570)	(4,718)
Other Accounts	3,588	270			227	86	6,878			11,049	7,946	130,201	149,196	147,278
Notes		4,350	702			320				5,372	2,728	3,098	11,198	10,262
Accrued Interest	804	712	781	1,325	242	784	6,335			10,983		392	11,375	11,636
Accrued Revenue	35,690	6,960			7,323		273			50,246			50,246	43,628
Prepaid Expenditures	19		2							21			21	14
Due from Other Funds	13,664	2,668	206		226	187				16,951			16,951	20,747
Due from Other Governmental Agencies	328	22,763		4,103	127	664	51			28,036	8,239	19	36,294	29,260
Inventories of Materials and Supplies, at Cost	3,226	1,238			866	1,866				7,196	476	106,011	113,683	93,969
Prepayments					1,673		76			1,749		22,017	23,766	9,273
Deposits				455		522				977			977	457
Restricted Assets:														
Cash and Cash Equivalents					25,005					25,005		3,848	28,853	66,571
Investments					57,195					57,195		582,294	639,489	741,108
Receivables - Accrued Interest					672					672			672	470
Due from Other Funds					366					366			366	
Fixed Assets (Net of Accumulated Depreciation)					258,881	39,072	355	2,208,380		2,506,688	67,247	5,661,847	8,235,782	7,763,031
Unamortized Debt Expense					2,518					2,518		20,753	23,271	18,137
Other Debits:														
Amount Available in Debt Service Fund									85,109	85,109			85,109	81,908
Amount to be Provided for Retirement of General Long-Term Debt									931,330	931,330	18,787		950,117	940,932
Total Assets and Other Debits	$ 123,902	$ 112,576	$ 96,098	$ 176,607	$ 373,067	$ 125,923	$ 1,663,947	$ 2,208,380	$ 1,016,439	$ 5,896,939	$ 112,827	$ 6,664,198	$ 12,673,964	$ 12,006,765

The notes to the financial statements are an integral part of this statement.

(Cont'd)

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2000
(With comparative totals for September 30, 1999)
(In Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
LIABILITIES AND EQUITY AND OTHER CREDITS						
Liabilities:						
Vouchers Payable	$ 2,733	$ 10,139	$ 0	$ 5,877	$ 1,012	$ 3,233
Deferred Revenues	21,163	4,350	10,391		617	
Accounts Payable-Other	1,587	2,318	554	15,458	9,042	38,853
Accrued Payroll	2,295	944			607	333
Accrued Leave Payable	2,857	539			2,036	1,031
Accrued Interest					1	7
Lease Purchase Agreements - Current						336
Lease Purchase Agreements - Long-Term						720
Matured Bonds and Interest Payable			9			
Payable from Restricted Assets:						
Vouchers Payable					514	
Other Payables					2,305	
Accrued Revenue Bond and Certificate Interest					2,158	
Current Portion of Bonds and Certificates					5,980	
Due to:						
Other Funds	122	15,040	35	597	387	346
Other Governmental Agencies		2,877				711
Employees for Deferred Compensation Plan						
Security Lending						
Amounts Held In Trust						
Notes Payable/Lease Purchase					153	
Lease Purchase (Net of Current Portion)					1,202	
General Obligation Bonds Payable						
Certificates of Obligation Payable						
Revenue Bonds Payable						
General Obligation/Enterprise Funds (Net of Current Portion)					18,995	
Revenue Bonds (Net of Current Portion)					130,295	
Unamortized Premium						
Less: Unamortized Discount on New Series Bonds					(1,638)	
Deferred Amount on Refunding					(114)	
Contractual Obligations/Commercial Paper						
Accumulated Accrued:						
Sick Leave						
Annual Leave						
Total Liabilities	30,757	36,207	10,989	21,932	173,552	45,570
Fund Equity and Other Credits:						
Contributed Capital (Net of Amortization)					90,569	38,811
Investment in General Fixed Assets						
Retained Earnings:						
Reserved for Bond Retirement					13,911	
Reserved for Construction					53,101	
Reserved for Improvement and Contingency					28,297	
Reserved for Equipment Renewal and Replacement						16,111
Unreserved					13,637	25,431
Fund Balances:						
Reserved:						
Reserved for Encumbrances	8,807	15,670		168,713		
Reserved for Inventories	3,226	1,238				
Reserved for Prepaid Expenditures	19		2			
Reserved for Employees' Pension/Postemployment Healthcare Benefits						
Reserved for Debt Service			65,379			
Reserved for Convention Center Project			19,728			
Reserved for Notes						
Reserved for Other Restricted Purposes						
Unreserved:						
Designated	30,687	14,609				
Undesignated	50,406	44,852		(14,038)		
Total Equity and Other Credits	93,145	76,369	85,109	154,675	199,515	80,353
Total Liabilities and Fund Equity and Other Credits	$ 123,902	$ 112,576	$ 96,098	$ 176,607	$ 373,067	$ 125,923

The notes to the financial statements are an integral part of this statement.

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2000
(With comparative totals for September 30, 1999)
(In Thousands)

	FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	COMPONENT UNITS		TOTALS (MEMORANDUM ONLY) REPORTING ENTITY	
	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	PRIMARY GOVERNMENT	GOVERNMENTAL	PROPRIETARY	2000	1999
LIABILITIES AND EQUITY AND OTHER CREDITS								
Liabilities:								
Vouchers Payable	$ 2,635	$ 0	$ 0	$ 25,629	$ 15,170	$ 131,611	$ 172,410	$ 162,217
Deferred Revenues				36,521	876		37,397	36,912
Accounts Payable-Other	20,945			88,757	868	12,623	102,248	89,196
Accrued Payroll	68			4,247		4,268	8,515	24,576
Accrued Leave Payable	27			6,490	406	3,927	10,823	9,652
Accrued Interest				8			8	9
Lease Purchase Agreements - Current				336			336	329
Lease Purchase Agreements - Long-Term				720			720	1,048
Matured Bonds and Interest Payable				9			9	9
Payable from Restricted Assets:								
Vouchers Payable				514			514	574
Other Payables			1,673	3,978		194,631	198,609	177,628
Accrued Revenue Bond and Certificate Interest				2,158		1,781	3,939	3,909
Current Portion of Bonds and Certificates				5,980		91,710	97,690	88,705
Due to:								
Other Funds	790			17,317			17,317	20,747
Other Governmental Agencies				3,588	4,846		8,434	8,165
Employees for Deferred Compensation Plan								
Security Lending	135,554			135,554			135,554	110,166
Amounts Held In Trust	163			163			163	2
Notes Payable/Lease Purchase			4,437	4,590	18,787		23,377	42,284
Lease Purchase (Net of Current Portion)				1,202			1,202	420
General Obligation Bonds Payable			645,918	645,918			645,918	639,483
Certificates of Obligation Payable			99,240	99,240			99,240	93,730
Revenue Bonds Payable			181,603	181,603			181,603	182,012
General Obligation/Enterprise Funds (Net of Current Portion)				18,995			18,995	20,220
Revenue Bonds (Net of Current Portion)				130,295		3,319,800	3,450,095	3,338,020
Unamortized Premium						1,816	1,816	1,849
Less: Unamortized Discount on New Series Bonds				(1,638)		(34,452)	(36,090)	(38,682)
Deferred Amount on Refunding				(114)		(201,325)	(201,439)	(222,377)
Contractual Obligations/Commercial Paper			15,000	15,000		195,518	210,518	273,804
Accumulated Accrued:								
Sick Leave			44,749	44,749			44,749	41,465
Annual Leave			23,819	23,819			23,819	22,247
Total Liabilities	160,182		1,016,439	1,495,628	40,953	3,721,908	5,258,489	5,128,319
Fund Equity and Other Credits:								
Contributed Capital (Net of Amortization)				129,380		598,106	727,486	697,744
Investment in General Fixed Assets		2,208,380		2,208,380	67,247		2,275,627	2,113,898
Retained Earnings:								
Reserved for Bond Retirement				13,911		1,107	15,018	14,199
Reserved for Construction				53,101		45,824	98,925	78,875
Reserved for Improvement and Contingency				28,297		369,716	398,013	486,010
Reserved for Equipment Renewal and Replacement				16,111			16,111	12,891
Unreserved				39,668		1,927,537	1,966,605	1,802,519
Fund Balances:								
Reserved:								
Reserved for Encumbrances	369			193,559			193,559	186,625
Reserved for Inventories				4,464	476		4,940	4,219
Reserved for Prepaid Expenditures				21			21	14
Reserved for Employees' Pension/Postemployment Healthcare Benefits	1,486,044			1,486,044			1,486,044	1,242,146
Reserved for Debt Service				65,379			65,379	61,357
Reserved for Convention Center Project				19,728			19,728	20,551
Reserved for Notes					2,728		2,728	2,417
Reserved for Other Restricted Purposes					850		850	1,088
Unreserved:								
Designated				45,296			45,296	36,316
Undesignated	17,352			98,572	573		99,145	117,577
Total Equity and Other Credits	1,503,765	2,208,380		4,401,311	71,874	2,942,290	7,415,475	6,878,446
Total Liabilities and Fund Equity and Other Credits	$ 1,663,947	$ 2,208,380	$ 1,016,439	$ 5,896,939	$ 112,827	$ 6,664,198	$ 12,673,964	$ 12,006,765

(end of statement)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS, AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2000

(With comparative totals for September 30, 1999)
(In Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	TOTALS (MEMORANDUM ONLY)	GOVERNMENTAL	TOTALS (MEMORANDUM ONLY) REPORTING ENTITY	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST	PRIMARY GOVERNMENT	COMPONENT UNITS	2000	1999
Revenues									
Taxes	$ 276,239	$ 44,105	$ 78,770	$ 0	$ 0	$ 399,114	$ 0	$ 399,114	$ 375,551
Licenses and Permits	12,258					12,258		12,258	12,164
Intergovernmental	2,670	161,965		10,232		174,867	32,311	207,178	204,919
Revenues from Utilities	172,301					172,301		172,301	149,956
Charges for Services	23,011	42,519			1,017	66,547	12,323	78,870	71,840
Fines and Forfeits	11,593					11,593		11,593	11,838
Miscellaneous	13,297	14,698	6,912	11,614	2,424	48,945	16,495	65,440	54,050
In-Kind Contributions		12,744				12,744	270	13,014	7,743
Total Revenues	511,369	276,031	85,682	21,846	3,441	898,369	61,399	959,768	888,061
Expenditures									
Current:									
General Government	55,181	362			130	55,673		55,673	50,821
Public Safety	305,859	14,008			645	320,512		320,512	301,363
Streets and Roadways	9,910	52,321			181	62,412		62,412	64,080
Health Services	12,300	51,329			181	63,810		63,810	61,110
Environmental Protection and Control		135				135		135	100
Sanitation	2,601					2,601		2,601	2,399
Welfare	12,857	88,243			538	101,638		101,638	92,391
Culture and Recreation	52,938	4,806			1,899	59,643		59,643	55,097
Convention and Tourism		38,712				38,712		38,712	34,472
Conservation		9				9		9	16
Urban Redevelopment and Housing		18,433			244	18,677	11,206	29,883	31,688
Economic Development and Opportunity	5,864	15,486				21,350	50,331	71,681	74,784
Capital Projects				132,740		132,740		132,740	147,549
Debt Service:									
Principal Retirement			40,750			40,750		40,750	36,095
Interest			49,716			49,716		49,716	48,879
Cash Contributions to Refunded Bond Escrow Agent									617
Issuance Costs			202			202		202	644
Total Expenditures	457,510	283,844	90,668	132,740	3,818	968,580	61,537	1,030,117	1,002,105

(Cont'd)

Excess (Deficiency) of Revenues Over (Under) Expenditures	53,859	(7,813)	(4,986)	(110,894)	(377)	(70,211)	(138)	(70,349)	(114,044)
Other Financing Sources (Uses)									
Proceeds of Debt Issuance				67,285		67,285		67,285	86,310
Payments to Refunded Bond Escrow Agent									(26,597)
Proceeds from Notes and Loans							3,709	3,709	11,281
Operating Transfers In	16,325	70,276	8,187	22,806	366	117,960		117,960	159,439
Operating Transfers Out	(61,575)	(49,662)		(5,403)	(483)	(117,123)		(117,123)	(155,386)
Total Other Financing Sources (Uses)	(45,250)	20,614	8,187	84,688	(117)	68,122	3,709	71,831	75,047
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	8,609	12,801	3,201	(26,206)	(494)	(2,089)	3,571	1,482	(38,997)
Fund Balances, October 1 as Previously Reported	84,536	63,568	81,908	180,881	18,215	429,108	1,056	430,164	469,050
Prior Period Adjustment									111
Beginning Fund Balance as Restated	84,536	63,568	81,908	180,881	18,215	429,108	1,056	430,164	469,161
Fund Balances, September 30	$ 93,145	$ 76,369	$ 85,109	$ 154,675	$ 17,721	$ 427,019	$ 4,627	$ 431,646	$ 430,164

The notes to the financial statements are an integral part of this statement.

(end of statement)

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL-GENERAL, SPECIAL REVENUE (WITH ANNUAL BUDGETS) AND DEBT SERVICE FUNDS
(NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2000
(In Thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS		
	BUDGET	ACTUAL	VARIANCE-FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE-FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE-FAVORABLE (UNFAVORABLE)
Revenues									
Taxes	$ 271,823	$ 276,239	$ 4,416	$ 44,415	$ 44,105	$ (310)	$ 77,526	$ 78,770	$ 1,244
Licenses and Permits	12,586	12,258	(328)						
Intergovernmental	2,534	2,670	136	16,069	16,431	362			
Revenues from Utilities	146,940	172,301	25,361						
Charges for Services	21,923	23,011	1,088	48,869	42,486	(6,383)			
Fines and Forfeits	12,210	11,593	(617)						
Miscellaneous	13,081	13,297	216	4,239	6,037	1,798	5,586	6,912	1,326
Total Revenues	481,097	511,369	30,272	113,592	109,059	(4,533)	83,112	85,682	2,570
Expenditures									
Current:									
General Government	70,525	56,420	14,105	202	247	(45)			
Public Safety	309,437	308,128	1,309	1,938	1,954	(16)			
Streets and Roadways	9,966	9,910	56	37,551	39,311	(1,760)			
Health Services	12,224	12,472	(248)	35,444	35,362	82			
Environmental Protection and Control									
Sanitation	2,528	2,602	(74)						
Welfare	13,950	13,865	85						
Culture and Recreation	55,694	53,607	2,087	774	689	85			
Convention and Tourism				41,540	40,176	1,364			
Economic Development and Opportunity	6,660	6,352	308	350	350				
Debt Service							91,707	90,668	1,039
Total Expenditures	480,984	463,356	17,628	117,799	118,089	(290)	91,707	90,668	1,039
Excess (Deficiency) of Revenues Over (Under) Expenditures	113	48,013	47,900	(4,207)	(9,030)	(4,823)	(8,595)	(4,986)	3,609
Other Financing Sources (Uses)									
Operating Transfers In	16,481	16,325	(156)	56,057	57,584	1,527	8,905	8,187	(718)
Operating Transfers Out	(64,527)	(64,535)	(8)	(56,689)	(50,592)	6,097			
Total Other Financing Sources (Uses)	(48,046)	(48,210)	(164)	(632)	6,992	7,624	8,905	8,187	(718)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(47,933)	(197)	$ 47,736	(4,839)	(2,038)	$ 2,801	310	3,201	$ 2,891
Fund Balances, October 1	84,536	84,536		59,682	59,682		81,908	81,908	
Add Encumbrances		8,806			15,670				
Fund Balances, September 30	$ 36,603	$ 93,145		$ 54,843	$ 73,314		$ 82,218	$ 85,109	

The notes to the financial statements are an integral part of this statement.

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2000
(With comparative totals for September 30, 1999)
(In Thousands)

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	PROPRIETARY	TOTALS (MEMORANDUM ONLY) REPORTING ENTITY	
	ENTERPRISE	INTERNAL SERVICE	PRIMARY GOVERNMENT	COMPONENT UNITS	2000	1999
Operating Revenues						
Charges for Services	$ 93,755	$ 105,665	$ 199,420	$ 1,237,478	$ 1,436,898	$ 1,392,487
Operating Expenses						
Personal Services	40,810	20,758	61,568		61,568	57,427
Contractual Services	25,706	46,309	72,015	433	72,448	65,902
Commodities	5,302	2,991	8,293	10	8,303	7,405
Insurance	1,468		1,468		1,468	1,516
Materials		13,769	13,769		13,769	12,189
Gas, Electric & Water Systems Operations and Maintenance				784,641	784,641	748,480
Other		15,137	15,137		15,137	15,246
Depreciation	8,858	11,083	19,941	211,785	231,726	232,699
Total Operating Expenses	82,144	110,047	192,191	996,869	1,189,060	1,140,864
Operating Income (Loss)	11,611	(4,382)	7,229	240,609	247,838	251,623
Nonoperating Revenues (Expenses)						
Interest and Other	5,362	4,636	9,998	47,788	57,786	71,476
Other Nonoperating Revenue	305	1,482	1,787		1,787	1,624
Gain (Loss) on Disposition of Fixed Assets	(984)	1,544	560	(126)	434	1,592
Interest and Debt Expense	(9,191)	(52)	(9,243)	(185,644)	(194,887)	(187,393)
Other Nonoperating Expenses	(302)		(302)	(26,556)	(26,858)	(42,068)
Allowance for Funds Used During Construction				13,286	13,286	5,716
Total Nonoperating Revenues (Expenses)	(4,810)	7,610	2,800	(151,252)	(148,452)	(149,053)
Income Before Operating Transfers	6,801	3,228	10,029	89,357	99,386	102,570
Operating Transfers In (Out)						
Operating Transfers In	3,968	3,550	7,518		7,518	4,604
Operating Transfers Out	(5,229)	(3,126)	(8,355)		(8,355)	(8,657)
Total Operating Transfers	(1,261)	424	(837)		(837)	(4,053)
Income before Extraordinary Item	5,540	3,652	9,192	89,357	98,549	98,517
Extraordinary Item						
Cash Defeasance of Bonds						(24,900)
Net Income	5,540	3,652	9,192	89,357	98,549	73,617
Add Amortization of (Depreciation of) Federally Contributed Fixed Assets	1,629		1,629		1,629	1,642
Increase In Retained Earnings	7,169	3,652	10,821	89,357	100,178	75,259
Retained Earnings/Fund Balances, October 1	101,777	37,890	139,667	2,254,827	2,394,494	2,319,235
Retained Earnings/Fund Balances, September 30	$ 108,946	$ 41,542	$ 150,488	$ 2,344,184	$ 2,494,672	$ 2,394,494

The notes to the financial statements are an integral part of this statement.

(end of statement)

(This page left blank intentionally.)

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2000
(With comparative totals for September 30, 1999)
(In Thousands)

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	PROPRIETARY	TOTALS (MEMORANDUM ONLY)	
		INTERNAL	PRIMARY	COMPONENT	REPORTING ENTITY	
	ENTERPRISE	SERVICE	GOVERNMENT	UNITS	2000	1999
Cash Flows from Operating Activities						
Cash Received from Customers	$ 92,587	$ 105,455	$ 198,042	$ 1,248,002	$ 1,446,044	$ 1,374,698
Cash Payments to Suppliers for Goods and Services	(31,342)	(79,191)	(110,533)	(719,404)	(829,937)	(741,656)
Cash Payments to Employees for Service	(41,690)	(21,119)	(62,809)	(52,255)	(115,064)	(93,765)
Other Nonoperating Revenues	305	1,482	1,787		1,787	1,632
Net Cash Provided by Operating Activities	19,860	6,627	26,487	476,343	502,830	540,909
Cash Flows from Non-Capital Financing Activities						
Operating Transfers In from Other Funds	3,850	3,893	7,743		7,743	4,495
Operating Transfers Out to Other Funds	(5,337)	(3,123)	(8,460)		(8,460)	
Cash Payments from Other Governments				538	538	(8,678)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(1,487)	770	(717)	538	(179)	(4,183)
Cash Flows from Capital and Related Financing Activities						
Acquisition and Construction of Capital Assets	(14,383)	(15,280)	(29,663)	(538,218)	(567,881)	(432,873)
Proceeds from Issuance of Long-Term Debt	24,845		24,845	248,087	272,932	75,000
Principal Payments on Long-Term Debt	(5,995)	(322)	(6,317)	(88,210)	(94,527)	(239,556)
Interest Paid on Long-Term Debt	(9,083)	(54)	(9,137)	(190,155)	(199,292)	(223,770)
Debt Issuance Cost	(810)		(810)	(544)	(1,354)	(218)
Costs for Cash Defeasance of Debt						(11,842)
Proceeds from Notes	350		350		350	352
Principal Payment on Notes	(77)		(77)	(719)	(796)	(141)
Interest Paid on Notes	(20)		(20)		(20)	(11)
Proceeds from Joint Operations Agreement				15,239	15,239	18,062
Proceeds from Litigation Settlement				18,975	18,975	12,109
Redemption of Commercial Paper				(139,700)	(139,700)	(34,900)
Capital Contributed for Construction				21,902	21,902	15,355
Proceeds from Sale of Assets	67	2,649	2,716	32	2,748	3,987
Net Cash (Used for) Capital and Related Financing Activities	(5,106)	(13,007)	(18,113)	(653,311)	(671,424)	(818,446)
Cash Flows from Investing Activities						
Purchase of Investment Securities	(419,713)	(224,213)	(643,926)	(1,152,668)	(1,796,594)	(2,649,015)
Maturity of Investment Securities	406,939	233,133	640,072	1,235,733	1,875,805	2,751,353
Notes Principal		(199)	(199)		(199)	
Principal Collection on Notes		79	79	438	517	1,198
Loans Disbursed				(673)	(673)	(896)
Interest on Notes		28	28		28	24
Interest on Investments	5,196	4,725	9,921	45,159	55,080	66,877
Net Cash Provided by (Used for) Investing Activities	(7,578)	13,553	5,975	127,989	133,964	169,541
Net Increase (Decrease) in Cash and Cash Equivalents	5,689	7,943	13,632	(48,441)	(34,809)	(112,179)
Cash and Cash Equivalents, October 1	22,218	5,556	27,774	59,916	87,690	199,869
Cash and Cash Equivalents, September 30	$ 27,907	$ 13,499	$ 41,406	$ 11,475	$ 52,881	$ 87,690

The notes to the financial statements are an integral part of this statement.

(Cont'd)

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2000
(With comparative totals for September 30, 1999)
(In Thousands)

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	PROPRIETARY	TOTALS (MEMORANDUM ONLY)	
		INTERNAL	PRIMARY	COMPONENT	REPORTING ENTITY	
	ENTERPRISE	SERVICE	GOVERNMENT	UNITS	2000	1999
Reconciliation of Operating Income to Net Cash Provided by Operating Activities						
Operating Income (Loss)	$ 11,611	$ (4,382)	$ 7,229	$ 240,609	$ 247,838	$ 251,623
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	8,858	11,083	19,941	211,785	231,726	232,699
Other Nonoperating Revenues	305	1,482	1,787		1,787	1,632
Amortization Expense				18,142	18,142	25,823
Changes in Assets and Liabilities:						
(Increase) Decrease in Accounts Receivable				10,855	10,855	(17,662)
(Increase) Decrease in Other Accounts Receivable	(107)	(8)	(115)	(10,996)	(11,111)	598
(Increase) Decrease in Accrued Revenues	(144)	1	(143)	62	(81)	(301)
(Increase) in Due from Other Funds		(188)	(188)		(188)	(6)
(Increase) Decrease in Due From Other Gov't Agencies		(158)	(158)	9	(149)	(187)
(Increase) Decrease in Inventories	59	(473)	(414)	(18,703)	(19,117)	(3,615)
(Increase) Decrease in Prepaid Expenses		(155)	(155)	(4,631)	(4,786)	944
Decrease in Deposits		142	142		142	49
Increase (Decrease) in Vouchers Payable	(587)	(635)	(1,222)	18,187	16,965	19,008
Increase in Other Payables	1,661	279	1,940	9,149	11,089	29,091
(Decrease) in Due to Other Funds						(25)
Increase (Decrease) in Accrued Payroll	(1,014)	(464)	(1,478)	1,429	(49)	228
Increase in Accrued Leave Payable	134	103	237	388	625	441
Increase (Decrease) in Deferred Revenue	(916)		(916)		(916)	907
Increase (Decrease) in Customer Deposits				58	58	(338)
Net Cash Provided by Operating Activities	$ 19,860	$ 6,627	$ 26,487	$ 476,343	$ 502,830	$ 540,909
Noncash Investing, Capital and Financing Activities:						
Acquisition and Construction of Capital Assets from Capital Contributions	$ 3,440	$ 1,685	$ 5,125	$ 17,905	$ 23,030	$ 26,431

(end of statement)

STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUND TYPE
FIRE AND POLICE PENSION/RETIREE HEALTH CARE TRUST FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2000

(With comparative totals for September 30, 1999)
(In Thousands)

	FIRE AND POLICE PENSION FUND	FIRE AND POLICE RETIREE HEALTH CARE FUND	TOTALS 2000	TOTALS 1999
Additions				
Contributions:				
City Contribution	$ 40,239	$ 13,888	$ 54,127	$ 50,176
Contributions from Employees	20,119	223	20,342	18,612
Total Contributions	60,358	14,111	74,469	68,788
Investment Income:				
Interest	22,298	1,239	23,537	22,347
Dividends	37,397	964	38,361	11,892
Net Appreciation (Depreciation) in Fair Value of Investments	153,682	12,941	166,623	182,152
Real Estate Income, Net	250		250	243
Securities Lending Income	7,464		7,464	6,352
Other Income	293	66	359	449
Less Investment Expenses:				
Investment Management and Custodial Fees	(4,839)	(529)	(5,368)	(4,595)
Securities Lending Borrower Rebates	(6,840)		(6,840)	(5,678)
Securities Lending Fees	(218)		(218)	(236)
Net Investment Income	209,487	14,681	224,168	212,926
Total Additions	269,845	28,792	298,637	281,714
Deductions				
Benefits Paid to Participants:				
Postemployment Healthcare		4,266	4,266	3,255
Annuities	40,202		40,202	36,021
Back DROP Payments	8,404		8,404	1,647
Refunds of Participant Contributions	454		454	423
Personnel Costs	428	19	447	406
Contractual Services	378	284	662	728
Other		12	12	7
Depreciation	16		16	18
Maintenance and Utilities	277		277	331
Total Deductions	50,159	4,581	54,740	42,836
Net Increase	219,686	24,211	243,897	238,878
Net Assets Held in Trust for Pension/Postemployment Healthcare Benefits, October 1	1,183,943	58,203	1,242,146	1,003,268
Net Assets Held in Trust for Pension/Postemployment Healthcare Benefits, September 30	$ 1,403,629	$ 82,414	$ 1,486,043	$ 1,242,146

The notes to the financial statements are an integral part of this statement.

(This page left blank intentionally.)

City of San Antonio
Texas

Component Units

As set forth in GASB Statement Number 14, "The Reporting Entity", Component Units which by the nature and significance of their relationship with the City is such that their exclusion from the reporting entity's financial statements would be misleading or incomplete and as such are presented discretely with the City's financial statements.

The City has determined that the following component units meet the criteria for discrete presentation as set forth in GASB Statement Number 14:

SAN ANTONIO DEVELOPMENT AGENCY (SADA) *- SADA is responsible for implementing the City's Urban Renewal Program. A majority of the financing is provided from the City in the form of pass-through grants.*

CITY OF SAN ANTONIO HIGHER EDUCATION AUTHORITY (SAHEA) *- SAHEA was established in accordance with state law for the purpose of aiding non-profit institutions of higher education in providing educational facilities and housing facilities. The corporation is authorized to issue revenue bonds for said purposes on behalf of the City but the bonds are not obligations of the City.*

GREATER KELLY DEVELOPMENT AUTHORITY (GKDA) *- GKDA was established for the purpose of monitoring the proposed closing of Kelly Air Force Base (Kelly) and formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly. The authority is authorized to issue bonds to finance related projects but the bonds are not obligations of the City.*

SAN ANTONIO HOUSING TRUST FOUNDATION, INC. (SAHTF) *- SAHTF is a non-profit corporation established in 1990 for the purpose of supporting charitable, educational, and scientific undertakings, specifically for providing housing for low and middle income families. In addition, the corporation provides administrative and other support for the operations of the San Antonio Housing Trust Fund, an Expendable Trust Fund of the City.*

SAN ANTONIO LOCAL DEVELOPMENT COMPANY (SALDC) *- SALDC is a non-profit corporation under agreement with the City which administers programs that provide qualifying local businesses with loans. Loan funds administered by SALDC include the Neighborhood Business Revitalization Program, U.S. Department of Commerce Title IX Revolving Loan Fund, Small Business Administration Microloan Program, and a Housing and Urban Development 108 Fund.*

SAN ANTONIO WATER SYSTEM (SAWS) *- SAWS serves as the City's water, wastewater, and stormwater utility. Financing is provided by user fees and the sale of revenue bonds.*

CITY PUBLIC SERVICE (CPS) *- CPS is the City's electric utility, which provides electricity and natural gas to the San Antonio Metropolitan Area. Financing is provided by user fees and the sale of revenue bonds.*

COMPONENT UNIT GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2000
(With comparative totals for September 30, 1999)

	SAN ANTONIO DEVELOPMENT AGENCY	SAN ANTONIO HIGHER EDUCATION AUTHORITY	GREATER KELLY DEVELOPMENT AUTHORITY	SAN ANTONIO HOUSING TRUST FOUNDATION INC.	TOTALS 2000	TOTALS 1999
Assets						
Cash and Cash Equivalents	$ 259,395	$ 32,236	$ 5,780,961	$ 885,831	$ 6,958,423	$ 5,172,210
Investments				445,072	445,072	454,412
Receivables:						
Notes	2,727,496				2,727,496	2,416,877
Other Accounts	3,649		4,833,460	3,109,087	7,946,196	6,666,331
Inventories of Materials and Supplies	476,292				476,292	692,096
Due from Other Governmental Agencies	1,294,047		6,945,283		8,239,330	7,195,751
General Equipment	271,387	824	66,963,892	10,503	67,246,606	48,195,808
Amount to be Provided for Long-Term Debt			18,787,213		18,787,213	42,029,230
Total Assets	$ 5,032,266	$ 33,060	$ 103,310,809	$ 4,450,493	$ 112,826,628	$ 112,822,715
Liabilities and Fund Equity						
Liabilities:						
Vouchers Payable	$ 343,155	$ 0	$ 14,784,530	$ 42,330	$ 15,170,015	$ 15,177,411
Accounts Payable-Other	383,810	5,100	461,924	16,735	867,569	799,538
Notes Payable			18,787,213		18,787,213	42,029,230
Accrued Leave Payable	339,405		66,789		406,194	209,121
Deferred Revenue			244,003	631,781	875,784	1,967,485
Due to Other Governmental Agencies			1,609,790	3,235,901	4,845,691	3,388,207
Total Liabilities	1,066,370	5,100	35,954,249	3,926,747	40,952,466	63,570,992
Fund Equity:						
Investment in General Fixed Assets	271,387	824	66,963,892	10,503	67,246,606	48,195,808
Fund Balances:						
Reserved:						
Reserved for Inventories	476,292				476,292	692,096
Reserved for Notes	2,727,496				2,727,496	2,416,877
Reserved for Other Restricted Purposes	490,721			359,607	850,328	1,087,829
Unreserved:						
Undesignated		27,136	392,668	153,636	573,440	(3,140,887)
Total Fund Balances	3,694,509	27,136	392,668	513,243	4,627,556	1,055,915
Total Fund Equity	3,965,896	27,960	67,356,560	523,746	71,874,162	49,251,723
Total Liabilities and Fund Equity	$ 5,032,266	$ 33,060	$ 103,310,809	$ 4,450,493	$ 112,826,628	$ 112,822,715

The notes to the financial statements are an integral part of this statement.

COMPONENT UNIT GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2000
(With comparative totals for September 30, 1999)

	SAN ANTONIO DEVELOPMENT AGENCY	SAN ANTONIO HIGHER EDUCATION AUTHORITY	GREATER KELLY DEVELOPMENT AUTHORITY	SAN ANTONIO HOUSING TRUST FOUNDATION INC.	TOTALS 2000	TOTALS 1999
Revenues						
Intergovernmental	$ 10,299,530	$ 0	$ 21,433,547	$ 578,367	$ 32,311,444	$ 36,201,295
Charges for Services	90,727	1,000	12,231,387		12,323,114	10,316,666
Miscellaneous:						
Sales			6,500,000		6,500,000	
Recovery of Expenditures			7,516,319		7,516,319	
Interest	111,044	960	2,283,615	83,416	2,479,035	2,768,835
In-Kind Contributions			269,804		269,804	243,231
Total Revenues	10,501,301	1,960	50,234,672	661,783	61,399,716	49,530,027
Expenditures						
Urban Redevelopment and Housing	10,404,131			802,208	11,206,339	11,205,077
Economic Development and Opportunity		1,300	50,329,497		50,330,797	52,644,117
Total Expenditures	10,404,131	1,300	50,329,497	802,208	61,537,136	63,849,194
Excess (Deficiency) of Revenues Over (Under) Expenditures	97,170	660	(94,825)	(140,425)	(137,420)	(14,319,167)
Other Financing Sources						
Proceeds from Notes and Loans			3,709,061		3,709,061	11,280,636
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	97,170	660	3,614,236	(140,425)	3,571,641	(3,038,531)
Fund Balances, October 1 as Previously Reported	3,597,339	26,476	(3,221,568)	653,668	1,055,915	3,983,568
Prior Period Adjustment						110,878
Beginning Fund Balance as Restated	3,597,339	26,476	(3,221,568)	653,668	1,055,915	4,094,446
Fund Balances, September 30	$ 3,694,509	$ 27,136	$ 392,668	$ 513,243	$ 4,627,556	$ 1,055,915

The notes to the financial statements are an integral part of this statement.

COMPONENT UNIT PROPRIETARY FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2000
(unless otherwise indicated)
(With comparative totals for September 30, 1999)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2000 SAN ANTONIO WATER SYSTEM	JAN. 31, 2000 CITY PUBLIC SERVICE	TOTALS 2000	TOTALS 1999
Assets					
Current Assets					
Cash and Cash Equivalents	$ 1,645,715	$ 0	$ 5,981,000	$ 7,626,715	$ 14,116,750
Investments		15,894,742	110,196,000	126,090,742	92,072,304
Receivables:					
Other Accounts	549	21,581,138	108,619,000	130,200,687	129,724,209
Notes	2,654,951	443,045		3,097,996	2,863,500
Accrued Interest	13,241	378,756		391,997	933,536
Due from Other Governmental Agencies	18,797			18,797	27,409
Inventories		5,400,421	100,611,000	106,011,421	87,308,874
Prepaid Expenses		10,919,759	11,097,000	22,016,759	7,597,642
Total Current Assets	4,333,253	54,617,861	336,504,000	395,455,114	334,644,224
Restricted Assets					
Debt Service Accounts:					
Cash and Cash Equivalents		2,887,094	90,000	2,977,094	139,000
Investments					2,630,204
Construction Accounts:					
Cash and Cash Equivalents		204,016		204,016	42,671,797
Investments		53,121,630		53,121,630	82,422,770
Improvement and Contingency Accounts:					
Cash and Cash Equivalents					
Investments			369,716,000	369,716,000	461,903,000
Other Restricted Accounts:					
Cash and Cash Equivalents			667,000	667,000	2,988,000
Investments		10,605,783	148,851,000	159,456,783	153,183,297
Total Restricted Assets		66,818,523	519,324,000	586,142,523	745,938,068
Property, Plant and Equipment					
Land		34,935,056		34,935,056	29,151,871
Utility Plant in Service		1,736,546,301	5,526,869,000	7,263,415,301	6,966,971,549
Machinery and Equipment	28,067	89,564,030		89,592,097	72,505,985
Construction in Progress		235,271,630	345,751,000	581,022,630	421,020,219
Utility Property Leased			18,713,000	18,713,000	
Nuclear Fuel -Net			39,152,000	39,152,000	36,602,000
Held for Future Use			12,599,000	12,599,000	31,384,000
Total	28,067	2,096,317,017	5,943,084,000	8,039,429,084	7,557,635,624
Less: Accumulated Depreciation		568,705,024	1,808,877,000	2,377,582,024	2,194,474,129
Net Property, Plant and Equipment	28,067	1,527,611,993	4,134,207,000	5,661,847,060	5,363,161,495
Unamortized Debt Expense		5,019,071	15,734,000	20,753,071	16,110,291
Total Assets	$ 4,361,320	$ 1,654,067,448	$ 5,005,769,000	$ 6,664,197,768	$ 6,459,854,078

(Cont'd)

The notes to the financial statements are an integral part of this statement.

COMPONENT UNIT PROPRIETARY FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2000
(unless otherwise indicated)
(With comparative totals for September 30, 1999)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2000 SAN ANTONIO WATER SYSTEM	JAN. 31, 2000 CITY PUBLIC SERVICE	TOTALS 2000	TOTALS 1999
Liabilities and Fund Equity					
Current Liabilities: (Payable from Current Assets)					
Vouchers Payable	$ 5,064	$ 9,069,370	$ 122,537,000	$ 131,611,434	$ 113,096,153
Sewer Collections Payable		208,620		208,620	208,755
Other Payables and Accruals	39,828	12,374,650		12,414,478	12,046,830
Accrued Payroll		4,267,862		4,267,862	2,838,392
Accrued Leave Payable		3,926,937		3,926,937	3,539,478
Total Current Liabilities	44,892	29,847,439	122,537,000	152,429,331	131,729,608
Current Liabilities: (Payable from Restricted Assets)					
Accrued Bond and Certificate Interest		1,780,866		1,780,866	1,838,954
Current Portion of Bonds and Certificates		24,495,000	67,215,000	91,710,000	82,710,000
Customer Deposits		5,092,097	25,757,000	30,849,097	30,790,910
Contract Retainage Payable		4,735,917		4,735,917	3,626,352
Customer Advances for Construction		2,765,703	16,745,000	19,510,703	17,359,287
Total Current Liabilities (Payable From Restricted Assets)		38,869,583	109,717,000	148,586,583	136,325,503
Restricted Funds					
Long-Term Liabilities					
Revenue Bonds (Net of Current Portion)		656,440,000	2,663,360,000	3,319,800,000	3,227,815,000
Unamortized Premium		1,815,521		1,815,521	1,849,185
Less: Unamortized Discount		(16,777,127)	(17,675,000)	(34,452,127)	(37,071,624)
Deferred Amount on Refunding		(9,495,097)	(191,830,000)	(201,325,097)	(222,252,674)
Long-Term Debt/Commercial Paper	418,114	60,300,000	134,800,000	195,518,114	273,803,498
Other Payables		3,209,707	136,326,000	139,535,707	120,969,369
Total Long-Term Liabilities	418,114	695,493,004	2,724,981,000	3,420,892,118	3,365,112,754
Total Liabilities	463,006	764,210,026	2,957,235,000	3,721,908,032	3,633,167,865
Fund Equity					
Contributed Capital:					
Local Government	30,000			30,000	30,000
Customers		598,076,317		598,076,317	571,829,649
Total Contributed Capital	30,000	598,076,317		598,106,317	571,859,649
Retained Earnings:					
Reserved for Revenue Bond Retirement		1,106,228		1,106,228	863,250
Reserved for Construction		45,824,026		45,824,026	30,061,928
Reserved for Improvement and Contingency			369,716,000	369,716,000	461,903,000
Unreserved	3,868,314	244,850,851	1,678,818,000	1,927,537,165	1,761,998,386
Total Retained Earnings	3,868,314	291,781,105	2,048,534,000	2,344,183,419	2,254,826,564
Total Fund Equity	3,898,314	889,857,422	2,048,534,000	2,942,289,736	2,826,686,213
Total Liabilities and Fund Equity	$ 4,361,320	$ 1,654,067,448	$ 5,005,769,000	$ 6,664,197,768	$ 6,459,854,078

(end of statement)

The notes to the financial statements are an integral part of this statement.

COMPONENT UNIT PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2000

(unless otherwise indicated)

(With comparative totals for September 30, 1999)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2000 SAN ANTONIO WATER SYSTEM	JAN. 31, 2000 CITY PUBLIC SERVICE	TOTALS 2000	TOTALS 1999
Operating Revenues					
Charges for Services	$ 1,101,505	$ 195,727,439	$ 1,040,649,000	$ 1,237,477,944	$ 1,204,859,707
Operating Expenses					
Contractual Services	432,884			432,884	311,109
Commodities	9,873			9,873	9,097
Gas, Electric and Water Systems - Operating and Maintenance		118,252,245	666,389,000	784,641,245	748,479,940
Depreciation		46,607,685	165,177,000	211,784,685	212,243,473
Total Operating Expense	442,757	164,859,930	831,566,000	996,868,687	961,043,619
Operating Income	658,748	30,867,509	209,083,000	240,609,257	243,816,088
Nonoperating Revenues (Expenses)					
Interest and Other		8,468,123	39,320,000	47,788,123	63,022,022
Gain (Loss) on Disposition of Assets		(126,394)		(126,394)	265,539
Interest and Debt Expense		(34,173,632)	(151,470,000)	(185,643,632)	(178,347,433)
Other Nonoperating Expense		(3,697,499)	(22,859,000)	(26,556,499)	(41,407,522)
Allowance for Funds Used During Construction			13,286,000	13,286,000	5,716,000
Total Nonoperating Revenues (Expenses)		(29,529,402)	(121,723,000)	(151,252,402)	(150,751,394)
Income before Extraordinary Item	658,748	1,338,107	87,360,000	89,356,855	93,064,694
Extraordinary Item					
Cash Defeasance of Bonds					(24,900,000)
Net Income	658,748	1,338,107	87,360,000	89,356,855	68,164,694
Retained Earnings, October 1	3,209,566	290,442,998	1,961,174,000	2,254,826,564	2,186,661,870
Retained Earnings, September 30	$ 3,868,314	$ 291,781,105	$ 2,048,534,000	$ 2,344,183,419	$ 2,254,826,564

The notes to the financial statements are an integral part of this statement.

(This page left blank intentionally.)

COMPONENT UNIT PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2000
(unless otherwise indicated)
(With comparative totals for September 30, 1999)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2000 SAN ANTONIO WATER SYSTEM	JAN. 31, 2000 CITY PUBLIC SERVICE	TOTALS 2000	TOTALS 1999
Cash Flows from Operating Activities					
Cash Received from Customers	$ 1,106,704	$ 195,391,114	$ 1,051,504,000	$ 1,248,001,818	$ 1,187,469,014
Cash Payments to Suppliers for Goods and Services	(541,166)	(61,302,630)	(657,560,000)	(719,403,796)	(646,427,156)
Cash Payments to Employees for Service		(52,255,125)		(52,255,125)	(36,846,303)
Net Cash Provided by Operating Activities	565,538	81,833,359	393,944,000	476,342,897	504,195,555
Cash Flows From Non-Capital Financing Activities					
Cash Payments from Other Governments			538,000	538,000	
Cash Flows From Capital and Related Financing Activities					
Acquisition and Construction of Capital Assets	(1,483)	(127,909,404)	(410,307,000)	(538,217,887)	(402,565,070)
Proceeds from Issuance of Long-Term Debt		241,586,547	6,500,000	248,086,547	75,000,000
Principal Payments on Long-Term Debt	(85,384)	(24,405,000)	(63,720,000)	(88,210,384)	(233,160,874)
Interest Paid on Long-Term Debt		(38,684,938)	(151,470,000)	(190,154,938)	(214,688,618)
Debt Issuance Cost		(544,143)		(544,143)	(184,644)
Costs for Cash Defeasance of Debt					(11,842,000)
Principal Payments on Notes		(718,467)		(718,467)	
Proceeds from Joint Operations Agreement			15,239,000	15,239,000	18,062,000
Proceeds from Litigation Settlement			18,975,000	18,975,000	12,109,000
Redemption of Commercial Paper		(139,700,000)		(139,700,000)	(34,900,000)
Capital Contributed for Construction		10,425,115	11,477,000	21,902,115	15,355,214
Proceeds from Sale of Assets		31,641		31,641	1,125,839
Net Cash (Used for) Capital and Related Financing Activities	(86,867)	(79,918,649)	(573,306,000)	(653,311,516)	(775,689,153)
Cash Flows From Investing Activities					
Purchase of Investment Securities		(195,748,580)	(956,919,000)	(1,152,667,580)	(1,585,019,203)
Maturity of Investment Securities		178,980,000	1,056,753,000	1,235,733,000	1,711,355,000
Principal Collection on Notes	413,423	25,000		438,423	405,193
Loans Disbursed	(672,919)			(672,919)	(896,000)
Interest on Investments		9,013,973	36,145,000	45,158,973	58,787,959
Net Cash Provided by (Used for) Investing Activities	(259,496)	(7,729,607)	135,979,000	127,989,897	184,632,949
Net Increase (Decrease) in Cash and Cash Equivalents	219,175	(5,814,897)	(42,845,000)	(48,440,722)	(86,860,649)
Cash and Cash Equivalents, October 1	1,426,540	8,906,007	49,583,000	59,915,547	146,776,196
Cash and Cash Equivalents, September 30	$ 1,645,715	$ 3,091,110	$ 6,738,000	$ 11,474,825	$ 59,915,547

(Cont'd)

The notes to the financial statements are an integral part of this statement.

COMPONENT UNIT PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2000
(With comparative totals for September 30, 1999)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2000 SAN ANTONIO WATER SYSTEM	JAN. 31, 2000 CITY PUBLIC SERVICE	TOTALS 2000	TOTALS 1999
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income	$ 658,748	$ 30,867,509	$ 209,083,000	$ 240,609,257	$ 243,816,088
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation		46,607,685	165,177,000	211,784,685	212,243,473
Amortization Expense			18,142,000	18,142,000	25,823,000
Changes in Assets and Liabilities:					
(Increase) Decrease in Accounts Receivable			10,855,000	10,855,000	(17,662,648)
(Increase) Decrease in Other Accounts Receivable	899	(185,377)	(10,812,000)	(10,996,478)	663,398
(Increase) Decrease in Accrued Revenues	(4,312)	66,616		62,304	718,174
(Increase) Decrease in Due from Other Govt. Agencies	8,612			8,612	(5,099)
(Increase) in Inventories		(343,547)	(18,359,000)	(18,702,547)	(3,943,868)
(Increase) Decrease in Prepaid Expenses		(611,294)	(4,020,000)	(4,631,294)	943,628
Increase (Decrease) in Vouchers Payable	(114,938)	3,651,219	14,651,000	18,187,281	16,674,395
Increase in Other Payables	16,529	114,432	9,018,000	9,148,961	25,100,689
Increase (Decrease) in Accrued Payroll		1,429,470		1,429,470	(144,864)
Increase in Accrued Leave Payable		387,459		387,459	307,356
Increase (Decrease) in Customer Deposits		(150,813)	209,000	58,187	(338,167)
Net Cash Provided by Operating Activities	$ 565,538	$ 81,833,359	$ 393,944,000	$ 476,342,897	$ 504,195,555
Noncash Investing, Capital and Financing Activities:					
Acquisition and Construction of Capital Assets from Capital Contributions	$ 0	$ 17,904,931	$ 0	$ 17,904,931	$ 19,784,949

(end of statement)

The notes to the financial statements are an integral part of this statement

TABLE OF NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2000

NOTE		PAGE
1	Summary of Significant Accounting Policies	14
2	Property Taxes	28
3	Cash and Cash Equivalents and Investments	29
4	Property, Plant, and Equipment	36
5	Due To (From) Other Funds	38
6	Long-Term Debt	39
7	Commercial Paper Programs	58
8	Pension and Retirement Plans	60
9	Postemployment Retirement Benefits	69
10	CPS South Texas Project	70
11	Commitments and Contingencies	72
12	Segment Information	78
13	Insurance	79
14	Deficits in Fund Balances/Retained Earnings	83
15	Contributed Capital	85
16	Fund Equity	86
17	Subsequent Events	87

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB Statement No. 14, "The Reporting Entity". The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials, and accordingly, the definition of the financial reporting entity is based on accountability.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable (blended), and (c) component units, which the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statement No. 14 outlined below, potential component units were evaluated for inclusion or exclusion in the reporting entity, and further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others only discretely presented.

The following criteria (as set forth in GASB Statement No. 14) 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.

The criteria outlined above were excerpted from GASB Statement No. 14. For a more detailed explanation of the criteria established by this Statement, we refer the reader to the Codification of Governmental Accounting and Financial Reporting Standards, as of June 30, 2000, published by GASB, Section 2600. Based upon the application of the criteria outlined above, the following is a brief review of component units included in the reporting entity:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended with the Primary Government (the relationship among the following component units and the City meet the criteria, as set forth in GASB Statement No. 14, for inclusion in the Reporting Entity and is such that the financial statements are blended in with those of the City):

City of San Antonio Health Facilities Development Corporation

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of, the City as a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner, to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The HFDC is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

City of San Antonio Industrial Development Authority

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979 in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City as an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects which may further the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The IDA is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

San Antonio Fire and Police Pension Fund

The San Antonio Fire and Police Pension Fund (Pension Fund) is a Single Employer Defined Benefit Plan established in accordance with state law. The Pension Fund is administered by a nine member Board of Trustees, including three City Council Members. The City and Pension fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state law. Benefit levels are also set by state law. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers upon retirement.

San Antonio Fire and Police Retiree Health Care Fund

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Discretely Presented With the Primary Government (the relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statement No. 14, for inclusion in the reporting entity, and accordingly are included, however are such that the financial statements are discretely presented alongside, but not blended with those of the City):

San Antonio Water System

On February 13, 1992, the City Council determined it was in the best interest of the citizens of San Antonio and the customers served by the water and wastewater utilities to consolidate all water utilities, agencies, and activities into one institution. It was determined that the best mechanism for effecting the consolidation of all water systems, agencies, and activities into a single institution was through a refunding of all the then outstanding water and sewer bonds. The consolidation was consummated on May 19, 1992 with the creation of the San Antonio Water System (SAWS) which included the former City Water Board, Alamo Water Conservation and Re-use District, and the City's Sewer and Stormwater system.

Additionally, it was further determined by the City Council that the interests of the citizens and customers could best be served by placing authority for management and control of SAWS, as consolidated, in a Board of Trustees. This Board of Trustees includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. The rates for user charges and bond issuance authorizations are approved by the City Council.

City Public Service

City Public Service (CPS), the City's utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS is governed by a Board of Trustees which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. The rates for user charges and bond issuance authorizations are approved by the City Council.

San Antonio Development Agency

The San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the State of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate, for urban renewal, such areas as it deems advisable, subject to approval by the City Council and the Federal Agency which administers the overall program. SADA receives a majority of its operating funds from the City as pass-through grant funds and is governed by a seven member Board of Commissioners appointed by the City Council.

San Antonio Higher Education Authority

The City of San Antonio Higher Education Authority (SAHEA) was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and as its duly constituted authority and instrumentality. The Act authorizes the corporation to issue revenue bonds for these purposes on behalf of the City but the bonds are not obligations of the City. SAHEA is governed by an eleven member Board of Directors appointed by the City Council for two year terms.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Greater Kelly Development Authority

The Greater Kelly Development Corporation (GKDC) was established in 1996 as the local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base. In November 1999, the City established the Greater Kelly Development Authority as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA will have the powers presently 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 Air Force Base (Kelly). The GKDA is a special district and political subdivision of the State of Texas and was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The GKDA is authorized to issue bonds to finance any project as permitted by Texas Law, but said bonds are not obligations of the City. GKDA is governed by an eleven member Board of Directors appointed by the City Council.

San Antonio Housing Trust Foundation, Inc.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) is a non-profit corporation incorporated in 1990 under the laws of the State of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, specifically for providing housing for low and middle income families and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, an Expendable Trust 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.

San Antonio Local Development Company, Inc.

The San Antonio Local Development Company, Inc. (SALDC) is a non-profit corporation organized in 1978 under the laws of the State of Texas and the auspices of the City. SALDC 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).

SALDC, 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. SALDC 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. SALDC is governed by a thirty-three member Board of Trustees, appointed by the City Council, and an eleven member Board of Directors appointed from the Board of Trustees.

(The remainder of this page left blank intentionally)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office. The addresses are as follows:

Discretely Presented Component Units

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298
Contact Person: Alex Hinojosa
Telephone No. (210) 704-7410

San Antonio Development Agency
115 E. Travis, Suite 800
San Antonio, Texas 78205
Contact Person: Felix Lopez
Telephone No. (210) 225-6833 ext. 203

Greater Kelly Development Authority
143 Billy Mitchell Blvd., Ste 6
San Antonio, Texas 78226
Contact Person: Paul Roberson
Telephone No. (210) 362-7800

San Antonio Local Development Company, Inc.
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

City Public Service
P. O. Box 1771
San Antonio, Texas 78296-1771
Contact Person: Patricia M. Major, CPA, CCM
Telephone No. (210) 353-2455

San Antonio Higher Education Authority
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

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

Blended Component Units

City of San Antonio Health Facilities Development Corporation
P. O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Fire and Police Pension Fund
311 Roosevelt
San Antonio, Texas 78210-2700
Contact Person: Larry Reed
Telephone No. (210) 534-3262

City of San Antonio Industrial Development Authority
P. O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Fire and Police Retiree Health Care Fund
300 Convent Street, Suite 2500
San Antonio, Texas 78205
Contact Person: Paul Villareal
Telephone No. (210) 220-1339

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS and SAWS would be misleading. CPS and SAWS have been identified as significant discretely presented component units both as they relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements.

Related Organizations

The City Council appoints the members to the Board of Directors for the San Antonio Housing Authority. However, the City's accountability for this entity does not extend beyond making appointments to the Board of Directors and the coordination and approval of strategic plans.

B. Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, 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 various funds are grouped in the financial statements in this report into three broad fund categories, seven generic fund types, and two account groups as follows:

1. 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).

2. Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges; or (b) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

2. Proprietary Funds (Continued)

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

3. Fiduciary Funds

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

4. Account Groups

The General Fixed Assets Account Group and the General Long-Term Debt Account Group are self-balancing groups of accounts that are concerned only with the measurement of financial position. They are not involved with the measurement of results of operations.

General Fixed Assets Account Group - The General Fixed Assets Account Group is used to account for fixed assets used in governmental fund type operations. Public domain ("infrastructure") improvements, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are capitalized along with other general fixed assets. No depreciation is recorded for general fixed assets.

General Long-Term Debt Account Group - The General Long-Term Debt Account Group is used to account for long-term liabilities expected to be financed from governmental funds.

C. Basis of Accounting

Governmental Funds, Expendable Trust Funds and Agency Funds are accounted for on the modified accrual basis. Revenues are recognized in the accounting period in which they become available and measurable. Gross receipts and sales taxes are considered measurable 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, except for unmatured interest on general long-term debt.

(The remainder of this page left blank intentionally)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Governmental Funds and Expendable Trust Funds are accounted for on a spending or "current financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) 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 treatment is also applied to governmental fund inventories to indicate that they do not represent "current financial resources", even though they are a component of net current assets. Such amounts are generally offset by fund balance reserve accounts. Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

Proprietary, Pension 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 are recognized when they are incurred. These Funds are accounted for on a cost of services or "economic resources" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. The reported Proprietary Fund type equity (net assets) is segregated into contributed capital and retained earnings components. Proprietary Fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

The City, for its proprietary activities, applies 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 the provisions of 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 proprietary component units, CPS and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

D. Encumbrance Accounting

Encumbrances, which represent commitments for open purchase orders or unperformed contracts for goods or services, are reported as a reservation of fund balance in the General Fund, Special Revenue Funds, Capital Projects Funds, and Expendable Trust Funds. These outstanding encumbrances serve as authorization for expenditures in the subsequent year.

Encumbrances are reflected in the General Fund and Special Revenue Funds Combined Statement of Revenues, Expenditures, Encumbrances and Changes in Fund Balance--Budget and Actual to provide a more meaningful comparison with budget but are not considered expenditures in the financial statements.

(The remainder of this page left blank intentionally)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. GASB Implementations

The City will evaluate and implement in the appropriate fiscal years the following new accounting standards for those statements issued by the Governmental Accounting Standards Boards with effective dates beginning after October 1, 2001. No new GASB implementations occurred for fiscal year 2000.

GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", effective for periods beginning after June 15, 2000.

GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", effective for periods beginning after June 15, 2001. Statement No. 34 also provides a transition period for the retroactive reporting requirements associated with general infrastructure assets. Retroactive reporting of general infrastructure assets is required for periods beginning after June 15, 2005.

GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33", effective for periods beginning after June 15, 2000.

The City has not fully determined the effects that the implementation of these statements will have on the City's financial statements or the financial statements of component units.

F. Budgets

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 departmental directors. During the year, several supplementary appropriations which were not considered material were made and all amendments complied with City Charter requirements.

The City prepares an annual budget for its General Fund, Special Revenue Funds (with the exception of the Special Revenue Home Program, Categorical Grant-In-Aid, Housing and Urban Development 108 Loan Program, and Community Development Program Funds), and the Debt Service Fund. In addition, budgets are not adopted by the City for the San Antonio Industrial Development Authority or the San Antonio Health Facilities Development Corporation, which have been presented as blended component units based on GASB Statement No. 14.

Budgets for the Special Revenue Home Program, Categorical Grant-In-Aid, Housing and Urban Development 108 Loan Program, and Community Development Program Funds as well as the Capital Projects Funds are adopted on a project basis rather than on an annual basis. Appropriations in these funds remain open and carryover to succeeding years until the related expenditures are made or until they are modified or canceled.

(The remainder of this page left blank intentionally)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgets (Continued)

The annual budgetary data reported for the General Fund, Special Revenue Funds, and Debt Service Funds represent the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year end.

The following provides a summary of the City's budgeting policy with respect to Special Revenue Funds based on actual fiscal year 2000 results:

Special Revenue Funds			
	Actual		
	Revenues	Expenditures	Other Sources
Budgeted on an annual basis	$109,059	$118,089	$33,075
Less: Encumbrances		(2,629)	(13,041)
Budgeted on a project basis	166,958	168,381	580
Subtotal	$276,017	$283,841	$20,614
Blended Component Units	14	3	
Total Special Revenue Funds	$276,031	$283,844	$20,614

The budget is prepared using the modified accrual basis of accounting except for the recognition of encumbrances within the expenditure appropriations. Included in the above summary are blended component units which do not adopt a budget but are merely included to facilitate reconciliation.

G. Cash, 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. In its investment portfolio, the only derivative products utilized by the City are callable bonds. As of September 30, 2000, the City's investment portfolio did not contain any other derivative products nor is it leveraged in any way. For a listing of authorized investments, see Note 3.

The City implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" in fiscal year 1998. Investments are stated at fair value for the Fire and Police Pension Trust Fund and the Fire and Police Retiree Health Care Fund 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. The change in fair value of investments with a remaining maturity of greater than one year was immaterial as of fiscal year end. Amortization of premium or accretion of discount is recorded over the term of the investments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Cash, Cash Equivalents and Investments (Continued)

For purposes of the statement of cash flows, the City, SAWS and CPS consider all highly liquid investments with an original maturity of approximately ninety days or less to be cash equivalents.

H. Property Taxes

The City recognizes revenues from property taxes in the period for which they were levied. Property taxes receivable include taxes due and amounts expected to be collected within 60 days after the period end, along with related interest and penalties. For additional disclosure related to property taxes, see Note 2.

I. Inventories

Inventories of materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in, first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for inventories. Under the consumption method, inventory acquisitions are recorded in inventory accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

J. In-Kind Contributions

In-Kind contributions, which include contributions provided by private organizations and local governments, are used to match the requirements of federal and state grants. These in-kind contributions are recorded as revenues and expenditures in the individual grants in accordance with the respective grants' legal requirements and are valued at estimated fair market value at the date of receipt.

K. Fixed Assets and Depreciation

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation on all exhaustible fixed assets of the City used by proprietary funds is charged as an expense with accumulated depreciation being reported on the balance sheet. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives applied are as follows:

Buildings	25 - 40 years
Improvements other than buildings	10 - 40 years
Machinery and equipment	2 - 10 years

Interest costs incurred during the construction of Enterprise Fund fixed assets are capitalized into the cost of the assets being constructed based upon guidelines established by the Statement of Financial Accounting Standards No. 62.

The CPS utility plant is stated at the cost of construction, including costs of contracted services, direct material and labor, indirect costs, including general engineering, labor and material overhead, and an allowance for interest used during construction (AIUDC). CPS computes AIUDC using rates representing the cost of borrowed funds on projects estimated to cost in excess of $250. Proceeds from customers to partially fund construction expenditures are credited against costs for the projects. Retirements of utility plant, together with removal costs less salvage

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Fixed Assets and Depreciation (Continued)

value, are charged to accumulated depreciation. The maintenance of property, as well as replacements and renewals of items determined to be less than a unit of property, are charged to maintenance expense. General utility plant assets consist of land, buildings, and equipment for general and administrative purposes that are commonly used in electric and gas operations.

CPS computes depreciation using the straight-line method over the estimated service lives of the various classes of depreciable property. Depreciation as a percentage of the average depreciable plant was 3.00 % in 2000.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS' share of the STP generation that is available for sale to CPS customers. This change is included in fuel expense monthly. For further discussion regarding the STP, see Note 10.

The SAWS utility plant in service is recorded on the basis of cost. Assets acquired through capital leases are recorded on the cost basis and are included in utility plant in service. Assets acquired through contributions, such as those from land developers, are capitalized and recorded in the plant accounts at estimated fair value at date of donation. SAWS capitalizes certain interest costs on revenue bonds and commercial paper associated with newly constructed utility plant additions. Maintenance, repairs, and minor renewals are charged to operating expense, while major plant replacements are capitalized.

SAWS' utility plant is 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 amortize the costs of the asset group over their estimated average useful life. The following estimated average useful lives are used in providing for depreciation of the SAWS utility plant:

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	20 - 50 years
Computer equipment	10 years
Software	3 - 5 years

L. 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.

M. Compensated Absences

Annual leave pay is accrued as earned for City non-uniformed employees and uniformed fire and police employees. In addition, the City's uniformed fire and police employees accrue sick leave pay. The current portion of the

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Compensated Absences

liability resulting from the accrual of these compensated absences related to governmental fund types is recorded in the respective governmental fund while the long-term portion is accounted for in the General Long-Term Debt Account Group. The current and long-term portions of the liability related to proprietary fund types is accounted for in the respective proprietary fund.

N. Insurance

Activity for the City's self-insurance programs is recorded in the Self-Insurance Fund Group. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, extended sick leave, and employee wellness are included in the Self-Insurance Funds.

The City is insured for property and casualty liability. As of the fiscal year end, the City's property was insured by Royal Lloyds of Texas, while excess liability coverage was provided by the North River Insurance Company of New Jersey. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made, and claims incurred but not reported prior to the end of the fiscal year.

The City also provides employee health, workers' compensation, and unemployment benefits under its self-insured programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims for employees that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third party administrators. In addition, the City has excess workers' compensation coverage through the North River Insurance Company at September 30, 2000. All workers' compensation loss contingencies, including claims incurred but not reported, are recorded by the City.

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 13.

O. Amortization of Federally Contributed Capital

Contributed capital, related to fixed assets acquired by federal or state grants, is being amortized over periods equal to the lives of assets purchased from such contributions of capital.

(The remainder of this page left blank intentionally)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Fund Equity

Reservations of equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of equity represent tentative plans identified by management that are subject to change. Designations are utilized in the City's governmental funds for amounts which have been designated for subsequent year's expenditures and amounts allocated to making future improvements and replacements. The proprietary fund's contributed capital represents equity acquired through grants and capital contributions from customers and other funds.

Q. Revenue Recognition

Governmental-type funds record revenues on the modified accrual basis of accounting. That is, revenues are recorded when they are considered susceptible to accrual, meaning that the revenues are both measurable and available to finance current operations. Revenues from property taxes, sales taxes, licenses, interest revenue and charges for services are considered susceptible to accrual. Proprietary-type funds record revenues when earned.

CPS revenues are recognized as they are billed on a cycle basis. CPS rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned under the accrual basis and flow of economic resources measurement focus.

R. Nuclear Decommissioning

In July 1990, CPS together with the other owners of the STP filed with the Nuclear Regulatory Commission (NRC) a certificate of financial assurance for the decommissioning of the nuclear plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1994, a review of decommissioning costs was conducted, which showed CPS' share of decommissioning costs at approximately $270,000 in 1994 dollars, which also exceeded NRC minimum requirements. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

Beginning in 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2000, CPS had accumulated approximately $95,500 of decommissioning funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amount of $51,500 at December 31, 1999. Based upon the 1994 decommissioning study, the annual levelized funding into the trust of $8,800 for 2000 was expensed by CPS.

S. Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. Other Budget Disclosures

Excesses of expenditures, transfers and encumbrances over appropriations occurred as follows:

Excesses of Expenditures, Transfers and Encumbrances Over Appropriations

Fund/Expenditures	Appropriations	Expenditures, Transfers and Encumbrances	Excess Expenditures, Transfers and Encumbrances over Appropriations
Special Revenue Funds:			
Streets/Drainage Maintenance Improvement Fund	$ 42,632	$ 44,031	$ 1,399
Child Safety Fund	1,552	1,685	133

In addition, the expenditures in the following function categories in the General Fund exceeded their respective appropriations: Health Services expenditures exceeded appropriations by $248 and Sanitation expenditures exceeded appropriations by $74. The excess expenditures and transfers over appropriations were fully offset by excess actual revenues or fund balances. No deficit fund balances resulted from these excesses.

U. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

2. PROPERTY TAXES

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1, and becomes delinquent the following February 1. In fiscal year 1999, the City executed an inter-local agreement with the Bexar County Tax Assessor/Collector's Office to provide property tax billing and collection services at the same level of service to its citizens as previously provided by the City.

Property tax revenues are recognized when they become available which means when due, or past due and receivable within the current period or expected to be collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. The amount of delinquent taxes collected in October and November, 2000 was not material to these financial statements and, therefore, have not been recognized as revenue. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. Property tax receivable, net of allowances for uncollectible amounts, is offset by deferred revenues. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation. The tax rate approved by City ordinance for the year ended September 30, 2000 was $0.57979 per $100 taxable valuation, which means that the City has a tax margin of $1.92021 per $100 taxable valuation and could raise an additional $639,727 per year based on the net taxable valuation of $33,315,479 before the limit is reached.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

City monies are deposited in demand accounts at the City's approved depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata share of highly liquid investments, including U.S. Treasury securities, U.S. Government Agency securities, and Repurchase Agreements with original maturities of ninety days or less, summarized by fund type and included in the combined balance sheet as Cash and Cash Equivalents. Overdrafts which result from a fund overdrawing its share of pooled cash are reported as inter-fund payables by the overdrawn fund and as inter-fund receivables of the General Fund.

Collateral is required for demand deposits and certificates of deposit at 100% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Collateral pledged for demand deposits and certificates of deposit is required to be held in the City's name by the trust or safekeeping department of a bank other than the pledging bank.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a 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.

During fiscal year 1996, the City entered into Repurchase Agreements in connection with the investment of certain bond proceeds. Although these Repurchase Agreements are considered securities for purposes of credit risk classification, due to their 100% overnight liquidity, they are included with Cash and Cash Equivalents in the combined balance sheet.

The investment policy of the City is governed by state statute and by its own written investment policy. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. Government Agency securities with original maturities of more than ninety days. Each fund's pro rata share of these longer term investments is combined with similar non-pooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. Government Agency securities, and are reported as investments in the combined balance sheet, as of September 30, 2000.

For fiscal year 1998, the City implemented the provisions of 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 which 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 change in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was immaterial as of fiscal year end. The City does not participate in external investment pools.

Investments of the Fire and Police Pension Fund, a blended component unit, are administered by the Fire and Police Pension Fund Board of Trustees. Investments of the Fund are reported at fair value and include: corporate bonds, preferred stock, U.S. Treasury securities, U.S. Government Agency securities, notes, mortgages and contracts, and real estate. Equity and fixed income securities traded on a national or international exchange 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. Gains and losses on sales and exchange of securities are recognized on the trade date. Investments that do not have an established market value are reported at estimated fair value. No investments in any one

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

organization (other than those issued by the U.S. Government) represent five percent or more of plan net assets.

The Pension Fund has entered into an agreement with its custodian 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 custodian bank to require that collateral equal to 102% and 105% for domestic and international securities, respectively, of the loaned securities be maintained by the custodian bank. Collateral may be in the form of cash, U.S. government securities and irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote.

As of September 30, 2000, the Pension Fund had lending arrangements outstanding with a total market value of $130,126 which were fully collateralized with cash and securities. Related to these loaned securities, cash collateral of $135,554 is recorded in the accompanying statements. Net income for the year ended September 30, 2000 under the securities lending arrangement was $406.

The Pension Fund has only limited involvement with derivative and other structured financial instruments 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. With less than 1% of total market value invested in derivatives and other structured financial instruments, the Pension Fund has been cautious concerning its aggregate exposure. The fair value of structured financial instruments held for the Pension Fund during fiscal year ended September 30, 2000 was approximately $41,815.

The Pension Fund periodically participates in options and futures in order to hedge the value of a portion of its investments. Financial options and futures are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. Unrealized appreciation on these options and futures of approximately $58,148 is included in net appreciation (depreciation) in fair value of investments at September 30, 2000.

The Fire and Police Retiree Health Care Fund Board of Trustees administer 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 a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value. All investment income, including changes in fair value of investments, is reported as additions in the statement of changes in postemployment healthcare plan net assets. No investments in any one organization (other than those issued by the U.S. Government) represent five percent or more of plan net assets.

The investment policies of SAWS and CPS, the City's significant discretely presented component units, are governed by state statute, local ordinance, and their own respective written investment policies. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements. Additionally, SAWS and CPS implemented the provisions of GASB Statement No. 31 for their respective fiscal year ends of May 31, 1999, and January 31, 1999. The investments of the City, SAWS, and CPS are stated at amortized cost, which approximates fair value as of the fiscal year end of each entity. The difference between amortized cost and fair value was deemed immaterial.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

SAWS is permitted by City Ordinance No. 75686 to invest in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, including obligations for which the principal and interest are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or as otherwise permitted by state law. SAWS general depository agreement does not require SAWS to maintain an average monthly balance.

CPS cash deposits at January 31, 2000 were entirely insured or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government or Government Agency or U.S. Government guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS' name. CPS' cash book values were approximately $6,738 at January 31, 2000, and CPS' bank balances were $12,282 at year end.

At January 31, 2000, CPS' investments, (excluding the Decommissioning Trust) were all in U.S. Government or Government Agency obligations and were held in book entry form by the Federal Reserve Bank in the name of the safekeeping depository. CPS' investments are generally limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Bond Ordinances, and State Law. Investments were $537,400 with a market value of $536,800 at January 31, 2000.

At January 31, 2000, CPS' investments in the Decommissioning Trust were held by an independent trustee. Trust investments are generally limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement, and State Law. Investment securities were carried at a market value of $94,600 for 2000. These funds included U.S. Treasury Strips, purchased with the intent of holding until maturity, totaling $35,200 for 2000. They are subject to market risk and their market value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded and any unrealized gain or loss.

(The remainder of this page left blank intentionally)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Combined cash and cash equivalents and investments are presented below as of year end for the City, and its significant discretely presented Component Units, SAWS and CPS. The information is provided to give an indication of the proportionate amount of cash and investments held by each respective entity.

Combined Cash, Cash Equivalents and Investments

	City	SAWS[1]	CPS[2]
Cash and Cash Equivalents	$ 218,339	$ 3,091	$ 6,738
Security Lending Collateral - Cash and Cash Equivalents	135,554		
Investments	2,017,855	79,669	628,763
Less: Investments with Original Maturities of Less Than Ninety Days Included in Cash Equivalents	(159,819)	(47)	
Total	$2,211,929	$ 82,713	$ 635,501

[1]For the period ended May 31, 2000
[2]For the period ended January 31, 2000

(The remainder of this page left blank intentionally)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

	City	SAWS[1]	CPS[2]
Totals from combined balance sheet			
Cash and Cash Equivalents	$ 193,334	$ 0	$ 5,981
Security Lending Collateral - Cash and Cash Equivalents	135,554		
Investments	1,800,841	15,895	110,196
Restricted Cash and Cash Equivalents	25,005	3,091	757
Restricted Investments	57,195	63,727	518,567
Total Cash, Cash Equivalents and Investments	$ 2,211,929	$ 82,713	$ 635,501

[1]For the period ended May 31, 2000
[2]For the period ended January 31, 2000

The composition of Cash and Cash Equivalents included in the financial statements for the City and its significant discretely presented Component Units as of the respective year ends is presented below.

	City	SAWS[1]	CPS[2]
Deposits with Financial Institutions	$ 9,084	$ 14,017	$ 6,648
Less: Deposits with Original Maturities of Greater than Ninety Days		(11,000)	
Investments with Original Maturities of Less than Ninety Days	159,819	47	
Cash with Pension/Retiree Healthcare Fiscal Agents	49,175		
Cash with Fiscal Agents	57		
Cash with Bond Paying Agents	9		
Cash with Other Financial Agents	36		
Petty Cash Funds	159	27	90
Total Cash and Cash Equivalents	$ 218,339	$ 3,091	$ 6,738

[1]For the period ended May 31, 2000
[2]For the period ended January 31, 2000

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Healthcare Fund of the City of San Antonio have been approved by the Funds' Board of Directors and are invested as authorized by Texas State Statutes. Cash with bond paying agents are held to cover matured bonds and coupons which have been offset by a corresponding liability in the City's financial statements.

(The remainder of this page left blank intentionally)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits with financial institutions are classified into three categories of credit risk based upon the following:

Category	Description
1	Deposits insured by the FDIC or collateralized with securities held by the City or the City's agent in the City's name.
2	Deposits collateralized by securities held by the pledging bank's agent in the City's name.
3	Deposits uncollateralized which include deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the City's name.

Accordingly, deposits of the City, SAWS and CPS are categorized by credit risk as follows:

Units	Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
City Deposits With Financial Institutions	$ 9,084	$ 25,113	$ 25,113	$ 0	$ 0
Deposits With Agents	49,277	49,277	49,232	45	
SAWS Deposits	14,017	15,802	15,802		
CPS Deposits With Financial Institutions	6,648	12,282	12,282		

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Health Care Fund of the City of San Antonio are classified as Category 1 and cash with Bond Paying Agents is classified as Category 2. The Fire and Police Pension Fund also had securities lending collateral - cash and cash equivalents in the amount of $135,554 which is not categorized for credit risk as it had been invested in a securities lending collateral investment pool.

(The remainder of this page left blank intentionally)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments are classified into three categories of credit risk based upon the following:

Category	Description
1	Includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name.
2	Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
3	Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

Accordingly, the investments of the City, SAWS, and CPS are categorized below to give an indication of the level of risk assumed:

Total Investments By Category

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
City:					
Corporate Bonds	$ 121,679	$	$	$ 121,679	$ 121,679
Preferred Stock	834			834	834
Common Stock	880,758			880,758	880,758
U.S. Treasury & Government Agency Securities	680,249			680,249	682,113
Repurchase Agreements		56,907		56,907	56,907
Notes, Mortgages, Contracts	113,873			113,873	113,873
Venture Capital Partnerships and Other Alternative Investments	97,718			97,718	97,718
Total Categorized Investments	1,895,111	56,907		1,952,018	1,953,882
Investments not Categorized:					
Money Market Mutual Fund				14,813	14,813
Total City	$ 1,895,111	$ 56,907	$	$ 1,966,831	$ 1,968,695
SAWS:					
U.S. Treasury & Government Agency Securities	$ 68,669			$ 68,669	$ 68,371
Total SAWS	$ 68,669	$	$	$ 68,669	$ 68,371
CPS:					
U.S. Treasury & Government Agency Securities	$ 628,763			$ 628,763	$ 631,433
Total CPS	$ 628,763	$	$	$ 628,763	$ 631,433

As of the fiscal year end, in addition to the investment securities presented and categorized as to credit risk in the table above, the Fire and Police Pension Fund had Real Estate investments of $51,024 which were not included in the table above. These investments are not considered securities and as such, are not categorized for credit risk. The total Real Estate investments of $51,024 and the $1,966,831 in securities categorized as to risk in the table above, comprise the City's total investments of $2,017,855.

4. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in the General Fixed Assets Account Group:

Summary of Changes in General Fixed Assets Account Group

	Balance Oct. 1, 1999	Additions	Deletions/ Transfers	Balance Sept. 30, 2000
Land and Land Improvements	$ 321,034	$ 16,402	$	$ 337,436
Buildings	438,095	12,116		450,211
Streets and Bridges	474,100	9,202		483,302
Storm Drainage and Flood Prevention	337,026	16,036		353,062
General City Equipment	125,934	19,482	1,376	144,040
Construction-in-Progress	369,513	115,218	44,402	440,329
Total General Fixed Assets	$ 2,065,702	$ 188,456	$ 45,778	$ 2,208,380

Construction-in-progress related to the General Fixed Assets Account Group is comprised of the following:

Construction-In-Progress: General Fixed Assets Account Group

	Project Authorization	Expended to Sept. 30, 2000	Committed	Required Future Financing
Buildings	$ 39,640	$ 23,745	$ 15,895	None
Streets and Bridges	169,088	113,843	55,245	None
Storm Drainage and Flood Prevention	151,760	96,605	55,155	None
Improvements Other Than Buildings	246,397	206,136	40,261	None
Total	$ 606,885	$ 440,329	$ 166,556	None

(The remainder of this page left blank intentionally)

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

A summary of Proprietary Fund Type and Fiduciary Fund Type property, plant and equipment at September 30, 2000 (except as noted) follows:

Proprietary and Fiduciary Fund Type Property, Plant and Equipment

	Airport System	Parking Facilities	Golf Course System	Solid Waste System	Total Primary Government Enterprise Funds	Internal Service	Fiduciary Fund	Total Primary Government	Gas and Electric System (CPS)[1]	San Antonio Water System (SAWS)[2]
Computer Equipment	$ 620	$ 130	$ 37	$ 153	$ 940	$ 22,189	$ 32	$ 23,161	$ 0	$ 0
Land	2,969	8,325	2,579	496	14,169			14,169		34,935
Buildings	111,895	18,961	4,008	45	134,909	178	491	135,578		
Improvements Other Than Buildings	145,621	1,661	5,522	1,696	154,500	179		154,679		
Gas and Electric System									5,545,582	
Water System										1,736,546
Machinery and Equipment	7,809	837	2,748	3,071	14,465	89,415	65	103,945		89,564
Construction-In-Progress	57,039	1,000		1,663	59,702			59,702	345,751	235,272
Nuclear Fuel, at Amortized Cost									51,751	
Total	325,953	30,714	14,894	7,124	378,685	111,961	588	491,234	5,943,084	2,096,317
Less: Accumulated Depreciation	104,611	7,687	4,566	2,940	119,804	72,889	233	192,926	1,808,877	568,705
Net Property, Plant and Equipment	$ 221,342	$ 23,027	$ 10,328	$ 4,184	$ 258,881	$ 39,072	$ 355	$ 298,308	$ 4,134,207	$ 1,527,612

The City capitalizes interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62 issued by the Financial Accounting Standards Board. SAWS and CPS capitalized construction period interest in the amount of $4,453 and $13,286, respectively, and the City of San Antonio capitalized no interest for construction.

[1] For the period ended January 31, 2000

[2] For the period ended May 31, 2000

(amounts are expressed in thousands)

5. DUE TO (FROM) OTHER FUNDS

The following is a summary of interfund receivables and payables for the City as of September 30, 2000.

Summary Table of Interfund Receivables and Payables at September 30, 2000

	Due From Other Funds	Due To Other Funds
General Fund	$ 13,664	$ 122
Special Revenue Funds:		
Convention Center Expansion Fund	73	
Emergency Medical Service		54
Hotel Motel Tax	12	1
Alamodome		22
Confiscated Property		2
Street Maintenance and Improvements	1,375	
Public Health Support Revenue Fund		43
Child Safety Fund		1
Nelson Wolff	21	
Stormwater Operations Fund	815	525
International Center		12
Home Program Fund		1,601
Categorical Grants-In-Aid Fund	372	11,001
Community Development Program Fund		1,778
Total Special Revenue Funds	2,668	15,040
Debt Service Funds	206	35
Capital Projects Funds:		
Improvement Projects		525
Convention Center Expansion		72
Total Capital Projects Funds		597
Enterprise Funds:		
Airport System Fund	116	124
Parking Facilities		13
Solid Waste	476	250
Total Enterprise Funds	592	387
Internal Service Funds		
Other Internal Services		343
Information Services	187	
Self Insurance		3
Total Internal Service Funds	187	346
Fiduciary Expendable Trust Funds:		
Bexar County Rabies Control Fund		48
Memorials & Gifts Fund		270
Total Fiduciary Funds		318
Fiduciary Agency Funds:		
Tax Clearance Account		206
Special Downtown Improvement District/911		36
Special Events Security Trust Fund		230
Total Agency Funds		472
Total	$ 17,317	$ 17,317

(amounts are expressed in thousands)

6. LONG-TERM DEBT

A. Primary Government (City)

1. General Long-Term Debt

The City maintains a proactive debt management policy. The City's debt management plan employs a comprehensive analysis of the City's financial resources and capital improvement costs. Incorporated into the plan are long-term cash flow projections for the City's infrastructure needs, annexation plans, growth in assessed valuations and the revenue generating capacity of certain enterprise and self-supporting operations. The objective of the planning process is to minimize the cost of funds, minimize the impact on taxes and/or rate structures and maximize the benefits of capital improvements. Consistent with overall debt management is maintaining strong credit-worthiness. Routine, comprehensive financial analysis and strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its Aa2/AA+/AA+ bond rating by Moody's Investors Service, Standard & Poor's Public Finance Ratings Services and Fitch, Inc., respectively as of September 30, 2000.

The City's on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2000. In November 1999, the City issued the following: $12,000 General Improvement Bonds, Series 1999; and $4,230 Combination Tax and Revenue Certificates of Obligation, Series 1999. Concurrently with the issuance of the 1999 bond issuance obligations, the City authorized the implementation of a $50,000 General Improvement Commercial Paper Program. As of September 30, 2000 the City has issued $15,000 of the Tax Exempt Commercial Paper Notes. In February 2000, the City issued the following: $27,565 General Improvement Bonds, Series 2000; and $8,490 Combination Tax and Revenue Certificates of Obligation, Series 2000. The bonds and tax-exempt commercial paper notes are secured by a pledge of ad valorem taxes while the certificates are secured by a pledge of ad valorem taxes and revenues from certain revenue generating operations.

The General Improvement Bonds, Series 1999 will be utilized to fund capital improvement projects to include parks, public safety, library, flood control, drainage, and street improvements. The Series 1999 Bonds are retired serially in the years 2002 through 2020 and bear interest rates ranging from 5.375% to 6.000%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 1999 will be utilized to fund capital improvements to include public safety, street, sidewalk, and drainage improvements; improvements, renovations, and furnishing municipally-owned utilities; and acquisition of land and rights-of-way for public purposes. The certificates are retired serially in the years 2002 through 2020 and bear interest rates ranging from 5.750% to 6.000%.

In addition to the 1999 bond issuance, Tax Exempt Commercial Paper Notes will be utilized as interim financing for various 1999 authorized projects. These notes have maturity dates of less than 270 days and bear interest rates ranging from 4.05% to 4.30%.

The General Improvement Bonds, Series 2000 will be utilized to fund capital improvement projects to include parks, drainage, and street improvements. The Series 2000 Bonds are retired serially in the years 2002 through 2020 and bear interest rates ranging from 4.500% to 5.000%.

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2000 will be utilized to fund capital improvements to include public safety, improvements, renovations, and furnishing municipally-owned utilities; and acquisition of land and rights-of-way for public purposes. The certificates are retired serially in the years 2002 through 2020 and bear interest rates ranging from 4.500% to 5.000%.

On May 1, 1999, the citizens of San Antonio passed an election authorizing the issuance of $140,200 general improvement bonds. Proceeds from these bonds will be utilized to continue to finance the City's long-term capital improvement program to include improvements to drainage, street and pedestrian, flood control, parks and recreation, library system, and public safety. The bonds are scheduled to be sold in installments in fiscal years 2000 through 2004.

As of September 30, 2000, the City had $129,860 of general obligation debt authorized but unissued. Of this remaining authorization, $16,660 was authorized pursuant to an election held on January 26, 1980 and the City does not intend to issue the $16,660 in bonds. For additional information on the City's debt authorization, see the table in this section entitled, "Authorized But Unissued Tax Bonds".

(The remainder of this page left blank intentionally)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

The following table is a summary of changes for the year ended September 30, 2000 for debt reported in the General Long-Term Debt Account Group which is secured by an ad valorem tax pledge.

General Long-Term Debt Account Group (Ad Valorem Tax Pledge)

Issue	Original Amount	Final Principal Payment[1]	Interest Rates (%)[1]	Balance Outstanding October 1, 1999	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2000
General Obligation Bonds							
1988 Refdg.	$ 132,978	2006	7.400-7.450	$ 4,008	$	$	$ 4,008
1991	60,645	2001	8.625	3,050		1,475	1,575
1992 Refdg.	380,540	2013	5.125-5.750	295,890		22,935	272,955
1993 Refdg.	92,165	2014	4.000-8.000	84,815		2,510	82,305
1994	30,450	2004	5.700-6.000	6,000		1,050	4,950
1996	35,330	2015	5.100-5.250	31,000		1,225	29,775
1996A Refdg.	82,235	2016	4.250-6.000	78,170		1,275	76,895
1996B Refdg.	6,030	2008	6.250-6.700	5,360		440	4,920
1998 Refdg.	30,855	2018	4.500-5.000	30,855		710	30,145
1998A Refdg	53,950	2008	5.500-6.000	52,595		1,420	51,175
1998A Refdg.	47,740	2019	4.000-5.250	47,740		90	47,650
1999	12,000	2020	5.375-6.000		12,000		12,000
2000	27,565	2020	4.500-5.000		27,565		27,565
Subtotal	$ 992,483			$ 639,483	$ 39,565	$ 33,130	$ 645,918
Tax -Exempt Commercial Paper							
Series 2000	$	2001	4.050-4.300	$ 0	$ 15,000	$	$ 15,000
Subtotal	$ 0			$ 0	$ 15,000	$	$ 15,000
Tax -Exempt Certificates of Obligation							
Series 1986A	$ 22,600	2001	6.700	$ 2,735	$	$ 1,325	$ 1,410
Series 1988	4,400	2002	7.200-7.300	750		225	525
Series 1991	10,075	2001	6.250	1,450		700	750
Series 1992	17,655	2013	5.125-5.750	10,470		1,390	9,080
Series 1994	9,900	2004	5.750-7.750	1,960		325	1,635
Series 1996	8,415	2015	5.100-5.400	7,400		285	7,115
Series 1996A	12,515	2016	4.250-5.375	11,270		450	10,820
Series 1998	4,315	2018	4.600-5.000	4,315		285	4,030
Series 1998A	36,535	2019	4.000-5.250	36,535		1,450	35,085
Series 1999	4,230	2020	5.750-6.000		4,230		4,230
Series 2000	8,490	2020	4.500-5.000		8,490		8,490
Subtotal	$ 139,130			$ 76,885	$ 12,720	$ 6,435	$ 83,170
Taxable Certificates of Obligation							
Series 1988	$ 6,700	2008	9.400-9.500	$ 4,650	$	350	$ 4,300
Series 1996	6,160	2015	6.550-7.125	5,500		200	5,300
Series 1996B	7,375	2016	6.250-7.250	6,695		225	6,470
Subtotal	$ 20,235			$ 16,845	$ 0	$ 775	$ 16,070
Total	$ 1,151,848			$ 733,213	$ 67,285	$ 40,340	$ 760,158

[1]A portion of the outstanding principal applicable to certain series of bonds was advance refunded, prior to maturity, by the Series 1988, 1992, 1993, 1996A, 1996B, 1998 and 1998A refunding bonds. Proceeds from the refunding bonds along with a cash contribution from the City's Debt Service Fund were utilized to purchase securities, guaranteed by the United States of America, which were irrevocably deposited into escrow accounts whose principal is scheduled to mature on such dates that when added to interest earned in the escrow accounts, is fully sufficient to make timely payment on the refunded bonds. The refunded bonds represent a legal defeasance and are not a liability of the City. The final principal payment, on a calendar year basis, and interest rate applicable to the outstanding non-refunded bonds is as shown in this table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

Hotel Occupancy Tax Revenue Bonds

In 1990, the City commissioned Arthur Andersen & Co. to complete a convention center expansion feasibility analysis. The study concluded that the convention market in the City and nationally was healthy and expanding. The study further concluded that... "historic market trends, current market conditions, and the ability of the City to attract future tourism and convention business warrant expansion of the Henry B. Gonzalez Convention Center." In 1994, the City enlisted the services of the Urban Land Institute to, among other things, reexamine the necessity for the City to undertake a convention center program and to suggest alternative expansion options. This study was completed in the Fall of 1994 and it was recommended that the City commence with the construction of additional new convention accommodations and renovate certain existing facilities.

Consistent with the studies and recommendations, the City began work on the construction and expansion of the Henry B. Gonzalez Convention Center during fiscal year 1996. The major funding component for the project is derived from the March 14, 1996, sale of $182,012 Hotel Occupancy Tax Revenue Bonds, Series 1996. As security for the Series 1996 Bonds, the City has pledged its revenue from the 2% Expansion Hotel Occupancy Tax, 5.25% of the 7% General Hotel Occupancy Tax, and interest earnings exclusive of the Construction Fund and Facilities Fund. Interest rates on the bonds range from 4.50% to 6.20% with a final bond maturity of August 15, 2026. The bonds are insured by Financial Guaranty Insurance Company and are rated Aaa/AAA/AAA by Moody's Investors Service, Standard & Poor's Public Finance Ratings Services, and Fitch, Inc., respectively. The underlying rating is A/A+/A by each of the aforementioned rating agencies, respectively.

(The remainder of this page left blank intentionally)

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all General Obligation, Tax Exempt Commercial Paper, Certificates of Obligation, and Hotel Occupancy Tax Revenue general long-term debt outstanding as of September 30, 2000, are as follows:

Principal and Interest Requirements

	General Obligation Bonds		Tax Exempt Commercial Paper		Certificates of Obligation		Hotel Occupancy Tax Revenue Bonds		
Year Ending September 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total Annual Requirements
2001	$ 35,420	$ 34,378	$	$ 788	$ 7,635	$ 3,383	$ 830	$ 8,850	$ 93,574
2002	42,455	32,313	470	775	6,185	4,935	1,380	8,821	97,349
2003	45,315	29,859	495	750	5,020	4,606	2,015	8,756	96,856
2004	46,520	27,460	525	721	5,325	4,340	2,785	8,698	96,351
2005	43,559	30,031	555	695	5,140	4,054	3,515	8,522	96,086
2006	42,579	27,870	585	665	5,405	3,778	4,255	8,346	93,498
2007	47,395	20,731	615	633	5,740	3,481	5,105	8,091	91,811
2008	49,615	18,117	645	600	6,010	3,152	5,995	7,823	91,992
2009	51,765	15,130	680	565	5,265	2,806	6,970	7,505	90,706
2010	54,175	12,610	720	529	5,570	2,520	8,035	7,129	91,308
2011	57,530	9,621	760	490	5,870	2,214	3,737	12,150	92,367
2012	33,400	6,558	800	449	6,175	1,889	3,785	12,862	65,918
2013	32,300	4,801	840	406	6,495	1,543	3,662	13,335	63,402
2014	25,165	3,123	885	361	6,845	1,178	3,419	13,577	51,783
2015	10,470	1,854	935	313	4,915	874	3,190	13,807	36,388
2016	8,015	1,306	985	262	3,885	599	2,973	14,024	32,070
2017	5,970	888	1,040	209	2,405	372	2,797	14,200	27,916
2018	6,280	574	1,095	153	2,525	246	10,310	6,687	27,900
2019	4,765	293	1,155	94	2,570	119	10,905	6,094	26,035
2020	3,225	86	1,215	31	1,040	28	11,530	5,467	21,937
2021							12,190	4,810	17,000
2022							12,885	4,115	17,000
2023							13,615	3,380	16,995
2024							14,395	2,604	16,999
2025							15,215	1,784	16,999
2026							16,080	917	16,997
2027									
Total	$ 655,918	$ 277,603	$ 15,000	$ 9,491	$ 99,210	$ 48,108	$ 181,603	$ 212,321	$ 1,499,256

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

Authorized But Unissued General Obligation Debt

Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Commercial Paper Notes Previously Issued	Bonds Authorized But Unissued
1-26-80[1]	Drainage and Flood Control	$ 21,637	$ 17,413	$	$ 4,224
1-26-80[1]	Fire Protection	4,257	2,125		2,132
1-26-80[1]	Libraries	4,978	3,926		1,052
1-26-80[1]	Street, Bridge, and Related Improvements	43,287	34,035		9,252
5-07-94	Street Improvements	25,600	25,600		0
5-07-94	Drainage Improvements	34,400	34,400		0
5-07-94	Parks and Recreation	41,600	41,600		0
5-01-99	Streets and Pedestrian Improvements	41,300	4,000	5,000	32,300
5-01-99	Drainage	19,000	1,095	1,365	16,540
5-01-99	Flood Control	12,200	1,985	2,480	7,735
5-01-99	Parks and Recreation	24,200	2,680	3,350	18,170
5-01-99	Library System	13,200	140	180	12,880
5-01-99	Public Safety	30,300	2,100	2,625	25,575
Total		$ 315,959	$ 171,099	$ 15,000	$ 129,860

[1]The City has authority pursuant to an election held on January 26, 1980, to issue $16,660 in bonds for libraries, fire protection, drainage and flood control, and street, bridge and related improvements, but the City does not currently intend to issue any such bonds.

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2000 was $37,193,947 which provides a debt ceiling of $3,719,395. The total outstanding debt that is secured by an ad valorem tax pledge is $780,378.

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.

(The remainder of this page left blank intentionally)

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

Quasi-External Notes Payable

As an alternative to the issuance of external debt to finance certain projects/purchases, the City has determined that the use of available cash balances in the Internal Service Equipment Replacement Funds is a viable option. In certain instances, after an evaluation of project/purchase funding requirements, it has been determined that some funds or operations may require temporary financing. As an option, the City has authorized such internal temporary financing from available cash balances in the Internal Service Equipment Replacement Funds to meet these needs.

In June 1999, a loan was authorized from the City's Internal Service Fund to the International Center Fund (Special Revenue Fund) to assist in the financing of permanent building improvements and leasing agent commissions. The principal amount of the note is $200 with an annual interest rate of 6% and a repayment period of October 1999 through September 2003. In December 1999, a second loan was authorized from the City's Internal Service Fund to the International Center Fund to cover additional permanent building improvements. The principal amount of the note is $137 with an annual interest rate of 6% and a repayment period of December 1999 through September 2003. In September 1999, a third loan was authorized from the City's Internal Service Fund to the International Center Fund to cover additional permanent building improvements. The principal amount of the note is $62 with an annual interest rate of 6% and a repayment period of April 2000 through September 2003. Revenues from the International Center rentals will be utilized to meet the annual principal and interest requirements of the notes. These interfund transactions have been classified as "Quasi-external" transactions and accounted for as if the transactions had occurred with a party external to the City. Therefore, as of September 30, 2000, the remaining balance for the notes payable from the International Center Fund has been recorded in the General Long-Term Debt Account Group. The following is an annual debt service schedule:

Principal and Interest Requirements

Year Ending September 30,	Principal	Interest	Total Annual Requirements
2001	$ 101	$ 19	$ 120
2002	106	13	119
2003	113	7	120
Total	$ 320	$ 39	$ 359

Leases

In September 2000, the City entered into a lease-purchase agreement for the acquisition of fire pumper trucks, fire aerial trucks and firefighter personal protective equipment. The gross value of these assets at September 30, 2000 was $4,117. The remaining future lease payments under this lease-purchase agreement together with the present value of the net minimum lease payments as of September 30, 2000 are as follows:

Total future minimum lease payments	$4,661
Less amount representing interest	544
Present value of minimum lease payments	$4,117

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

Claims and Settlements

During fiscal years 1995 and 1996, final resolution of audit findings resulting from an Office of the Inspector General, Department of Transportation Report dated April 26, 1993, which disallowed $2,040 of Aviation Fund expenses, was reached with the Federal Aviation Administration. During fiscal year 1999, the disallowed amount was reduced by $367 for restated indirect cost resulting in a remaining balance due of $1,673. Due to the nature of this transaction and method for repayment, this remaining amount payable has been reported as an Other Payable in the General Long-Term Debt Account Group as of September 30, 2000. For additional details, see Note 11, Commitments and Contingencies.

Accumulated Accrued Benefits

The following is a summary of changes in the accumulated accrued benefits for the year ended September 30, 2000:

Accumulated Accrued Benefits

Description	Balance October 1, 1999	Additions	Reductions	Balance September 30, 2000
Sick Leave	$ 41,465	$ 7,703	$ 4,419	$ 44,749
Annual Leave	22,247	21,243	19,671	23,819
Total Accrued Benefits	$ 63,712	$ 28,946	$ 24,090	$ 68,568

2. Proprietary Long-Term Debt

Proprietary 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 expected to be repaid from the resources of proprietary funds is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

Airport System: The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt is equally and ratably secured solely by a first lien on and pledge of the Gross Revenues of the Airport System. Gross Revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the System and its facilities. No additional long-term indebtedness was incurred by the Airport System during fiscal year 2000. Total annual principal and interest requirements for the Airport System are shown in the table at the end of this section.

(The remainder of this page left blank intentionally)

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

Parking System: The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters and retail/office space. In May 2000, the City created a Parking Revenue System and it is anticipated that future long-term debt will be payable solely from parking system revenues. Historically, long-term debt has been allocated to the Parking System on a pro-rata basis from proceeds received from the issuance of other parking related obligations, such as general obligation and certificate of obligation debt, and is paid from revenues derived from the operation of the Parking System. The other parking related obligations is additionally secured by ad valorem tax pledge.

During fiscal year 2000, the City issued $24,845 Parking System Revenue Bonds, Series 2000 which will be utilized to construct two new parking garages; renovate certain existing facilities; and provide signage. The Bonds are payable from and secured by a first lien on and a pledge of the gross revenues derived from the ownership and operation of the City's Parking System. The Series 2000 Bonds are retired serially in years 2004 to 2024 and bear interest rates ranging from 5.000% to 5.750%. The bonds are insured by Ambac Assurance Corporation and are rated Aaa/AAA/AAA by Moody's Investors Service, Standard & Poor's Public Finance Ratings Services, and Fitch, Inc., respectively. The underlying rating is A2/A+/A+ by each of the aforementioned rating agencies, respectively. Total annual principal and interest requirements for the Parking System are shown in the table at the end of this section.

Golf Course System: The Golf Course System includes various golf courses and driving and practice ranges. Long-term debt is allocated to the Golf Course 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 Golf Course System. This allocated debt is additionally secured by an ad valorem tax pledge. No additional long-term indebtedness was incurred by the Golf Course System during fiscal year 2000. Total annual principal and interest requirements for the Golf Course System are shown in the table at the end of this section.

(The remainder of this page left blank intentionally)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

The following table is a summary of changes in Proprietary Long-Term Debt for the fiscal year ended September 30, 2000.

Proprietary Long-Term Debt

Issue	Original Amount	Final Principal Payment[1]	Interest Rates (%)[1]	Balance Outstanding October 1, 1999	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2000
Airport System							
Revenue Bonds:							
Series 1992	$ 3,130	2009	6.100	$ 3,130	$	$	$ 3,130
Series 1992 Refdg.	21,655	2006	5.400-5.750	12,715		1,485	11,230
Series 1993 Refdg.	73,785	2013	7.000-7.375	61,105		2,685	58,420
Series 1996	38,000	2016	5.700-5.800	37,725		300	37,425
Subtotal	$ 136,570			$ 114,675	$	$ 4,470	$ 110,205
Parking System							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.125-5.750	$	$ 24,845	$	$ 24,845
General Obligation:							
Series 1992 Refdg.	16,785	2013	5.000-5.750	13,040		1,010	12,030
Series 1996A. Refdg.	495	2014	4.650-6.000	495			495
Series 1998A. Refdg.	1,155	2013	4.000-5.250	1,155			1,155
Tax-Exempt Certificates Of Obligation:							
Series 1992	1,735	2013	5.125-5.750	1,385		70	1,315
Series 1994	700	2004	5.750-7.750	140		25	115
Series 1996	1,105	2015	5.100-5.400	975		40	935
Subtotal	$ 46,820			$ 17,190	$ 24,845	$ 1,145	$ 40,890
Golf Course System[2]							
General Obligation:							
Series 1992 Refdg.	$ 3,295	2011	5.125-5.750	$ 2,500	$	$ 165	$ 2,335
Series 1993 Refdg.	1,515	2006	4.750-8.000	1,425		15	1,410
Series 1998A Refdg.	215	2011	4.000-5.000	215			215
Tax-Exempt Certificates Of Obligation:							
Series 1986A	3,400	2001	6.700	415		200	215
Subtotal	$ 8,425			$ 4,555	$	$ 380	$ 4,175
Total	$ 191,815			$ 136,420	$ 24,845	$ 5,995	$ 155,270

[1]A portion of the outstanding principal applicable to certain series of Parking and Golf Course System bonds and certificates of obligation were advance refunded, prior to maturity, by the Series 1988, 1992, 1993, 1996A, and 1998A refunding bonds. Proceeds from the refunding bonds along with a cash contribution from the City's Debt Service Fund were utilized to purchase securities, guaranteed by the United States of America, which were irrevocably deposited into escrow accounts whose principal is scheduled to mature on such dates that when added to interest earned in the escrow accounts, is fully sufficient to make timely payment on the refunded bonds. The refunded bonds represent a legal defeasance and are not a liability of the City. The final principal payment, on a calendar year basis, and interest rate applicable to the outstanding, non-refunded bonds is as shown in this table.

[2]During fiscal year 2000, $350 from the General Obligation Debt Service Fund was utilized by the Golf Course System to assist with its current year debt service payment. This aggregate amount of $702 will be repaid in the future by the Golf Course System Fund. As such, this amount is recognized as a Note Receivable and Note Payable in each of the respective Funds.

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt for the City's Enterprise Funds including revenue bonds, general obligations, and certificates of obligation outstanding at September 30, 2000, are as follows:

Proprietary Long-Term Debt

Year Ending Sept. 30:	Airport System			Parking System			Golf Course System		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2001	$ 4,755	$ 7,206	$ 11,961	$ 835	$ 2,247	$ 3,082	$ 390	$ 232	$ 622
2002	5,080	6,893	11,973	1,055	2,204	3,259	425	208	633
2003	5,410	6,567	11,977	1,135	2,147	3,282	455	179	634
2004	5,765	6,217	11,982	1,595	2,088	3,683	490	154	644
2005	6,120	5,837	11,957	1,690	2,005	3,695	515	129	644
2006	6,540	5,434	11,974	1,785	1,916	3,701	550	103	653
2007	6,370	5,002	11,372	1,870	1,821	3,691	240	76	316
2008	6,810	4,573	11,383	1,950	1,721	3,671	255	62	317
2009	7,255	4,115	11,370	2,050	1,615	3,665	265	48	313
2010	7,770	3,613	11,383	2,370	1,502	3,872	285	33	318
2011	8,310	3,081	11,391	2,525	1,370	3,895	305	17	322
2012	8,860	2,511	11,371	1,875	1,233	3,108			
2013	9,485	1,902	11,387	1,855	1,132	2,987			
2014	6,800	1,250	8,050	1,380	1,033	2,413			
2015	7,225	859	8,084	1,390	957	2,347			
2016	7,650	444	8,094	1,370	881	2,251			
2017				1,445	806	2,251			
2018				1,535	726	2,261			
2019				1,625	640	2,265			
2020				1,700	548	2,248			
2021				1,800	452	2,252			
2022				1,900	348	2,248			
2023				2,020	239	2,259			
2024				2,135	123	2,258			
Total	$110,205	$65,504	$ 175,709	$ 40,890	$ 29,754	$ 70,644	$ 4,175	$ 1,241	$ 5,416

Leases

Long-term debt of the City's Internal Service Funds and Golf Course Fund consisted of seven lease-purchase agreements. The City's Print Shop, which provides binding, printing, and reproduction services to other City departments, entered into lease-purchase agreements for the acquisition of a print shop copier, a color print shop copier, and a departmental copier. The City's Golf Course Fund entered into two lease-purchase agreements for the acquisition of golf cart equipment, and a lease-purchase agreement for golf turf equipment. The City's Information Services Fund entered into a lease-purchase agreement for the acquisition of a mainframe computer. The gross value of these assets at September 30, 2000 was $2,630. The remaining future lease payments under these capital leases together with the present value of the net minimum lease payments as of September 30, 2000 are as follows:

Total Future minimum lease payments	$1,860
Less amount representing interest	151
Present value of minimum lease payments	$1,709

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

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 payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City, therefore, they are not included in the City's financial statements. On September 30, 2000, $132,949 of previously defeased bonds were outstanding.

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Higher Education Authority, a discretely presented component unit of the City, to provide financial assistance to various entities for the acquisition, construction or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2000, there were thirty-five series of Industrial Revenue Bonds, fifteen series of Health Facilities Development Bonds, and nine series of Educational Facilities Revenue Bonds outstanding. The aggregate principal amount payable for the one series of Industrial Revenue Bonds, the one series of Health Facilities Development Bonds, and the two series Educational Facilities Revenue Bonds issued after October 1, 1997 was $5,500, $20,000 and $18,063, respectively. The aggregate principal amount payable for the remaining series of Industrial Revenue Bonds, Health Facilities Development Bonds, and Educational Facilities Revenue Bonds issued prior to October 1, 1997 could not be determined, however, their aggregate original principal issue amounts were $112,490, $80,581, and $67,720, respectively.

The City also facilitates the issuance of tax exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from and secured by a pledge of rental receipts. As of June 30, 2000, there were twenty-four series of tax exempt revenue bonds outstanding with an aggregate principal amount payable of $127,301.

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Facilities Airport Revenue Bonds, Series 1995 and Special Airport Facilities Revenue Refunding Bonds, Series 1999. The bonds are payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third party trustee in-lieu of lease payments to the City. These payments are sufficient to pay when due the principal, premium, interest on and purchase price of the bonds. The aggregate principal amount payable for the Special Facilities Airport Revenue Bonds, Series 1995 and for the Special Airport Facilities Revenue Refunding Bonds, Series 1999 at September 30, 2000 was $5,000 and $4,281, respectively. Neither the City, the State, nor any political subdivision is obligated in any manner for repayment of the aforementioned bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

Special Assessment Debt

During fiscal year 1997, the City issued $2,730 Special Assessment Revenue Refunding Bonds, Series 1997. The net proceeds of the transaction of $2,670 after payment of costs of issuance plus a cash contribution from the Special Assessment District of $957 were utilized to purchase securities guaranteed by the United States of America. These securities were deposited into an irrevocable escrow account and together with interest earned in the account will provide for all future debt service payments on the refunded debt. Accordingly, the refunded debt is considered to be defeased.

As of September 30, 2000, $850 of special assessment debt was outstanding, the final payment will be made on March 1, 2001. The City is not obligated in any manner for this debt; therefore, the liability is not reported in the City's financial statements. The City acts as an agent for the Downtown Improvement District and transactions related to this debt are recorded in the Special Downtown Improvement District Agency Fund.

Tax Increment Financing

During 1998, City Council approved "Guidelines and Criteria" for the utilization of "Tax Increment Financing" ("TIF") and the creation of "Tax Increment Reinvestment Zones" ("TIRZ") pursuant to Chapter 311 of the Texas Tax Code. The City is utilizing 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, 2000, City Council has approved the final project and financing plans for seven TIRZ. These TIRZ are also referred to as the Rosedale Project, Highland Heights Project, New Horizons Project, Mission Del Lago Project, La Paz Project, Brookside Project, Houston Street Project, and were established in order to reimburse developers for the financing costs and public improvements to be made in each of the TIRZ for construction of single family and multi-family residential housing, single family housing and commercial redevelopment respectively.

B. City Public Service (CPS)

As of January 31, 2000 the Bond Ordinances for New Series Bonds issued on and after August 6, 1992 contain, among others, the following provisions:

Gross Revenue is applied as follows: (a) for maintenance and operating expenses of the systems, (b) for payments of the New Series Bonds, including the establishment and maintenance of the reserve therefore, (c) for the payment of any obligations inferior in lien to the New Series Bonds which may be issued, (d) for an amount equal to 6% of the gross revenues of the systems to be deposited in the Repair and Replacement Account, (e) for cash payments and benefits to the City not to exceed 14% of the gross revenues of the systems, and (f) any remaining net revenues in the General Account to the Repair and Replacement Account.

(The remainder of this page left blank intentionally)

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

Revenue Bonds

A summary of revenue bonds is as follows:

City Public Service
Revenue Bonds
For Fiscal Year Ended January 31st

Bond Series	Maturities	Weighted-Average Interest Rate on Outstanding Bonds	2000	1999
Tax Exempt New Series Bonds, 1992-1998	2001-2021	5.190%	$2,631,965	$2,694,680
Taxable New Series Bonds, 1998	2001-2020	6.296%	98,610	99,615
Total New Series Bonds outstanding		5.236%	2,730,575	2,794,295
Less: Current maturities of bonds			67,215	63,720
Revenue bonds, net of current maturities			$2,663,360	$2,730,575

Principal and interest amounts due for the next five years and thereafter to maturity are:

City Public Service

Principal and Interest Requirements

Year	Principal	Interest	Total
2001	$ 67,215	$ 142,193	$ 209,408
2002	70,530	138,929	209,459
2003	76,515	135,508	212,023
2004	103,435	131,944	235,379
2005	123,180	126,645	249,825
Thereafter to maturity	2,289,700	980,507	3,270,207
Total	$ 2,730,575	$ 1,655,726	$ 4,386,301

There were no bond financing transactions in 2000. In 1999, CPS issued $885,100 of New Series 1998 bonds. The issue consisted of $785,500 in New Series 1998A Tax Exempt Bonds at an average interest rate of 4.92% and $99,600 in Taxable New Series 1998B Bonds at an average interest rate of 6.34%. The New Series 1998A Bonds refunded $439,700 in certain outstanding New Series Bonds and $244,300 in Tax-Exempt Commercial Paper (TECP), while the Taxable New Series 1998B Bonds refunded $45,700 in certain outstanding New Series Bonds and $42,500 in TECP. In addition to the refunding, $161,300 of certain New Series Bonds were legally defeased with cash resources.

The New Series 1998 Bonds and the cash defeasance fully defeased all bonds issued prior to August 6, 1992, thereby allowing the New Series Bond Reserve to be replaced with a surety policy which was done in conjunction with the issuance of the New Series 1998 Bonds and the cash defeasance.

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

Revenue Bonds (Continued)

The surety policy provides a reserve requirement equal to the highest average annual principal and interest requirement of the New Series Bonds outstanding as of January 31, 2000. Of the funds available from the assets in the New Series Bond Reserve in December 1998, $155,000 was used to fund the cash defeasance; $52,500 was transferred to the Bond Construction Fund; and the remainder of the funds were transferred to the Repair and Replacement Account. The cash defeasance transaction resulted in a loss of $24,900 which is reflected in the Statement of Revenues, Expenses and Changes in Retained Earnings for 1999.

The par value of the New Series 1998 Bonds issued was $16,100 more than the amount of debt refunded. Cash flow savings of $39,700, which is equivalent to present value savings of $23,600, resulted from this bond transaction.

C. San Antonio Water System (SAWS)

On April 30, 1992, City Ordinance No. 75686 was adopted. This ordinance authorized the issuance of $635,925 Water System Revenue Refunding Bonds, Series 1992, dated April 15, 1992. These bonds were issued to refund, in advance of maturity, $253,065 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 52091, $330,125 of Sewer Revenue Bonds authorized and outstanding under terms of City Ordinance No. 51975, $14,500 of other bonded debt of annexed water districts, and $49,200 of Sewer System Commercial Paper. The purpose of this advance refunding was to release and discharge the covenants contained in City Ordinance No. 52091 and No. 51975 in order to permit the City to consolidate the operations of the water related utilities.

The System: City Ordinance No. 75686 defines SAWS as all properties, facilities, plants owned, operated and maintained by the City and/or the Board of Trustees, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS; provided however, that the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code. See "Stormwater" below.

Funds Flow: City Ordinance No. 75686 requires that Gross Revenues of SAWS be applied in sequence to: (1) current maintenance and operating expenses including a two month reserve based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) payment of amounts required on Inferior Lien Obligations, and (7) transfers to the City's General Fund and to the Renewal and Replacement Fund.

Reuse Contract: SAWS has a contract with City Public Service, the City owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities, are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this contract were $2,048 in 2000.

SAWS is developing a recycled water system which will provide nonpotable water to various customers now using Edwards Aquifer water. Revenue from recycled water sales will be recorded as normal revenue of SAWS and will not have the restrictions of the reuse contract. Revenues generated from recycled water sales were $109 in 2000.

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Stormwater: In addition to the water related utilities which the Board has under its control, the City Council approved Ordinance No. 77949 on May 13, 1993, which established initial responsibilities over the Stormwater Program with the System and adopts a schedule of rates to be charged for stormwater services and programs. The Stormwater Program is deemed to not be a part of SAWS as the term is defined in City Ordinance No. 75686. Accordingly, operations of the Stormwater Program are not considered when determining compliance with debt covenants contained in City Ordinance 75686 or in calculating payments to be made to the City. In fiscal year 1997, the City Council placed the administrative responsibility with its own staff and entered into an interlocal agreement with SAWS for the provision of services related to certain water quality monitoring functions.

No Free Service: City Ordinance No. 75686 also provides for no free services except for municipal fire-fighting purposes and certain stormwater utility service.

Revenue Bonds

On June 3, 1999, the City Council adopted Ordinance No. 89652 authorizing the placement of $71,410 City of San Antonio Water System Junior Lien Revenue and Refunding Bonds, Series 1999 with the Texas Water Development Board. The bonds were sold under the State Revolving Fund (SRF) Program with interest rates ranging from 2.60% to 4.10% and having an average life of 11.553 years. With the inclusion of all costs of issuance, the true interest costs for the Series 1999 Bonds is 3.75%. The net proceeds of $69,773 (after payment of the SRF administration fee and bond issuance costs) were used for the purpose of financing qualified System improvements related to wastewater and recycled water systems through the placement of $44,700 in an escrow fund to refund $44,200 of commercial paper notes and the issuance of $25,074 of new debt.

On November 4, 1999 the City Council adopted Ordinance No. 90828 authorizing the placement of $47,500 City of San Antonio Water System Junior Lien Revenue and Refunding Bonds, Series 1999-A with the Texas Water Development Board. The bonds were sold under the Federal Cross Cutter Program with interest rates ranging from 2.45% to 4.35% and having an average life of 10.870 years. With the inclusion of all costs issuance, the true interest costs for the Series 1999 Bonds is 3.95%. The net proceeds of $46,857 (after payment of the SRF administration fee and bond issuance costs) were used for the purpose of financing qualified System improvements related to wastewater and recycled water systems through the placement of $40,369 in an escrow fund to refund $40,000 of commercial paper notes and the issuance of $6,488 of new debt.

On November 4, 1999 the City Council adopted Ordinance No. 90827 authorizing the issuance of $70,200 in City of San Antonio Water System Senior Lien Revenue and Refunding Bonds Series 1999 with interest rates ranging from 5.75% to 6.00% and having an average life of 21.847 years. With the inclusion of all costs of issuance, the true interest costs for the Senior Lien Series 1999 Bonds is 5.9558%. The proceeds of $70,501 (net proceeds of $70,771 after bond issuance costs plus a cash contribution of $364 from the System) were used for the purpose of financing qualified System improvements related to water resources and water projects through the placement of $55,725 in an escrow fund to refund $55,500 of commercial paper notes and the issuance of $14,777 of new debt.

All three issuances resulted in the conversion of debt from short-term to long-term. As a result there is no economic gain or loss associated with the refundings.

Senior Lien Water System Revenue Bonds, comprised of Series 1992, Series 1996, Series 1997, and Series 1999, outstanding in the amounts of $567,440 and $516,230 at May 31, 2000, and 1999, respectively are collateralized by a senior lien and pledge of gross revenues of the System after deducting and paying current expenses of operation

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

and maintenance of the System and maintaining an operating reserve for operating and maintenance expenses. At May 31, 2000 these bonds are due in varying amounts, from a low of $10,355 in 2019 to a high of $38,385 in 2012. At May 31, 1999 these bonds were due in varying amounts, from a low of $7,139 in 2019 to a high of $49,385 in 2004.

Junior Lien Water System Revenue Bonds, comprised of Series 1999 and Series 1999-A, outstanding in the amount of $113,495 at May 31, 2000, respectively are collateralized by a junior lien and pledge of the gross revenues of the System after deducting and paying the current expenses of operation and maintenance of the System maintaining an operating reserve for operating and maintenance expenses, and debt service on senior lien debt. At May 31, 2000 these bonds were due in varying amounts, from a low of $4,390 in 2001 to a high of $8,185 in 2019.

Annual debt service requirements are shown as follows:

Annual Debt Service Requirements
Revenue Bonds

Year Ending May 31	Junior Lien Revenue and Refunding Bonds	Senior Lien Revenue and Refunding Bonds	Total Annual Requirements
2001	$ 8,531	$ 53,560	$ 62,091
2002	8,529	53,563	62,091
2003	8,528	53,562	62,090
2004	8,533	53,566	62,099
2005	8,527	53,556	62,083
Thereafter	119,435	690,903	810,339
	$ 162,083	$ 958,710	$ 1,120,793
Principal	$ 113,495	$ 567,440	$ 680,935
Interest	48,588	391,270	439,858
Total	$ 162,083	$ 958,710	$ 1,120,793

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Capitalized Interest Costs

Interest costs incurred on revenue bonds and short-term commercial paper debt totaled $38,627 during fiscal year 2000, of which $4,453 was capitalized as part of the cost of SAWS' utility plant additions.

Debt Coverage Ratio (Unaudited)

San Antonio Water System
Revenue Bond Debt Coverage Ratio

	For the Fiscal Years Ended May 31: 2000	1999
Operating Revenues	$ 195,727	$ 180,041
Less: Revenues from City Public Service Contract	2,048	2,000
	193,679	178,041
Nonoperating Revenues	8,468	5,494
Less: Interest on Debt Service and Project Funds	4,701	1,734
	3,767	3,760
Gross Revenues	197,446	181,801
Maintenance & Operation Expense	115,016	100,430
Pledged Revenues	$ 82,430	$ 81,371
Maximum Annual Principal and Interest Requirements on Outstanding Senior Lien Bonds	$ 53,566	$ 49,385
Debt Coverage Ratio	1.54%	1.65%
Maximum Annual Principal and Interest Requirements on all Outstanding Bonds	$ 62,099	$ 49,385
Debt Coverage Ratio	1.33%	1.65%
Debt Service Requirement for Fiscal Year	$ 59,936	$ 48,746
Debt Coverage Ratio	1.40%	1.67%

Leases

SAWS entered into four lease agreements for financing the acquisition of computer equipment and software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The terms of the leases are for five years with payments of $12,890 monthly and $154,684 annually. The annual percentage rate of the leases is 5.5%. At the end of the respective lease terms, the ownership of the equipment transfers to SAWS. Please note the amounts in this paragraph are not stated in thousands.

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Leases (Continued)

The future minimum lease obligations and the present value of these minimum lease payments as of May 31, 2000, were as follows:

San Antonio Water System
Minimum Lease Obligation and Present Value of Lease Payments

Years Ending May 31,	
2001	$ 231
2002	209
2003	155
2004	31
Total Minimum Lease Payments	626
Less: Amount Representing Interest	(47)
Present Value of Minimum Lease Payments	$ 579

Note Payable

During fiscal year 2000, a contract was entered into between SAWS and CPS whereby SAWS acquired water rights from certain CPS properties. A note was signed for 116 payments of $40 at an interest rate of 7.5%. Total payments on this note are $4,640 including interest. The liability as of May 31, 2000 is reflected in the balance sheet for both the current portion of $257 and long term amount of $2,837.

Principal and Interest Requirements

Year Ending May 31,	Principal	Interest	Total Annual Requirements
2001	$ 257	$ 223	$ 480
2002	277	203	480
2003	298	182	480
2004	321	159	480
2005	346	134	480
Thereafter	1,595	245	1,840
Total	$ 3,094	$ 1,146	$ 4,240

(amounts are expressed in thousands)

7. COMMERCIAL PAPER PROGRAMS

A. City of San Antonio

In October 1999, the City Council of the City of San Antonio, Texas (City Council) adopted an ordinance authorizing the issuance of up to $50,000 in General Improvement Commercial Paper Notes (the Notes). This ordinance provides interim financing to pay project costs for eligible projects and to refund obligations issued in connection with an eligible project. Eligible projects are defined as any project for which there exists, as of the date of the note ordinance, authorized but unissued obligations approved at an election held on May 1, 1999 and project approved by future elections. The Notes will be issued with various maturities ranging from 1 to 270 days, provided however, that none of the Notes mature later than February 1, 2020.

Liquidity support for the notes is provided by the Revolving Credit Agreement, dated as of December 15, 1999, between the City and Bank One, NA (the Bank). Pursuant to which the Bank has agreed to make loans to the City in an aggregate principal amount of up to $53,699, for the purposes of paying amounts due on the Commercial Paper notes.

The City issued $15,000 in notes July 6, 2000. The proceeds of the notes have been used to provide interim financing to pay project cost for eligible projects. As of September 30, 2000, $15,000 of commercial paper notes are outstanding with interest rates on the notes at 5.250% and with various maturities ranging from 91 to 104 days.

B. City Public Service (CPS)

In October 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 provides for funding to assist in the financing of eligible projects, including fuel acquisition and capital improvements to the utility systems (the Systems), and to refinance or refund any outstanding obligations which are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The program's scheduled maximum maturities will not extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $350,000 for the purpose of paying amounts due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 2001, and may be renewed for additional periods.

To date, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues are subordinate and inferior to the pledge securing payment of the New Series Bonds and any New Series Bonds to be issued in the future. As of January 31, 2000, $134,800 in principal amount was outstanding, with a weighted average interest rate of approximately 3.69% and an average life outstanding of approximately 86 days.

C. San Antonio Water System (SAWS)

In 1996, the City Council authorized SAWS to expand the tax-exempt short-term borrowing program (the "Commercial Paper Program") from $100,000 to $175,000. The purpose of the Commercial Paper Program is to provide funds for the interim financing of a portion of the costs of capital improvements to SAWS. Scheduled maturities of the short-term borrowing under the Commercial Paper Program may not extend past May 14, 2032. The City has covenanted in the ordinance authorizing the Commercial Paper Program (the "Note Ordinance") to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing sufficient to pay the principal of the Commercial Paper Program.

(amounts are expressed in thousands)

7. COMMERCIAL PAPER PROGRAMS (Continued)

C. San Antonio Water System (SAWS)

The borrowings under the Commercial Paper Program are equally and ratably secured by and are payable from (i) proceeds from the sale of bonds or additional borrowing under the Commercial Paper Program and (ii) borrowing under and pursuant to the revolving Credit Agreement. SAWS and Westdeutsche Landesbank Girozentrale (the "Bank") have entered into a revolving credit agreement (the "Credit Agreement") pursuant to which the Bank is obligated under the Credit Agreement to loan to SAWS amounts not to exceed $175,000 as amended, for the purpose of paying amounts due on the Commercial Paper Program. Any borrowing under the Credit Agreement is equally and ratably secured by and payable from the above-described sources pledged for payment of the Commercial Paper Program and from a pledge of the Net Revenues of SAWS, such pledge being subordinate to the pledge of Net Revenues securing all Senior Lien Obligations. Management intends to continue the remarketing of the tax-exempt commercial paper notes as it intends to maintain a portion of its debt in variable rates.

SAWS issued $55,000 in notes under the Commercial Paper Program during the fiscal year ended May 31, 2000. The proceeds of the notes have been used solely for the financing of capital improvements of SAWS. Commercial paper notes in the amount of $60,300 are outstanding at May 31, 2000 with interest rates on the notes ranging from 4.00% to 4.30% and from 72 to 105 days in maturity.

(The remainder of this page left blank intentionally)

8. PENSION AND RETIREMENT PLANS

A. General Plan Information

The City of San Antonio, SAWS and CPS participate in several contributory retirement plans. These are funded plans covering substantial full-time employees. Payroll and contribution information as of the year end for each entity is presented below:

Contributory Pension and Retirement Plans

Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contributions
City	Fire and Police Fund	Single Employer Defined Benefit Plan	$ 165,453	$ 20,119	$ 40,238	$ 60,357
	Texas Municipal Retirement System (TMRS)	Non Traditional Defined Contribution Agent Plan	170,183	10,211	19,352	29,563
Component Units						
[1]SAWS	Texas Municipal Retirement System (TMRS)	Non Traditional Defined Contribution Agent Plan	18,145	1,495	1,593	3,088
	PMLIC Contract	Agent Multiple Employer Defined Benefit Plan	48,202		4,753	4,753
[2]CPS	CPS All Employees Plan	Single Employer Defined Benefit Plan	138,488	6,692	12,471	19,163

[1] Year ended May 31, 2000

[2] Year ended January 31, 2000

8. PENSION AND RETIREMENT PLANS (Continued)

B. City of San Antonio

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The City provides retirement benefits for all eligible full-time Fire and Police employees through the Pension Fund. Employees who terminate having five to twenty years of service may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for twenty years or more shall, upon application to the Board of Trustees of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest three years of pay of the last five years of service. The retirement annuity is computed at the rate of 2.125% of this average for the first twenty years of service, plus 4% for each of the next ten years served and 1% for each of the next five years of service, up to 87.5% of the average salary. Additionally, plan amendments effective October 1, 1997 include an increase of 1% in the annual benefit for members who retired prior to October 1, 1989, and an increase in the benefit multiplier of 0.5% for each year of service between twenty five and thirty years.

An employee with twenty years and one month of actual service credit may at the time of retirement elect a Backward Deferred Retirement Option Plan (Back DROP). The Back DROP election results in a lump sum payment equal to the number of full months of service elected by an employee that does not exceed the lesser of the number of months of service credit the employee had in excess of twenty years or thirty-six months and a reduced annuity payment.

The disbursement of a 13th pension check may be authorized by the Board for any fiscal year ending after 1996 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 13th pension check is paid to each retiree and beneficiary receiving an annuity at the time of disbursement and is in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retire after the end of the fiscal year).

If service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, based on the same number of years of the member's pay as used to compute normal retirement benefits. If a member is killed in the line of duty, the member's surviving spouse and dependent children are entitled to a pension based upon actual base salary at time of death.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Contribution requirements of plan members and the City are established and may be amended by State statute. In the current year, the City contributed 24.32% of covered payroll and employees contributed 12.16% of covered payroll. The employer's required contribution of $40,238 and the employee's required contribution of $20,119 were made to the Pension Fund. (See summary of contribution information at Part A of this footnote).

For the year ended September 30, 2000, the City's annual pension cost of $40,238 for the Pension Fund was equal to the City's required and actual contributions. The annual required contribution was determined as part of the October 1999 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increase of 5.5% per year. Both (a) and (b) included an

8. PENSION AND RETIREMENT PLANS (Continued)

B. City of San Antonio (Continued)

Fire and Police Pension Plan (Continued)

inflation component of 4.5%. 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 Pension Fund's unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 1999 was 19.85 years.

Texas Municipal Retirement System

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory; hybrid defined contribution plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1947 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 contribution plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or calling (512) 476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 10 or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 10 years, but must leave accumulated contributions in the plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

The plan provisions are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Significant assumptions used in the actuarial valuation of annual required contributions include a rate of return on the investment of present and future assets of 8.0% per year. Additionally, there is no need to project salary increases since the benefit credits earned for service to date are not dependent on future salaries. Because of the money-purchase nature of the plan, the interest rate assumption does not have as much impact on the results as it does for a defined benefit plan.

8. PENSION AND RETIREMENT PLANS (Continued)

B. City of San Antonio (Continued)

Texas Municipal Retirement System (Continued)

Contribution requirements are actuarially determined. The contribution rate for the City's employees is 6% and the matching percent is currently 11.89%, both as adopted by the governing body of the City. (See summary of contribution information in Part A of this footnote). Under the state law governing TMRS, the Employer's Contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's twenty-five year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is being amortized over a constant twenty-five year period as a level percent of payroll. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

C. San Antonio Water System (SAWS)

SAWS retirement program includes benefits provided by the Texas Municipal Retirement System, a contract with Principal Mutual Life Insurance Company, and Social Security.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

1. 20 Years of credited service regardless of age, or
2. 25 Years of credited service and at least age 50, or
3. 10 Years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of credited service. Average Compensation is defined as the monthly average of compensation for the three consecutive years ending December 31, out of the latest ten prior to retirement which give the highest average.

The normal retirement benefit under the Principal Mutual contract is equal to:

1. 1.2% of the Average Compensation, as defined, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.375% of the Average Compensation, times years of credited service in excess of 35 years.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits.

The following information related to the Texas Municipal Retirement System and Principal Mutual Life Insurance has been prepared as of January 1, 2000.

Texas Municipal Retirement System

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined contribution plan in the Texas Municipal Retirement System (TMRS). The TMRS was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas, and is administered in accordance with the Texas Municipal Retirement System Act. It is the opinion of the TMRS management that the plans in the TMRS are substantially defined contribution plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the SAWS- financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, 200%) of the employee's accumulated contributions. In addition, SAWS may grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and SAWS matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages of 60 and above with 10 or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 10 years. The plan provisions are adopted by SAWS within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The contribution rate for the employees is 3% of salary, and SAWS matching rate approximates 100% of the employee rate, both as adopted by the SAWS. Under the state law governing TMRS, SAWS contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to SAWS matching percent, which are the obligation of SAWS as of an employee's retirement date not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of SAWS to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (Continued)

When SAWS periodically adopts updated service credits and increases the annuities in effect, the increased unfunded actuarial liability is to be amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is to be amortized over the twenty-five year period, which began January 1, 1998. The unit credit actuarial cost method is used for determining SAWS contribution rate.

Contributions are made monthly by both the employees and SAWS. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

Significant assumptions used in the actuarial valuation of annual required contributions include a rate of return on the investment of present and future assets of 8.0% per year. Additionally, there is no need to project salary increases since the benefit credits earned for service to date are not dependent on future salaries. Likewise, inflation and cost-of-living adjustments are not accounted for in the actuarial study. Assets are valued at amortized cost.

Principal Mutual Life Insurance Company

The contract with Principal Mutual Life Insurance Company (PMLIC) serves as a supplement to the TMRS and Social Security benefits. SAWS' covered payroll at January 1, 2000 under this contract was $48,202.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit plan. Employees are eligible to participate in the plan on January 1 of the calendar year following date of hire. An employee covered by the plan may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. The plan allows an employee to accrue vesting benefits as follows:

Years of Service	Vested Percentage
Less than 5	0%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

Benefits for retired employees are fully guaranteed at retirement The pension plans unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to pay benefits or administrative expense.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Principal Mutual Life Insurance Company (Continued)

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 7.0 % per year, (b) salary scale from Table S-5 of the Actuary's Pension Handbook, plus 3.4%, and (c) plan expenses according to the expense scales of the Service Agreements.

The PMLIC contract funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method spreads the total cost of the projected pension benefits for each employee from the date the employee is first eligible for the plan to the employee's normal retirement date. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. Thus, as of the plan effective date, there are some accumulated Normal Costs as called the Frozen Initial Liability.

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and maybe amended by the System. Active members are not required to contribute to the plan. Any obligation with respect to the pension plan shall be paid by the System. The actuarial valuation, which was performed for the plan year, reflects an unfunded frozen initial liability of $16,246. For the plan year ended December 1999, SAWS annual pension cost of $4,753 was equal to SAWS required and actual contributions.

The PMLIC issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Life Insurance Company, Pension Diversified Retirement Services, Des Moines, Iowa 50392-0001 or by calling (515) 247-5111.

D. CPS All Employee Plan

The CPS Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. Normal retirement is age 65; however, early retirement is available with 25 years of service. The Plan was amended effective January 1, 1999, to also allow early retirement to those employees who are age 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.

The Plan is sponsored and may be amended by CPS, acting by and through the General Manager and Chief Executive Officer of CPS. The Plan assets are held in a separate trust that is periodically audited and which financial statements include historical information. Additional information may be obtained by writing the Employee Benefits Division of CPS, P.O. Box 1771, San Antonio, Texas 78296 or by calling (210) 978-2484.

Funding levels are established through annual actuarial evaluations and recommendations of an Administrative/Investment committee, using both employee and employer contributions. Participating employees contribute 5.0 % of their total compensation and are fully vested after completing 15 years of credited service. The Plan was amended effective January 1, 1999, to reduce the time it takes an employee to fully vest to

8. PENSION AND RETIREMENT PLANS (Continued)

D. CPS All Employee Plan (Continued)

7 years. In addition, employees are now fully vested at age 40. The balance of contributions made amounted to 9% and is the responsibility of CPS, considering actuarial information, budgetary compliance, and the need to amend the Plan with legal requirements. (See Summary of Contribution Information at Part A of this footnote).

As calculated under GASB Statement No. 27, CPS' annual pension cost and net pension obligation for the fiscal year ended January 31, 2000 were $11,840 and $99 respectively. The annual required contribution was determined as part of the January 1, 1999 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 for amortization. The remaining amortization period is 1 year and is calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 1999 actuarial valuation include (a) a rate of return on the investment of future assets of 8.5 % per year compounded annually, (b) projected salary increased averaging 5.0 %, and (c) post-retirement cost-of-living increases of 2.0 %. The projected salary increases include an inflation rate of 4.0 %.

(The remainder of this page left blank intentionally)

8. PENSION AND RETIREMENT PLANS (Continued)

E. Required 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 Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Fire and Police Pension – City of San Antonio	1998	$ 34,963	100%	$ 0
	1999	36,882	100%	0
	2000	40,238	100%	0
TMRS – City of San Antonio	1998	$ 13,442	100%	$ 0
	1999	14,921	100%	0
	2000	19,352	100%	0
TMRS – SAWS	1998	$ 1,524	100%	$ 0
	1999	1,576	100%	0
	2000	1,593	100%	0
PMLIC – SAWS	1998	$ 2,748	100%	$ 0
	1999	3,344	100%	0
	2000	4,753	100%	0
CPS All Employee Plan	1998	$ 12,238	100%	$ 0
	1999	14,642	96.7%	490
	2000	11,840	103%	99

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.

(The remainder of this page left blank intentionally)

9. POSTEMPLOYMENT RETIREMENT BENEFITS

A. City of San Antonio

In addition to the pension benefits discussed in Note 8, the City provides all their retired employees with certain health benefits under two post-employment benefit programs. The first program is a health insurance plan, which provides benefits for all non-uniformed City retirees and for all, pre-October 1, 1989, uniformed (fire and police) retirees. Currently, there are 6,129 active civilian employees who may become eligible in the future. Employees become eligible for the program when they reach eligibility for the TMRS Pension Plan, discussed in Note 8. At September 30, 2000, there were 1,337 retirees participating in the program which covers eligible expenses at eighty percent after a deductible of $200 (single)/$400 (family) for non-Medicare and $125/$250 for Medicare retirees. The cost of the program is reviewed annually, and actuarially determined costs of medical claims are funded jointly by the City and retirees on a pay as you go basis shared on a 67% City - 33% retiree cost allocation. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands. For retirees, total expenses for the year were $5,247. For the year ended September 30, 2000, total contributions were as follows:

City	$ 2,539
Employees	1,215
TOTAL	$ 3,754

The second post-employment benefit program of the City provides retirement health care benefits for eligible Fire and Police Retirees, in accordance with provisions established by contract with the local Fire and Police Unions. Activity for this program had previously been reported in the Self-Insurance Internal Service Fund. Pursuant to the passage of Senate Bill 1568, the Fire and Police Retiree Health Fund, a separate and distinct statutory trust was created for this program.

The benefits of this plan are financed on a pay-as-you-go basis. The City currently makes contributions on behalf of 3,215 active Fire Fighters and Police Officers who may be eligible for benefits under this plan in the future. The benefits of the plan are not available until the employee has completed twenty years of service and the plan is currently providing benefits to 682 eligible retirees. The Program reimburses 80 percent of the amount of eligible claims for standard medical costs and 100 percent for hospitalization costs incurred by the retiree and their eligible dependents. Based on the Fire and Police contracts, the City contributed 9.4% of base pay plus longevity for active Fire and Police employees. Please note the number of firemen and policemen, retirees, and City monthly contribution rates in this paragraph are not expressed in thousands. For the year ended September 30, 2000, total expenses for retired employees was $4,217 and total contributions were as follows:

City	$ 13,888
Employees	223
TOTAL	$ 14,111

B. City Public Service (CPS)

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Plan assets are held as part of CPS' Group Health and Life Plans and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The Plans may be amended by CPS, acting by and through the General Manager of CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs.

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

B. City Public Service (CPS) (Continued)

These costs approximated $2,300 for 2000. CPS contributed $200 to the Health Plan and $10 to the Life Plan to cover costs associated with the Voluntary Early Retirement Program offered to its executives during 1998. CPS reimbursed $45.50 per month for Medicare supplement for certain retirees and their spouses enrolled in Medicare Part B.

Retired employees and covered dependents contributed $941 for their health care and life insurance benefits in fiscal year 2000. There were approximately 1,985 retirees and covered dependents eligible for health care and life insurance benefits. Please note the number of retirees is not stated in thousands.

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1, 1999 valuations are $42,000 for health and $15,200 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 $28,200 for health, $4,500 for life insurance, and $2,800 for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $3,700 in 2000, $5,200 in 1999, $5,400 in 1998, $5,000 in 1997, $7,000 in 1996, and $5,000 per year in 1995, 1994, and 1993. For the health care plan, the actuarial cost method used is the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 1999 actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5% per year for the health and life plans and 7% per year for the disability, (b) projected salary increases for the plans ranging from 3.3% to 12.0% depending on age for base and other salaries, and (c) medical cost increases projected at 6% for 2000 compared to 7% for 1999.

C. San Antonio Water System (SAWS)

SAWS provides certain health care and life insurance benefits for retired employees. Substantially all full-time employees who retire from SAWS may become eligible for those benefits. On May 31, 2000, there were 298 retirees with life insurance and 321 retirees with medical coverage. Please note the numbers of retirees is not stated in thousands.

SAWS provides medical and life insurance for retirees and recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance. For the year ending May 31, 2000, premiums for medical insurance and life insurance amounted to $1,714 and $39, respectively. Those and similar benefits for active employees are provided through insurance companies.

10. CPS SOUTH TEXAS PROJECT (STP)

Joint Operations

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are Reliant Energy, formerly known as HL&P, Central Power and Light Company (CPL), and the City of Austin. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28% ownership in the STP represents 700 megawatts of plant capacity. At

10. CPS SOUTH TEXAS PROJECT (STP) (Continued)

Joint Operations (Continued)

January 31, 2000, CPS' investment in the STP utility plant was approximately $1,700,000, net of accumulated depreciation.

Effective November 17, 1997 the Participation Agreement among the owners of STP was Amended and Restated and the STP Nuclear Operating Company, a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STP Nuclear Operating Company.

Nuclear Insurance

The Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities, is in effect until August 1, 2002. The limit of liability for licensees of nuclear power plants is $9,602,000 per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $83,900 (amount may be adjusted for inflation) for each licensed reactor, but not more than $10,000 per reactor for each nuclear incident in any one year. CPS and each of the other participants of STP are subject to such assessments, and all participants have agreed that any such assessments 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 NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $400,000 for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988, who do not use the workers' compensation system as sole remedy and bring suit against another party.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1,060,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain on-site property damage insurance in the amount of $2,750,000 of nuclear property insurance, which is above the legally required amount of $1,060,000, but is less that the total amount available for such losses. The $2,750,000 of nuclear property insurance is composed of $500,000 for primary property damage insurance and a layer of excess property damage insurance that would contribute $2,250,000 of additional coverage that is subject to a retrospective assessment from each electric utility which is a member 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 $17,300 during any one policy year.

Nuclear Decommissioning

In July 1990, CPS, together with the owners of the STP, filed with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance

10. CPS SOUTH TEXAS PROJECT (STP) (Continued)

Nuclear Decommissioning (Continued)

plan that this cost estimate would be reviewed and updated periodically as it could change by a material amount. In 1994, the owners did conduct a review of decommissioning costs. The results showed that CPS' share of decommissioning costs is now approximately $270,000 in 1994 dollars, which also exceeded NRC minimum requirements. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust Assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2000, CPS has accumulated approximately $95,500 in decommissioning funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amounts of $51,500 at December 31, 1999. Based upon the 1994 decommissioning cost study, the annual levelized funding into the trust of $8,800 for 2000 was expensed by CPS.

11. COMMITMENTS AND CONTINGENCIES

A. City of San Antonio

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, 2000. Grants awarded by federal, state and other governmental agencies but not yet earned nor received in cash as of September 30, 2000 were $127,892.

Revenue from City Public Service

The Trust Indenture of City Public Service provides for payments to the City up to 14% of CPS' gross revenues, as defined, to be paid or provided to the City. For the year ended September 30, 2000, the City recorded as revenue from CPS $167,139 in the General Fund.

Capital Improvement Program

The City will be undertaking various capital improvements to its airport system during fiscal year 2001. The estimated cost of these improvements is $44,125. Approximately $9,937 of the total will be funded by federal grants.

Revenue from San Antonio Water System

City ordinance No. 75686 provides for payments to the City up to 2.7% of SAWS' gross revenues, as defined, to be paid or provided to the City. For the year ended September 30, 2000, the City recorded as revenue from SAWS $5,162 in the General Fund. Additionally, the City recorded revenue in the amount of $16,382 in the Stormwater Special Revenue Fund for stormwater fees.

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. City of San Antonio (Continued)

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 will approximate $18,500. 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 general purpose financial statements.

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

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

Although the decision of the Fifth Circuit does not dispose of the entire claim of the Sierra Club, it does control further action in this case and creates a substantial obstacle to the Sierra Club's request for permanent injunctive relief.

San Antonio River Walk cases
The City has filed five lawsuits against adjoining property owners and/or business operators to recover rents and to settle ownership of portions of the San Antonio River Walk. Four of the adjoining landowners have previously executed leases, acknowledging City ownership of the property. However, in the early 1990's, these property owners disputed the City's ownership, ceased making rental payments, and did not renew their leases.

The City continues to contest these cases and anticipates a trial setting in the Summer of 2001. Although there are some uncertainties in fact and law, the City believes a favorable outcome is reasonably probable. Back-rentals are estimated at $700,000. In the event of an unfavorable result, however, the City may suffer a loss of the back rentals in the same range, plus attorney's fees, and may also be required to refund certain rentals of other business owners.

Leonides Muñoz, et al v. City of San Antonio, et al and Julius Spilman, et al v. City of San Antonio
These lawsuits are wrongful death actions brought by the heirs of three decedents who drowned during the October 17, 1998, flood. The decedents were washed off Lockhill Selma Road by rising floodwaters of the Olmos Creek, which is a marked low water crossing located 200 feet north of the Wurzbach intersection. In the event of an adverse jury verdict in these two lawsuits, the City's liability would not exceed $750,000 as established by the Texas Tort Claims Act.

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. City of San Antonio (Continued)

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Non-compliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the respective City funds.

Department of Transportation Audit Resolution

During fiscal years 1995 and 1996, a proposed resolution of audit findings resulting from an Office of the Inspector General, Department of Transportation report dated April 26, 1993 which disallowed $2,040 of Aviation Fund expenses, was submitted to the Federal Aviation Administration (FAA). Resolution provided that disallowed indirect cost and ground transportation charges for fiscal years 1991 through 1994 in the total amount of $2,040 were to be repaid by applying "indirect cost credits" over the next three fiscal years to the disallowed amounts. The FAA agreed to allow the City to develop a new indirect cost plan, in accordance with applicable rules and regulations, and apply the difference between the new indirect cost rate and the old rate as "indirect cost credits' against the disallowed amount.

Accordingly, in August 1996, the City engaged a consultant to develop a City-wide cost allocation plan for the fiscal years ended September 30, 1995. The fiscal year 1995 cost allocation plan was completed and forwarded to the City's respective federal cognizant agency for review and approval. The cognizant agency declined review of the cost allocation plan and in July 1996, at the request of the FAA, a copy of the plan was forwarded to the FAA. In August 1998, the FAA requested additional information regarding certain costs included in the plan and the information was forwarded to the FAA in October 1998.

Upon review of the City-wide cost allocation plan and the additional information submitted by the City, the FAA accepted the allocation methodology for fiscal year 1995 and approved the methodology for use in restating indirect costs for fiscal years 1993 and 1994. This resulted in a cumulative indirect cost credit in the amount of $366 for fiscal year 1993, 1994 and 1995 and resulted in a remaining amount of $1,674 in disallowed Aviation Fund expenses. The City has agreed to resolve the remaining disallowed Aviation fund expenditures of $1,674 through a combination of approved indirect cost credits for fiscal years 1996 through 1999 and credits for previously unreimbursed in-kind expenses provided to the Airport System during the past six years. Pursuant to the agreement, the City has submitted revised cost allocation plans to the FAA for fiscal years 1996 through 1998. The City has also provided the FAA with documentation supporting a total of $13,983 of previously unreimbursed in-kind expenses provided to the Airport System for fiscal years 1993 through 1998. The City is currently in the process of providing additional information to the FAA with respect to these in-kind expenditures. Upon final review by the FAA, any remaining amount of the disallowed Aviation Fund expenses would be reimbursed to the Aviation Fund after application of approved credits for the revised cost allocation plans and unreimbursed in-kind expenses. The City has agreed to resolve the remaining disallowed Aviation Fund Expenditures by September 30, 2001.

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill which effective immediately stopped accepting solid waste. Subsequent to landfill closure, Federal and State laws required the City to incur

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. City of San Antonio (Continued)

Landfill Postclosure Care Costs (Continued)

certain postclosure care costs over a period of thirty years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,800. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a thirty year period. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", the estimated postclosure cost of $3,800 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Solid Waste Enterprise Fund in fiscal year 1994.

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, 2000 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,165. This represents a reduction of $29 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

TNRCC Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Natural Resource Conservation Commission (TNRCC) related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2000, the City does not anticipate closure of the transfer station and has estimated closure costs at $110. 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.

Alamodome Soil Remediation

The City has taken an aggressive approach to dealing with environmental issues resulting from the construction of the Alamodome, a multi-purpose domed facility. It is working in conjunction with the Texas Natural Resources Conservation Commission (TNRCC) on the continued development and implementation of a remediation plan that addresses both on and off-site locations that may contain contaminated soil. As of September 30, 2000, the City has expended approximately $12,609 related to Alamodome soil remediation efforts, inclusive of the supplemental environmental projects, and estimates the remaining cost for soil remediation to be approximately $1,400. In January 1996, TNRCC issued its Executive Director's Preliminary Report assessing a penalty against the City and VIA Metropolitan Transit (VIA) along with certain technical recommendations for alleged violations in the handling of contaminated soils at the Alamodome site. On February 12, 1997, the City of San Antonio and TNRCC entered into an Agreed Order relating to enforcement actions taken by the Commission against the City and VIA which provided for a reduced penalty amount because of positive actions taken by the City to initiate corrective actions in advance of the Agreed Order.

Under the Agreed Order, the Commission would also defer the remaining portion of the reduced fine upon successful completion, by the City, of certain supplemental environmental projects in the total amount of $628. The City, under separate agreement with VIA, would assume responsibility for the remediation of the remaining sites, with VIA contributing $350 towards these efforts.

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. City of San Antonio (Continued)

Alamodome Soil Remediation (Continued)

The City to date has completed the Supplemental Environmental Projects as identified in the Agreed Order and has received concurrence from the TNRCC that these projects were successfully completed. Additionally, eight of the ten sites that require remedial activity under the Agreed Order have been completed. The TNRCC has provided closure letters for all of these sites, with the exception of the Pearsall Road Landfill site. This work has been completed and a closure letter from the TNRCC is expected during fiscal year 2001. Final remediation is scheduled for fiscal year 2001 for the two remaining sites.

B. CPS

Other

Purchase and construction commitments amounted to approximately $1,100,000 at January 31, 2000. This amount includes approximately $573,800 that is expected to be paid for natural gas purchases to be made under the contracts currently in effect through June 2002; the actual amount to be paid will be dependent upon CPS' actual requirements during the contract period and the price of gas. Commitments also include $70,200 for pipeline quality gas to be produced from the City of San Antonio "Nelson Gardens" landfill under the contract which is currently in effect through the year 2017. Also included is $9,400 for coal purchases through December 2000, $127,500 for coal transportation through December 2004, and $8,000 for treated cooling water through 2005, based upon the minimum firm commitment under these contracts.

Additional purchase commitments at January 31, 2000, which are related to STP include approximately $70,700 for raw uranium and associated fabrication and conversion services. This amount represents services that will be needed for future refuelings during the next two fiscal years.

The Public Utility Commission (PUC) of Texas has promulgated new rules designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule (Rule) mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on a single state-wide fee. This rate structure potentially will cost CPS $20,000 to 25,000 per year in additional transmission costs that will effectively subsidize competing utilities with higher transmission costs. Under a phased-in feature of this plan, CPS' costs for calendar years 1997, 1998, 1999 were approximately $1.3, $1.4, and $5.9 million respectively.

CPS challenged the initial Rule's validity in State District Court. CPS also filed an appeal from the PUC's determination as to the level of transmission costs CPS may recover under the PUC's Rule. CPS appealed the State District Court's opinion upholding the Rule's validity, and the court of Appeals overturned the District Court's decision. The case will likely be appealed by the Attorney General to the Texas Supreme Court. The State Districit Court upheld the PUC's determination of the level of transmission cost for CPS, but a favorable decision in the rule challenge case could effectively overturn this decision as well. These cases will have only a limited effect on the impact of the PUC's current Rules.

Joint Operations Agreement

A 1997 Joint Operations Agreement resulted from the litigation settlement with Reliant Energy, formerly known as Houston Lighting & Power, over its management of STP during the construction and early operating periods. The Joint Operating Agreement is an arrangement to jointly dispatch CPS' and Reliant's generating plants to take

11. COMMITMENTS AND CONTINGENCIES (Continued)

B. CPS (Continued)

Joint Operations Agreement (Continued)

advantage of the most efficient plants and favorable fuel prices of each utility. CPS receives, in monthly cash payments, ninety percent of the savings realized from the jointly operated systems. This joint operation agreement must result in at least $10,000 in cumulative savings per year to CPS, or Reliant will make up the difference in cash. A similar payment will be made by Reliant to ensure benefits to CPS of $150,000 in savings during the ten-year life of this agreement. As of January 31, 2000, CPS' total cumulative savings were $65,000.

The CPS Board authorized that the funds be segregated into a formal plan for their use is adopted. In December 1997, the CPS Board preliminarily committed a portion of the total joint operations savings to partially fund the construction of a new combined cycle facility. In October 1998, CPS initiated full construction of this new facility named the Arthur von Rosenberg Power Plant, and began using the joint operations savings to fund this construction

Litigation

Additionally, in the normal course of business, CPS is involved in other legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals and discrimination cases. Also, CPS power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

C. SAWS

Other

SAWS is committed under various contracts for completion of construction or acquisition of utility plants totaling approximately $113,900 as of May 31, 2000. Funding of this amount will come from available revenues of SAWS, contributions from developers, and restricted assets.

Litigation

SAWS is the subject of various claims and litigation which have risen in the ordinary course of its operations. Management, in consultation with legal counsel, is of the opinion that SAWS' liabilities in these cases, if decided adversely to SAWS, will not be material.

(The remainder of this page left blank intentionally)

12. SEGMENT INFORMATION

The City has four enterprise operations, which include the Airport System, Parking Facilities, Golf Course System, and Solid Waste System. Segment information for these operations and the City's significant discretely presented component units, CPS and SAWS, for the year ended September 30, 2000 is as follows:

Segment Information

	Airport System	Parking Facilities	Golf Course System	Solid Waste System	Total Primary Government	Gas and Electric System (CPS)[1]	San Antonio Water System (SAWS)[2]
Operating Revenues	$ 38,629	$ 7,300	$ 7,083	$ 40,743	$ 93,755	$ 1,040,649	$ 195,727
Operating Expenses exclusive of Depreciation	20,628	5,205	6,284	41,169	73,286	666,389	118,252
Depreciation	7,439	620	620	179	8,858	165,177	46,608
Operating Income	10,562	1,475	179	(605)	11,611	209,083	30,867
Other Revenue (Expenses)	(3,659)	(635)	(174)	(342)	(4,810)	(121,723)	(29,529)
Operating Transfers In (Out)	(1,897)	2,667	(351)	(1,680)	(1,261)		
Net Income (Loss)	$ 5,006	$ 3,507	$ (346)	$ (2,627)	$ 5,540	$ 87,360	$ 1,338
Total Assets	$ 295,572	$ 51,729	$ 10,828	$ 14,938	$ 373,067	$ 5,005,769	$ 1,654,067
Total Equity	$ 174,241	$ 10,340	$ 4,663	$ 10,271	$ 199,515	$ 2,048,534	$ 889,857
Working Capital	$ 5,683	$ 3,002	$ (186)	$ 6,249	$ 14,748	$ 213,967	$ 24,770
Additions to Fixed Assets	$ 8,337	$ 4,043	$ 40	$ 1,963	$ 14,383	$ 410,307	$ 127,909
Net Capital Contributions	$ 81,154	$ 190	$ 5,526	$ 3,699	$ 90,569	$	$ 598,076
Outstanding Revenue Bonds	$ 108,819	$ 24,694	$	$	$ 133,513	$ 2,521,070	$ 656,478
Outstanding Bonds and Certificates of Obligation	$	$ 15,855	$ 4,150	$	$ 20,005	$	$

[1] For the Fiscal Year Ended January 31, 2000
[2] For the Fiscal Year Ended May 31, 2000

13. INSURANCE

A. City of San Antonio

Property and Casualty Liability

At September 30, 2000, the City has excess insurance coverage through North River 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. Royal Lloyds of Texas provides property coverage on the City's building and contents inventory. The City utilizes third party administrators for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve 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. In fiscal year 2000 and 1999, there were no significant reductions in insurance coverage and claims settlements did not exceed insurance coverage.

Employee Health Benefits

The City provides its current employees with a comprehensive employee benefit program including coverage for medical, dental and life insurance, vision, dependent care reimbursement accounts and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Self-Insurance Employee Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

Workers' Compensation

The City self-insures for Workers' Compensation. The City is a member of the Texas Municipal League (TML) Workers' Compensation Joint Insurance Fund, an unincorporated association of political subdivisions of the State of Texas. The TML Workers' Compensation Joint Insurance Fund is not intended to operate as an insurance company, but rather is intended to be a contracting mechanism which the City as a member utilizes to administer self-insurance workers' compensation benefits to its employees for claims that occurred prior to September 30, 1986. The City also utilizes third party administrators for the handling of administration, investigation, and adjustment of workers' compensation claims that occurred after October 1, 1986. All loss contingencies, including claims incurred but not reported, if any, are recorded in the City's Self-Insurance Workers' Compensation Fund and Departments are assessed premiums to cover expenditures. As of September 30, 2000, the City has excess workers' compensation coverage through the North River Insurance Company.

Unemployment Compensation Program

The Unemployment Compensation Program of the Self-Insurance Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year end, claims were being administered internally by the City and are paid to the Texas Workforce Commission on a reimbursementbasis. All costs incurred are recorded on a claim paid basis.

(amounts are expressed in thousands)

13. INSURANCE (Continued)

A. City of San Antonio (Continued)

Extended Sick Leave Program

The Extended Sick Leave Program of the Self-Insurance Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Self-Insurance Employee Wellness Program Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program was established to offer City employees short term mental health, marital, and financial counseling, as well as substance abuse intake and assessment. The Program was funded by a transfer from the Workers' Compensation Fund.

Claims Liability

The liability for the Employees Benefits Fund is based on the estimated aggregate amount outstanding at the balance sheet date for unpaid benefits. Liabilities for the Insurance Reserve and Worker's Compensation Funds are reported when it is probable that a loss has occurred as of the balance sheet 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 which have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability as management of the City feel it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for the Insurance Reserve and Workers' Compensation Funds is based on a discounted rate of 5.5% in anticipation of future investment earnings.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Benefits, and Workers' Compensation Programs for the year ended September 30, 2000:

Schedule of Changes In Claims Liability

Fund	Liability Balance October 1,	Claims & Adjustments	Claims Payments	Liability Balance September 30,
Insurance Reserve				
Fiscal Year 1999	$ 16,531	$ 8,416	$ (6,416)	$ 18,531
Fiscal Year 2000	18,531	5,119	(5,119)	18,531
Employee Benefits				
Fiscal Year 1999	$ 3,415	$ 23,968	$ (23,968)	$ 3,415
Fiscal Year 2000	3,415	28,429	(28,429)	3,415
Workers' Compensation				
Fiscal Year 1999	$ 14,532	$ 7,245	$ (7,245)	$ 14,532
Fiscal Year 2000	14,532	8,496	(8,496)	14,532

(amounts are expressed in thousands)

13. INSURANCE (Continued)

B. CPS

CPS is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS purchases commercial liability and property insurance coverages to provide protection in event of large/catastrophic claims. CPS performs actuarial studies periodically to determine its liability for insurance reserves. An actuarial study was last performed in 2000.

In addition, CPS is exposed to risks of loss due to death of, and injuries to, or illness of, its employees. CPS makes payments to external trusts to cover the claims under the related plans. At January 31, 2000 and 1999, CPS has accumulated approximately $143,400 and $111,400, respectively, in these external trusts. The trust accounts and related claims liabilities are not included in CPS' financial statements. CPS has recorded $17,400 of expense related to these plans for the year ended January 31, 2000 and $12,000 for the year ended January 31, 1999.

In January 1999, CPS recorded estimates for landfill closure and dismantling and remediation of several gas powered units. Closure and postclosure costs were estimated for the Class I non-hazardous waste landfill in accordance with EPA regulations. Additional depreciation expense of $5,200 was recorded for this dismantling and remediation of the generating units.

Based upon the guidance of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the following information is provided regarding the changes in the insurance reserves for property, and employee and public liability claims for the years ended January 31, 2000 and 1999:

Schedule of Changes In Claims Liability

Fund	Liability Balance February 1,	Claims & Adjustments	Claims Payments	Liability Balance January 31,
Property Insurance				
Fiscal Year 1999	$ 4,680	$ 5612	$ (40)	$ 10,252
Fiscal Year 2000	10,252	7	(101)	10,158
Employee & Public Liability Claims				
Fiscal Year 1999	$ 3,369	$ 2,858	$ (2,687)	$ 3,540
Fiscal Year 2000	3,540	5,549	(3,486)	5,603

(The remainder of this page left blank intentionally)

13. INSURANCE (Continued)

C. 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 $300 of each worker's compensation and $250 for general liability, automobile liability and public official's liability claim whereby any claim which cost exceeded the self insured retention limit would be covered through SAWS' comprehensive insurance program. For the fiscal year ended May 31, 2000, there were no reductions in insurance coverage from the previous year. There was one claim that exceeded the self-insured retention limit for the fiscal year ended May 31, 2000. Settled claims have not exceeded the insurance coverage in any of the three prior fiscal years.

SAWS had recorded a liability in the amount of $2,863 as of May 31, 2000, 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:

Schedule of Changes In Claims Liability

Year Ended May 31,	Balance at Beginning of Fiscal Year Liability	Claims & Adjustments	Claims Payments	Balance at End of Fiscal Year Liability
1999	$ 3,858	$ 1,436	$ (1,642)	$ 3,652
2000	$ 3,652	$ 714	$ (1,503)	$ 2,863

(The remainder of this page left blank intentionally)

14. DEFICITS IN FUND BALANCES / RETAINED EARNINGS

Special Revenue Funds

A deficit fund balance at year end is reported in the Home Program and the Community Development Program in the total amount of $33. The deficit is attributable to projects for which reprogramming of Home Program and Community Development Program funds will occur subsequent to year end. Upon reprogramming of funds, the deficit fund balance will be fully funded.

Following is a reconciliation of the deficit fund balance disclosed above to total Special Revenue Fund Equity reported in the Combined Balance Sheet as of September 30, 2000:

Budgeted on an annual basis - Fund Balances		$ 73,314
Budgeted on a project basis - Fund Balances		
Home Program and Community Development Program	$ (33)	
Categorical Grant-in Aid	2,858	
HUD 108 Loan Program	194	
Total budgeted on a project basis - Fund Balances		3,019
Blended Component Units		36
Total Special Revenue Fund Equity		$ 76,369

Enterprise Funds

As of September 30, 2000 a deficit retained earnings at year end is reported in the Golf Course System Fund in the amount of $862. This 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 and equipment costs have contributed to the deficit. The City's Organizational Review Division within the Budget and Employee Services Department conducted a performance review of the Parks and Recreation Department's Golf Operations Division to address these issues. The results of this review were presented to Council in May 1999 along with recommendations, which would increase revenues and improve the quality of the municipal courses. These recommendations included fee increases, debt restructuring, capital improvements to the fairways, clubhouse, and restroom facilities. Included in these capital improvements was a computerized reservation system accessible twenty-four hours a day and upgrades to the computer systems. In addition, six golf professionals were added to the City golf staff in order to improve operations at each course. Implementation of the recommendations is ongoing and it is anticipated that the golf courses will become more competitive in the marketplace.

Following is a reconciliation of the deficit retained earnings disclosed above to total Enterprise Fund Equity reported in the Combined Balance Sheet as of September 30, 2000:

Airport System - Retained Earnings	$ 93,086	
Parking Facilities - Retained Earnings	10,150	
Golf Course System - Retained Earnings	(862)	
Solid Waste System - Retained Earnings	6,572	
Total Enterprise Fund - Retained Earnings		$ 108,946
Enterprise Fund - Contributed Capital		90,569
Total Enterprise Fund Equity		$ 199,515

(amounts are expressed in thousands)

14. DEFICITS IN FUND BALANCES / RETAINED EARNINGS (Continued)

Internal Service Funds

A deficit retained earnings at year end is reported in the Information Services Fund in the amount of $5,184. This deficit is attributable to depreciating contributed equipment, while not depreciating or amortizing the offsetting Contributed Capital in the reserve for equipment renewal and replacement component of retained earnings.

Following is a reconciliation of the deficit retained earnings disclosed above to total Internal Service Fund Equity reported in the Combined Balance Sheet as of September 30, 2000:

Other Internal Services - Retained Earnings		$ 31,790
Information Services		(5,184)
Self-Insurance Programs - Retained Earnings		
Insurance Reserve Fund	$ 7,346	
Employee Benefits Fund	12	
Worker's Compensation Program	7,471	
Other Self-Insurance Programs	107	
Total Self-Insurance Program - Retained Earnings		14,936
Internal Service Fund - Contributed Capital		38,811
Total Internal Service Fund Equity		$ 80,353

(The remainder of this page left blank intentionally)

(amounts are expressed in thousands)

15. CONTRIBUTED CAPITAL

Activity for the year ended September 30, 2000, related to contributed capital is as follows:

Proprietary Fund Type Contributed Capital

	Airport System	Parking Facilities	Golf Course System	Solid Waste System	Total Primary Government Enterprise Funds	Internal Service	Total Primary Government	Gas and Electric System (CPS)[1]	San Antonio Water System (SAWS)[2]
Contributed Capital, October 1	$ 79,344	$ 190	$ 5,526	$ 3,699	$ 88,759	$ 37,126	$ 125,885	$ 0	$ 571,830
Additions -									
Local Government						1,685	1,685		
Federal	3,440				3,440		3,440		
Customers									26,246
Intergovernmental									
Deductions -									
Amortization of Federally Contributed Fixed Assets	(1,630)				(1,630)		(1,630)		
Contributed Capital, September 30	$ 81,154	$ 190	$ 5,526	$ 3,699	$ 90,569	$ 38,811	$ 129,380	$ 0	$ 598,076

[1]For the fiscal year ended January 31, 2000
[2]For the fiscal year ended May 31, 2000

(The remainder of this page left blank intentionally)

(amounts are expressed in thousands)

16. FUND EQUITY

The amounts reported on the combined balance sheet identified as designated fund balance for the year ended September 30, 2000 are comprised of the following:

General Fund

Designated for Budget Carryforwards		$ 9,819
Designated for Revenue Loss		20,868
Total Designated – General Fund		$ 30,687

Special Revenue Fund

Designated for Budget Carryforwards		
Convention Center System Development Fund	$ 69	
Emergency Medical Services Fund	466	
Hotel Motel Tax Fund	437	
Street Maintenance and Improvement Fund	453	
Storm Water Operating Fund	216	
Total Designated for Budget Carryforwards		$ 1,641
Designated for Improvement and Contingency		
Hotel Motel Tax Fund	$ 9,006	
AlamoDome Fund	216	
Nelson Wolff Stadium	20	
Total Designated for Improvement and Contingency		9,242
Designated for Renewal and Improvement		
Hotel Motel Tax Fund	$ 1,296	
AlamoDome Fund	2,430	
Total Designated for Renewal and Improvement		3,726
Total Designated – Special Revenue Fund		$ 14,609

The above designations are utilized in the City's governmental funds to indicate plans by management to earmark an amount of fund balance for contingencies, future capital improvements, acquisitions, and capital expenditures. The General Fund designation for revenue loss increased $1,700 to $20,868 as of September 30, 2000.

(The remainder of this page left blank intentionally)

(amounts are expressed in thousands)

17. SUBSEQUENT EVENTS

A. City of San Antonio

Sale of New Money General Obligation Debt and Commercial Paper

The market environment provided an opportunity for the City of San Antonio to take advantage of the low interest rates and issue new money obligations to finance the City's on-going capital improvement program. On November 30, 2000, the City Council approved the sale of the following obligations:

$15,615 General Improvement Bonds, Series 2000A, maturing 2003 through 2021, with interest rates ranging from 5.250% to 5.375%.

$8,810 Combination Tax and Revenue Certificates of Obligation, Series 2000A, maturing 2003 through 2021, with interest rates ranging from 5.250% to 5.375%.

$1,755 Taxable Combination Tax and Revenue Certificates of Obligation, Series 2000B, Maturing 2003 through 2021, with interest rates ranging from 7.450% to 7.550%.

$6,415 Combination Tax and Revenue Certificates of Obligation, Series 2000C, maturing 2004 through 2020, with interest rates ranging from 5.000% to 5.500%.

Delivery of the proceeds from the Series 2000A, B and C obligations occurred on December 28, 2000. Proceeds of the Series 2000A obligations will be utilized to finance the construction of general improvements to the City, including streets and pedestrian improvements, drainage improvements, flood control with park improvements, parks and recreation facilities improvements, library system improvements, and public safety improvements.

Delivery of the proceeds from the Series 2000B obligations will be used to construct, acquire, equip, renovate, and repair public works including improvements to municipally-owned facilities including the Alameda Theater.

Delivery of the proceeds from the Series 2000C obligations will be used in connection with the Houston Street Redevelopment Project. The Houston Street Redevelopment Project is a $100,000 private and public economic development venture to revitalize commercial activity in San Antonio's downtown district.

On November 9, 2000 the City Council separately approved issuance of $35,000 Sales Tax Commercial Paper Notes, Series A. The proceeds from the sale of the Notes are to provide for the planning, acquisition, establishment, development, construction, or renovation of the "Parks Development and Expansion Venue Project" authorized at an election held on May 6, 2000 which includes the acquisition of open space over the Edwards Aquifer Recharge Zone ("Open Space Parks") and linear parks along Leon Creek and Salado Creek ("Linear Parks"), and the construction and improvements or additions to such Open Space Parks and Linear Parks.

B. SAWS

On June 29, 2000 SAWS defeased $12,570 of City of San Antonio Water System Revenue Refunding Bonds, Series 1992, which are part of the Senior Lien Water System Revenue Bonds. The Cash defeasance was accomplished with accumulated impact fee funds. The funds for the defeasance were used in the following manner. Bonds defeased $12,570, defeasance cost of $12, and accrued interest of $128, for total funds used of $12,710.

(This page left blank intentionally.)

City of San Antonio
Texas

Required Supplementary Information

(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

FIRE AND POLICE PENSION PLAN--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-99	$ 1,031,786	$ 1,256,746	$ 224,960	82%	$ 162,892	138%
10-01-98	903,555	1,160,023	256,468	78%	155,389	165%
10-01-97	808,423	1,092,814	284,391	74%	150,447	189%

TEXAS MUNICIPAL RETIREMENT SYSTEM--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL (1)	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-99	$ 371,118	$ 475,605	$ 104,487	78%	$ 154,797	67%
12-31-98	343,424	434,544	91,120	79%	140,375	65%
12-31-97	325,436	421,858	96,422	77%	132,188	73%

CITY PUBLIC SERVICE ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-99	$ 563,400	$ 565,000	$ 1,600	100%	$ 138,500	1%
01-01-98	507,600	520,500	12,900	98%	129,100	10%
01-01-97	455,600	487,200	31,600	94%	123,800	26%

NOTES: (1) Abstracted from City payroll records.

(2) GASB Statement No. 27 requires the above trend information for a period of three years.

(amounts are expressed in thousands)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-99	$ 40,495	$ 49,140	$ 8,645	82%	$ 48,145	18%
12-31-98	37,467	45,608	8,141	82%	48,672	17%
12-31-97	33,893	42,640	8,747	79%	45,630	19%

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
01-01-00	$ 26,417	$ 46,229	$ 19,812	57%	$ 48,202	41%
01-01-99	23,553	45,391	21,838	52%	48,183	45%
01-01-98	22,237	37,123	14,886	60%	43,963	34%

NOTES: (1) GASB Statement No. 27 requires the above trend information for a period of three years.

(amounts are expressed in thousands)

APPENDIX D

The information contained in Appendix D consists of the Legal Opinion of McCall, Parkhurst and Horton L.L.P., San Antonio, Texas, and Wickliff & Hall, P.C., San Antonio, Texas, Co-Bond Counsel for the Bonds.

DRAFT DATE: MAY 31, 2001

MCCALL, PARKHURST & HORTON L.L.P.
1225 ONE RIVERWALK PLACE
SAN ANTONIO, TEXAS 78205
TELEPHONE: (210) 225-2800
FACSIMILE: (210) 225-2984

WICKLIFF & HALL, P.C.
105 S. ST. MARY'S, SUITE 700
SAN ANTONIO, TEXAS 78205
TELEPHONE: (210) 225-4100
FACSIMILE: (210) 225-4153

June __, 2001

CITY OF SAN ANTONIO, TEXAS
MUNICIPAL FACILITIES CORPORATION
LEASE REVENUE BONDS, SERIES 2001
DATED MAY 15, 2001
IN THE AGGREGATE PRINCIPAL AMOUNT OF $14,465,000

WE HAVE ACTED AS CO-BOND COUNSEL for the ***City of San Antonio, Texas Municipal Facilities Corporation*** (the "Issuer"), the issuer of the Bonds described above (the "Bonds"), solely for the purpose of rendering an opinion as to the validity of the "Lease" and the "Trust Agreement" (hereinafter defined) and the Bonds under Texas law, and the status of the interest on the Bonds under federal income tax law, and for no other purpose. In such capacity, we do not take responsibility for any matters relating to such transaction except as covered below.

WE HAVE EXAMINED into the validity of the Bonds, bearing interest from May 15, 2001, until maturity or redemption, at the rates per annum set forth in the *"Trust Agreement Relating to the City of San Antonio, Texas One Stop Development Services Center Project"*, dated as of May 15, 2001 (the "Trust Agreement"), between the Issuer and The Bank of New York, as trustee (the "Trustee"). Interest on the Bonds is payable and the Bonds mature on the dates set forth in the Trust Agreement, and the Bonds are subject to optional and mandatory redemption prior to maturity in accordance with the terms and conditions stated in the Trust Agreement and in the text of the Bonds.

WE HAVE FURTHER EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the Issuer relating to the issuance of the Bonds including (i) the resolution adopted by the Board of Directors of the Issuer on May 31, 2001 which authorized the issuance of the Bonds (the "Bond Resolution"), (ii) the *"Lease Agreement Relating to the City of San Antonio, Texas One Stop Development Services Center Project"*, dated as of May 15, 2001, between the Issuer, as Lessor, and the City (the "Lease"), (iii) one of the executed Bonds (Bond Number R-1), and other documents authorizing and relating to the issuance of the Bonds.

WE HAVE FURTHER EXAMINED the opinion of Frank Garza, as City Attorney of the City, upon which we rely to the extent described below.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the Issuer is a nonprofit local government corporation organized and existing under the laws of the State of Texas, including particularly the Subchapter D of Chapter 431, Texas Transportation Code, as amended (the "Act"); the Bond Resolution has been duly and lawfully adopted by, and constitutes a valid and binding obligation of, the Issuer, and that the Bonds have been duly authorized, issued and delivered in accordance with Texas law and constitute legal, valid, binding and enforceable obligations of the Issuer in accordance with their terms. The principal of, redemption premium, if any, and interest on the Bonds are payable solely from "Lease Payments" (as defined in the Lease) to be made by the City as provided in the Trust Agreement and the Lease. Subject to the limitations described below, the City has agreed and is obligated to the Issuer to make periodic Lease Payments due under the Lease to the Trustee under the Trust Agreement for deposit into the Payment Account established by the Trust Agreement in amounts sufficient to pay and redeem, or provide for the payment and redemption of, the principal of, redemption premium, if any, and interest on the Bonds, when due, as required by the Trust Agreement. We do not, however, express any opinion nor make any comment with respect to the sufficiency of the security for or the marketability of the Bonds.

IT IS FURTHER OUR OPINION that the Lease has been duly and lawfully authorized, executed, and delivered by, and is a legal, valid and binding obligation of, the Issuer, enforceable against the Issuer in accordance with its terms and conditions. We are relying upon the opinion, dated this date, of the City Attorney of the City to the effect that the Lease has been duly and lawfully authorized, executed and delivered by the City pursuant to applicable Texas law and is a legal, valid and binding obligation of the City, enforceable in accordance with its terms and conditions.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS **under the Lease is a current expense, payable solely from funds annually appropriated for such use. The Lease may be terminated annually by the City without penalty, except as provided in the Lease, and there can be no assurance that the City will annually appropriate Lease Payments or renew the Lease. If the Lease is terminated, the City will have no further obligation to make Lease Payments regardless of whether any Bonds remain outstanding. The Lease and the obligations of the City thereunder do not constitute a pledge, a liability, or a charge upon the funds of the City and do not constitute a debt or general obligation of the State of Texas, the City, the Issuer, or any other political subdivision of the State of Texas.**

THE BONDS ARE SECURED by the Trust Agreement whereunder the Trustee is custodian of the funds established by the Trust Agreement and is obligated to enforce the rights of the Issuer and the owners of the Bonds and to perform other duties, in the manner and under the conditions stated in the Trust Agreement; and it is our further opinion that the Trust Agreement has been duly and lawfully authorized, executed, and delivered by the Issuer and that the Trust Agreement is a valid and binding agreement of the Issuer enforceable against the Issuer in accordance with its terms and conditions.

THE BONDS WILL BE ADDITIONALLY SECURED by a Deed of Trust and Assignment of Rents and Leases, dated as of May 15, 2001, from the Issuer to Tamara Ellis, as mortgage trustee for use and benefit of the Trustee (the "Mortgage"), and by a Security Agreement, also dated as of May 15, 2001, by and between the Issuer and the Trustee (the "Security Agreement") upon the purchase of the Land (as defined in the Lease) and the filing thereof with the County Clerk of Bexar County, Texas (with respect to the Mortgage) and the Secretary of State of Texas (with respect to the Security Agreement). We express no opinion with respect to the Mortgage and the Security Agreement.

NEITHER THE FAITH AND CREDIT nor the taxing power of the State of Texas, the City, the Issuer, or any other political subdivision of the State of Texas has been pledged to the payment of the principal of or interest on the Bonds. The Bonds do not constitute an indebtedness or obligation of the State of Texas, the City or any other political subdivision of the State of Texas, or a loan of the credit of any of them within the meaning of any constitutional or statutory provisions.

THE OWNERS OF THE BONDS shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation, and the Bonds are payable solely from the sources described in the Trust Agreement.

THE TRUST AGREEMENT AND THE LEASE BOTH PERMIT, with certain exceptions as respectively therein provided, the amendment thereof at any time by the Issuer, and by mutual agreement between the Issuer and the City, respectively, with the consent of the registered owners of not less than a majority in aggregate principal amount of all Bonds then outstanding in certain circumstances.

THE OPINIONS EXPRESSED ABOVE ARE LIMITED with respect to the enforceability of the Bonds, the Bond Resolution, the Trust Agreement and the Lease in the following respects: (a) the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or remedies generally; (b) the enforceability of any indemnification or equitable contribution provisions contained therein and provisions purporting to liquidate damages in the event of the condemnation of the Project by the City may be limited by applicable securities law and/or public policy; and (c) the enforceability of certain equitable remedies, including specific performance, may be unavailable.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer or the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code, (b) subject to the branch profits tax imposed on foreign corporations by section 884 of the Code, and (c) included in the passive investment income of an S corporation and subject to the tax imposed by section 1375 of the Code.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Co-Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds, the Lease and the Trust Agreement under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the sufficiency of revenues to pay Lease Payments.

Respectfully,

APPENDIX E

Specimen Municipal Bond Insurance Policy

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest: _____
Assistant Secretary

SPECIMEN

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

STD-TX-6

4/95