OFFICIAL STATEMENT
Dated March 7, 2002

NEW ISSUE - BOOK-ENTRY ONLY

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

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

$130,045,000
CITY OF SAN ANTONIO, TEXAS AIRPORT SYSTEM REVENUE BONDS CONSISTING OF

CITY OF SAN ANTONIO
AVIATION DEPARTMENT

$92,470,000
Airport System Revenue Improvement Bonds, Series 2002

and

$37,575,000
Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002

Date: March 1, 2002 **Due: July 1, as shown herein**

The $92,470,000 "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2002" (the "GAR Bonds") are being issued by the City of San Antonio, Texas (the "City") pursuant to the laws of the State of Texas, including Chapter 22, Texas Transportation Code; Chapters 1371 and 1503, Texas Government Code; and Section 103 of the City's Home Rule Charter (collectively, the "Applicable Law"); and a "Master Ordinance" (herein called the "Master GAR Ordinance") dated April 19, 2001, and a Third Supplement thereto to be adopted by the City Council of the City (collectively, the "GAR Ordinance") (see "THE BONDS – Authority for Issuance" herein).

The $37,575,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002" (the "PFC Bonds") are being issued by the City pursuant to the Applicable Law and a "Master PFC Ordinance" (defined herein), a First Supplement thereto, and a Fourth Supplement to the Master GAR Ordinance, all to be adopted by the City Council of the City (collectively, the "PFC Ordinance") (see "THE BONDS – Authority for Issuance" herein.)

Interest on the GAR Bonds and the PFC Bonds (collectively, the "Bonds") will accrue from the Dated Date, shown above, and will be payable January 1 and July 1 of each year, commencing July 1, 2002, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. So long as the Securities Depository is the registered owner of the Bonds, the principal of, premium, if any, and interest on the Bonds will be payable by Bank One, National Association, Austin, Texas, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

The GAR Bonds will be issued on a parity with certain currently outstanding revenue bonds and are special obligations of the City payable solely from and equally and ratably secured by a first lien on and pledge of the Gross Revenues derived from the ownership and operation of the Airport System (all as defined in the Master GAR Ordinance) and other sources and funds, including a Bond Reserve Fund. The PFC Bonds will be issued as special obligations of the City payable from and equally and ratably secured by a first lien on and pledge of the revenues of a Passenger Facility Charge approved by the Federal Aviation Administration and imposed and collected by the City with respect to its International Airport. The PFC Bonds will be additionally secured by a subordinate lien on and pledge of the Subordinate Net Revenues derived from the ownership and operation of the Airport System, as provided for in the First Supplement to the Master PFC Ordinance (which, for the purpose of granting a pledge of the Subordinate Net Revenues, also serves as the "Fourth Supplement" to the Master GAR Ordinance). No mortgage of or lien on any of the physical properties forming a part of the Airport System, or any lien thereon or security interest therein, has been given to secure the payment of the Bonds. The Bonds are limited obligations of the City, with the GAR Bonds payable solely from a lien on and pledge of the Gross Revenues, and the PFC Bonds payable solely from a lien on and pledge of the PFC Revenues (defined herein), along with the Subordinate Net Revenues of the Airport System subordinated to the timely payment of debt service on all Parity GAR Obligations (defined herein) then outstanding or subsequently issued. Neither the taxing power of the City, the State of Texas, nor any political subdivision thereof, nor any other funds of the City, are pledged to the payment of the Bonds.

Payment of the principal of and interest on the Bonds will be insured by municipal bond insurance policies to be issued by Financial Guaranty Insurance Company.

FGIC® **Financial Guaranty Insurance Company**

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

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

The Bonds are offered for delivery, when, as and if issued and received by the Underwriters named below and subject to the approving opinion of the Attorney General of the State of Texas and the legal opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, and Wickliff & Hall, P.C., San Antonio, Texas, as Co-Bond Counsel. (See "LEGAL MATTERS" herein.) Certain legal matters will be passed upon for the City by the Acting City Attorney, and for the Underwriters by Akin, Gump, Strauss, Hauer & Feld, L.L.P., San Antonio, Texas, counsel to the Underwriters. It is expected that the Bonds will be available for delivery through the services of DTC on or about March 21, 2002.

MORGAN STANLEY
A.G. Edwards & Sons, Inc.
Siebert Brandford Shank & Co., LLC

SWS Securities

SALOMON SMITH BARNEY
RBC Dain Rauscher Inc.
Southwestern Capital Markets, Inc.

STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND YIELDS

$92,470,000
Airport System Revenue Improvement Bonds, Series 2002

$34,620,000 Serial Bonds

Maturity (July 1)	Principal Amount	Rate	Initial Reoffering Yield[1]	Maturity (July 1)	Principal Amount	Rate	Initial Reoffering Yield[1]
2005	$1,095,000	5.000%	3.380%	2012	$3,190,000	5.500%	4.780%
2006	1,155,000	5.000	3.700	2013	3,370,000	5.750	4.920*
2007	1,215,000	5.000	4.020	2014	3,570,000	5.750	4.980*
2008	1,275,000	5.250	4.230	2015	3,785,000	5.750	5.080*
2009	2,280,000	5.500	4.440	2016	4,010,000	5.750	5.170*
2010	2,410,000	5.500	4.580	2017	4,245,000	5.750	5.250*
2011	3,020,000	5.500	4.680				

$57,850,000 Term Bonds

$ 9,245,000 5.400% Term Bonds Due 07/01/2019 Priced to Yield 5.380% *
$10,300,000 5.250% Term Bonds Due 07/01/2021 Priced to Yield 5.400%
$11,450,000 5.250% Term Bonds Due 07/01/2023 Priced to Yield 5.450%
$26,855,000 5.250% Term Bonds Due 07/01/2027 Priced to Yield 5.470%

$37,575,000
Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002

$18,050,000 Serial Bonds

Maturity (July 1)	Principal Amount*	Rate	Initial Reoffering Yield[1]	Maturity (July 1)	Principal Amount*	Rate	Initial Reoffering Yield[1]
2003	$ 775,000	4.000%	2.120%	2011	$1,105,000	5.500%	4.680%
2004	805,000	4.000	2.850	2012	1,165,000	5.500	4.780
2005	845,000	4.000	3.380	2013	1,230,000	5.750	4.920*
2006	880,000	4.000	3.700	2014	1,300,000	5.750	4.980*
2007	920,000	4.000	4.020	2015	1,380,000	5.750	5.080*
2008	955,000	4.125	4.230	2016	1,465,000	5.750	5.170*
2009	995,000	4.375	4.440	2017	1,550,000	5.750	5.250*
2010	1,040,000	5.500	4.580	2018	1,640,000	5.750	5.300*

$19,525,000 Term Bonds

$5,510,000 5.250% Term Bonds Due 07/01/2021 Priced to Yield 5.400%
$4,185,000 5.250% Term Bonds Due 07/01/2023 Priced to Yield 5.450%
$9,830,000 5.250% Term Bonds Due 07/01/2027 Priced to Yield 5.470%

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* Priced to July 1, 2012 call date.

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

Optional Redemption

The GAR Bonds maturing on or after July 1, 2013 may be redeemed, in whole or in part, in principal amounts of $5,000 or any integral amount thereof on July 1, 2012 or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption.

The PFC Bonds maturing on or after July 1, 2013 may be redeemed, in whole or in part, in principal amounts of $5,000 or any integral amount thereof on July 1, 2012 or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption.

CITY OF SAN ANTONIO, TEXAS

ADMINISTRATION

CITY COUNCIL:

Name	Years on Council	Term Expires	Occupation
Ed Garza, Mayor	4	May 31, 2003	Land Planner
Bobby Pérez, District 1	2	May 31, 2003	Attorney
John H. Sanders, District 2	2/3	May 31, 2003	Retired, Texas Workforce Commission
Antoniette (Toni) Moorhouse, District 3	2/3	May 31, 2003	Non-Profit Programs Management
Enrique (Kíke) Martin, District 4	2/3	May 31, 2003	Contracting Security Officer, USAFR
David A. Garcia, District 5	1	May 31, 2003	Attorney
Enrique M. Barrera, District 6	2	May 31, 2003	Retired
Julían Castro, District 7	2/3	May 31, 2003	Attorney
Bonnie Conner, District 8	2	May 31, 2003	Real Estate Management
Carroll Schubert, District 9	2/3	May 31, 2003	Attorney
David Carpenter, District 10	2	May 31, 2003	Small Business Owner

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Years In Current Position
Terry M. Brechtel	City Manager	11	5/6
J. Rolando Bono	Deputy City Manager	24	5/6
Melissa Byrne Vossmer	Assistant City Manager	3	3
Travis M. Bishop	Assistant City Manager	23	2
Christopher J. Brady	Assistant City Manager	5	2
Frances A. Gonzalez	Assistant to the City Manager	17	1
Roland Lozano	Assistant to the City Manager	21	5/6
Erik J. Walsh	Assistant to the City Manager	7	5/6
Steven Arronge	Acting City Attorney	29	1/6
Norma S. Rodriguez	City Clerk	31	22
Kevin Dolliole	Director of Aviation	2	2
Louis A. Lendman	Director of Office of Management and Budget	13	1
Thomas G. Wendorf	Director of Public Works	2	1
Milo Nitschke	Director of Finance	7	1/3

CONSULTANTS AND ADVISORS:

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

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

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

Airport Consultant — Unison-Maximus, Inc., Chicago, Illinois

USE OF INFORMATION IN THE OFFICIAL STATEMENT

This Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances will this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

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

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

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

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

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OFFICIAL STATEMENT
Relating to the

$130,045,000
CITY OF SAN ANTONIO, TEXAS AIRPORT SYSTEM
REVENUE BONDS CONSISTING OF

$92,470,000	**and**	**$37,575,000**
Airport System Revenue Improvement Bonds, Series 2002		**Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002**

INTRODUCTION

This Official Statement of the City of San Antonio, Texas (the "City") provides certain information in connection with the sale of the "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2002" (the "GAR Bonds"), in the aggregate principal amount of $92,470,000, and the "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002" (the "PFC Bonds"), in the aggregate principal amount of $37,575,000 (the GAR Bonds and the PFC Bonds, collectively, the "Bonds"). This Official Statement describes the Bonds, the Ordinances (defined herein), and certain other information about the City and its Airport System (defined herein). All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Defined terms used herein without definition are defined in the "Master Ordinance" authorizing the GAR Bonds (herein called the "Master GAR Ordinance"), along with a Third Supplement thereto authorizing the issuance of the GAR Bonds to be adopted by the City Council of the City (collectively, the "GAR Ordinance") and the "Master Ordinance" authorizing the PFC Bonds (herein called the "Master PFC Ordinance"), along with a First Supplement thereto authorizing the issuance of the PFC Bonds and a Fourth Supplement to the Master GAR Ordinance authorizing a pledge of the Subordinate Net Revenues (defined herein) as additional security for the PFC Bonds, all to be adopted by the City Council of the City (collectively, the "PFC Ordinance") (the GAR Ordinance and the PFC Ordinance, collectively, the "Ordinances"). See "Appendix B – Excerpts from the Ordinances - Definitions." Copies of such documents may be obtained from the City at the Office of the Director of Finance, City Hall Annex, 506 Dolorosa, San Antonio, Texas 78204 and, during the offering period, from the City's Co-Financial Advisors, Coastal Securities, 909 Northeast Loop 410, Suite 300, San Antonio, Texas, 78209, or Estrada Hinojosa & Company, Inc., 1485 Frost Bank Tower, 100 West Houston Street, San Antonio, Texas 78205, upon payment of reasonable copying, mailing, and handling charges.

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

The GAR Bonds will be issued as "Additional Parity Obligations" (herein called "Additional Parity GAR Obligations") to five series of bonds which are payable from and secured by a first lien on the Gross Revenues of the Airport System, currently outstanding in the aggregate principal amount of $105,370,000 (the "Outstanding GAR Bonds"), and the City has reserved the right to issue other Additional Parity GAR Obligations payable from such Gross Revenues and on a parity with such Outstanding GAR Bonds and the GAR Bonds in any amount permitted by the GAR Ordinance (the Outstanding GAR Bonds, the GAR Bonds, and any Additional Parity GAR Obligations are referred to herein, collectively, as "Parity GAR Obligations"). In addition, on April 19, 2001, the City sold $50,230,000 of Parity GAR Obligations known as the "City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003" (the "Series 2003 Bonds"), which are expected to be issued and delivered on April 8, 2003, for the purpose of refunding (and redeeming on July 1, 2003) $49,155,000 in outstanding "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 1993" to effect a present value savings and pay costs of issuance thereof. The City may issue Additional Parity GAR Obligations prior to the Settlement Date of the Series 2003 Bonds.

The PFC Bonds will be the first issuance of debt secured by and payable from the revenues of the Passenger Facility Charge ("PFC") approved by the Federal Aviation Administration (the "FAA") and imposed and collected by the City with respect to its International Airport, with additional security provided by a pledge of the Subordinate Net Revenues of the Airport System subordinated to the timely payment of debt service on all Parity GAR Obligations issued pursuant to the Master GAR Ordinance, and any Supplement related thereto, which are then outstanding or subsequently issued, as authorized by the First Supplement to the Master PFC Ordinance (which, for the purpose of

granting a pledge of the Subordinate Net Revenues to further secure the PFC Bonds, also serves as the "Fourth Supplement" to the Master GAR Ordinance). The City has reserved the right to issue other obligations payable from such PFC Revenues (defined herein) and on a parity with the PFC Bonds in any amount permitted by the PFC Ordinance.

In addition, under the terms of the Ordinances, the City may, from time to time, issue (a) debt, which would be secured by a lien on and pledge of the Subordinate Net Revenues of the Airport System and would be junior and inferior to the pledge of the Gross Revenues securing the Parity GAR Obligations and on a parity with or subordinate to the lien on the Subordinate Net Revenues that further secures the PFC Bonds and (b) Special Facilities Debt to provide Special Facilities related to the Airport System which are separately secured by a pledge of certain rentals derived from the leasing of such Special Facilities.

As of January 31, 2002, the following Special Facilities Bonds were outstanding: $4,374,638 "City of San Antonio, Texas Airport Special Facilities Airport Revenue Refunding Bonds (Raytheon Aircraft Services, Inc. Project), Series 1999" and $4,800,000 "City of San Antonio, Texas Special Facilities Airport Revenue Bonds, Series 1995 (The Cessna Aircraft Company Project)." There is no debt payable from Subordinate Net Revenues currently outstanding; the PFC Bonds will be the first such obligations.

This Official Statement describes the GAR Bonds and the PFC Bonds only.

THE GAR BONDS ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM A LIEN ON AND PLEDGE OF THE GROSS REVENUES OF THE AIRPORT SYSTEM. THE PFC BONDS ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM A FIRST AND PRIOR LIEN ON AND PLEDGE OF THE PFC REVENUES AND THE SUBORDINATE NET REVENUES OF THE AIRPORT SYSTEM SUBORDINATED TO THE TIMELY PAYMENT OF DEBT SERVICE ON ALL PARITY GAR OBLIGATIONS THEN OUTSTANDING OR SUBSEQUENTLY ISSUED. NEITHER THE TAXING POWER OF THE CITY, THE STATE OF TEXAS, NOR ANY POLITICAL SUBDIVISION THEREOF, NOR ANY OTHER FUNDS OF THE CITY ARE PLEDGED TO THE PAYMENT OF THE BONDS. NO MORTGAGE OR LIEN HAS BEEN CREATED ON THE PHYSICAL PROPERTIES OF THE AIRPORT SYSTEM TO SECURE PAYMENT OF THE BONDS.

PLAN OF FINANCING

The City is issuing the GAR Bonds for the purpose of (i) constructing, improving, renovating, enlarging and equipping the Airport System, (ii) funding capitalized interest and a debt service reserve fund, and (iii) paying costs of issuance. The City is issuing the PFC Bonds for the purpose of (i) acquiring and constructing certain improvements to the International Airport which qualify and have been approved by the Secretary of the United States Department of Transportation as "eligible airport-related projects" under 49 U.S.C. § 40117, including construction of renovations and improvements to existing terminals and construction of a new terminal (Concourse B), (ii) funding a debt service reserve fund, and (iii) paying costs of issuance. These improvements represent a portion of the implementation of a ten-year Capital Improvement Plan ("CIP") pursuant to the Master Plan for the International Airport. The CIP addresses both terminal and airfield improvements. The CIP includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement to two runways along with supporting taxiways and aircraft apron. The preliminary cost estimates total approximately $425.6 million for terminal related improvements, parking, roadway improvements, and airfield improvements. See "THE AIRPORT SYSTEM – Capital Improvement Plan."

The FAA has approved funding for a portion of the planned capital improvements through PFC Revenues, with PFC collection authority becoming effective on August 29, 2001. The City began collecting on November 1, 2001 a $3.00 PFC (less an $0.08 air carrier collection charge) per paying passenger enplaned at the International Airport. The City is issuing the PFC Bonds payable from the PFC Revenues; the City intends to use a portion of the PFC Revenues to pay for capital improvements on a current basis and to support other debt for eligible projects. The City also anticipates submitting an application to the FAA in the Spring of 2002 for Letter of Intent ("LOI") grant funds to pay for a portion of the CIP that are eligible under the FAA's Airport Improvement Grant Program ("AIP").

DEBT SERVICE REQUIREMENTS

The following schedule reflects the total principal and interest requirements on all outstanding Parity GAR Obligations, taking into account the issuance of the Series 2003 Bonds and the GAR Bonds.

		The GAR Bonds			
Year ended July 1	Existing Debt Service[1]	Principal	Interest	Total Debt Service	Total Combined Debt Service
2002	$ 11,781,114	$ -0-	$ 1,660,677	$ 1,660,677	$ 13,441,791
2003	10,787,001	-0-	4,982,030	4,982,030	15,769,031
2004	11,593,812	-0-	4,982,030	4,982,030	16,575,842
2005	11,567,312	1,095,000	4,982,030	6,077,030	17,644,342
2006	11,588,249	1,155,000	4,927,280	6,082,280	17,670,529
2007	10,982,874	1,215,000	4,869,530	6,084,530	17,067,404
2008	10,996,602	1,275,000	4,808,780	6,083,780	17,080,382
2009	10,982,462	2,280,000	4,741,843	7,021,843	18,004,305
2010	10,995,694	2,410,000	4,616,443	7,026,443	18,022,137
2011	11,004,669	3,020,000	4,483,893	7,503,893	18,508,562
2012	10,985,894	3,190,000	4,317,793	7,507,793	18,493,687
2013	10,999,294	3,370,000	4,142,343	7,512,343	18,511,637
2014	7,964,982	3,570,000	3,948,568	7,518,568	15,483,550
2015	8,000,769	3,785,000	3,743,293	7,528,293	15,529,062
2016	8,008,500	4,010,000	3,525,655	7,535,655	15,544,155
2017	-0-	4,245,000	3,295,080	7,540,080	7,540,080
2018	-0-	4,495,000	3,050,993	7,545,993	7,545,993
2019	-0-	4,750,000	2,808,263	7,558,263	7,558,263
2020	-0-	5,015,000	2,551,763	7,566,763	7,566,763
2021	-0-	5,285,000	2,288,475	7,573,475	7,573,475
2022	-0-	5,575,000	2,011,013	7,586,013	7,586,013
2023	-0-	5,875,000	1,718,325	7,593,325	7,593,325
2024	-0-	6,195,000	1,409,888	7,604,888	7,604,888
2025	-0-	6,525,000	1,084,650	7,609,650	7,609,650
2026	-0-	6,880,000	742,088	7,622,088	7,622,088
2027	-0-	7,255,000	380,888	7,635,888	7,635,888
Totals	$158,239,228	$92,470,000	$86,073,607	$178,543,607	$336,782,835

[1] Including the Series 2003 Bonds.

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The following table shows the debt service on the PFC Bonds.

Year ended July 1	The PFC Bonds Principal	Interest	Total Debt Service
2002	$ -0-	$ 650,508	$ 650,508
2003	775,000	1,951,525	2,726,525
2004	805,000	1,920,525	2,725,525
2005	845,000	1,888,325	2,733,325
2006	880,000	1,854,525	2,734,525
2007	920,000	1,819,325	2,739,325
2008	955,000	1,782,525	2,737,525
2009	995,000	1,743,131	2,738,131
2010	1,040,000	1,699,600	2,739,600
2011	1,105,000	1,642,400	2,747,400
2012	1,165,000	1,581,625	2,746,625
2013	1,230,000	1,517,550	2,747,550
2014	1,300,000	1,446,825	2,746,825
2015	1,380,000	1,372,075	2,752,075
2016	1,465,000	1,292,725	2,757,725
2017	1,550,000	1,208,488	2,758,488
2018	1,640,000	1,119,363	2,759,363
2019	1,740,000	1,025,063	2,765,063
2020	1,835,000	933,713	2,768,713
2021	1,935,000	837,375	2,772,375
2022	2,035,000	735,788	2,770,788
2023	2,150,000	628,950	2,778,950
2024	2,270,000	516,075	2,786,075
2025	2,385,000	396,900	2,781,900
2026	2,520,000	271,688	2,791,688
2027	2,655,000	139,388	2,794,388
Totals	$37,575,000	$31,975,977	$69,550,977

THE BONDS

General Description

The GAR Bonds will be dated March 1, 2002 and will bear interest from such date at the rates set forth on the inside cover page hereof payable on January 1 and July 1 of each year, commencing July 1, 2002, until the stated maturities or prior redemption. The principal of, premium, if any, and interest on the GAR Bonds are payable in the manner described herein under "THE BONDS – Book-Entry-Only System."

The PFC Bonds will be dated March 1, 2002 and will bear interest from such date at the rates set forth on the inside cover page hereof payable on January 1 and July 1 of each year, commencing July 1, 2002, until the stated maturities or prior redemption. The principal of, premium, if any, and interest on the PFC Bonds are payable in the manner described herein under "THE BONDS – Book-Entry-Only System."

In the event the Book-Entry-Only System (described below) is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register maintained by Bank One, National Association, Austin, Texas as the initial Paying Agent/Registrar, as of the 15th day of the month next preceding such interest payment date (the "Record 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 Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

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

Sources and Uses

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

Sources of Funds	
Principal Amount of the GAR Bonds	$92,470,000.00
Plus Net Premium	636,836.35
Plus Accrued Interest	276,779.44
Less Underwriters' Discount	(582,023.65)
Total Sources of Funds	$92,801,592.14
Uses of Funds	
Construction Fund Deposit	$77,359,149.00
Bond Fund Deposit (Capitalized Interest and Accrued Interest)	11,901,516.11
Reserve Fund Deposit	2,500,000.00
Costs of Issuance, Bond Insurance, and Rounding Amount	1,040,927.03
Total Uses of Funds	$92,801,592.14

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

Sources of Funds	
Principal Amount of the PFC Bonds	$37,575,000.00
Plus Accrued Interest	108,418.06
Plus Net Premium	175,330.45
Less Underwriters' Discount	(234,093.25)
Total Sources of Funds	$37,624,655.26
Uses of Funds	
PFC Construction Fund Deposit	$34,342,500.00
PFC Bond Fund Deposit (Accrued Interest)	108,418.06
PFC Reserve Fund Deposit	2,747,178.16
Costs of Issuance, Bond Insurance, and Rounding Amount	426,559.04
Total Uses of Funds	$37,624,655.26

Authority for Issuance

The Bonds will be issued under the provisions of applicable laws, including Chapter 22, Texas Transportation Code; Chapters 1371 and 1503, Texas Government Code; Section 103 of the City's Home Rule Charter; and the Ordinances. Excerpts from the Ordinances are included in Appendix B to this Official Statement.

Security

The GAR Bonds will be payable from and secured by an irrevocable first lien on and pledge of Gross Revenues on a parity with the Outstanding GAR Bonds and all other Additional Parity GAR Obligations issued in the future, including the Series 2003 Bonds. "Gross Revenues" include all of the revenues and income of every nature and from whatever source derived by the City (but excluding grants and donations for capital purposes) from the operation and/or ownership of the Airport System, including the investment income from the investment or deposit of money in

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

The PFC Bonds will be payable from and secured by an irrevocable first lien on and pledge of the PFC Revenues and a lien on and pledge of the Subordinate Net Revenues subordinated to the timely payment of debt service on all Parity GAR Obligations issued pursuant to the Master GAR Ordinance, and any Supplement related thereto, which are then outstanding or subsequently issued. "PFC Revenues" is defined as all revenues received by the City from the imposition of PFCs on each paying passenger of an air carrier or foreign air carrier boarding an aircraft at the Airport in accordance with the provisions of 49 U.S.C. § 40117, as may be amended from time to time, or other applicable federal law. "Subordinate Net Revenues" means Net Revenues (as hereinafter defined) of the Airport System remaining after all amounts then required by the Master GAR Ordinance, and any Supplement related thereto, to be transferred to the Bond Fund and the Bond Reserve Fund established by the Master GAR Ordinance to secure Parity GAR Obligations have been made. "Net Revenues" is defined as Gross Revenues after deducting Operation and Maintenance Expenses. "Operation and Maintenance Expenses" includes the reasonable and necessary current expenses of the City paid or accrued in administering, operating, maintaining, and repairing the Airport System. Without limiting the generality of the foregoing, the term "Operation and Maintenance Expenses" includes all costs directly related to the Airport System, that is, (1) collecting Gross Revenues and of making any refunds therefrom lawfully due others; (2) engineering, audit reports, legal, and other overhead expenses directly related to its administration, operation, maintenance, and repair; (3) salaries, wages, and other compensation of officers and employees, and payments to pension, retirement, health and hospitalization funds and other insurance including self-insurance for the foregoing (which will not exceed a level comparable to airports of a similar size and character); (4) costs of routine repairs, replacements, renewals, and alterations not constituting a capital improvement, occurring in the usual course of business; (5) utility services; (6) expenses of general administrative overhead of the City allocable to the Airport System; (7) equipment, materials and supplies used in the ordinary course of business not constituting a capital improvement, including ordinary and current rentals of equipment or other property; (8) fidelity bonds, or a properly allocable share of the premium of any blanket bond, pertaining to the Airport System or Gross Revenues or any other moneys held hereunder or required hereby to be held or deposited hereunder; and (9) costs of carrying out the provisions of the Master GAR Ordinance, including paying agent's fees and expenses; costs of insurance required hereby, or a properly allocable share of any premium of any blanket policy pertaining to the Airport System or Gross Revenues, and costs of recording, mailing, and publication. To provide further clarification, Operation and Maintenance Expenses does not include the following: (1) any allowances for depreciation; (2) costs of capital improvements; (3) reserves for major capital improvements, Airport System operations, maintenance or repair; (4) any allowances for redemption of, or payment of interest or premium on, Debt; (5) any liabilities incurred in acquiring or improving properties of the Airport; (6) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent that they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases; (7) liabilities based upon the City's negligence or other ground not based on contract; and (8) to the extent Federal Payments may not be included as Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

PFC collection authority was effective on August 29, 2001. Absent application for and receipt of an extension, said PFC collection authority is expected to expire upon the City's aggregate collection of $102.5 million in PFC Revenues, which represents the amount the FAA authorized the City to collect. Total collections of PFC Revenues are expected to reach this level on or about October 31, 2009. The City began collecting on November 1, 2001 a PFC of $3.00 (less an $0.08 air carrier collection charge) per paying passenger enplaned at the International Airport. The City will not pledge PFC Revenues to any other series of obligations at this time, but it retains the right to do so.

THE GAR BONDS ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM A LIEN ON AND PLEDGE OF THE GROSS REVENUES OF THE AIRPORT SYSTEM. THE PFC BONDS

ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM A FIRST AND PRIOR LIEN ON AND PLEDGE OF THE PFC REVENUES AND THE SUBORDINATED NET REVENUES OF THE AIRPORT SYSTEM SUBORDINATED TO THE TIMELY PAYMENT OF DEBT SERVICE ON ALL PARITY GAR OBLIGATIONS THEN OUTSTANDING OR SUBSEQUENTLY ISSUED. NEITHER THE TAXING POWER OF THE CITY, THE STATE OF TEXAS, NOR ANY POLITICAL SUBDIVISION THEREOF, NOR ANY OTHER FUNDS OF THE CITY ARE PLEDGED TO THE PAYMENT OF THE BONDS. NO MORTGAGE OR LIEN HAS BEEN CREATED ON THE PHYSICAL PROPERTIES OF THE AIRPORT SYSTEM TO SECURE PAYMENT OF THE BONDS.

Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the revenues granted by the City under the Ordinances; therefore, such pledge is valid, effective, and perfected.

The payment of the principal of and interest on the GAR Bonds is guaranteed pursuant to the GAR Bond Insurance Policy (defined herein) issued by Financial Guaranty Insurance Company ("Financial Guaranty"). (See "BOND INSURANCE" herein.)

The payment of the principal of and interest on the PFC Bonds is guaranteed pursuant to the PFC Bond Insurance Policy (defined herein) issued by Financial Guaranty. (See "BOND INSURANCE" herein.)

Redemption Provisions

Optional Redemption. The GAR Bonds and the PFC Bonds are subject to optional redemption as shown on the inside cover page of this Official Statement.

The City 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 Paying Agent/Registrar.

Mandatory Redemption. The GAR Bonds maturing in the years 2019, 2021, 2023, and 2027 are subject to mandatory redemption in part by lot pursuant to the terms of the GAR Ordinance, on July 1, in the following years and in the following amounts, at a price equal to the principal amount thereof and accrued and unpaid interest to the date of redemption, without premium:

Year	Principal Amount	Year	Principal Amount
2018	$4,495,000	2020	$5,015,000
2019 (final maturity)	4,750,000	2021 (final maturity)	5,285,000

Year	Principal Amount	Year	Principal Amount
2022	$5,575,000	2024	$6,195,000
2023 (final maturity)	5,875,000	2025	6,525,000
		2026	6,880,000
		2027 (final maturity)	7,255,000

The PFC Bonds maturing in the years 2021, 2023, and 2027 are subject to mandatory redemption in part by lot pursuant to the terms of the PFC Ordinance, on July 1, in the following years and in the following amounts, at a price equal to the principal amounts thereof and accrued and unpaid interest to the date of redemption, without premium:

Year	Principal Amount	Year	Principal Amount
2019	$1,740,000	2022	$2,035,000
2020	1,835,000	2023 (final maturity)	2,150,000
2021 (final maturity)	1,935,000		

Year	Principal Amount
2024	$2,270,000
2025	2,385,000
2026	2,520,000
2027 (final maturity)	2,655,000

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

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

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

Paying Agent/Registrar

The initial Paying Agent/Registrar is Bank One, National Association, Austin, Texas. In the Ordinances, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar at all times until the Bonds are duly paid, and the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, must be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as a Paying Agent/Registrar for the Bonds. Upon a change in the Paying Agent/Registrar for the Bonds, the City is required to promptly cause written notice thereof to be sent to each registered owner of the Bonds by U.S. mail, first-class, postage prepaid.

Record Date for Interest Payment

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

Transfer, Exchange, and Registration

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be registered, transferred, assigned, and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration, transfer, and exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, transfer, and exchange. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. The new Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by U.S. registered mail to the new registered owner at the registered owner's request, risk, and expense. New Bonds issued in an exchange or transfer of the Bonds will be delivered to the registered owner or assignee of the registered owner, to the extent possible, within three business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in denominations of $5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount, series, and rate of interest as the Bonds surrendered for exchange or transfer. (See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds while the Bonds are issued under DTC's Book-Entry-Only System.)

Mutilated, Destroyed, Lost, or Stolen Bonds

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

Limitation on Transfer

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Bonds (i) during the period commencing at the close of business on the record date and ending at the opening of business on the next interest payment date and (ii) with respect to the Bonds selected for redemption in whole or in part, within 45 days of the date fixed for redemption; provided, however, this limitation is not applicable to the transfer or exchange of the unredeemed balance of the Bonds called for redemption in part.

Defaults and Remedies

If the City defaults in the payment of the principal of, premium, if any, and interest on any Bond when due, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinances, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State of Texas. Under Texas state law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinances. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in payment of principal of, premium, if any, or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to collect appropriate revenues sufficient to pay principal of, premium, if any, and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time-consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinances do not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Ordinances and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Amendments

The City has reserved the right to amend the Master GAR Ordinance under the conditions permitted by Section 19 thereof and to amend the Master PFC Ordinance under the conditions permitted by Section 17 thereof. Certain amendments may be made without the consent of any holders of the Parity GAR Obligations or the Parity PFC Obligations, and such authority to amend the Master GAR Ordinance becomes more broad on and after its Second Automatic Amendment Date (see "THE BONDS - Amendments Intended to Automatically Occur in Future"). Other amendments would require the consent of the holders of at least a majority in aggregate principal amount of either the Parity GAR Obligations or the Parity PFC Obligations, as applicable dependent upon whether the proposed amendment is to the Master GAR Ordinance or the Master PFC Ordinance. For a complete description of the manner in which the Master GAR Ordinance and Master PFC Ordinance may be amended, see Section 19 and Section 17, respectively, both included in Appendix B hereto.

In addition, the City has reserved the right to amend the First Supplement to the Master PFC Ordinance under the conditions permitted by Section 10 therein, the Third Supplement to the Master GAR Ordinance under the conditions permitted by Section 11 therein and the Fourth Supplement to the Master GAR Ordinance under the conditions permitted by Section 10 therein. Certain amendments may be made without the consent of any holders of the Bonds. Other amendments would require the consent of the holders of at least a majority in aggregate principal amount of either the GAR Bonds or the PFC Bonds, as applicable. For a complete description of the manner in which the First Supplement to the Master PFC Ordinance and the Third and Fourth Supplements to the Master GAR Ordinance may be amended, see Section 10 or Section 11 of each Supplement, as appropriate, all of which are included in Appendix B hereto.

Amendments Intended to Automatically Occur in Future

The Master GAR Ordinance has been written to correspond with the provisions of the ordinances which authorized the issuance of the Parity GAR Obligations that were issued prior to the date of passage of the Master GAR Ordinance (defined in the Master GAR Ordinance as the "Pre-2001 Parity Obligations") such that obligations issued under the Master GAR Ordinance will be on a parity with the Pre-2001 Parity Obligations; however, in connection with the obligations that the City has issued or expects to issue over the next several years to improve and expand the Airport System (including the GAR Bonds), the City desires to amend certain portions of the existing bond ordinances through the Master GAR Ordinance and make those revisions applicable to all Parity GAR Obligations.

Certain amendments will automatically occur on the "First Automatic Amendment Date," which is defined in the Master GAR Ordinance as "the date which the aggregate principal amount of all then Outstanding Pre-2001 Parity Obligations whose owners have not consented to the amendment being effectuated by the applicable provision of the Master GAR Ordinance constitute less than 49% of all Parity GAR Obligations then Outstanding." The First Automatic Amendment Date will occur on the date of delivery of the GAR Bonds. The provisions in the Master GAR Ordinance which are to become effective on the First Automatic Amendment Date relate to (i) revising certain defined terms as of the First Automatic Amendment Date, including the terms (A) Airport System (to clarify that Industrial Properties and Special Facilities are not included within the term Airport System) and (B) Parity GAR Obligations; (ii) providing for an Airport Consultant to make operational and financial recommendations if Gross Revenues fall below the amount required to satisfy the rate covenant in Section 3(a)(1) of the Master GAR Ordinance; (iii) revising the circumstances pursuant to which the City may sell, lease, or encumber property of the Airport System; (iv) expanding the purpose for withdrawals made from the Bond Fund to include other payments, in addition to principal and interest payments, incurred in connection with Parity GAR Obligations to facilitate the issuance of variable rate obligations or commercial paper; (v) deleting the requirement to maintain the Special Contingency Reserve Fund; and (vi) revising the conditions required for the issuance of Additional Parity GAR Obligations. Each of those amendments is more specifically described in the applicable definitions and in Sections 3(b), 4(g), 7, 11, and 17 of the Master GAR Ordinance and are included in Appendix B hereto.

Certain other amendments will automatically occur on the "Second Automatic Amendment Date", which is defined in the Master GAR Ordinance as "the date on which all Pre-2001 Parity Obligations are no longer Outstanding." The City expects that the Second Automatic Amendment Date will occur on July 1, 2006, which date is the last scheduled maturity for all Pre-2001 Parity Obligations. The provisions in the Master GAR Ordinance which are to become effective on the Second Automatic Amendment Date relate to (i) deleting the provision which would permit the City to levy an ad valorem tax to provide funds for Operation and Maintenance Expenses and (ii) revising the manner in

which the Master GAR Ordinance may be amended. Those two amendments are more specifically described in Sections 4(k)(2) and 19 of the Master GAR Ordinance and are included in Appendix B hereto.

Defeasance

The Ordinances provide for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payments, and all necessary and proper fees, compensation, and expenses of the paying agent for the Bonds. The Ordinances define "Defeasance Securities" as (a) direct, noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance, and to withdraw for the benefit of the City money in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds will no longer be regarded as outstanding or unpaid.

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

Book-Entry-Only System

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

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

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, 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 ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct 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, LLC, 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 Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchase of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, 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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry Only System for Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds such as redemptions, tenders, defaults, and proposed amendment to the Ordinances. Beneficial Owners of the Bonds may with to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and distributions on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect 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 Direct Participant and Indirect Participant and not of DTC, Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements of as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Payment Record

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

Rate Covenant Relating to Outstanding Parity GAR Obligations

The City covenants in the Master GAR Ordinance to fix, maintain, enforce, charge, and collect rentals, rates, fees, charges and amounts for the use, operation, services, facilities, and occupancy of the Airport System which will produce in each fiscal year Gross Revenues at least sufficient to pay the Operation and Maintenance Expenses during each Fiscal Year and to provide an amount equal to 1.25 times the principal and interest requirements (other than capitalized interest) during each Fiscal Year on all then Outstanding Parity GAR Obligations. If the Airport System becomes liable for any other obligations or indebtedness, the City will fix, maintain, enforce, charge, and collect additional rates, fees, charges and amounts for use, occupancy, services, facilities, and operation of the Airport System sufficient to establish and maintain funds for the payment thereof.

Covenants Relating to Outstanding PFC Obligations

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

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

Additional Covenants Related to PFCs. While any Parity PFC Obligation is Outstanding, the City further covenants and agrees to comply in accordance with, to the extent required or permitted by law, the following provisions.

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

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

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

decrease the rate or aggregate amount of passenger facility charges it has been authorized by the FAA to impose, charge, and collect from time to time.

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

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

Maintenance Tax

In the ordinances authorizing the Pre-2001 Parity Obligations, the City has covenanted to levy a tax, if necessary, to provide for the Operation and Maintenance Expenses of the Airport System (the "Maintenance Tax"). During each year while any of the Pre-2001 Parity Obligations are outstanding, the City, when preparing its budget, will consider whether the Maintenance Tax should be levied. At no time will the amount of such tax levy exceed the rate of 5¢ per $100 of assessed valuation of the City's taxable property. The assessed valuation for the City's Tax Year 2001 is approximately $39,806,009,394, which would produce a maximum Maintenance Tax of approximately $19,504,945 at 98% collections for the fiscal year 2001. To date, however, no Maintenance Tax has been levied by the City for the Airport System. Such tax may not be used to pay debt service on Pre-2001 Parity Obligations or any other obligations of the Airport System or the City.

The Master GAR Ordinance retains the Maintenance Tax pledge only for so long as the Pre-2001 Parity Obligations are outstanding. When the Pre-2001 Parity Obligations have been paid or defeased, such pledge will no longer be effective for any Parity GAR Obligations (including the GAR Bonds) and will not be required for the issuance of Additional Parity GAR Obligations.

FLOW OF FUNDS

The GAR Bonds

The following paragraphs briefly describe in summary form the manner in which Gross Revenues are utilized and their priority of payment. For a complete description of the flow of funds as they relate to the GAR Bonds, see Sections 6 through 12 of the Master GAR Ordinance and Section 9 of the Third Supplement thereto, all of which are included in Appendix B hereto.

Revenue Fund. All Gross Revenues are credited from day to day as received to the credit of the Revenue Fund. Gross Revenues in the Revenue Fund are deposited to the credit of the other Funds and Accounts described in the Master GAR Ordinance, in the manner and amounts hereinafter provided, and each of such Funds and Accounts have priority as to such deposits in the order as discussed in the following paragraphs.

Bond Fund. Deposits to the Bond Fund are made on or before the 25th day of each month in approximately equal monthly installments, as will be sufficient, together with any other funds on deposit therein and available for such purpose, to pay the interest or principal and interest scheduled to come due on all the Parity GAR Obligations, or required to be redeemed prior to stated maturity, on the next interest payment date.

Bond Reserve Fund. The Bond Reserve Fund is required to contain an amount of money and investments equal in market value to the Average Annual Debt Service Requirements on all Parity GAR Obligations (the "Required Reserve Amount"). The Required Reserve Amount following the delivery of the GAR Bonds will be $13,116,139, and will be fully funded on the date of delivery of the GAR Bonds with a combination of cash, Eligible Investments, two Credit Facilities (as described below), and a deposit to the Bond Reserve Fund of Proceeds of the GAR Bonds in an

amount at least equal to the difference between the Required Reserve Amount and the amount on deposit in the Bond Reserve Fund immediately prior to the issuance of the GAR Bonds.

Under the provisions of the Master GAR Ordinance, the City, at its option, may fund all or a portion of the Bond Reserve Fund at the Required Reserve Amount by purchasing a Credit Facility that will provide funds, together with other Reserve Fund Obligations, if any, credited to the Bond Reserve Fund, at least equal to the Required Reserve Amount. The City may replace or substitute a Credit Facility for all or a portion of the cash or Eligible Investments on deposit in the Bond Reserve Fund or in substitution for or replacement of any existing Credit Facility.

Operation and Maintenance Account in the Revenue Fund. All amounts in the Revenue Fund in excess of those required to be made to the credit of the Bond Fund and the Bond Reserve Fund are deemed to constitute, and are designated as, the Operation and Maintenance Account in the Revenue Fund. The amounts in the Operation and Maintenance Account are, first, used to pay all Operation and Maintenance Expenses, and second, transferred to the Subordinated Debt Fund (at the times and in the amounts required by any Supplement to the Master GAR Ordinance authorizing such Subordinated Debt) to provide for the payment of principal, premium, if any, and interest on, and other payments (excluding any Operation and Maintenance Expenses but including payments to a related debt service reserve fund) incurred in connection with, any Subordinated Debt, including the PFC Bonds. Such payments and transfers described in the preceding sentence have priority over all deposits to the credit of the Special Contingency Reserve Fund and the Capital Improvement Fund as hereinafter provided. No deposit may ever be made to the credit of the Special Contingency Reserve Fund or the Capital Improvement Fund if any such deposit would reduce the amount on hand in the Operation and Maintenance Account to less than the budgeted or estimated Operation and Maintenance Expenses for the ensuing three calendar months.

Subordinated Debt Fund. For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (excluding any Operation and Maintenance Expenses but including payments to a related debt service reserve fund) incurred in connection with Subordinated Debt, the City may create in a Supplement which authorizes the issuance of Subordinated Debt a separate fund designated as the Subordinated Debt Fund.

Special Contingency Reserve Fund. After making all other required deposits and transfers, if any, to the Bond Fund, Bond Reserve Fund, and Operation and Maintenance Account in the Revenue Fund, the City, on or before the 25th day of each month, will transfer from the Operation and Maintenance Account in the Revenue Fund a sum not less than $7,084 nor more than $25,000; provided, however, that no deposit may ever be made to the credit of the Special Contingency Reserve Fund unless the amount of money and market value of investments therein is less than an aggregate of $300,000, and provided further that all excess over $300,000 in said fund must be deposited immediately to the credit of the Capital Improvement Fund. Notwithstanding the foregoing, the City reserves the right, and is authorized, to provide in any ordinance authorizing the issuance of Additional Parity GAR Obligations for an increase in the amount of monthly deposits, and the maximum amount permitted to be on deposit, to the credit of the Special Contingency Reserve Fund. As of the date hereof, the Special Contingency Reserve Fund is fully funded.

The City will not be required to maintain the Special Contingency Reserve Fund on and after the First Automatic Amendment Date. On the First Automatic Amendment Date, all funds on deposit in the Special Contingency Reserve Fund will be transferred to the Capital Improvement Fund.

Capital Improvement Fund. After making all other required deposits and transfers, if any, to the Bond Fund, the Bond Reserve Fund, the Operation and Maintenance account in the Revenue Fund, and the Special Contingency Reserve Fund, the City will transfer the balance remaining in the Operation and Maintenance Account in the Revenue Fund at the end of each Fiscal Year and deposit the same to the credit of the Capital Improvement Fund. The Capital Improvement Fund will be used for the purposes, and with priority of claim thereon, as follows: FIRST, for the payment of principal, interest, and reserve requirements on any Parity GAR Obligations if funds on deposit in the Bond Fund and the Bond Reserve Fund are insufficient to make such payments; SECOND, for the payment of principal, interest, and reserve requirements on Subordinated Debt if funds on deposit in the Subordinated Debt Fund and any related debt service reserve fund are insufficient to make such payments; THIRD, for the purpose of paying the costs of improvements, enlargements, extensions, additions, replacements, repairs, or other capital expenditures related to the Airport System; and FOURTH, for any other lawful purpose related to the Airport System.

Construction Fund. Proceeds from the sale of the GAR Bonds, other than accrued interest, capitalized interest, and money for deposit to the credit of the Bond Reserve Fund, will be deposited to the credit of the

Construction Fund for use by the City for payment of all lawful costs associated with the construction, improvement, renovation, enlargement and equipping of the Airport System, as provided in the GAR Ordinance. Upon payment of all such costs, any moneys remaining on deposit in the Construction Fund will be transferred FIRST to the Rebate Fund to the extent the City is liable to pay rebate amounts to the United States of America pursuant to the terms of the Internal Revenue Code of 1986, as amended (the "Code") and NEXT to the Bond Fund. Amounts so deposited to the Bond Fund will be used in the manner described in the GAR Ordinance. Additionally, if the GAR Bonds are optionally or mandatorily redeemed prior to maturity as a whole in accordance with their terms, any amount remaining in the Construction Fund will be transferred to the Rebate Fund to the extent the amount therein is less than the rebate amount the City is liable to pay the United States of America pursuant to the terms of section 148 of the Code as of the date of such redemption.

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

The PFC Bonds

The following paragraphs briefly describe in summary form the manner in which PFC Revenues are utilized and their priority of payment. For a complete description of the flow of funds as they relate to the PFC Bonds, see Sections 6 through 10 of the Master PFC Ordinance and Section 9 of the First Supplement thereto, all of which are included in Appendix B hereto.

PFC Revenue Fund. All PFC Revenues are credited from day to day as received to the credit of the PFC Revenue Fund. PFC Revenues in the PFC Revenue Fund are deposited to the credit of the other Funds and Accounts described in the PFC Ordinance, in the manner and amounts hereinafter provided, and each of such Funds and Accounts have priority as to such deposits in the order as discussed in the following paragraphs.

PFC Bond Fund. Deposits to the PFC Bond Fund are made on or before the 25th day of each month in approximately equal monthly installments, as will be sufficient, together with any other funds on deposit therein and available for such purpose, to pay the interest or principal and interest scheduled to come due on all the outstanding Parity PFC Obligations, or required to be redeemed prior to stated maturity, on the next interest payment date.

PFC Bond Reserve Fund. The PFC Bond Reserve Fund is required to contain an amount of money and investments equal in market value to the Average Annual Debt Service Requirements on all Parity PFC Obligations (the "PFC Reserve Amount"). The PFC Required Reserve Amount following the delivery of the PFC Bonds is $2,747,178.16 and will be fully funded on the date of issuance of the PFC Bonds with proceeds resulting from the sale thereof.

Under the provisions of the PFC Ordinance, the City, at its option, may fund all or a portion of the PFC Bond Reserve Fund at the PFC Required Reserve Amount by purchasing a Credit Facility that will provide funds, together with other PFC Reserve Fund Obligations, if any, credited to the PFC Bond Reserve Fund, at least equal to the PFC Required Reserve Amount. The City may replace or substitute a Credit Facility for all or a portion of the cash or Eligible Investments on deposit in the Bond Reserve Fund or in substitution for or replacement of any existing Credit Facility.

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

PFC Construction Fund. Proceeds from the sale of the PFC Bonds, other than accrued interest, and money for deposit to the credit of the PFC Bond Reserve Fund, will be deposited to the credit of the PFC Construction Fund for use by the City for payment of all lawful costs associated with the construction, improvement, renovation, enlargement and equipping of the Projects, as provided in the PFC Ordinance. Upon payment of all such costs, any moneys remaining on deposit in the PFC Construction Fund will be transferred to the Rebate Fund, to the extent the City is liable to pay rebate amounts to the United States of America pursuant to the terms of the Code as of the date of such redemption. Amounts so deposited to the PFC Bond Fund will be used in the manner described in the Master PFC Ordinance. Additionally, if the PFC Bonds are optionally or mandatorily redeemed prior to maturity as a whole in accordance with their terms, any amount remaining in the PFC Construction Fund will be transferred to the PFC Rebate Fund to the extent the amount therein is less than the rebate amount the City is liable to pay the United States of America pursuant to the terms of section 148 of the Code as of the date of such redemption.

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

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

Additional Parity GAR Obligations

The City may issue Additional Parity GAR Obligations on a parity with all then-Outstanding Parity GAR Obligations (including the GAR Bonds and the Series 2003 Bonds) in accordance with the provisions and upon satisfaction of the requirements set forth in Section 17 of the Master GAR Ordinance, which will be amended as of the Second Automatic Amendment Date, and is included in Appendix B hereto. The City may also issue obligations payable from only the Subordinate Net Revenues on a parity with the PFC Bonds under certain situations described in Appendix B hereto.

Additional Parity PFC Obligations

The City may issue Additional Parity PFC Obligations on a parity with all then-Outstanding Parity PFC Obligations (including the PFC Bonds) in accordance with the provisions and upon satisfaction of the requirements set forth in Section 15 of the Master PFC Ordinance, which is included in Appendix B hereto.

Subordinated Debt

While any Parity GAR Obligations are outstanding and unpaid, the City cannot additionally encumber the Gross Revenues in any manner, except as permitted in the Master GAR Ordinance in connection with Additional Parity GAR Obligations, unless said encumbrance is made junior and subordinate in all respect to the liens, pledges, covenants, and agreements of the Master GAR Ordinance and any Supplement authorizing the issuance of the Parity GAR Obligations; but the right of the City to issue obligations payable from a lien, including Subordinated Debt, which is subordinated to the lien on Gross Revenues and securing the Parity GAR Obligations is specifically recognized and retained. The PFC Bonds, secured in part by a lien on and pledge of the Subordinate Net Revenues subordinated to the timely payment of debt service on all Parity GAR Obligations issued pursuant to the Master GAR Ordinance, and any Supplement related thereto, which are then outstanding or subsequently issued, will be the only Subordinated Debt outstanding on the date of delivery of the PFC Bonds.

While any Parity PFC Obligations are outstanding and unpaid, the City cannot additionally encumber the PFC Revenues in any manner, except as permitted in the Master PFC Ordinance in connection with Additional Parity PFC Obligations, unless said encumbrance is made junior and subordinate in all respect to the liens, pledges, covenants, and

agreements of the Master PFC Ordinance and any Supplement authorizing the issuance of the Parity PFC Obligations; but the right of the City to issue obligations payable from a lien, including Subordinated PFC Debt, which is subordinated to the lien on PFC Revenues securing the Parity PFC Obligations is specifically recognized and retained.

No debt or other obligations of the City may be issued which is secured in whole or in part with a lien on and pledge of Subordinate Net Revenues that is superior to the lien on and pledge of Subordinate Net Revenues that has been granted in the First Supplement to the Master PFC Ordinance to secure the PFC Bonds (or that may be granted in the future on a parity basis in connection with any Additional Parity PFC Bonds or other indebtedness of the City). The City reserves the right to secure Additional Parity PFC Obligations issued pursuant to the Master PFC Ordinance, and any Supplement related thereto, with a lien on and pledge of Subordinate Net Revenues on a parity with the lien on and pledge of Subordinate Net Revenues which has been granted in the First Supplement to the Master PFC Ordinance to further secure the PFC Bonds, upon satisfaction of the following conditions (which conditions are in addition to the satisfaction of the conditions set forth in the Master PFC Ordinance): (i) the Designated Financial Officer and the Aviation Director certify that, upon incurring, issuing, or otherwise becoming liable in respect to such Additional Parity PFC Obligations, the City will not be in default under any term or provision of the Master GAR Ordinance or any Supplement related thereto; (ii) the Designated Financial Officer certifies that, upon the issuance of such Parity PFC Obligations, the Bond Fund established by the Master GAR Ordinance will have the required amounts on deposit therein and that the Bond Reserve Fund established by the Master GAR Ordinance will contain the applicable Required Reserve Amount or so much thereof as is required to be funded at such time; and (iii) the Designated Financial Officer certifies that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Subordinate Net Revenues were equal to at least 1.00 times the maximum Annual Debt Service Requirements on all indebtedness of the City which is secured in whole or in part with a lien on and pledge of the Subordinate Net Revenues on parity with the lien on and pledge of Subordinate Net Revenues granted in the First Supplement to the Master PFC Ordinance to secure the PFC Bonds, and which is scheduled to occur in the then current or any future Fiscal Year after taking into consideration the Additional PFC Obligations proposed to be issued or incurred.

The City reserves the right to secure Debt or other obligations which are not considered to be Additional Parity PFC Obligations in whole or in part with a lien on and pledge of Subordinate Net Revenues on a parity with the lien on and pledge of Subordinate Net Revenues which has been granted in the First Supplement to the Master PFC Ordinance to further secure the PFC Bonds upon satisfaction of the following conditions: (i) the Designated Financial Officer and the Aviation Director certify that, upon incurring, issuing, or otherwise becoming liable in respect to such other indebtedness, the City will not be in default under any term or provision of the Master GAR Ordinance or any Supplement related thereto; (ii) the Designated Financial Officer certifies that, upon the issuance of such other indebtedness, the Bond Fund established by the Master GAR Ordinance will have the required amounts on deposit therein and that the Bond Reserve Fund established by the Master GAR Ordinance will contain the applicable Required Reserve Amount or so much thereof as is required to be funded at such time; and (iii) the Designated Financial Officer certifies that, for either the City's most recent Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Subordinate Net Revenues were equal to at least 1.10 times the maximum Annual Debt Service Requirements on all indebtedness of the City which is secured in whole or in part with a lien on and pledge of the Subordinate Net Revenues on parity with the lien on and pledge of Subordinate Net Revenues granted in the First Supplement to the Master PFC Ordinance to secure the PFC Bonds, and which is scheduled to occur in the then current or any future Fiscal Year after taking into consideration the indebtedness proposed to be issued or incurred. The City further reserves the right to issue Debt or other obligations secured in whole or in part with a lien on and pledge of Subordinate Net Revenues that has been granted in the First Supplement to the Master PFC Ordinance to further secure the PFC Bonds without the necessity of complying with any historical or projected revenue requirements unless otherwise required by the ordinance or ordinances which authorize the issuance of such Debt or other obligations.

THE AIRPORT SYSTEM

General

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

The International Airport, located on a 2,600-acre site that is adjacent to Loop 410 freeway and U.S. Highway 281, is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second level gates. Presently, domestic air carriers providing service to San Antonio are American, America West, America West Express, Atlantic Southeast, Champion Air, Comair, Continental, Delta, Midwest Express, Northwest, Southwest, Sun Country, and United. Mexicana, Aerolitoral, and Aeromar are Mexican airlines that provide passenger service to Mexico. The Airport Master Plan design allows for an increase from 24 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.

In March, 2002, the FAA honored one airport in each state in its five-state Southwest Region with the Year 2001 Outstanding Airport Award, recognizing contributions each airport made to enhance aviation in its respective state. The FAA uses this award to honor airport owners and operators for their overall diligence in the planning and implementation of projects, airport maintenance, use of airport improvement program resources, and compliance with safety standards. The International Airport was chosen as the recipient of this award for the state of Texas.

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 and 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 2002 through 2011, which may change as circumstances permit, is estimated to be approximately $425.6 million. The anticipated sources of funding for the CIP are as follows:

Funding Sources	**Anticipated Funding**
Federal Grants	
Entitlements	$ 42,076,988
General Discretionary	32,559,188
Noise Discretionary	25,455,364
Passenger Facility Charges	
Pay-As-You-Go	48,854,994
PFC Secured Bonds	78,962,584
Other Funding	
Airport Funds	80,981,126
Airport Revenue Bonds	116,702,356
Total – All Sources	$425,592,600

The CIP includes capital improvements and are generally described as follows:

Improvement	**Amount**
International Airport	
Terminal/Gate Expansion	$ 124,218,231
Airfield Improvements	177,035,099
Cargo Facilities	8,184,000
Roadway Improvements	19,021,927
Parking Improvements	51,785,000
Aircraft Apron	6,721,955
Other (Building Imp., Drainage, Radio System, Etc.)	32,726,388
Stinson Airport	5,900,000
Total	$425,592,600

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 received authority to "impose and use" PFCs at the $3.00 level on five new projects and to "impose only" PFCs on six additional new projects. The FAA issued a Record of Decision on August 29, 2001 approving the City's PFC application, and the City began on November 21, 2001 collecting a $3.00 PFC (less an $0.08 air carrier collection charge) per paying passenger enplaned. A total of approximately $102.5 million in PFC Revenues will be required to provide funding for these projects at the Airport which are included in the CIP which are listed below.

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

Construct 30L Holding Apron
Modify Wash Rack Apron
Replace RON (remain overnight) Apron
Implement Terminal Modifications
Reconstruct Perimeter Road

The following projects have been approved as "impose only" projects:

Implement Acoustical Treatment Program
Construct Three High-Speed Taxiways
Extend Runway 21 and Associated Development
Construct New Concourse B
Construct Concourse B Access Road
Construct Aircraft Rescue and Firefighting Training Facility

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.

Parking Improvements. In 1996, a parking expansion study recommended the development of a new parking garage, reconfiguration of access roadways, and development of a new cashier plaza. Construction began on this project in October 1997 and was completed in October 1999. The Airport System operates and maintains approximately 6,100 public parking spaces and 1,000 employee parking spaces for a total of 7,100 parking spaces. Due to continued growth in airline activity, the expanded parking system is currently running at or near capacity.

A more recent parking study was developed for the Airport in August 2001 by AGA Consulting, Inc, with it concluding that further expansion to the parking system is required. That study indicates that projected peak period demand for airport parking will exceed the available supply by the end of 2004. Estimates demonstrate that 2,400 additional parking spaces will be required in 2004 to satisfy projected demand over the next ten years. The City is in the process of coordinating the facility layout for the new parking improvements and the additional terminal facilities. The construction development process for new parking facilities is expected to start in 2002 and the associated costs are included in the CIP.

Cargo Improvements. 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 currently planned. Foreign trade zones exist at both cargo areas.

Feasibility Report

The Feasibility Consultant. The City retained Unison Maximus, Inc. of Chicago, Illinois (the "Feasibility Consultant"), independent airport consultants, to prepare its financial feasibility report attached hereto as Appendix D (the "Feasibility Report"). The principals of the Feasibility Consultant have participated in financial feasibility reports supporting the sale of over $3 billion of general airport revenue bonds and PFC-backed bonds, and almost $750 million in special facility revenue bonds for airport projects. The Feasibility Consultant and its principals have provided consulting services to most of the major airports in the United States.

Content. The Feasibility Report contains information material to a decision to purchase the Bonds and should be read in its entirety by potential investors. The Feasibility Consultant has analyzed the ability of the City to meet its financial obligations related to the Bonds through the City's fiscal year ending September 30, 2011. The Feasibility Report provides background information on the Airport and its operations, the CIP, and describes certain of the provisions of the Ordinances. The Feasibility Report also describes the purpose of the Bonds with an overview of the plan of financing. An analysis of the Airport's service area and economic base is provided in the Feasibility Report in order to determine the impact of such factors on the level of travel to and from the Airport. The Feasibility Report summarizes the historical and projected aviation activity at the Airport and provides an analysis of the factors which impact these statistics. The Feasibility Report also presents projection of revenues and expenses, debt service requirements, debt service coverage, and the application of Gross Revenues to the funds and accounts established under the Ordinances. The Feasibility Report includes sensitivity analysis to evaluate the potential impact of the Terrorist Attacks (defined herein) on the financial feasibility of the proposed financings.

Assumptions. In its development, the Feasibility Report utilizes a number of assumptions. Such assumptions are based on present circumstances and certain currently-available information provided to the Feasibility Consultant by the City, as well as by other sources. Neither the City nor the Underwriters make any representations or give any assurances that the assumptions incorporated in the Feasibility Report are valid. Such information may be incomplete and may not necessarily disclose all material facts that might affect the Gross Revenues, Subordinate Net Revenues, PFC Revenues, the CIP, and the financial analysis contained in the Feasibility Report. Accordingly, prospective investors should carefully evaluate the assumptions and other information in the Feasibility Report in the light of the circumstances then prevailing. The Feasibility Report has been attached hereto as Appendix D in reliance upon the knowledge and experience of the Feasibility Consultant. The accuracy of the Feasibility Report is dependent upon the occurrence of specified assumptions and other future events that cannot be assured, and therefore, the actual results achieved during the period will vary from the forecasts contained therein. Those differences may be material. Neither the City nor the Underwriters have independently verified the statistical data included in the Feasibility Report, and neither of such parties make any representations or give any assurances that such data is complete or correct.

Financial Analysis. The Feasibility Report includes a comprehensive financial analysis projecting debt service coverage ratios for the Bonds resulting from the collection of Gross Revenues and PFC Revenues. The Feasibility Report projects that Gross Revenues will yield debt service coverage ratios ranging from 4.09 times debt service requirements for all Parity GAR Obligations in fiscal year 2002 to 3.77 in fiscal year 2011, with a low of 3.30 projected for fiscal year 2005, a projection which satisfies the 1.25 Rate Covenant found in the Master GAR Ordinance. Subordinate Net Revenues are projected to yield debt service coverage ratios ranging from 2.02 times debt service requirements for all Parity GAR Obligations in fiscal year 2002 to 2.06 in fiscal year 2011, with a low of 1.77 in fiscal year 2005. PFC Revenues are projected to yield debt service coverage ratios ranging from 4.72 times debt service requirements for all Outstanding Parity PFC Obligations in fiscal year 2003 to 1.97 in fiscal year 2011, with a low of 1.74 projected for fiscal year 2010, a projection which satisfies the 1.25 Budget Covenant found in the Master PFC Ordinance. The total pledged revenues available for debt service coverage on all Outstanding Parity PFC Obligations (PFC Revenues and Subordinate Net Revenues) is projected to range between 8.53 times debt service requirements in fiscal year 2003 and 4.39 times in fiscal year 2011, with a low of 3.89 times projected for fiscal year 2009.

Using alternative air traffic forecasts, the Feasibility Report projects that during the forecast period: (i) Gross Revenues will yield Parity GAR Obligations debt service coverage ratios at or above 3.21; (ii) Net Revenues will yield Parity GAR Obligations debt service coverage ratios at or above 1.68; and (iii) together, PFC Revenues and Subordinate Net Revenues will yield Parity PFC Obligations debt service coverage ratios at or above 3.46. These ratios represent the lowest levels in each debt service coverage category using the Feasibility Report's "Low" scenario, which is the most conservative estimate of the various revenue streams included therein.

Airport Operations

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

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

The Airport System currently employs approximately 358 employees as follows:

Administration	39	Parking Facilities	41
Airport Police	51	Airport Operations	36
Fire Rescue	29	Stinson Airport	7
Maintenance	155		

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

Re-engineering Plan. In 1999, the Department completed a re-engineering study of its operations. The process focussed on cost efficiency and customer service improvements as well as revenue enhancements. The goal is to achieve a "balanced" approach that would weigh costs against the level of services that the Department provides to the public. In addition, the re-engineering study also 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 employee positions. This is in addition to the 12 full-time and 36 part-time positions that were eliminated following the recent completion of certain parking improvements.

In total, it is estimated that by the end of fiscal year 2002, implementation of 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 Revenue Fund. Contractually, approximately half of this sum will be utilized in reducing the cost of facilities and services to the airlines, while the remaining savings will be available for new capital facility improvements to Airport System.

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

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

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

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

Airport Advisory Committee. The City Council appoints an 11-member airport advisory committee. The committee is required to actively participate in all policy matters regarding the Airport System prior to such matters being presented for consideration by the City Council. The committee members presently include Judge Pat Boone, Patricia Casey, Manuel Fuentes, Frank Covarrubia, Pastor Billy Lefler, Siegfried Richter, Richard M. Kelley, Ed Benson, Ph.D., Loren G. Wood, and David W. Marshall. One committee position is currently vacant.

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

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

Following the presentation of the Five Year Financial Forecast, the City Council holds a "Goals and Objectives Worksession" at which the City Council determines its priorities for the coming budget deliberations. The budget is developed within the context of revised projected funds available and City Council priorities utilizing a target budget approach. Departments are given target budgets based on current service requirements and allowed to submit expenditure proposals within the target amount.

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

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

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.

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The following Tables 1 through 9 present historical operating performance of the Airport System.

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

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

	1997	1998	1999	2000	2001
January	261,747	253,526	262,065	263,067	260,227
February	250,343	253,440	252,881	277,836	259,521
March	319,941	319,615	307,705	324,685	327,425
April	294,122	300,526	307,278	305,533	307,322
May	300,650	310,088	317,229	324,395	316,266
June	311,817	315,372	315,420	334,971	344,934
July	318,607	323,605	315,900	332,611	334,895
August	286,720	288,748	283,560	301,193	317,568
September	270,407	268,819	274,287	272,823	177,863
October	294,635	292,554	305,888	311,970	268,310
November	281,351	288,160	299,929	305,749	263,982
December	293,801	290,919	295,928	292,261	265,121
Total	3,484,141	3,505,372	3,538,070	3,647,094	3,443,434
Percent Increase (Decrease) over Prior 12 – Month Period	(2.36%)	0.61%	0.93%	3.08%	(5.58%)

Source: City of San Antonio, Aviation Department.

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

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

Calendar Year:	1997		1998		1999		2000		2001	
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
American	638,131	18.32%	659,726	18.82%	596,783	16.87%	586,879	16.09%	519,526	15.09%
America West[1]	96,681	2.78	71,225	2.03	75,944	2.15	89,309	2.45	97,496	2.83
Continental	395,414	11.35	427,823	12.20	446,633	12.62	451,472	12.38	428,752	12.45
Delta	554,044	15.90	563,691	16.08	560,836	15.85	575,371	15.78	523,606	15.21
Mexicana	58,591	1.68	57,051	1.63	60,391	1.71	66,165	1.81	63,803	1.85
Northwest	101,662	2.92	99,400	2.84	101,158	2.86	122,712	3.37	130,064	3.78
Southwest	1,114,689	31.99	1,174,537	33.51	1,230,512	34.78	1,272,039	34.88	1,237,899	35.95
TWA[2]	145,332	4.17	163,070	4.65	172,497	4.87	183,213	5.02	146,588	4.26
United	172,154	4.94	186,956	5.33	177,105	5.01	157,554	4.32	157,109	4.56
USAir [3]	51,932	1.49	-	0.00	-	0.00	-	0.00	-	0.00
Other Carriers	155,511	4.46	101,893	2.91	116,211	3.28	142,380	3.90	138,591	4.02
Total	3,484,141	100%	3,505,372	100%	3,538,070	100%	3,647,094	100%	3,443,434	100%

(1) America West ceased service to San Antonio International Airport in November, 1991. They resumed service effective June 6, 1996.
(2) Prior to December, 2001, enplanements by TWA were reported separately from American's enplanements at the Airport. However, the re-branding of TWA as American Airlines is underway, and effective December, 2001, its enplanements are reported along with American.
(3) USAir ceased service to San Antonio International Airport in October, 1997.

Source: City of San Antonio, Aviation Department.

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

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

	1997	1998	1999	2000	2001
January	12,791	15,297	16,412	15,420	16,675
February	10,307	13,733	12,677	14,653	13,638
March	15,024	19,309	17,497	18,345	17,985
April	11,433	21,322	18,695	17,658	17,549
May	14,998	18,369	18,365	18,250	17,679
June	20,733	25,203	23,524	26,462	27,755
July	29,317	34,528	27,566	34,862	32,674
August	25,238	29,105	23,310	28,218	26,257
September	10,945	14,234	15,343	12,966	9,819
October	11,831	16,253	16,713	16,287	10,204
November	18,207	19,615	19,976	19,217	13,948
December	20,141	19,934	19,319	21,187	15,169
Total	200,965	246,902	229,397	243,525	219,352
Percent Increase (Decrease) over Prior 12–Month Period	3.67%	22.86%	(7.09%)	6.16%	(9.93%)

Source: City of San Antonio, Aviation Department.

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

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

	Calendar Year									
	1997		1998		1999		2000		2001	
Carrier	Weight	Total	Weight	Total	Weight	Total	Weight	Total	Weight	Total
Aerolitoral	30,209.5	0.55%	24,353.0	0.43%	21,467.5	0.37%	21,776.5	0.37%	27,611.0	0.50%
Aeromar	6,131.9	0.11	5,421.2	0.10	2,382.0	0.04	2,214.1	0.04	2,052.9	0.04
Airborne	31,196.9	0.56	33,429.3	0.60	61,929.2	1.07	63,876.1	1.09	61,782.0	1.11
Airtrain (Postal)	--	0.00	81,587.5	1.46	96,861.6	1.68	144,882.0	2.48	70,146.0	1.26
America West	153,547.3	2.78	112,813.8	2.01	119,204.6	2.06	114,560.4	1.96	118,004.1	2.13
American	728,356.8	13.17	796,743.5	14.22	747,691.1	12.94	738,546.5	12.65	701,031.8	12.64
American Intl.	--	0.00	--	0.00	25,960.0	0.45	--	0.00	--	0.00
Atlantic Southwest	11,440.0	0.21	8,879.6	0.16	10,046.0	0.17	16,615.8	0.28	31,396.0	0.57
Conquest	17,794.0	0.32	--	0.00	--	0.00	--	0.00	--	0.00
Continental	517,644.0	9.36	574,270.0	10.25	609,663.5	10.55	612,198.0	10.49	586,343.5	10.57
Delta	857,483.0	15.51	839,614.5	14.99	879,945.0	15.23	881,200.0	15.09	781,215.1	14.09
DHL Airways	40,357.5	0.73	29,927.5	0.53	629.0	0.01	--	0.00	--	0.00
Emery Worldwide	46,015.0	0.83	4,639.0	0.08	8,348.0	0.14	4,590.0	0.08	9,085.0	0.16
Federal Express	192,308.8	3.48	195,294.9	3.49	199,980.3	3.46	162,273.7	2.78	197,643.2	3.56
Kitty Hawk	--	0.00	--	0.00	50,650.8	0.88	24,873.4	0.43	16,974.5	0.31
Mexicana	84,276.5	1.52	88,384.9	1.58	78,855.7	1.36	89,165.5	1.53	92,118.7	1.66
Midwest Express	--	0.00	--	0.00	37,106.8	0.64	56,035.2	0.96	61,599.3	1.11
Northwest	121,050.4	2.19	122,689.8	2.19	141,272.5	2.44	167,861.4	2.88	210,296.7	3.79
Southwest	1,682,079.2	30.42	1,684,902.0	30.08	1,742,196.0	30.15	1,775,430.0	30.41	1,750,858.0	31.57
Sun County	89,609.0	1.62	85,446.5	1.53	93,151.5	1.61	78,238.0	1.34	38,827.0	0.70
TWA	202,545.4	3.66	204,356.7	3.65	230,954.6	4.00	253,471.4	4.34	208,164.3	3.75
United	201,444.0	3.64	230,101.5	4.11	230,262.5	3.98	212,137.7	3.63	204,200.6	3.68
United Parcel	268,914.0	4.86	339,971.5	6.07	335,211.0	5.80	315,048.5	5.40	317,323.0	5.72
USAir	82,169.0	1.49	--	0.00	--	0.00	--	0.00	--	0.00
Other Carriers	165,674.5	3.00	138,789.4	0.00	54,637.5	0.95	103,191.0	1.77	59,888.4	1.80
Total	5,530,246.7	100%	5,601,616.1	100%	5,778,406.7	100%	5,838,185.2	100%	5,546,561.1	100%

Following is a summary of cargo activities at the International Airport:

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

Calendar Year	Mail	Freight	Total Cargo	% Change
1997	12,650.40	43,379.20	56,029.60	40.39
1998	15,889.40	49,128.40	65,017.80	16.04
1999	17,909.40	46,504.40	64,413.80	(0.93)
2000	19,346.90	45,752.70	65,099.60	1.06
2001	13,054.10	34,868.60	47,922.70	(26.39)

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

Current Parking Rates **Table 6**

Hourly Parking Rate		Daily Maximum			
Time Utilized	Amount	# Days	Shuttle	Long Term	Short Term
0-1/2 hour or fraction thereof	$0.00	1	$ 4.50	$ 8.00	$ 18.00
1/2-1 hour or fraction thereof	1.00	2	9.00	16.00	36.00
1-1 ½ hour or fraction thereof	2.00	3	13.50	24.00	54.00
Each additional hour or fraction thereof	1.00	4	18.00	32.00	72.00
		5	22.50	40.00	90.00
		6	27.00	48.00	108.00
		7	23.50	56.00	126.00

Source: City of San Antonio, Aviation Department

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

Airport Parking System Revenues **Table 7**

	Fiscal Years Ended September 30				
	1997	1998	1999	2000	2001
Parking Revenues	$8,609,632	$8,118,373	$8,408,007	$10,918,771	$10,955,229
Parking Expenses	(2,073,219)	(2,649,822)	(2,731,360)	(2,281,612)	(1,987,083)
Net Parking Revenues	$6,536,413	$5,468,551	$5,676,647	$ 8,637,159	$ 8,968,146
Gross Parking Revenues as a % of Airport System Gross Revenues	23.98%	21.86%	22.05%	26.30%	25.52%
Net parking Revenue as a % of Airport System Net Revenues	38.40%	30.96%	34.03%	43.32%	46.43%

Source: City of San Antonio, Finance Department.

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The historical financial performance of the Airport System is shown in Tables 8 and 9.

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

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

	Fiscal Years ended September 30				
	1997	1998	1999	2000	2001
Gross Revenues					
Airline Revenues					
Scheduled Carrier Landing Fees	$ 4,264,232	$ 4,373,049	$ 4,243,910	$ 4,578,600	$ 4,616,794
Non-Scheduled Carrier Landing Fees	642,656	805,500	844,702	855,187	772,468
Terminal Building Rentals[1]	6,618,222	6,786,006	6,672,439	4,708,351	5,979,199
FIS Space Fees	520,372	657,649	645,956	746,321	759,139
Ramp Fees	363,750	382,500	318,263	373,148	376,250
Subtotal Airlines Revenues	$12,409,232	$13,004,704	$12,725,270	$11,261,607	$12,503,850
Non-Airline Revenue					
Concession Contracts	$ 8,218,214	$ 8,969,297	$ 9,555,402	$10,634,466	$10,398,409
Parking Fees	8,609,632	8,118,373	8,408,008	10,918,771	10,955,229
Property Leases	4,337,674	4,627,438	4,830,525	5,570,323	5,720,005
Stinson Airport	118,482	111,068	146,098	161,600	163,270
Interest Income	2,049,457	2,105,627	2,187,772	2,755,869	2,984,062
Misc. Revenues	154,552	198,462	275,109	220,445	203,969
Subtotal Non-Airline Revenues	$23,488,011	$24,130,265	$25,402,914	$30,261,474	$30,424,944
Total Gross Revenues	$35,897,243	$37,134,969	$38,128,184	$41,523,081	$42,928,794
Operating & Maintenance Expenses					
Airfield Area	$ 1,234,852	$ 1,180,813	$ 1,156,876	$ 1,255,749	$ 1,357,513
Service Area	260,135	215,641	238,865	248,543	249,680
Terminal 2	1,450,631	1,517,409	1,650,253	1,767,493	1,626,325
Terminal 1	2,365,995	2,179,805	2,484,980	2,443,963	2,499,298
Fire & Rescue	2,376,692	2,453,260	2,512,318	2,601,357	2,620,549
Access	383,034	356,077	375,858	510,102	529,288
Central Plant	498,331	438,098	452,572	549,340	439,942
Commercial & Industrial	100,172	82,152	80,970	78,840	71,050
Other Buildings & Area	97,404	79,116	81,216	84,021	75,080
Parking	2,073,219	2,649,822	2,731,360	2,281,612	1,987,083
Stinson Airport	309,131	282,085	320,295	347,539	387,165
Administration	3,208,425	3,371,476	4,486,011	4,634,521	6,811,715
Main. Dir. & Control	813,181	775,470	934,141	921,533	972,242
Security	2,286,828	2,016,511	2,156,301	2,176,045	2,319,521
Operations	874,279	1,288,823	1,212,105	1,344,320	1,666,184
Ground Transportation	542,132	582,779	574,886	340,848	-0-
Total Operating & Maintenance Expenses	$18,874,441	$19,469,337	$21,449,007	$21,585,826	$23,612,635
Net Revenues	$17,022,802	$17,665,632	$16,679,177	$19,937,255	$19,316,159

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

Source: City of San Antonio, Finance Department.

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

Historical Debt Service Coverages **Table 9**

	Fiscal Years ended September 30				
	1997	1998	1999	2000	2001
Gross Revenues[1]	$35,897,243	$37,134,969	$38,128,184	$41,523,081	$42,928,794
Airline Rental Credit	3,242,912	3,763,781	3,510,267	6,175,754	5,209,037
Adjusted Gross Revenues	39,140,155	40,898,750	41,638,451	47,698,835	48,137,831
Expenses	(18,874,441)	(19,469,337)	(21,449,007)	(21,585,826)	(23,612,635)
Net Income	$20,265,714	$21,429,413	$20,189,444	$26,113,009	$24,525,196
Annual Debt Service Requirements	$11,570,093	$11,669,744	$11,957,544	$11,965,869	$11,960,544
Gross Revenue Debt Service Coverage[2(	3.38x	3.50x	3.48x	3.99x	4.02x
Net Revenue Debt Service Coverage	1.75x	1.84x	1.69x	2.18x	2.05x

(1) As reported in the City of San Antonio's audited financial statements.
(2) Calculated using Adjusted Gross Revenues.
Source: City of San Antonio, Finance Department.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Statistics

Operating activity pertaining to domestic and international enplaned passengers, total enplaned passengers, total enplaned and deplaned international passengers and air carrier landing weight were down for the calendar year ending December 31, 2001 as compared to the same period ending December 31, 2000. Total domestic and international enplaned passengers decreased by 5.58%. Total enplaned and deplaned international passengers decreased by 9.93%. Air carrier landing weight decreased by 5.00%. The decline in activity is attributed to both a slow down in the economy as well as the initial impact of the Terrorist Attacks (defined herein) (see "RISK FACTORS – Impact of Terrorist Attacks on the Airline Industry and the Airport" herein).

Airport Revenues

Airline revenues over the period 1997-2001 increased by 0.8%, while non-airline revenues increased by 30.0%. Airline rates and charges are developed on a compensatory basis, however, a portion of surplus revenues are refunded to the airlines through a rental credit. This rental credit increased over the period in proportion to the growth in non-airline revenues. The largest increases in non-airline revenues were experienced in parking (27.2%), concession fees (26.5%), and property leases (31.9%). Historically, total airport revenues have grown at approximately the same rate as passenger growth.

Airport Expenditures

Operation and Maintenance Expenses are maintained by cost centers. Operation and Maintenance Expenses increased at an average annual rate of 5.8% from fiscal year 1997 through fiscal year 2001. A significant portion of this increase has been in maintenance-related functions. This was particularly true with Terminal 2, which is the older of the two terminal buildings. Administrative expenses also increased as a result of undertaking professional services studies for the improvement to airport facilities, services, and the identification of revenue enhancements. Future Operation and Maintenance Expenses are expected to increase at approximately the rate of inflation with some adjustment for passenger growth.

The Terrorist Attacks' Financial Impact on the Airport.

The Terrorist Attacks produced a negative financial impact on the Airport. The Airport reported a $1.2 million reduction in net revenues for the year ending December 31, 2001 as compared to the year ending December 31, 2000. Also, expenses for security measures increased $268,000 for the final three months of the 2001 calendar year, a figure that represents less than 1% of the Airport's total annual budget. These negative financial effects, however, have not impacted the Airport's ability to cover its Operation and Maintenance Expenses or its debt service requirements.

AIRLINES RATES AND CHARGES

The City maintains lease agreements (the "Signatory Agreement") with airlines operating from International Airport. A new Signatory Agreement went into effect October 1, 2001. The new Signatory Agreements will be for a term of five years and retain the same basic lease provisions as those previously used. Those airlines that have signed the new Signatory Agreement (the "Signatory Airlines") include Aerolitoral, Delta, Continental, Mexicana, Midwest Express, Northwest, Southwest and United. American Airlines is currently on holdover status pending lease area revisions resulting from the acquisition of TWA, but is expected to execute a new Signatory Agreement by April 1, 2002.

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

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

Airlines that will not sign the Signatory Agreement (the "Non-Signatory Airlines"), which includes Aeromar, America West, America West Express, Atlantic Southeast, Champion Air, Comair, and Sun Country operate under a

monthly permit. The terms and conditions of the permits are very similar to the Signatory Agreements with the exception of the shorter expiration date and no benefit of a rental credit.

Airline rates and charges at the Airport are developed on a compensatory basis; however, a terminal rental credit is provided to the Signatory Airlines through the sharing of a portion of surplus revenues. For fiscal year 2001, the landing fee was $0.96 for both Signatory Airlines and Non-Signatory Airlines and the average terminal rental rate was $27.18 for the Signatory Airlines and $53.81 for Non-Signatory Airlines. The aggregate fiscal year 2001 cost per enplaned passenger for all airlines was $3.53.

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

FEDERAL LAW AFFECTING AIRPORT RATES AND CHARGES

General

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

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

Federal Grants-in-Aid

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

Annual entitlement funds will vary with the actual number of passenger enplanements at the Airport, with total appropriations for the AIP and with any revision of the existing statutory formula for calculating such funds. In addition, pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (the "PFC Act") and the Aviation Investment and Reform Act for the 21st Century ("AIR-21"), an airport's annual federal entitlement grants are reduced by 50% when a $3.00 PFC is imposed and reduced up to 75% when a $4.50 PFC is imposed. For federal years 1998, 1999, and 2000, the total amount appropriated for all airports was $1.70 billion, $1.95 billion, and $1.85 billion, respectively.

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

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

Passenger Facility Charges

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

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

No assurance can be given that PFCs will actually be received in the amount or at the time contemplated by the City. The amount of actual PFC Revenues will vary depending on actual levels of qualified passenger enplanements at the Airport. In addition, the FAA may terminate the Airport's ability to impose PFCs, subject to informal and formal procedural safeguards, if (1) the Airport's PFC Revenues are not being used for approved projects in accordance with the FAA's approval, the PFC Act, or the regulations promulgated thereunder or (2) the City otherwise violates the PFC Act or regulations. The Airport's authority to impose a PFC may also be terminated if the City violates certain provisions of the Airport Noise and Capacity Act of 1990 and its implementing regulations. Furthermore, no assurance can be given that the Airport's authority to impose a PFC may not be terminated by Congress or the FAA, or that the PFC program may not be modified or restricted by Congress or the FAA so as to reduce PFC Revenues available to the Airport. For a description of the City's PFC applications and approvals with respect to specific Airport projects, see "THE AIRPORT SYSTEM - Capital Improvement Plan" herein.

RISK FACTORS

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

General Factors Affecting the Airline Industry

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

As a result of the factors identified above, the profitability of the airline industry can fluctuate dramatically from quarter to quarter and from year to year. Since 1985, a series of airline mergers, takeovers, asset transfers and bankruptcies have resulted in a consolidation of the airline industry. In the early 1990s, reduced airline passenger revenues, increased fuel costs, a generalized economic recession in the United States, and other operating factors created record airline industry losses and put particular pressure on financially weak or highly indebted airlines. These factors contributed to the termination of operations and liquidation of, among other airlines, Eastern Air Lines, Inc., Pan American World Airways, and Midway Airlines, Inc., and the filings of voluntary petitions for reorganization by Continental Airlines, Inc., America West Airlines, Inc., Trans World Airlines, Inc., KIWI International Air Lines, and Business Express, Inc. No assurance can be given as to the financial stability or profitability of the airline industry or of any airline in particular.

Impact of Terrorist Attacks on the Airline Industry and the Airport

The September 11, 2001 terrorist attacks on New York City and the Pentagon (the "Terrorist Attacks") have severely disrupted the North American air transportation system. Immediately following the attacks, civilian air traffic in the United States was grounded, resulting in three or more days of suspended or extremely limited air travel from all U.S. airports, including the Airport. U.S. air travel has resumed, but at a reduced level compared to the period immediately preceding the Terrorist Attacks. Most airlines, including a majority of the airlines operating at the Airport, instituted significant system-wide reductions in scheduled flights in response to a dramatic reduction in passenger demand immediately following the attacks.

The reduction in airline clientele resulting in the aftermath of the Terrorist Attacks, coupled with the aforementioned cessation of air travel immediately thereafter, has resulted in the majority of major airline carriers experiencing severe financial difficulties. To help mitigate this situation, the federal government recently enacted legislation providing the airline industry with approximately $5 billion in grants and $10 billion in loan guarantees. This effort helped to diminish said financial hardships, but could not prevent industry-wide layoffs and a reduction in the number of flights offered by major airlines. Certain airlines have warned that they may still have to declare bankruptcy if air travel remains depressed and costs cannot be contained. In addition, many airlines have recently had their credit ratings downgraded by national credit rating agencies. Potential investors are urged to review the airlines' recently filed financial information. See "AIRLINES RATES AND CHARGES."

In light of the Terrorist Attacks, the Aviation and Transportation Security Act was enacted on November 19, 2001. This legislation makes airport security the responsibility of the newly created Transportation Security Administration within DOT. The measure calls for stronger cockpit doors on planes and an increased presence of armed federal marshals on flights. All security screeners become federal employees in a transition period lasting one year, will undergo criminal background checks, and must be U.S. citizens. In three years (not later than 2005), airports that meet increased security guidelines have the option to continue using federal employees or return to private security companies. The airports are permitted to use state or local law enforcement to provide security services. This legislation also requires all checked baggage to be screened by explosive detection devices beginning in 2003. In the interim, all checked baggage is required to be inspected either by X-ray, positive passenger baggage matching or hand checking.

The new federal security screening services will be paid for by collecting from airlines the amount paid for security services prior to September 11, 2001, which is estimated to be approximately $700 million, and by charging passengers $2.50 per departure or connection, not to exceed $5.00 per trip.

Heightened security measures already undertaken at the Airport in response to the Terrorist Attacks have resulted in the loss of a limited number of parking spaces available to the public. Although this number of parking spaces amounts to only a little more than 0.25% of all available spaces, it is indicative of the type of effect increased security measures could have on non-airline derived revenues. In general, a reduction of such revenues has the effect of increasing the airlines' costs to utilize the Airport.

The United States government has launched a military offensive against those perceived to be responsible for the Terrorist Attacks, and President Bush has warned that any such offensive may continue for years and that the terrorists may strike again. The Department cannot predict the likelihood of future attacks or the effect on the air transportation system if hostilities escalate further.

Recent figures demonstrate that the airline industry, as a whole, is recovering from the effects of the Terrorist Attacks. At present, however, the Department cannot determine when either passenger demand or airline flight schedules will return to their pre-attack levels. The City cannot predict the duration of the reduction in air travel or the level of impact on (i) Gross Revenues, (ii) Net Revenues, (iii) Subordinate Net Revenues, (iv) PFC Revenues, and (v) the financial condition of the Airport. The City also cannot predict the likelihood of future air transportation disruptions or the impact of these events on any of the airlines using the Airport, including the potential that such incidents may cause any of the airlines to seek bankruptcy protection.

For an analysis of possible effects on the Airport resulting from the Terrorist Attacks and related events, see "THE AIRPORT SYSTEM – Feasibility Report."

Regulatory Environment

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

Construction and Completion Risk

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

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

PFC "Use" Approval Risk

Pursuant to the City's PFC collection authority received from the FAA on August 29, 2001, the City has "impose only" approval for a portion of the Project, a portion which the Department anticipates funding partially with the proceeds of the PFC Bonds. At the time the PFC Bonds are sold, the City will not yet have received from the FAA

PFC "use" approval for the entire Project. Prior to receiving "use" approval, an airport must receive airspace approval from the FAA. The City has received airspace approval from the FAA for the remainder of the Project. The PFC "use" approval application process is expected to take approximately six months. While the City anticipates receiving the aforementioned "use" approval, if the FAA denies the application, the Subordinate Net Revenues pledged as additional security for the PFC Bonds may be used for the payment of principal, premium, if any, and interest on the PFC Bonds.

Bankruptcy Risks

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

INVESTMENTS

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

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for City deposits; (7) certificates of deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (5) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) bankers' acceptances with the remaining term of 270 days or, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. bank or state; (11) no-load money market mutual funds regulated by the Securities and Exchange Commission (the "SEC") that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and (12) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than

"AAA" or its equivalent; (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

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

Investment Policies

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

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

Additional Provisions

Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Current Investments

At September 30, 2001, investable City funds were 72.88% invested in obligations of the United States, or its agencies and instrumentalities, and 24.11% invested in a money market fund, with the weighted average maturity of the portfolio being less than one year. The remaining 3.01% of the City's portfolio includes convention center debt service reserve funds of $16,999,830, which were invested in fully collateralized repurchase agreements that were fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and City's investment policy objectives are to preserve principal, limit risk, maintain diversification and liquidity, and maximize interest earnings.

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

GENERAL LITIGATION AND CLAIMS

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. As of September 30, 2001, 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 $11 million which is reserved for claims liability in the City's Insurance Reserve Fund in the amount of $18.5 million. 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 Acting City Attorney, it is improbable that the lawsuits now outstanding against the City could become final in a timely manner so as to have a material adverse financial impact upon the Airport System.

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 ("Existing Law"), interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, except for any holder who is treated pursuant to section 147(a) of the Code as a "substantial user" of the facilities financed with proceeds of the Bonds or, a "related person" to such user. Except as stated above, 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 on (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate and (b) covenants of the City contained in the Ordinances relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the Bonds could be affected by future events. However, future events beyond the control of the City, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

Co-Bond Counsel's opinion represents their legal judgment based upon their review of Existing Law and the reliance on the aforementioned information, representations, and covenants. Co-Bond Counsel's opinion is not a

guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership, or disposition of the Bonds.

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

In the event of the redemption, sale, or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

State, Local, and Foreign Taxes

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL MATTERS

On the Closing Date, the City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Co-Bond Counsel to the effect that the Bonds are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. In their capacity as Co-Bond Counsel, McCall, Parkhurst & Horton L.L.P. and Wickliff & Hall, P.C., have reviewed the information appearing in this Official Statement under the captions "PLAN OF FINANCING," "THE BONDS" (other than under the subcaption "Book-Entry-Only Systems" as to which no view will be expressed), "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "LEGAL MATTERS" to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. 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 City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Co-Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on issuance and delivery of the Bonds. The respective legal opinions of Co-Bond Counsel will be printed on the definitive Bonds, if any, and the form of such opinions are attached hereto as Appendix B. Certain legal matters will be passed upon for the City by the Acting City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Akin, Gump, Strauss, Hauer & Feld, L.L.P., San Antonio, Texas.

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

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

BOND INSURANCE

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company will issue its Municipal Bond New Issue Insurance Policy for the GAR Bonds (the "GAR Bond Insurance Policy") and its Municipal Bond New Issue Insurance Policy for the PFC Bonds (the "PFC Bond Insurance Policy") (the GAR Bond Insurance Policy and the PFC Bond Insurance Policy, collectively, the "Policies"). The Policies unconditionally guarantee the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or

written notice by registered or certified mail, from an owner of Bonds or the Paying Agent/Registrar of the nonpayment of such amount by the City. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value, or interest (as applicable) will be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value, or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policies are non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Policies cover failure to pay principal or accreted value (if applicable) of the Bonds on their respective stated maturity dates or dates on which the same has been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated, or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Issuer is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the City for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of September 30, 2001, the total capital and surplus of Financial Guaranty was approximately $1.033 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

RATINGS

Moody's Investors Service ("Moody's), Standard & Poor's, a division of McGraw-Hill Corporation ("S&P"), and Fitch Ratings ("Fitch") have conditionally rated the Bonds "Aaa", "AAA", and "AAA", respectively, based on final delivery of the Policies on the Closing Date. An explanation of the significance of such ratings may be obtained from Moody's, S&P, or Fitch. The rating of the Bonds by Moody's, S&P, and Fitch reflects only the views of said companies at the time the ratings are given, and the City makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's, S&P, and Fitch if, in the judgment of said companies,

circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 1-9 and in Appendix 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 SEC.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix 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 30th. Accordingly, it must provide updated information by March 31st in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

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

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

Limitations and Amendments

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

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

Compliance With Prior Undertakings

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherent subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, regulatory circumstances, and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions of future business decisions, all of which are difficult

or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

CO-FINANCIAL ADVISORS

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

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

UNDERWRITING

The GAR Bonds

The Underwriters, for which Morgan Stanley & Co. Incorporated are serving as representative, have agreed, subject to certain conditions, to purchase the GAR Bonds from the City at a purchase price of $92,524,812.70 (which represents the par amount of the GAR Bonds plus a net premium of $636,836.35 and less an Underwriters' discount of $582,023.65) plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the GAR Bonds if any GAR Bonds are purchased. The GAR Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed from time to time by the Underwriters.

The PFC Bonds

The Underwriters, for which Morgan Stanley & Co. Incorporated are serving as representative, have agreed, subject to certain conditions, to purchase the PFC Bonds from the City at a purchase price of $37,516,237.20 (which represents the par amount of the PFC Bonds plus a net premium of $175,330.45 and less an Underwriters' discount of $234,093.25) plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the PFC Bonds if any PFC Bonds are purchased. The PFC Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed from time to time by the Underwriters.

CERTIFICATION OF THE OFFICIAL STATEMENT

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

AUTHORIZATION OF THE OFFICIAL STATEMENT

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

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

/s/ Ed Garza
Mayor, City of San Antonio, Texas

ATTEST:

/s/ Norma S. Rodriguez
City Clerk, City of San Antonio, Texas

APPENDIX A

CITY OF SAN ANTONIO
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX A

CITY OF SAN ANTONIO
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

This Appendix is only intended to provide general information concerning the City and is not to be considered a complete disclosure of all aspects relevant to the City's financial condition. As stated in the body of this Official Statement, the Bonds are payable solely from the revenues of the Airport System. Inclusion of this Appendix is in no way meant to imply that the City's other sources of revenues are in any way available for payment of the Bonds. Further information regarding the City and its financial condition can be obtained from Milo Nitschke, the City's Director of Finance, by mail at 506 Dolorosa, Finance Department, San Antonio, Texas 78204, or by telephone at (210) 207-8621.

Population and Location

The 2000 U.S. Census Bureau cites the population of the City to be 1,144,646. The City of San Antonio Planning Department has estimated a population of 1,232,500 for the calendar year ending December 31, 2001. The U.S. Census Bureau ranks the City as the third largest in the State of Texas and the ninth largest in the United States.

The City is the county seat of Bexar County, which has a population of 1,392,931 according to the 2000 U.S. Census Bureau. The City of San Antonio Planning Department has estimated a population of 1,488,600 at December 31, 2001 for Bexar County. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the Mexican border cities of Del Rio, Eagle Pass, and Laredo.

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

Area and Topography

The area of the City has increased through numerous annexations and now contains approximately 430.02 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 788 feet above mean sea level.

Annexation Plan

Established in 1837, the City originally encompassed 36 square miles. The boundaries remained virtually unchanged until the City annexed approximately 4.28 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 430.02 square miles with a total market valuation of $43.828 billion for fiscal year 2002.

In 1999, the Texas Legislature passed a new annexation statute that changed the way Texas municipalities annex land. The new statute allows municipalities to continue to annex property as before the passage of the bill, but with added provisions, until December 31, 2002. The City has responded by passing new policies that 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 new territory 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, 2003. 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.

Form of Government and Administration

A Home Rule Charter (the "City Charter") with a council-manager form of government (the "City Council") was adopted in 1951. On five separate occasions since that time, first in November, 1974, then again in January, 1977, May, 1991, May, 1997, and November, 2001, the City Charter has been amended. Significant amendments to the City Charter include the 1991 passage of provisions limiting service by the Mayor and members of the City Council to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990's and charged with conducting a comprehensive review of the City Charter resulted in the May, 1997 passage of five propositions, each containing numerous amendments to the City Charter. The most recent amendments to the City Charter in 2001 included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's advice and/or confirmation.

The City Council is composed of 10 members, each elected from single-member districts, while the Mayor is elected at large. Because of the aforementioned term-limits, City Councilmembers and the Mayor each serve a maximum of four years. The terms of all elected officials currently sitting in office expire in May, 2003. The City Manager, the City's chief administrative officer, is appointed by and serves at the pleasure of the City Council.

Services

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

In addition to the above described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport, golf courses, parking, storm water, 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 certain utilities infrastructure. This infrastructure includes a 16 generating unit electric system and the gas system that serves the San Antonio area. CPS' operations and debt service requirements for capital improvements are paid for from revenues received from charges to its customers. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2001 were $184,411,012.

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System ("SAWS"), another City-owned and operated utility. Additionally, SAWS has entered into a contract with the City to provide certain storm water services for the City and it manages and develops water resources in and around the San Antonio region. SAWS is in its ninth year as a separate, consolidated entity that addresses the City's water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid for from revenues received from charges to its customers. SAWS revenue transfers to the City for the City's fiscal year ended September 30, 2001 were $5,528,890.

Employees

The following table shows the total number of full and part-time City employment positions authorized, along with the number of those positions that are filled, excluding seasonal and temporary positions. The number of filled positions reflects employees on the payroll for the fiscal year ending September 30, 1998 through the budgeted 2002 fiscal year. The number of employee authorized positions reflects positions adopted in that fiscal year's budget. As of December 31, 2001, the City had 12,143 authorized employment positions and 10,532 employees.

	1998		1999		2000		2001		Budgeted 2002	
	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled*	Authorized
Police	1,838	1,943	1,820	1,952	1,857	1,963	1,940	1,978	1878	2,013
Police Grant Funded	24	24	24	34	32	42	33	52	32	51
Total Police	1,862	1,967	1,844	1,986	1,921	2,005	1,973	2,030	1,910	2,064
Fire	1,280	1,338	1,341	1,359	1,349	1,394	1,417	1,436	1,379	1,469
Fire Grant Funded	-	-	-	-	-	-	-	-	-	-
Total Fire	1,280	1,338	1,341	1,359	1,359	1,394	1,417	1,436	1,379	1,469
Total Police & Fire	3,142	3,305	3,185	3,345	3,238	3,399	3,390	3,466	3,289	3,533
Civilian	5,756	7,244	5,931	7,402	6,054	7,537	6,323	7,823	6,419	7,703
Civilian Grant Funded	715	785	753	855	749	888	807	787	824	907
Total Civilian	6,471	8,029	6,684	8,257	6,803	8,425	7,130	8,610	7,243	8,610
Total Employees	9,613	11,334	9,869	11,602	10,041	11,824	10,520	12,076	10,532	12,143

*As of December 31, 2001.

Financial Accounting And Financial Policies

Fund Accounting

The City's accounts 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, each of which is 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 than 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 City Council 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 City Council has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the City 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.

GASB 34

In June, 1999, the Governmental Accounting Standards Board issued Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments" ("GASB 34"), which established new financial reporting requirements for state and local governments throughout the United States. When implemented, GASB 34 will enhance the clarity and usefulness of the general-purpose external financial reports of state and local governmental entities to the citizenry, investors, creditors, and legislative and oversight bodies by creating new information and restructuring much of the information that governments have presented in the past to provide a more comprehensive demonstration of their annual financial performance. Examples of the changes that GASB 34 will initiate include requiring governments to (i) report information about their most important funds, including their general fund, individually as opposed to reporting fund information in the aggregate by fund type, (ii) report the government's original annual budget in addition to revised versions created throughout the year to provide for a more accurate measure of budgetary compliance and the government's ability to estimate and manage its general resources, (iii) provide government-wide financial statements prepared using the accrual method of accounting, which measures both current and long term assets and liabilities, and (iv) provide a

management's discussion and analysis section written by the government's financial manager giving readers an objective analysis of the government's financial performance for the year.

Governments with total annual revenues (excluding extraordinary items) of $100 million or more must apply GASB 34 in the preparation of their annual reports for periods beginning after June 15, 2001. As such, the City's annual financial reports for the fiscal year ending September 30, 2002 will reflect the changes required by GASB 34.

Debt Management

General

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 Airport System, the City's Parking System, and the Henry B. Gonzalez Convention Center Expansion. In addition, the City has issued revenue bonds to finance the costs of making capital improvements to the City's electric and gas and water utility systems.

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 City-wide 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 these 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. This analytical modeling and effective debt management have 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, Inc., Standard & Poor's Ratings Services, and Fitch Ratings', 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 Ratings' 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 general obligation 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 $0.2535 per $100 in fiscal year 2011. This estimated maximum debt service tax rate includes the issuance of the remaining $32,610,000 of the 1999 authorized bonds in fiscal years 2003 and 2004 and $98,750,000 certificates of obligation in fiscal year 2003 through 2006.

Education

There are 15 independent school districts in Bexar County with 40 high schools, 70 middle schools, and 225 elementary schools. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. In addition, San Antonio has 93 accredited private and parochial schools, 31 charter schools, and 50 alternative instructional schools at all education levels. There are currently 10 schools under construction. Excluding business and professional schools, higher education facilities in the City include six accredited universities and four community colleges, with a combined enrollment of 77,549 students for the Fall 2001 Semester.

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, agribusiness, manufacturing, financial business, telecommunications, telemarketing, insurance, and mineral production. Support for these economic activities is demonstrated by the City's commitment to its on-going infrastructure improvements and development and its dedicated work force. Total employment in the San Antonio metropolitan statistical area (the "San Antonio MSA") for December, 2001 was 766,391, which is 4,302, or 0.56%, more jobs than the total for December, 2000 of 762,089. Service, trade, and government represent the largest employment sectors in San Antonio MSA. Healthcare, tourism and the military represent the largest industries in San Antonio. The City serves as a major insurance center in the Southwest and is the headquarters location for several insurance companies. According to the San Antonio Business Journal's 2002 Book of Lists, the San Antonio MSA's top six employers, ranked by total number of local employees, are the insurance conglomerate, United Services Automobile Association, the City, Fort Sam Houston Army Base, Northside Independent School District, San Antonio Independent School District and SBC Communications, Inc. Its top five publicly traded companies, ranked by revenues, are SBC Communications, Inc., Ultramar Diamond Shamrock Corp., Valero Energy Corp., Clear Channel Communications, Inc., and Tesoro Petroleum.

Medical and Research Facilities

According to the latest available figures from The Greater San Antonio Chamber of Commerce Biomedical Economic Impact Study (2000), the health care industry has become San Antonio's largest industry with a $10 billion direct annual economic impact. The City's health care sector provides major health care services through its medical, research, education, and development facilities. The health care industry provides 14% of all jobs in the San Antonio area, employing more than 96,000 individuals with an annual payroll of nearly $3 billion, which represents nearly 14.5% of the total wages in the City's economy. The average employee wage in the biomedical industry was substantially higher than in the general economy. The City has the highest proportion of personal income derived from health care of any of the six largest cities in Texas, with several unique facilities comprising the core of this economic generator.

The South Texas Medical Center (the "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. 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. Employment of both full time and part-time employees at the Medical Center increased to approximately 26,500 and treated over 4.4 million patients. Investment in plant and equipment totaled approximately $1.935 billion in fiscal year 2000, a figure that represents a 143% increase since 1990. The Medical Center has about 300 acres of undeveloped land still available for use. Projects planned between fiscal years 2000-2005 will add an estimated $257 million to present physical plant and equipment values.

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. Southwest Research Institute has a staff of more than 2,700 scientists, engineers, and support personnel, with an annual contract volume of approximately $315 million for fiscal year 2000.

The Southwest Foundation for Biomedical Research, which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the United States, and is internationally renowned. The Southwest Foundation for Biomedical Research has 279 research personnel, of which 53 are doctoral level, and received $25 million in grants, contracts, and awards for fiscal year 2000.

The Texas Research Park, with over $100 million invested in its facilities and equipment, generates more than $200 million in economic activity for the City each year. The park is owned and operated by the Texas Research Park Foundation, whose mission includes building a world-class center for lifescience research and medical education and promoting economic development through job creation.

Additionally, San Antonio has three major military hospitals which have positively impacted the City for decades. The U.S. Air Force's largest medical facility, Wilford Hall Medical Center, is an acute care facility that 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 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, which is dedicated to medical investigations.

Source: The Greater San Antonio Chamber of Commerce; San Antonio Medical Foundation.

Tourism

The City's diversified economy includes a significant sector relating to the visitor industry. The City receives approximately 8 million visitors each year, up from approximately 7.6 million in 1997 and 6.9 million in 1995. A recent study sponsored by the San Antonio Area Tourism Council approximated that, on an annual basis, these visitors spend $2 billion in the local economy and generate over $4 billion in income for residents living in and around the City. The list of attractions in the San Antonio area includes, among many others, the Alamo and other sites of historic significance, the River Walk, two major theme parks (Seaworld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs.

Conventions. 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	Conventions	Attendance	Number of Room Nights[1]	Estimated Dollar Value[2]
1992	1,219	513,205	786,591	$369,389,563
1993	1,597	576,720	976,732[3]	472,229,870
1994	1,647	488,979	947,753	400,385,785
1995	1,536	512,045	982,045	419,272,687
1996	1,391	575,668	959,543	471,368,472
1997	1,502	571,950	944,807	468,324,099
1998	1,497	607,890	1,038,472	547,642,022
1999	1,511	552,234[4]	938,992	497,502,088
2000	1,321	515,483[4]	921,495	464,393,480
2001	1,022	524,743[4]	903,034	472,735,721

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

(2) For the year 1992, the estimated dollar value is calculated in accordance with a Laventhol and Horwath study for the International Association of Convention and Visitors Bureaus ("IACVB") which reflected an average expenditure of $719.77 generated per convention and trade show delegate. For the years of 1993 through 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the IACVB which reflected the average expenditure of $818.82 generated per convention and trade show delegate. Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 IACVB Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP which reflected the average expenditure of $900.89 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 occurred due to disruptions during construction at the Convention Center, which is now complete.

The San Antonio Convention and Visitors Bureau reports that, as a result of the Terrorist Attacks (defined herein), two conventions cancelled (Society of Automotive Engineers scheduled for September 24-27, 2001, and Military Surgeons scheduled for November 3-9, 2001). The approximate number of delegates for these conventions were 1,800 and 6,000 respectively. Three conventions have been rescheduled, and three others (scheduled in mid-September) reported a reduction in delegate attendance. Additionally, the next major convention scheduled in late September actually had an increase in delegate attendance to 14,400. At this time, it is too early to speculate on what the long-term effects on the City's visitor industry will be, but all indications are (barring further terrorist events) that this positive return to normalcy will continue and San Antonio will remain a strong regional, national, and international destination.

Source: City of San Antonio, Convention and Visitors Bureau; Richard v. Butler and Mary E. Stefl (sponsored by the San Antonio Area Tourism Council), San Antonio's Visitor Industry: An Economic Impact Analysis, January 2000.

Military Installations

The military represents a principal component of the City's economy. According to the Greater San Antonio Chamber of Commerce, the military employed approximately 65,427 military, civilian, and reserve part-time personnel, with an aggregate payroll of $2.4 billion, in the year 2000. Four major military installations are currently located in Bexar County, including Lackland Air Force Base ("Lackland AFB"), Fort Sam Houston Army Post ("Fort Sam"), Brooks Air Force Base ("Brooks AFB"), and Randolph Air Force Base ("Randolph AFB").

Military Base Redevelopment. Defense reductions in military resources, including the completed closing of the Air Logistics Center at Kelly Air Force Base in July 2001, are reflected in the 14.38% reduction in the level of federal employment in the City in 2001. The City, the San Antonio Economic Development Foundation, and various branches of the military are actively working on measures to prevent future reductions to the local military community and to bring new business activity to the facilities left vacant by recent base closures.

On July 13, 2001, Kelly Air Force Base officially closed and its facilities were transferred to the Greater Kelly Development Authority ("GKDA"), a City Council-created organization responsible for overseeing the base's redevelopment into a business and industrial park. The new business park, known as KellyUSA, is focused on (a) establishing a strategic trans-shipment point and distribution hub for international trade with Central and South America and (b) becoming both a renowned international aviation overhaul and repair center and a manufacturing center for the City. To further these goals, GKDA has completed over $70 million in new construction and facility upgrades over the past 12 months. As of December 2001, these efforts have resulted in the creation of over 5,000 new commercial jobs and the leasing of approximately 70% of the available space to over 40 tenants, including Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Dynamics, General Electric and Pratt & Whitney.

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the "Air Force") and the City designed to retain the Air Force missions and jobs at Brooks AFB, improve Air Force mission effectiveness, assist the Air Force in reducing their support operating costs, and promote and enhance economic development on Brooks AFB and in the surrounding community. Both the City and the Air Force envision utilizing City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park (the "Park"), a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology. The Park will be established by the transfer of the 1,310 acres of land and improvements comprising Brooks AFB by April, 2002 to another City Council-established organization, Brooks Development Authority ("BDA"), with the Air Force becoming the Park's anchor tenant and leasing back additional facilities, as necessary, to perform its missions. BDA will then assume ownership and management of the Park, with the City providing municipal services. The City began providing fire and police services to the Park in October, 2001, and is currently finalizing negotiations with BDA that will allow CPS and SAWS to assume ownership and operation of the Park's electric utilities and water utilities, respectively.

Fort Sam has also initiated leasing activities to reduce infrastructure costs and pursue asset management opportunities using military facilities. In April, 2000, the U.S. Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center and two other buildings at Fort Sam. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, have been vacant for some time and are

presently in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants. FSHRP is currently seeking tenant sublease commitments necessary to secure financing for an estimated $50 million in renovations to the buildings.

The success of this unique public-private partnership at Fort Sam is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities and generating net cash flow for both the Army and FSHRP. This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. If successful, the Army intends to extend this initiative to include other properties at Fort Sam currently available for redevelopment.

Source: The Greater San Antonio Chamber of Commerce.

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	304,675	285,887
2001	588,209[3]	304,804[3]	297,443[4]

(1) CPS only.
(2) SAWS only.
(3) At October 31, 2001.
(4) At November 30, 2001.

Sources: City of San Antonio, CPS, and SAWS.

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Construction Activity

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

Calendar Year	Residential Single Family		Residential Multi-Family[1]		Other[2]	
	Permits	Valuation	Permits	Valuation	Permits	Valuation
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
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803

(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.

Employment Statistics

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

	December 2001	November 2001	December 2000
Civilian Labor Force	799,382	803,991	783,217
Total Unemployment	32,991	36,120	21,128
Total Employment	766,391	767,871	762,089
Unemployment Rate	4.1%	4.5%	2.7%

Source: U. S. Department of Labor, Bureau of Labor Statistics.

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

	December 2001	November 2001	December 2000
Mining	2,100	2,100	2,100
Construction	40,900	40,900	39,500
Manufacturing	55,500	55,300	55,000
Transportation, Communication, and Utilities	40,700	40,500	38,800
Trade	185,900	183,300	180,600
Finance, Insurance, and Real Estate	51,300	51,500	50,900
Services and Miscellaneous	237,900	238,200	232,400
Federal Government	25,000	25,000	29,200
State Government	15,200	15,100	15,000
Local Government	88,600	88,500	87,100
Total	743,100	740,400	730,600

Source: U. S. Department of Labor, Bureau of Labor Statistics; Texas Workforce Commission, Labor Market Information Department.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

	Calendar Year				
	2001	2000	1999	1998	1997
Amarillo	$ 43,357,043	$ 42,474,995	$ 40,781,524	$ 39,276,557	$ 37,611,600
Arlington	65,948,096	65,264,427	60,092,585	57,095,137	54,923,300
Austin	117,393,240	117,818,293	104,915,700	94,261,113	85,272,735
Dallas	210,130,838	215,412,071	198,740,061	189,502,534	173,592,271
El Paso	46,876,210	45,970,014	43,603,400	41,414,498	39,097,126
Fort Worth	72,975,421	71,543,992	68,142,426	64,116,910	57,778,025
Houston	337,540,694	321,095,967	308,508,700	296,149,171	270,268,332
Irving	43,188,105	44,773,277	42,083,421	37,198,548	33,805,687
Plano	47,327,003	47,325,948	40,483,049	36,058,044	32,420,190
SAN ANTONIO	151,422,401	133,360,785	126,060,252	117,583,252	108,526,967

Source: State of Texas, Comptroller's Office.

San Antonio Electric And Gas Systems

History and Management

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

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

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

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

State Regulatory Changes

The CPS electric system, like other municipal electric systems in the State, is adapting to changes in electric regulation brought about by the enactment of Senate Bill 7 ("SB 7") by the Texas Legislature in 1999, which provided for open competition of retail electric service in the State of Texas beginning on January 1, 2002. Municipal utilities, such as CPS, are not required to participate in the competitive retail market, although they may "opt-in" to retail electric competition. On April 26, 2001, the City Council passed a resolution stating that prior to opting-in to the deregulated electric market, the City Council and the CPS Board must each pass resolutions expressing that desire. CPS will continue to implement organizational and systems changes to prepare for the possibility of participating in retail electric competition in Texas and will periodically advise the City regarding developments in the competitive market and the advisability of CPS participation in this deregulated electricity market.

While SB 7 deregulates the sale of energy in the State (subject to certain local option provisions, as described below), SB 7 maintains a regulated structure with respect to electric transmission and distribution services for investor-owned utilities in Texas. CPS' management believes that it is well positioned to continue to participate in the competitive wholesale market and in the generation and distribution of energy at retail within CPS' service area, in the event the City Council and the CPS Board determine that CPS will participate in retail competition.

Service Area and Rates

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

CPS is currently the exclusive provider of electric service within the service area, including provision of energy service to some federal military installations located within the service area that own their own distribution facilities. As discussed under "Electric Utility Restructuring in Texas; Senate Bill 7," herein, until and unless the City Council exercises the option to opt-in to retail electric competition, CPS has the sole right to serve as the retail electric energy provider in its service area. If the City chooses to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to retail competition in the Electric Reliability Council of Texas ("ERCOT"), the synchronous interconnected electric system that operates wholly within Texas. CPS has the option of acting in the role of the "Provider of Last Resort" (hereinafter defined) for the service area in the event it chooses to opt-in. (See "*Electric Utility Restructuring In Texas; Senate Bill 7*.")

In addition to the area served at retail rates, electricity is sold at wholesale rates for resale to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. Renewal contracts have been entered into with these three long-term wholesale customers in recent years. In August 2000, the City of Brady awarded CPS a three-year contract to become its wholesale electric provider effective December 2002. CPS believes that it will have additional opportunities to enter into long-term wholesale electric power agreements. The requirements under the existing, and any new, wholesale agreements would be met from the CPS generating capacity available after satisfying the requirements of its retail energy customers and maintaining necessary reserves.

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

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services and operations of electric "public utilities" is vested in PUCT. Since the deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over these investor-owned entities now primarily encompass only the transmission and distribution function. PURA generally excludes from its coverage "municipally-owned utilities" such as CPS, but the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a municipally-owned utility like the Systems has exclusive jurisdiction to set rates applicable to all services provided by the municipally-owned electric utility, with the exception of wholesale transmission rates. Unless and until the City Council chooses to opt-in to retail competition, CPS retail service rates are subject to appellate, but not original, rate regulatory jurisdiction

by the PUCT in areas outside the City limits that CPS serves. To date, no appeal of CPS electric rates has ever been filed. CPS is not subject to the annual gross receipts fee payable by public utilities. (See "*Electric Utility Restructuring In Texas; Senate Bill 7*.")

The Texas Railroad Commission (the "TRC") has significant original jurisdiction over the rates, services, and operations of "gas utilities". "Municipally-owned utilities" such as CPS are generally excluded from regulation by the TRC. CPS retail service rates are subject to appellate, but not original, rate regulatory jurisdiction by the TRC in areas outside the City limits which CPS serves. To date, no appeal of CPS gas rates has ever been filed.

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), municipally-owned utilities, including CPS, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers. In response to its mandate, the PUCT promulgated an open access transmission rule in early 1996 establishing a pricing method for wholesale transmission transactions partly based on load ratio calculations known as "postage stamp" pricing, and partly on distance sensitive analysis, and providing for PUCT setting of transmission cost of service. CPS challenged the initial Rule's validity. In a decision issued by the Texas Supreme Court on June 28, 2001, the Court held that the PUCT did not have jurisdiction to set San Antonio's wholesale transmission rates under PURA95 or to establish postage stamp pricing. This decision could become a basis for claims that might result in recovery of amounts paid during the effective dates of PUCT action under the invalidated rule. The effect of this case in mitigating the impact of the PUCT's transmission pricing mechanism is expected to be limited in light of additional authority given the PUCT by the 1999 Texas Legislature.

The 1999 Texas Legislature amended the PURA to expressly authorize rate authority over municipal utilities for wholesale transmission and to require that postage stamp pricing be used exclusively for pricing wholesale transmission transactions. In late 1999, the PUCT amended its transmission rule to incorporate fully the postage stamp pricing method. In general, the postage stamp method results in transmission payments to other transmission owners by a compact urban utility like CPS that exceed its receipts from other utilities for their use of its own transmission facilities. CPS' wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service.

Electric Utility Restructuring in Texas; Senate Bill 7. During the 1999 legislative session, the Texas Legislature enacted SB 7, which provides for retail electric open competition that began on January 1, 2002, continues electric transmission wholesale open access and fundamentally redefines and restructures the Texas electric industry.

SB 7 includes provisions that apply directly to municipally-owned utilities ("Municipal Utilities"), such as the CPS electric system, as well as other provisions that govern investor owned utilities ("IOUs") and electric cooperatives ("Electric Co-ops"). SB 7 allows retail customers of IOUs to choose their electric energy supplier, as well as the retail customers of those Municipal Utilities and Electric Co-ops that elect, on or after January 1, 2002, to participate in retail electric competition. Provisions of SB 7 that apply to the CPS electric system, as well as provisions that apply only to IOU's and Electric Co-ops are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which the electric system could choose to directly participate in the future.

SB 7 required IOUs to separate retail energy service activities from regulated utility activities by September 1, 2000, and to unbundle generation, transmission/distribution, and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies, and possibly operating divisions, that may be owned by a common holding company, but which must operate largely independent of each other. The services offered by such separate entities must be available to other parties on a non-discriminatory basis. Municipal Utilities and Electric Co-ops which opt-in to competition are not required to unbundle their electric system components. CPS is taking the steps necessary to unbundle its pricing structure so that it will be in a position to participate in a competitive market in the event that CPS and the City Council choose to opt-in to competition.

Generating assets of IOUs will be owned by "Power Generation Companies", which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they are otherwise unregulated and may sell electricity at market prices. IOU owners of transmission and/or distribution facilities are "Transmission and Distribution Utilities" and are fully regulated by the PUCT. Retail sales activities are performed by new companies called "Retail Electric Providers" ("REPs") which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas, or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities and comply with certain consumer protection requirements. They buy electricity from Power Generation Companies, power marketers or other parties and may resell that electricity to retail customers at any location in the State (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). Transmission and Distribution Utilities and Municipal Utilities and Electric Co-ops that have chosen to participate in competition will be obligated to deliver the electricity to retail customers and all of these entities are required to transport power to wholesale buyers. The PUCT is required to approve the construction of new Transmission and Distribution Utilities' transmission facilities, and may order the construction of new facilities to relieve transmission congestion. Transmission and Distribution Utilities are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than the PUCT. Each type of unbundled company of the formerly bundled IOUs is prohibited from providing services that are provided by the other types of unbundled companies.

SB 7 also provides a number of consumer protection provisions. Each service area within Texas that participates in retail competition has a "Provider of Last Resort"; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each Municipal Utility and Electric Co-op that opts-in to retail competition may designate itself or another entity as the Provider of Last Resort for its service territory, and the respective Municipal Utility or Electric Co-op rather than the PUCT will set the rates for such respective Provider of Last Resort.

Municipal Utilities and Electric Co-ops are largely exempt from the requirements of SB 7. While IOUs have been subject to open competition since January 1, 2002, the governing bodies of Municipal Utilities and Electric Co-ops have the sole discretion to determine whether and when to open their service territories to retail competition. However, if a Municipal Utility or Electric Co-op has not voted to open its territory, it cannot compete for retail energy customers at unregulated rates outside its traditional service territory. While IOUs have unbundled their generation, transmission and distribution, and retail sales activities, Municipal Utilities and Electric Co-ops retain the discretion to determine whether to unbundle those business activities. As stated above, though CPS is taking steps to unbundle its prices, it has no plans to unbundle its business activities into separate legal entities.

The greatest potential impact on CPS' electric system from SB 7 could result from a decision by the City Council and the CPS Board to participate or not to participate in a fully-competitive market, particularly in light of the fact that CPS is among the lowest cost producers of electric energy in the State. CPS currently believes that it is taking all steps necessary to prepare for possible competition in the unregulated energy market, should the City Council and the CPS Board make a decision to opt-in. CPS further believes that calendar year 2003 is the earliest that CPS would participate in the deregulated retail electric energy market.

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

A municipal utility that decides to participate in retail competition, i.e. opt-in, and to compete for retail customers outside its traditional service area, will be subject to PUCT-approved code of conduct governing affiliate relationships and anticompetitive practices. The PUCT will establish the terms and conditions, but not the rates, for open access by other suppliers to the transmission and distribution facilities of municipal electric utilities electing to compete at retail. If a municipal electric utility decides to participate in retail competition, its customers are subject

to being charged a fee of $0.50 per megawatt hour beginning six months prior to implementation of customer choice. The PUCT may increase the fee to $0.65 per megawatt hour under certain circumstances. The fee is a contribution to a statewide fund targeted at property tax replacement, low-income programs, and customer education.

Environmental Restrictions of Senate Bill 7. SB 7 also contains specified emissions reduction requirements for certain older electric generating units which would otherwise be exempt from the Texas Natural Resources Conservation Commission's ("TNRCC") permitting program by virtue of "grandfathered" status. Under the bill, annual emissions of nitrogen oxides ("NO_x") from such units are to be reduced by 50 percent from 1997 levels, beginning May 1, 2003. The requirements may be met through an emission allowances trading program to be established and administered by the TNRCC on a regional basis. Owners of affected facilities were required to apply for permits for the emission of these contaminants from the TNRCC, and the bill authorizes the agency to assess administrative penalties for facilities that exceed required emission allowances. Five CPS generating stations, comprising 12 gas-fired units, have grandfathered status and will be affected by the program. The total of NO_x emissions to be reduced for CPS facilities beginning in 2003, will be an amount which substantially exceeds the 15 to 20 percent system-wide NO_x reductions committed by CPS as part of its long-standing voluntary NO_x reduction program. The emissions limitations required by SB 7 will entail additional expenditures by CPS for emission control technology.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TNRCC regulation is directed at all units, including CPS' coal plants. This regulation requires a 50% reduction in NO_x emissions by May 1, 2005. It is still possible that over the upcoming years the Environmental Protection Agency, the state and local air quality districts may issue even more stringent regulations governing emissions from many types of power plants. The Clean Air Act regulation of electric utility emissions may change significantly. Changes to environmental emission controls may have the greatest effect on coal plants. In addition, they could also affect combustion turbines and other types of plants, as well as the costs of purchased power from affected resources. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. While it is too early to determine the extent of any such changes, such changes could have a material impact on the cost of power generated at affected electric generating units.

CPS and other electric utilities are also subject to various existing federal and state laws requiring compliance with environmental rules and regulations. In addition, CPS is also subject to various federal and state laws relating to its facilities, as well as various federal and state laws that affect the construction and operation of its facilities.

Response to Competition

Strategic Planning Initiatives. CPS has implemented a comprehensive corporate strategic plan that is designed to help make CPS a more efficiently performing and more competitive utility that delivers value to customers and the City. Major parts of the plan include restructuring and unbundling of rates, formulating a wholesale and retail marketing plan, reorganizing CPS along functional lines, and maintaining a Debt and Asset Management Program as further discussed below. These efforts will also have the ongoing support of the Governmental Affairs office, located in Austin, Texas, whose primary role is to review proposed federal and state legislative actions affecting the electric industry and to represent CPS' interests in these areas.

Debt and Asset Management Program. CPS has developed a debt and asset management program (the "Debt Management Program") which is designed to lower the debt component of energy costs, maximize the effective use of cash and cash equivalent assets, and enhance its financial flexibility in the future. An important part of the Debt Management Program is debt restructuring by the increased use of variable rate debt, and interest rate swaps where feasible. It is anticipated, however, that the net variable rate exposure of CPS will not exceed 20% of its total debt structure. The program also focuses on the use of unencumbered cash and available cash flow to redeem debt ahead of scheduled maturities as a means of reducing the outstanding debt. The Debt Management Program is designed to result in lower interest costs, additional funds for strategic initiatives, and increased net cash flow.

Acquisition of Military Base Facilities. In January 2000, CPS finalized negotiations for the purchase and future operation of the realigned and commercialized electric and gas facilities at KellyUSA. CPS worked extensively with KellyUSA and the Air Force in completing this transaction. Pursuant to the agreement, CPS is the gas and

electric utility service provider for all new tenants of the privatized, commercial business park. In addition, pursuant to the Department of Defense utility privatization initiatives, CPS is currently pursuing opportunities to acquire the electric and gas distribution systems at Fort Sam, Camp Bullis, Lackland AFB, Randolph AFB and Brooks AFB in Bexar County.

Electric System

Generating System. CPS operates 16 electric generating units, three of which are coal-fired and 13 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. CPS also has a 28% interest in two nuclear generating units called the South Texas Project (the "STP"). On July 1, 1973, CPS agreed to participate in the STP, which involved the construction of two 1,250 MW units in Matagorda County on a 12,220-acre site near the Texas Gulf Coast approximately 200 miles from the City.

Participants in the STP and their shares therein are as follows:

Participants	Percent Ownership	MW
Reliant Energy HL&P	30.8%	770
City Public Service	28.0	700
AEP - Central Power and Light Company	25.2	630
City of Austin - Austin Energy	16.0	400
TOTAL	100.0%	2,500

Full power operating licenses were issued by the Nuclear Regulatory Commission ("NRC") on March 22, 1988, for Unit 1 of the STP and March 28, 1989, for Unit 2. On August 25, 1988, Unit 1 went into commercial operation, and Unit 2 went into commercial operation on June 19, 1989. During CPS' fiscal year 1997-1998, the participants in the STP created a non-profit Texas corporation (the "STP Nuclear Operating Company") financed and controlled by the owners to assume maintenance and operation of the STP in place of Reliant Energy HL&P (Reliant). All regulatory approvals were received, and this change became final in November, 1997.

Joint Operating Agreement. CPS and Reliant entered into a ten-year agreement effective July 1, 1996, as part of the resolution of CPS' claims against Reliant concerning the shutdown of the STP during CPS' fiscal year 1993-1994 and cost overruns during the STP construction period. The Joint-Operating Agreement (the "agreement") provides that the two utilities will jointly dispatch their generating plants (other than the STP) in order to take advantage of the most efficient plants and favorable fuel prices for each utility. Under the agreement, CPS will receive the benefit of 90% of the combined savings achieved under the joint dispatching, until the total benefit to CPS reaches $200 million, after which the benefit will be shared equally.

In January, 2000, the agreement was extended until 2009. The agreement has recently been revised to incorporate changes required by the deregulated market and the corporate restructuring of Reliant, but the basic concept of sharing the benefit of joint economic dispatch of the combined power plant portfolio remains intact, including the equal sharing of benefits after CPS' benefit reaches $200 million. Through November 30, 2001, CPS' benefit totaled $187.7 million.

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

Distribution System. The CPS distribution system is supplied by 81 substations strategically located on the high voltage 138/345 kV transmission system. Approximately 6,271 circuit miles (3-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of approximately 213 miles of three-phase duct lines and 2,532 miles of single-phase underground residential distribution lines. Many of the residential

subdivisions added in recent years are served by underground distribution systems. Presently 67,675 street light units are in service, the vast majority are modern, high-intensity units.

Gas System

Supply Pressure System. The CPS supply pressure system consists of a network of approximately 195 miles of steel mains, which range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 psig and 274 psig, and supplies gas to approximately 210 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. CPS' Gas and Electric Operations ("GEO") control center monitors the gas pressure and flow rates at many strategic locations within the supply pressure system. Most of the critical pressure regulating stations and isolation valves are remotely controlled by GEO.

Distribution System. The gas distribution system consists of 4,152 miles of 2 to 16-inch steel mains and 1-1/4 to 6-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 5 psig and 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected directly to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure.

GASB 34

As a component unit of the City, CPS has implemented GASB 34 for its fiscal year ended January 31, 2002. While adoption of GASB 34 has altered the presentation of some financial information, CPS' management believes there has been no material adverse impact to CPS' financial position, results of operation, or cash flows.

Recent Financial Transactions

New Series 2001 Revenue Bond Issue. The City sold $115,280,000 in revenue refunding bonds for CPS in November, 2001 to effectuate a current refunding of certain outstanding New Series 1992 Revenue Bonds.

New Series 2000 Revenue Bond Issue. The City sold $221.2 million in revenue bonds for CPS in December, 2000. The sale included $170.8 million in tax-exempt bonds at an average interest rate of 5.40% and $50.4 million in taxable bonds at an average interest rate of 7.44%. The main purpose of the New Series 2000 Bond Issue was to reimburse the Repair and Replacement Account for cash funds spent on construction expenditures during the prior eighteen months. In addition, taxable new money proceeds to finance future transmission projects were also part of the transaction and were deposited into the Bond Construction Fund.

New Series 1992 Revenue Bonds Defeasance. During November, 2000, $215.7 million of the New Series 1992 Revenue Bonds were legally defeased with cash resources, resulting in debt service savings for CPS. The majority of the defeased bonds were originally issued to finance the STP. Funds from CPS' Repair and Replacement Account were deposited into an escrow account to provide for the payment of the defeased bonds as they mature.

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City Public Service Operating Statement

	Fiscal Years Ended January 31				
	2002[1]	2001	2000	1999	1998
Operating Revenues					
Electric	$ 1,019,065,814	$ 1,124,414,415	$ 933,629,335	$ 909,639,200	$ 844,848,103
Gas	247,436,398	214,555,539	107,019,474	114,236,784	137,593,073
Total	$ 1,266,502,212	$ 1,338,969,954	$ 1,040,648,809	$ 1,023,875,984	$ 982,441,176
Operating Expense					
Electric [2]	$ 551,916,740	$ 580,516,067	$ 439,779,934	$ 417,395,920	$ 396,619,185
Gas	200,672,942	173,629,255	81,135,201	82,686,873	95,193,678
Total	$ 752,589,682	$ 754,145,322	$ 520,915,135	$ 500,082,793	$ 491,812,863
Net Operating Income	$ 513,912,530	$ 584,824,632	$ 519,733,674	$ 523,793,191	$ 490,628,313
Non-Operating Income (Net)	$ 57,084,336	$ 51,609,182	$ 39, 319,915	$ 57,528,034	$ 49,760,834
Available for Debt Service	$ 570,996,866	$ 636,433,814	$ 559,053,589	$ 581,321,225	$ 540,389,147
Other Deductions:					
Depreciation	$ (215,479,266)	$ (197,322,532)	$ (165,177,353)	$ (167,685,579)	$ (153,407,511)
Interest on Bonds, Other Interest and Debt Expense	(171,382,398)	(173,114,847)	(174,328,911)	(187,090,027)	(188,797,911)
Interest During Construction	6,713,150	12,593,131	13,286,115	5,716,202	4,743,278
Defeasance of Debt	(2,586,215)	(2,586,215)	-0-	(24,899,770)	-0-
Payments and Refunds to City	(178,563,769)	(185,005,847)	(145,473,968)	(144,554,899)	(138,543,232)
Total Other Deductions:	$ (561,298,498)	$ (545,436,310)	$ (471,694,117)	$ (518,514,073)	$ (476,005,376)
Net Income	$ 9,698,368	$ 90,997,504	$ 87,359,472	$ 62,807,152	$ 64,383,771

[1] Unaudited, 12 months ended October 31, 2001.
[2] Includes nuclear decommissioning expense and regulatory transition assessment for all 12-month periods shown.
Source: CPS.

San Antonio Water System

History and Management

On February 13, 1992, the City Council determined that it was in the best interest of the citizens of the City and its customers to consolidate all water related functions, agencies, and activities into one agency. This action was taken due to the myriad of issues confronting the City related to the development and protection of its water resources. The consolidation provided the City with a singular voice of representation when promoting or defending the City's goals and objectives for water resource protection, planning and development with local, regional, state, and federal water authorities and officials.

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which approved the creation of the of the City's water system ("SAWS"), a single unified system consisting of the former City departments comprising the systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a storm water system and any other related system to the extent permitted by law.

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

The complete management and control of SAWS is vested in a board of trustees (the "Board" herein) currently consisting of seven members, the City's Mayor and six persons who are residents of the City or reside within the SAWS' service area. With the exception of the Mayor, all Board members are appointed by the City Council for

four-year staggered terms and are eligible for reappointment for one additional four-year term. Four Board members must be appointed from four different quadrants in the City, and two Board members are appointed from the City's north and south sides, respectively. Board membership specifications are subject to future change.

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

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.4 million residents. SAWS employs approximately 1,600 personnel and provides maintenance of over 8,800 miles of water and sewer mains.

Historical Water Consumption (Million Gallons).

Fiscal Year Ended 5-31	Daily Average	Peak Month	Metered Usage	Metered Water Revenue
1997	137.6	July	49,644	$ 63,819,099
1998	165.0	August	53,592	69,330,004
1999	158.5	July	53,520	74,317,726
2000	161.6	August	57,144	80,606,965
2001	154.9	July	53,388	73,166,293

Water Consumption by Customer Class (Million Gallons).

	2001	2000	1999	1998	1997
Residential	28,694	31,008	29,496	29,232	27,180
Commercial	12,384	13,536	11,616	11,916	11,856
Apartment	7,783	8,148	8,136	8,460	8,196
Industrial	2,737	2,724	2,820	2,568	1,200
Wholesale	535	624	528	516	420
Municipal	914	1,104	924	900	792
	53,047	57,144	53,520	53,592	49,644

Source: SAWS.

Utility System

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

In addition to the water related utilities that the Board has under its control, on May 13, 1993, the City Council approved an ordinance establishing initial responsibilities over the storm water quality program with the Board and

adopted a schedule of rates to be charged for storm water drainage services and programs. As of the date hereof, the storm water program is not deemed to be a part of SAWS.

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS' service area currently extends over approximately 561 square miles, making it the largest water purveyor in Bexar County. SAWS currently serves more than 80% of the water utility customers in Bexar County and provides potable water service to approximately 294,000 customers, which includes residential, commercial, apartment, industrial, and wholesale accounts. Approximately 92% of these customers are residential, with revenues for the year ended May 31, 2001 from residential customers equaled $47 million, or 64.2% of the waterworks system's total revenue. To service its customers, the waterworks system utilizes 14 elevated storage tanks and 38 ground storage reservoirs with combined storage capacities of 144.7 million gallons. By 2001, the waterworks system had in place 4,092 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between 6 and 12 inches), and 20,846 fire hydrants distributed evenly throughout the SAWS service area.

Wastewater System. Created by the City Council in 1894 and significantly improved by a 1960 sewer system expansion program, the wastewater system became a part of SAWS in 1992. The wastewater system serves a population in excess of 1.1 million, which includes City residents, 18 governmental entities, and other customers outside the City's corporate limits, over a 403 square-mile area. The wastewater system is composed of approximately 4,845 miles of mains, three major treatment plants, and one smaller treatment plant, with a combined treatment capacity of 226.7 million gallons per day. In addition, the wastewater system operates and maintains several small satellite facilities that vary in number and are temporary pending completion of interceptor sewers that will connect the flow treated at such facilities to the wastewater system. Six privately owned and operated sewage and treatment plants within the City's planning combine with the aforementioned treatment facilities to provide 321,000 sewage connections within Bexar County, of which the City owns approximately 289,000, or 90%.

Water Reuse System. The Alamo Water Conservation and Reuse District (the "District") was created in 1989 as a conservation and reclamation district with a purpose of to conserving, protecting, distributing, and reusing wastewater in order to augment the supply of water in the Edwards Underground Aquifer region. In 1992, it was consolidated into SAWS. SAWS owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water outside the waterworks system and wastewater system boundaries. SAWS has developed a water-recycling program utilizing the wastewater stream and expects during the next three to five years to make available for various entities up to 35,000 acre-feet (one acre-foot equals approximately 325,821 gallons), or 20% of SAWS' current use, for non-potable uses, including golf courses and industrial customers that are currently being supplied from the Edwards Aquifer (defined herein). To facilitate this program, the water reuse system will develop infrastructure to include transmission mains throughout the City, as well as storage and treatment components.

Chilled Water and Steam System; Storm Water System. SAWS operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, and provides service to 23 customers. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the Kelly USA industrial area on the City's west side. Together, chilled water and steam services produced $9,800,573 in gross revenues in the 2001 fiscal year.

SAWS is a co-permittee with the City and the Texas Department of Transportation under the National Pollutant Discharge Elimination System, which identifies the requirements of the City and SAWS with respect to storm water drainage. Under a 1996 contract, SAWS is obligated to perform certain requirements under a storm water services program as described in the permit. Overall responsibility for said program belongs to the City. In 1997, the City established a storm water utility, and in light of said establishment, the aforementioned agreement between the City and SAWS is currently being revised. The approved annual budget for SAWS' share of program responsibilities for the 2002 fiscal year is $2,358,933, for which SAWS is reimbursed from a storm water utility fee imposed by the City.

Water Supply

Historically and currently, the City obtains all of its water through wells drilled into a geologic formation known as the Edwards Limestone Formation. The portion of the formation supplying water in the City's area has been the "Edwards Underground Water Reservoir" (the "Edwards Aquifer") and since 1978 has been designated by the Environmental Protection Agency as a sole-source aquifer under the Safe Drinking Water Act. The Edwards Aquifer lies beneath an area approximately 3,600 square miles in size, and including its recharge zone, it underlies all or part of 13 counties, varying from 5 to 30 miles in width and stretching over 175 miles in length, beginning in Bracketville, Kinney County, Texas, in the west and stretching to Kyle, Hays County, Texas, in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it.

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

The water level of the Edwards Aquifer has never fallen below the uppermost part of the Edwards Aquifer even during extreme and lengthy drought conditions lasting from 1947 to 1956. The maximum fluctuation of water levels at the City's index well has been about 91 feet, with the recorded low of 612 feet above sea level in August, 1956 and a recorded high of 703 feet above sea level in June, 1992. The historical (1934 to 1999) average water level at the index well in San Antonio is approximately 664 feet above sea level. SAWS sets all pumps at 575 feet to insure continuous access to Edwards Aquifer water in any anticipated condition.

The Edwards Aquifer is recharged by seepage from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern area. Practically continuous recharge is furnished by spring-fed streams, with storm water runoff adding additional recharge, as well. The historical annual recharge to the reservoir is approximately 679,000 acre-feet. The average annual recharge over the last four decades, however, including the aforementioned drought period, is approximately 791,300 acre-feet. The lowest recorded recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known as the "recharge zone." The recharge dams, or flood-retarding structures, slows flood waters and allows much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

Enhancing the City's Water Supply

The City has relied on the Edwards Aquifer as its sole source of water since the 1800's. Beginning in the 1980's and continuing today, however, the conservation and regulation of the water in the Edwards Aquifer has been the subject of intense scrutiny that has led to both extensive litigation and federal and state agency initiation of regulatory action. Based upon population and water demand projections, along with various regulatory and environmental issues, the City recognizes that additional water sources supplementing its use of the Edwards Aquifer will be required to meet the City's long-term water needs.

SAWS' Resource Development department is charged with the responsibility of identifying additional water resources for the City and its surrounding areas. New water resource projects range from optimizing the City's current source through conservation measures to identification and procurement of completely new and independent water sources. These efforts are guided by the 1998 Water Resource Plan, the first comprehensive, widely supported water resource plan for the City, which established programs for formulating and implementing both immediate and long-term water plans to enhance the City's water supply. In October, 2000, the City Council created a permanent funding mechanism (the "Water Supply Fee") to be used for water supply development and water quality protection. The fee is based upon a uniform rate per 100 gallons of water used and is applied to all customers. The Water Supply Fee is projected to generate sufficient revenue to support approximately $642 million in capital expenditures, as well as sufficient operational funds to conduct the planning, operation, and maintenance

of such water resource facilities, through 2005. The multi-year financial plan will be updated every three years to ensure sufficient revenues are available to meet the water resource requirements.

Water Supply Fee.

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

Source: SAWS.

SAWS has determined that the City's water needs can be met through the implementation of an array of programs and projects, including a critical management plan, conservation, agricultural irrigation efficiencies, reuse, surface water, non-Edwards Aquifer groundwater, enhanced recharge capabilities, and aquifer storage and recovery. SAWS has already initiated and/or implemented many such programs in an effort to increase the supply of water available to the City.

Capital Improvement Plan

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with the bonds, tax-exempt commercial paper, cash on hand and future bond issues. SAWS contemplates the following capital improvement projects during calendar year 2002:

- $20 million is budgeted for the Treatment Program to repair/replace/upgrade treatment facilities;
- $12 million is budgeted for the wastewater collection program to fix deteriorated components of the collecting system;
- $18.8 million is budgeted to replace sewer and water mains;
- $23 million is budgeted for the governmental replacement and relocation program;
- $14.6 million budgeted to build water distribution mains;
- $13 million is budgeted to construct new production facilities;
- $120 million is budgeted for water supply development, water treatment and water transmission projects for new sources of water; and
- $1 million is provided for heating and cooling plant requirements.

	Fiscal Year Ended May 31,					
	2002	2003	2004	2005	2006	Total
Heating & Cooling	$ 1,033,362	$ 442,000	$ 618,000	$ 862,197	$ 4,506,648	$ 7,464,207
Water Delivery	56,175,800	46,063,600	41,986,900	40,508,592	56,408,245	241,143,137
Wastewater	53,824,200	63,936,400	68,013,100	73,266,592	78,759,645	337,799,937
Water Supply	120,094,631	68,236,380	92,689,920	150,878,192	210,143,533	642,042,656
Total Annual Requirements	$231,127,993	$178,678,380	$203,307,920	$265,515,573	$349,820,071	$1,228,449,937

Source: SAWS.

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Project Funding Approach

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

	Fiscal Year Ended May 31,				
	2002	2003	2004	2005	2006
Revenues	$ 13,718,704	$ 28,722,086	$ 30,734,913	$ 32,735,828	$ 46,850,215
Impact Fees	8,448,670	9,600,000	9,600,000	9,600,000	9,600,000
Debt Proceeds	208,960,619	140,356,294	162,973,007	223,179,745	293,369,856
Total	$231,127,993	$178,678,380	$203,307,920	$265,515,573	$349,820,071

Source: SAWS

Recent Financial Transactions

The City is planning to issue three series of bonds for SAWS, beginning in March, 2002, totaling approximately $460 million in the aggregate, the proceeds of which will be used for, among other items, capital improvement and refunding existing debt.

On March 8, 2001, the City Council authorized the placement of $58,700,000 City of San Antonio Senior Lien Water System Revenue and Refunding Bonds, Series 2001A and the placement of $25,150,000 City of San Antonio Junior Lien Water System Revenue Bonds, Series 2001A and Series 2001A-A with the Texas Water Development Board.

On June 29, 2000, the City Council authorized the defeasance of $12,570,000 City of San Antonio Water System Revenue Refunding Bonds, Series 1992.

On June 3, 1999, the City Council authorized the placement of $71,410,000 City of San Antonio Water System Junior Lien Revenue and Refunding Bonds, Series 1999 with the Texas Water Development Board.

On November 4, 1999, the City Council authorized the placement of $47,500,000 City of San Antonio Water System Junior Lien Revenue and Refunding Bonds, Series 1999-A with the Texas Water Development Board.

On November 4, 1999, the City Council authorized the issuance of $70,200,000 City of San Antonio Water System Senior Lien Revenue and Refunding Bonds, Series 1999.

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Summary of Pledged Revenues for Debt Coverage

	Fiscal Year Ended May 31				
	2001	2000	1999	1998	1997
Revenues					
Water Service	$ 77,230,540	$ 88,452,608	$ 80,975,392	$ 74,027,065	$ 67,045,953
Sewer Service	91,175,034	99,194,858	92,775,036	92,095,892	93,947,796
Miscellaneous	31,730,506	11,079,973	8,050,953	7,847,852	11,036,574
Total Revenues	$200,136,080	$195,727,439	$181,801,381	$173,970,809	$172,030,323
Maintenance and Operating Expenses	$121,350,695	$115,016,340	$100,429,763	$ 93,883,767	$ 92,306,303
Net Available for Debt Service	$ 78,785,384	$ 80,711,099	$ 81,371,618	$ 80,087,042	$ 79,724,020
Debt Service Requirements	$ 66,994,372	$ 62,099,234	$ 49,385,448	$ 49,385,448	$ 56,267,370
Coverage of Debt	1.22 x	1.33 x	1.65 x	1.62 x	1.42 x
Water Customers	294,286	289,293	282,359	276,897	272,531
Sewer Customers	345,614	329,835	317,664	308,622	299,113

Source: City of San Antonio, SAWS.

The Airport System

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

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FIRMS EMPLOYING 500 OR MORE IN THE SAN ANTONIO METROPOLITAN AREA
(Includes Bexar, Comal, Guadalupe, and Wilson Counties)

Service

FIRM	PRODUCT/SERVICE
Administaff, Inc.	Professional Staffing Services
Advanced Temporaries, Inc.	Temporary Staffing Services
Advantage Rent-A-Car	Vehicle Rental
Air Force Village Foundation	Retired Military Residential Comm.
Alamo Community College District	Public Junior College District
Alamo Heights ISD	Public School District
Alamo Medical Health Group	Psychiatric Clinic
Alamodome	Domed Stadium
Allen Tharp & Associates	Caterers
Archdiocese of San Antonio	Catholic Church & School District
Baptist Health System	Hospital
Brooke Army Medical Center	Military Medical Facility
Burger King, Inc.	Fast Food Restaurant Chain
Cadbeck Staffing	Temporary Staffing Services
Calling Solutions, Inc.	Telemarketing Contract Service
Caremark Prescription Services	Mail Order Pharmacy
Center For Health Care Services	Mental Health Services
Christus Santa Rosa Health Care	Hospital
Citicorp	National Customer Service Center
Comal ISD	Public School District
Donald E Kierman	Telecommunications Consultant
East Central ISD	Public School District
Edgewood ISD	Public School District
Enterprise/Rent-A-Car Company	Vehicle Rental
Express Personnel Services	Temporary Staffing Services
Favorite Nurses	Medical Staffing
Floresville ISD	Public School District
Four Seasons Resort & Club	Hotels
Freeman Decorating Company	Tradeshows & Conventions
Girling Health Care, Inc.	Home Health Care
Goodwill Industries of S.A.	Vocational Services
Guadalupe Valley Hospital	Hospital
Harlandale ISD	Public School District
Hasslocher Enterprises, Inc.	Restaurant Chain/Food Distributor
Hawkins Personnel Group	Temporary Staffing Services
Home Nursing & Therapy Services	Home Health Care
Hospital Klean of Texas, Inc.	Hospital Housekeeping
Humana Customer Service Center	Customer & Claims Service
Hyatt Regency Hill Co. Resort	Resort Hotel
Hyatt Regency San Antonio	Hotel
Initial Staffing Services	Staffing Services
International Bus Benefits	Staffing Services
Initial Security	Security Guards
Judson ISD	Public School District
Learner, Inc.	Staffing Services
Little Caesars of San Antonio	Pizza Restaurant Chain
Luby's Cafeterias, Inc.	Cafeteria Chain
Marriott Rivercenter Hotel	Hotel
McDonald's-Haljohn, Inc.	Fast Food Restaurant Chain
McKenna Memorial Hospital	Hospital
Methodist Children's Hospital	Hospital
Methodist Healthcare System	Hospital
Methodist Specialty & Transplant	Hospital
Metropolitan Hospital	Hospital
Mi Tierra Cafe & Bakery, Inc.	Restaurant & Bakery
Miller, Bill Bar-B-Q Ent., LTD	Fast Food Restaurant Chain
Morningside Ministries, Inc.	Nursing Home
MTC, Inc.	Restaurants
New Braunfels ISD	Public School District
North East ISD	Public School District
Northside ISD	Public School District
Olive Garden, The	Restaurant Chain
Our Lady of The Lake University	Private University
Outreach Health Services	Home Health Care
PacifiCare	Health Plans
Parent/Child Inc.	Early Childhood Development
Peakload Temporary Services	Temporary Staffing Services
Phoenix Staffing & Consulting Svc.	Staffing Services
Pinkerton, Inc.	Security Service
Regal Cinemas	Movie Theater
Returns Park Race Track	Entertainment
River City Temporary Services	Temporary Staffing Services
San Antonio College	Public Junior College
San Antonio ISD	Public School District
San Antonio State Hospital	Hospital
San Antonio State School	Residential Care Facility
Schertz-Cibolo-Universal City ISD	Public School District
SeaWorld of Texas, Inc.	Marine Life Entertainment
Seguin ISD	Public School District
Six Flags Fiesta Texas Theme Park	Entertainment/Amusement Park
South San Antonio ISD	Public School District
South TX Veterans Health Care Sys	Hospital
Southside ISD	Public School District
Southwest General Hospital	Hospital
Southwest ISD	Public School District
Southwest Research Institute	Research & Development
St. Mary's University	Private University
St. Philip's College	Public Junior College
Staff Professionals, Inc.	Staffing Services
Staffing Solutions	Staffing Services
Taco Cabana, Inc.	Fast Food Restaurant Chain
TANDEM/Labor World of So. TX	Industrial Staffing
The Center for Health Care Svcs.	Health Care
The Medical Team, Inc.	Home Health Care
The Psychological Corporation	Test Publishers
Todays Office Staffing	Staffing Services
Trinity University	Private University
The RK Group	Caterers
Univ. of Texas Health Science Ctr.	Public University
University Health System	Hospital
University of The Incarnate Word	Private University
UTSA (The Univ. of Texas at SA)	Public University
VIP Temporaries	Staffing Services
VNA and Hospice of South TX	Home Health & Hospice Services
Waterpark Mgmt., Inc	Resort & Waterpark
Wendy's of San Antonio Inc.	Fast Food Restaurant Chain
West Teleservices Corporation	Telemarketing Services Vendor
Westaff	Temporary Staffing Services
Wilford Hall Medical Center	Military Medical Facility
YMCA of SA & The Hill Country	Adult/Child Fitness & Wellness

(Table continues on next page.)

Manufacturing

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Alamo Concrete Products	Concrete Products	Levi Strauss & Company	Clothing
B.J. Tidwell Industries, Inc.	Kitchen/Bath Cabinets	Martin Marietta Materials SW, Inc.	Crushed Limestone
Cardell Kitchen & Bath Cabinetry	Cabinetry	Miller Curtain Company	Curtains & Drapes
Clarke American	Commercial Printing	Motorola, Inc.	Electronics
Coca-Cola Bottling Co. of the SW	Soft Drink Bottler	Philips Semi Conductors	Semiconductors
DPT Laboratories, Inc.	Pharmaceuticals & Cosmetics	Plains Cotton Cooperative Assn.	Retail Textile Products
Fairchild Dormer Corporation	Aircraft Manufacturer	Radio Cap Company, Inc.	Promotional Products
Friedrich Air Conditioning Co.	Air- Conditioning Equipment	S.M.I.-Texas	Steel Manufacturing & Fabrication
Frito-Lay Company	Snack Foods	San Antonio Express-News	Newspaper
Kinetic Concepts, Inc.	Medical Products	SAS	Shoe Manufacturer
L & H Packing Company	Meat Processing	Sony Semiconductor San Antonio	Integrated Circuits/Semiconductors
Lancer Corporation	Drink Dispenser Machines	Ultramar Diamond Shamrock	Petroleum Refining & Marketing

Retail

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Aaron Rents & Sells	Office and Residential Furniture	Luby's Cafeterias, Inc.	Cafeteria
Albertson's Inc.	Supermarket	McDonalds-Haljohn, Inc.	Fast Food Restaurant
AFC Enterprises, Inc.	Fast Food Restaurant	Mi Tierra Cafe & Bakery	Restaurant
Bill Miller Bar-B-Que	Fast Food Restaurant	QVC San Antonio, Inc.	Telecommunications
Burger King, Inc.	Fast Food Restaurant	R & L Foods (Taco Bell)	Fast Food Restaurant
Caremark Prescription Services	Mail Order Pharmacy	Sears, Roebuck & Company	Department Store
Curtis C. Gunn, Inc.	Automobile Dealership	Sun Harvest Farms, Inc.	Natural Food Store
Den-Tex Central, Inc. (Denny's)	Restaurant	Super S Foods	Supermarket
Dillard's Department Stores	Department Store	Taco Cabana, Inc.	Restaurant
Frontier Enterprises	Restaurant	Target Stores	Department Store
H.E.B. Grocery Company	Supermarket	The Olive Garden	Restaurant
Handy Andy, Inc.	Supermarket	United Fashions of Texas	Women's Clothing
J. C. Penney Company, Inc.	Department Store	Wal-Mart, Inc.	Department Store
K-Mart Stores, Inc.	Department Store	Wendy's of San Antonio	Fast Food Restaurant
Little Caesars of San Antonio	Fast Food Restaurant	Whataburger, Inc.	Fast Food Restaurant

Transportation, Communications, Utilities

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
AT&T	Long Distance & Local Telephone	Southwestern Bell Telephone Co.	Telephone/Data (Telecomm.)
City Public Service	Natural Gas & Electric Service	Time Warner Cable	Cable TV & Internet
MCI WorldCom	Telecommunications	Trans Met Inc.	Freight Transportation
Qwest Communications	Telecommunications	U.S. Postal Service	U.S. Mail Processing & Delivery
San Antonio Water System	Water & Sewer Service	United Parcel Service	Parcel Delivery
SBC Communications Inc.	Data, Voice & Networking Services	Valero Energy Corporation	Crude Oil Refinery
Sitel Corp.	Communications Teleservice	VIA Metropolitan Transit	Public Transportation
Southwest Airlines	Air Service & Transportation		

Finance, Insurance, Real Estate

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
American Funds Group	Mutual Funds & Investments	Randolph-Brooks FCU	Financial Services
Bank of America	Commercial & Individual Banking	San Antonio FCU	Financial Institution
Broadway Bancshares Inc.	Banking	Security Service FCU	Federal Credit Union
Frost National Bank	Financial Services	USAA	Insurance & Financial Services
Homeside Lending, Inc.	Financial Institution	Wells Fargo Bank	Full Financial Services
Humana	HMO/Medical Insurance/Claims	World Savings	Savings Deposits & Loans

(Table continues on next page.)

Government

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Bexar County Courthouse	County Government	San Antonio Fire Department	City Department
Brooks Air Force Base	Military Installation	San Antonio Housing Authority	Public Housing Assistance
Education Service Ctr, Region 20	State Agency	San Antonio Police Department	City Department
Fort Sam Houston Army Post	Military Installation	San Antonio, City of	City Government
Lackland Air Force Base	Military Installation	Texas Dept. of Transportation	Road Construction & Maintenance
Randolph Air Force Base	Military Installation	Texas Dept. of Human Services	Social Services

Construction

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Bexar Electric Company	Electrical Contracting & Services	Design Electric	Electrical Contractors
CCC Group, Inc.	Industrial Contractor	Zachry Company, H.B.	General Contracting

Wholesale

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Color Spot Nurseries/SW Division	Plant Nursery	Tristar Corporation	Fragrance & Cosmetics
Straus-Frank Co. (CARQUEST)	Automotive Parts	Tyson Foods, Inc.	Food Distributor

Source: January, 2001 Greater San Antonio Chamber of Commerce Largest Employer's Directory.

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APPENDIX B

EXCERPTS FROM ORDINANCES

APPENDIX B

EXCERPTS FROM THE MASTER GAR ORDINANCE AND THIRD SUPPLEMENT AND MASTER PFC ORDINANCE AND FIRST SUPPLEMENT

THE FOLLOWING CAPITALIZED TERMS ARE DEFINED IN THE MASTER GAR ORDINANCE AND ARE APPLICABLE TO THE THIRD SUPPLEMENT:

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

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

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

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

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

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

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

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

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

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

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

(5) Variable Rate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Gross Revenues**" means all of the revenues and income of every nature and from whatever source derived by the City (but excluding grants and donations for capital purposes) from the operation and/or ownership of the Airport System, including the investment income from the investment or deposit of money in each Fund (except the Construction Fund, any Rebate Fund, and interest earnings required to be deposited to any Rebate Fund) created, maintained or confirmed by the Master Ordinance; provided, however, that if the net rent (excluding ground rent) from any Special Facilities Lease is pledged to the payment of principal, interest, reserve, or other requirements in connection with revenue bonds issued by the City to provide Special Facilities for the Airport System for the lessee (or in connection with obligations issued to refund said revenue bonds) the amount of such net rent so pledged and actually used to pay such requirements shall not constitute or be considered as Gross Revenues, but all ground rent, and any net rent in excess of the amounts so pledged and used, shall be deposited in the Revenue Fund described in the

Master Ordinance. Without limiting the generality of the foregoing, the term *Gross Revenues* shall include all landing fees and charges, ground rentals, space rentals in buildings and all charges made to concessionaires, and all revenues of any nature derived from contracts or use agreements with airlines and other users of the Airport System and its facilities; provided, however, that the term Gross Revenues shall not include any "passenger facility charges" described substantially in the manner provided in the "Aviation Safety and Capacity Expansion Act of 1990" (P.L. 101-508, Title IX) or the "Aviation Investment and Reform Act for the 21st Century" enacted by Congress in the year 2000, or other similar federal laws and the rules and regulations promulgated thereby, or any other similar charges that may be imposed pursuant to federal law.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Second Automatic Amendment Date**" means the date on which all Pre-2001 Parity Obligations are no longer Outstanding.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) ***Recommendation of Airport Consultant***. If the Gross Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, shall request an Airport Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses, or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing rate covenant. Copies of such request and the recommendation of the Airport

Consultant, if any, shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendation of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under this Master Ordinance even if the resulting Gross Revenues are not sufficient to be in compliance with the rate covenant set forth above, so long as the Annual Debt Service Requirements on the Parity Obligations are paid when due.

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

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

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

(c) ***Title.*** It has or will obtain lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Airport System, that it warrants that it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof, against the claims and demands of all Persons whomsoever, that it is lawfully qualified to pledge the Gross Revenues to the payment of the Parity Obligations in the manner prescribed herein, and has lawfully exercised such rights.

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

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

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

[Until the First Automatic Amendment Date, Section 4(g) shall read as follows:]

(g) ***Sale or Disposal of Property***. The City will not sell, convey, mortgage, encumber, lease, or in any manner transfer title to, or dedicated to other use, or otherwise dispose of the Airport System, or any significant or substantial part thereof, provided that whenever the City deems it necessary to dispose of any property, structures, machinery, fixtures, or equipment, or dedicate such property to other use, it may sell or otherwise dispose of such property, structures, machinery, fixtures, or equipment, or dedicate such property to other use, when it has made arrangements to replace the same or provide substitutes therefor, unless it is determined by resolution or ordinance of the City Council that no such replacement or substitute is necessary. The City shall be authorized to lease or contract for the use of any real or personal property of the Airport System if such lease, contract, or the use of such real or personal property will not adversely affect the Airport System or the operation and maintenance thereof.

[On and after the First Automatic Amendment Date, Section 4(g) shall read as follows:]

(g) ***Sale, Lease, or Encumbrance of Airport System***. Except for the use of the Airport System or services pertaining thereto in the normal course of business, neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Parity Obligations have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of

the Airport System, other than (i) in connection with the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities thereat, (ii) in connection with any pledges of and liens on revenues derived from the operation and use of the Airport System or any part thereof, or any Special Facilities pertaining thereto, for the payment of Parity Obligations, Subordinated Debt, Special Facilities Debt, and any other obligations pertaining to the Airport System and (iii) except as otherwise provided in the next three paragraphs.

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

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

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

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

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

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

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

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

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

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

(2) To the extent that excess Gross Revenues are not available at any time to make payment of all Operation and Maintenance Expenses, after providing for all Bond Fund and Bond Reserve Fund requirements in connection with the Parity Obligations, the General Fund of the City shall be used to make such payment, and the proceeds of an annual ad valorem tax are hereby pledged for such payment to the extent so required, in accordance with Section 1503.003, Texas Government Code. During each year while any of the Parity Obligations are Outstanding and unpaid, the City Council shall compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to make the aforesaid payment to the extent required; and said tax shall be based on the latest approved tax rolls of the City, with full allowance being made for tax delinquencies and the cost of tax collection. Said rate and amount of ad valorem tax is hereby levied, and is hereby ordered to be levied, against all taxable property in the City for each year while any of the Parity Obligations, or interest coupons appertaining thereto, are Outstanding and unpaid; and said tax shall be assessed and collected each such year and used for such purpose to the extent so required. Said ad valorem taxes sufficient to provide for the payment of such Operation and Maintenance Expenses, to the extent so required, are hereby pledged irrevocably for such payment; provided, however, that in no event shall the amount of such tax levy exceed the rate of five cents (5¢) on each one hundred dollars ($100) of assessed valuation of taxable property in the City for any one year.

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

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

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

(o) ***Legal Holidays.*** In any case where the date of maturity of interest on or principal of the Parity Obligations or the date fixed for redemption of any Parity Obligations or any other payment obligation under a Parity Obligation not be a Business Day, then payment of interest or principal need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

(p) ***Bondholders' Remedies.*** This Master Ordinance and any Supplement shall constitute a contract between the City and the owners of the Parity Obligations from time to time Outstanding and this Master Ordinance and the Supplement authorizing the issuance of Parity Obligations shall be and remain irrepealable until the Parity Obligations and any interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided in a Supplement. In the event of a default in the payment of the principal of or interest on any Parity Obligation or a default in the performance of any duty or covenant provided by law or in this Master Ordinance, the owner or owners of any Parity Obligation may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any owner of any Parity Obligation may at law or in equity, by suit, action, mandamus, or other proceedings filed in any court of competent jurisdiction, enforce and compel performance of all duties required to be performed by the City under this Master Ordinance and any Supplement, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the Funds and Accounts provided in this Master Ordinance and any Supplement, and the application of such Gross Revenues in the manner required in this Master Ordinance and any Supplement.

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

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

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

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

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

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

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

[Prior to the First Automatic Amendment Date, Section 7 shall read as follows:]

SECTION 7. BOND FUND. (a)***Purpose of and Payments into the Bond Fund***. The Bond Fund shall be used solely to pay the principal of and interest on all Parity Obligations, as such principal matures and such interest comes due. There shall be credited to the Bond Fund the following:

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

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

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

[On and after the First Automatic Amendment Date, Section 7 shall read as follows:]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 12. CAPITAL IMPROVEMENT FUND. Subject to satisfying the requirements of Sections 7, 8, 9, 10 and 11 of this Master Ordinance, the City shall transfer the balance remaining in the Operation and Maintenance Account in the Revenue Fund at the end of each Fiscal Year and deposit same to the credit of the Capital Improvement Fund. The Capital Improvement Fund shall be used for the purposes, and with priority of claim thereon, as follows: first, for the payment of principal, interest, and reserve requirements on Parity Obligations if funds on deposit in the Bond Fund and the Bond Reserve Fund are insufficient to make such payments; second, for the payment of principal, interest, and reserve requirements on Subordinated Debt if funds on deposit in the Subordinated Debt Fund and any related debt service reserve fund are insufficient to make such payments; third, for the purpose of paying the costs of improvements, enlargements, extensions, additions, replacements, repairs or other capital expenditures related to the Airport System; and fourth, for any other lawful purpose related to the Airport System.

SECTION 13. CONSTRUCTION FUND AND REBATE FUND. The City, in a Supplement, hereafter may create, establish and maintain on the books of the City a separate Fund or Account for use by the City for payment of all lawful costs associated with the construction, improvement and equipping of the Airport System, and for making payments to the United States of America pursuant to section 148 of the Code.

SECTION 14. DEFICIENCIES IN FUNDS. If in any month the City shall fail to deposit into the Bond Fund or Bond Reserve Fund the amounts required, amounts equivalent to such deficiencies shall be set apart and paid into said Funds from the first available and unallocated Gross Revenues for the following month or months, and such payments shall be in addition to the amounts otherwise required to be paid into said Funds during such month or months. To the extent necessary, the City shall increase the rates, fees, charges, and amounts for the use, occupancy, services, facilities and operation of the Airport System to make up for any such deficiencies.

SECTION 15. SECURITY FOR FUNDS. All Funds and Accounts created or maintained by this Master Ordinance shall be secured in the manner and to the fullest extent permitted or required by law for the security of public funds, and such Funds and Accounts shall be used only for the purposes and in the manner permitted or required by this Master Ordinance.

SECTION 16. PAYMENT OF PARITY OBLIGATIONS. On or before each principal and interest payment date while any of the Parity Obligations are Outstanding and unpaid, the City shall make available to the paying agents therefor, out of the Bond Fund, or if necessary, out of the Bond Reserve Fund, money sufficient to pay, on each of such dates, the principal of and interest on the Parity Obligations as the same matures and comes due, or to redeem the Parity Obligations prior to maturity, either upon mandatory redemption or at the option of the City. The Paying Agents shall destroy all paid Parity Obligations, and the coupons appertaining thereto, if any, and furnish the City with an appropriate certificate of cancellation or destruction if requested by the City.

[Prior to the First Amendment Date, Section 17 shall read as follows:]

SECTION 17. ISSUANCE OF ADDITIONAL PARITY OBLIGATIONS. (a) ***Authority to Issue Additional Parity Obligations***. The City shall have the right and power at any time and from time to time, and in one or more Series or issues, to authorize, issue, and deliver additional parity revenue obligations (herein called "Additional Parity Obligations"), in accordance with law, in any amounts, for any lawful purpose related to the Airport System, including the refunding of any then Outstanding Parity Obligations or other obligations.

(b) ***Parity Lien***. Additional Parity Obligations, if and when authorized, issued, and delivered in accordance with this Master Ordinance, shall be payable from the Bond Fund and shall be payable from and secured by a first lien on and pledge of the Gross Revenues, equally and ratably on a parity with the then Outstanding Parity Obligations. Also the Additional Parity Obligations shall be additionally secured equally along with all then Outstanding Parity Obligations by the Bond Reserve Fund.

(c) ***Payment Dates***. The principal of and interest on all Additional Parity Obligations must be scheduled to be paid or mature on January 1 and/or July 1 of the years in which such principal and interest are scheduled to be paid or mature.

(d) ***Requirements for Issuance of Additional Parity Obligations***. No installment, Series, or issue of Additional Parity Obligations shall be issued or delivered unless:

(1) The Mayor of the City and the City Clerk sign a written certificate to the effect that the City is not in default as to any covenant, condition, or obligation in connection with all then Outstanding Parity Obligations, and the ordinances authorizing same, and that the Bond Fund and the Bond Reserve Fund each contains the amount then required to be deposited therein.

(2) An independent certified public accountant, or independent firm of certified public accountants, acting by and through a certified public accountant, signs a written certificate to the effect that, in his or its opinion, during either the next preceding Fiscal Year, or any twelve consecutive calendar months out of the last eighteen calendar months prior to the passage of the ordinance authorizing the issuance of the then proposed Additional Parity Obligations, the Net Revenues were at least 1.25 times an amount equal to the actual principal and interest requirements during such Fiscal Year or twelve month period on all Parity Obligations which were then Outstanding during such Fiscal Year or twelve month period.

(3) An Airport Consultant, who or which shall be an independent person, firm, or corporation having a widely known and favorable reputation for special skill, knowledge, and experience in methods of development, operation, and management of airports of size and character constituting the Airport System, signs a written certificate to the effect that, in his or its opinion, either (i) during each of the five Fiscal Years following the Fiscal Year in which such Additional Parity Obligations are delivered, or (ii) during each of the three Fiscal Years following the Fiscal Year in which a substantial portion of any airport project or projects for which the Additional Parity Obligations are being issued are estimated to be placed in continuous service or operation, whichever of (i) or (ii) is the longer period from the date of such certificate, the Net Revenues estimated to be received during each of such Fiscal Years, respectively, will be at least equal to 1.25 times the principal and interest requirements during each such Fiscal Year, respectively, of all Parity Obligations which are scheduled to be Outstanding after the issuance of the then proposed Additional Parity Obligations.

(4) Provision shall be made in the ordinance authorizing such Additional Parity Obligations for funding or increasing the Bond Reserve Fund to the Required Reserve Amount to the extent required by Section 13 hereof.

(5) In making calculations for any purpose under this Master Ordinance, principal amounts of any bonds which must be redeemed prior to maturity pursuant to any applicable mandatory redemption requirements shall be deemed to be maturing amounts of principal of such bonds.

(6) Notwithstanding the provisions of paragraphs (a) to (e) above, the City may issue refunding bonds on a parity with the Parity Obligations to cure an event of default without satisfying the requirements of paragraph (a) above and to refund any then Outstanding Parity Obligations without satisfying the requirements of subparagraphs (d)(2) and (d)(3) above.

[On and after the First Automatic Amendment Date, Section 17 shall read as follows:]

SECTION 17. ISSUANCE OF ADDITIONAL PARITY OBLIGATIONS. (a)***Additional Parity Obligations***. The City reserves the right to issue or incur, for any lawful purpose, pursuant to this Master Ordinance and a Supplement, Additional Parity Obligations; provided, however, that no such Parity Obligations shall be delivered unless:

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

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

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

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

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

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

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

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

(c) ***Completion Obligations***. The City reserves the right to issue or incur Parity Obligations to pay the cost of completing any Capital Improvements for which Parity Obligations have previously been issued.

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

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

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

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

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

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

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

SECTION 18. DEFEASANCE. The provisions relating to the terms and conditions upon which a defeasance of Parity Obligations shall be effected shall be contained in the Supplement authorizing such Parity Obligations.

[Prior to the Second Automatic Amendment Date, Section 19 shall read as follows:]

SECTION 19. AMENDMENT OF MASTER ORDINANCE. (a) ***Authority to Amend Master Ordinance***. The holders of Parity Obligations aggregating in principal amount of 51% of the aggregate principal amount of the then Outstanding Parity Obligations shall have the right from time to time to approve any amendment to this Master Ordinance which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions of this Master Ordinance or in the Parity Obligations so as to:

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

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

(3) Reduce the amount of the principal payable on the Outstanding Parity Obligations;

(4) Modify the terms of payment of principal of or interest on the Outstanding Parity Obligations, or impose any conditions with respect to such payment;

(5) Affect the rights of the holders or owners of less than all of the Parity Obligations then Outstanding; or

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

(b) ***Notice of Amendment***. If at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, or in the City of Austin, Texas, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the paying agents for inspection by all holders of Parity Obligations. Such publication is not required, however, if notice in writing is given to each holder or owner of Parity Obligations.

(c) ***Receipt of Consents***. Whenever at any time not less than 30 days, and within one year, from the date of the first publication of said notice or other service of written notice the City shall receive an instrument or instruments executed by the holders of at least 51% in aggregate principal amount of all Parity Obligations then Outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the paying agents, the City Council may pass the amendatory ordinance in substantially the same form.

(d) ***Amendments Binding on All Holders*** Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Master Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations under this Master Ordinance of the City, and all the holders of then Outstanding Parity Obligations and all future Parity Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(e) ***Consent Irrevocable for Certain Period***. Any consent given by the holder or owner of any Parity Obligations shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future holders of the same Parity Obligations during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the holder who gave such consent, or by a successor in title, by filing written notice thereof with the paying agents and the City, but such revocation by any holder shall not be effective if the holders or owners of 51% in aggregate principal amount of the then Outstanding Parity Obligations as in this Section defined have, prior to the attempted revocation, consented to and approved the amendment.

(f) ***Ownership of Parity Obligations***. For the purpose of this Section, the fact of the holding of Parity Obligations which are not registered as to principal by any bondholder and the amount and numbers of such Parity Obligations and the date of their holding same, may be proved by the affidavit of the person claiming to be such holder, or by a certificate executed by any trust company, bank, banker, or any other depository wherever situated showing that at the date therein mentioned such person had on deposit with such trust company, bank, banker, or other depository, the Parity bonds described in such certificate. The City may conclusively assume that such ownership continues until written notice to the contrary is served upon the City.

[On and after the Second Automatic Amendment Date, Section 19 shall read as follows:]

SECTION 19. AMENDMENT OF MASTER ORDINANCE. The City hereby reserves the right to amend this Master Ordinance subject to the following terms and conditions, to-wit:

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

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

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

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

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

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

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

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

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

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

Notice of any such amendment of the nature described in this Section 19(a) may be provided in the manner described in Section 19(c) hereof; provided, however, that the giving of such notice shall not constitute a condition precedent to the adoption of an ordinance providing for such amendment, and the failure to provide such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(b) ***Amendments With Consent of Holders and Credit Providers***. Except as provided in Section 19(a) above, each Credit Provider and the Holders of Parity Obligations aggregating a majority in principal amount of the aggregate principal amount of then Outstanding Parity Obligations which are the subject of a proposed amendment or are affected by a proposed amendment shall have the right from time to time to approve any amendment to this Master Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the Holders in aggregate principal amount of the then Outstanding Parity Obligations affected by such amendment, nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this Master Ordinance or in any of the Parity Obligations affected by such amendment so as to:

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

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

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

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

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

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

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

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

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

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

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

SECTION 20. INVESTMENTS. Money in any Fund established pursuant to this Master Ordinance or any Supplement may, at the option of the City, be invested in any investment permitted by the provisions of the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended); provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments shall be valued in terms of current market value as of the last day of each Fiscal Year of the City. All interest and income derived from such deposits and investments immediately shall be

credited to, and any losses debited to, the Fund from which the deposit or investment was made, except to the extent otherwise provided in Section 8 and 11 of this Master Ordinance with respect to the Bond Reserve Fund and Special Contingency Reserve Fund. Such investments shall be sold promptly when needed or when necessary to prevent any default in connection with the Parity Obligations, consistent with the ordinances, respectively, authorizing their issuance. It is further provided, however, that any interest earnings on proceeds of Parity Obligations, or on funds on deposit in any Fund or Account, which are required to be rebated to the United States of America in order to prevent any Parity Obligations from being arbitrage bonds shall be deposited to the Rebate Fund authorized to be established by a Supplement in accordance with Section 13 of this Master Ordinance and shall not be considered as interest earnings for the purposes of this Section or for the purposes of determining Gross Revenues.

THE FOLLOWING SECTIONS 7, 8, 9, 11 AND 13 APPEAR IN THE THIRD SUPPLEMENT TO THE MASTER GAR ORDINANCE:

SECTION 7. SECURITY. (a) ***Gross Revenues.*** The Series 2002 Bonds are special obligations of the City payable from and secured solely by the Gross Revenues pursuant to the Master Ordinance and this Third Supplement. The Gross Revenues are hereby pledged to the payment of the principal of, premium, if any, and interest on the Series 2002 Bonds as the same shall become due and payable.

(b) ***Bond Reserve Fund.*** The Series 2002 Bonds are to be secured by the Bond Reserve Fund. The Required Reserve Amount will increase upon delivery of the Series 2002 Bonds to an amount equal to ***$13,116,139***. To comply with the requirements of Section 8(a) of the Master Ordinance, the City will cause the amount on deposit in the Bond Reserve Fund to increase to the new Required Reserve Amount by depositing on the date of delivery of the Series 2002 Bonds proceeds of the Series 2002 Bonds in an amount at least equal to the difference between the Required Reserve Amount and the amount then on deposit in the Bond Reserve Fund.

SECTION 8. PAYMENTS; BOND FUND. (a) ***Moneys Made Available to Paying Agent.*** The City agrees to pay the principal of, premium, if any, and the interest on the Series 2002 Bonds when due, whether by reason of maturity or redemption. The City shall make available to the Paying Agent/Registrar, on or before such principal, redemption, or interest payment date, money sufficient to pay such interest on and such principal of the Series 2002 Bonds as will accrue or mature, or be subject to redemption prior to maturity. The Paying Agent/Registrar shall cancel all paid Series 2002 Bonds and shall furnish the City with an appropriate certificate of cancellation upon the City's request.

(b) ***Bond Fund.*** Pursuant to Section 7 of the Master Ordinance, moneys in the Revenue Fund shall be applied by the City on the dates and in the amounts, and in the order of priority with respect to the Funds and Accounts that such applications are described in the Master Ordinance, including making monthly deposits into the Bond Fund to provide sufficient funds to pay all principal of and interest on all Parity Obligations, including the Series 2002 Bonds.

SECTION 9. CONSTRUCTION FUND; REBATE FUND. (a) ***Construction Fund.*** There is hereby created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund designated as the Construction Fund. Proceeds from the sale of the Series 2002 Bonds, other than accrued interest, capitalized interest and moneys, if any, for deposit to the credit of the Bond Reserve Fund, shall be deposited to the credit of the Construction Fund for use by the City for payment of all lawful costs associated with the construction, improvement, renovation, enlargement and equipping of the Airport System, as hereinbefore provided. Upon payment of all such costs, any moneys remaining on deposit in the Construction Fund shall be transferred FIRST to the Rebate Fund, to the extent the City is liable to pay rebate amounts to the United States of America pursuant to the terms of the Code and NEXT to the Bond Fund. Amounts so deposited to the Bond Fund shall be used in the manner described in the Master Ordinance. Additionally, if the Series 2002 Bonds are optionally or mandatorily redeemed prior to maturity as a whole in accordance with their terms, any amount remaining in the Construction Fund shall be transferred to the Rebate Fund to the extent the amount therein is less than the rebate amount the City is liable to pay the United States of America pursuant to the terms of section 148 of the Code as of the date of such redemption.

(b) ***Rebate Fund.*** There is hereby created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund designated as the Rebate Fund. The Rebate Fund shall be for the sole benefit of the United States of America and shall not be subject to the lien created by this Third Supplement or to the claim of any other Person, including the Holders of the Series 2002 Bonds. Amounts deposited to the Rebate Fund, together with any investment earnings thereon, shall be held in trust and applied solely as provided in section 148 of the Code.

SECTION 11. AMENDMENT OF SUPPLEMENT. (a) ***Amendments Without Consent***. This Third Supplement and the rights and obligations of the City and of the owners of the Series 2002 Bonds may be modified or amended at any time without notice to or the consent of any owner of the Series 2002 Bonds or any other Parity Obligations, but with prior notice to the Insurer, solely for any one or more of the following purposes:

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

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

(iii) To supplement the security for the Series 2002 Bonds, replace or provide additional credit facilities, or change the form of the Series 2002 Bonds or make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding Series 2002 Bonds;

(iv) To make any changes or amendments requested by (A) any Credit Rating Agency then rating or requested by the City to rate Parity Obligations, as a condition to the issuance or maintenance of a rating, or (B) as may be necessary or desirable in order to obtain the approval of the Series 2002 Bonds by the Office of the Attorney General of the State of Texas, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding Parity Obligations;

(v) To make such changes, modifications or amendments as are permitted by Section18(c)(v) of this Third Supplement;

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

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

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

(b) ***Amendments With Consent***. Subject to the other provisions of this Third Supplement, the Insurer and the owners of Outstanding Series 2002 Bonds aggregating a majority in Outstanding Principal Amount shall have the right from time to time to approve any amendment, other than amendments described in Subsection (a) of this Section, to this Third Supplement which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the Outstanding Series 2002 Bonds, the amendment of the terms and conditions in this Third Supplement or in the Series 2002 Bonds so as to:

(i) Make any change in the maturity of the Outstanding Series 2002 Bonds;

(ii) Reduce the rate of interest borne by Outstanding Series 2002 Bonds;

(iii) Reduce the amount of the principal payable on Outstanding Series 2002 Bonds;

(iv) Modify the terms of payment of principal of or interest on the Outstanding Series 2002 Bonds, or impose any conditions with respect to such payment;

(v) Affect the rights of the owners of less than all Series 2002 Bonds then Outstanding; or

(vi) Change the minimum percentage of the Outstanding Principal Amount of Series 2002 Bonds necessary for consent to such amendment.

(c) ***Notice***. If at any time the City shall desire to amend this Third Supplement other than pursuant to subsection (a) of this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Registrar for inspection by all owners of Series 2002 Bonds. Such publication is not required, however, if the City gives or causes to be given such notice in writing to each owner of Series 2002 Bonds.

(d) ***Receipt of Consents***. Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the City shall receive an instrument or instruments executed by the Insurer and all of the owners or the owners of at least a majority in Outstanding Principal Amount of Series 2002 Bonds, as appropriate, which instrument or instruments shall refer

to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the City may adopt the amendatory ordinance in substantially the same form.

(e) ***Effect of Amendments***. Upon the adoption by the City of any ordinance to amend this Third Supplement pursuant to the provisions of this Section, this Third Supplement shall be deemed to be amended in accordance with the amendatory ordinance, and the respective rights, duties, and obligations of the City and all the owners of then Outstanding Series 2002 Bonds and all future owners of the Series 2002 Bonds shall thereafter be determined, exercised, and enforced under the Master Ordinance and this Third Supplement, as amended.

(f) ***Consent Irrevocable***. Any consent given by any owner of Series 2002 Bonds pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same Series 2002 Bonds during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Registrar and the City, but such revocation shall not be effective if the owners of a majority in Outstanding Principal Amount of Series 2002 Bonds, prior to the attempted revocation, consented to and approved the amendment.

(g) ***Ownership***. For the purpose of this Section, the ownership and other matters relating to all Series 2002 Bonds registered as to ownership shall be determined from the Registration Books. The Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Registrar.

SECTION 13. THIRD SUPPLEMENT TO CONSTITUTE A CONTRACT; EQUAL SECURITY. In consideration of the acceptance of the Series 2002 Bonds, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this Third Supplement shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Series 2002 Bonds and the pledge made in this Third Supplement by the City and the covenants and agreements set forth in this Third Supplement to be performed by the City shall be for the equal and proportionate benefit, security, and protection of all Holders, without preference, priority, or distinction as to security or otherwise of any of the Series 2002 Bonds authorized hereunder over any of the others by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Third Supplement.

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

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

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

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

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

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

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

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

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

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

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

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

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

(5) Variable Rate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Debt**" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purposes described in the Master GARB Ordinance.

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

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

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

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

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

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

(j) ***Audits***. After the close of each Fiscal Year while any Parity PFC Obligation is Outstanding, an audit will be made by an Accountant of the books and accounts relating to the Airport System and the PFC Revenues (which may be included in the City's comprehensive annual financial report). As soon as practicable after the close of each such Fiscal Year, and when said audit has been completed and made available to the City, a copy of such audit for the preceding Fiscal Year shall be mailed to the Municipal Advisory Council of Texas, any Bond Insurer or Credit

Provider, and to any owner of any then Outstanding Parity PFC Obligations who shall so request in writing promptly after it is readily available to the general public, and also to each information depository then required pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission, or similar rule, within the time period required by such Rule 15c2-12. Such annual audit reports shall be open to the inspection of the owners of the Parity PFC Obligations and their agents and representatives at all reasonable times during regular business hours of the City.

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

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

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

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

(o) ***Legal Holidays.*** In any case where the date of maturity of interest on or principal of the Parity PFC Obligations or the date fixed for redemption of any Parity PFC Obligations or any other payment obligation under a Parity PFC Obligation not be a Business Day, then payment of interest or principal need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

(p) ***Bondholders' Remedies.*** This Master Ordinance and any Supplement shall constitute a contract between the City and the owners of the Parity PFC Obligations from time to time Outstanding and this Master Ordinance and the Supplement authorizing the issuance of Parity PFC Obligations shall be and remain irrepealable until the Parity PFC Obligations and any interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided in a Supplement. In the event of a default in the payment of the principal of or interest on any Parity PFC Obligation or a default in the performance of any duty or covenant provided by law or in this Master Ordinance, the owner or owners of any Parity PFC Obligation may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any owner of any Parity PFC Obligation may at law or in equity, by suit, action, mandamus, or other proceedings filed in any court of competent jurisdiction, enforce and compel performance of all duties required to be performed by the City under this Master Ordinance and any Supplement, including the deposit of the PFC Revenues into the Funds and Accounts provided in this Master Ordinance and any Supplement, and the application of such PFC Revenues in the manner required in this Master Ordinance and any Supplement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 10. PFC CAPITAL IMPROVEMENT FUND. Subject to satisfying the requirements of Sections 7, 8 and 9 of this Master Ordinance, the City shall transfer the balance remaining in the PFC Revenue Fund at the end of each month and deposit same to the credit of the PFC Capital Improvement Fund. The PFC Capital Improvement Fund shall be used for the purposes, and with priority of claim thereon, as follows: first, for the payment of principal,

interest, and reserve requirements on Parity PFC Obligations if funds on deposit in the PFC Bond Fund and the PFC Bond Reserve Fund are insufficient to make such payments; second, for the payment of principal, interest, and reserve requirements on Subordinated PFC Debt if funds on deposit in the Subordinated PFC Debt Fund and any related debt service reserve fund are insufficient to make such payments; third, for the purpose of paying the costs of PFC Eligible Airport-Related Projects; and fourth, for any other purpose related to the Airport System permitted by applicable state and federal law.

SECTION 11. CONSTRUCTION FUND AND REBATE FUND. The City, in a Supplement, hereafter may create, establish and maintain on the books of the City (i) a separate Fund or Account into which the City may deposit proceeds of any Parity PFC Obligations authorized by such Supplement to pay costs associated with the construction of PFC Eligible Airport-Related Projects, and (ii) a separate fund or account into which the City may deposit funds and investment earnings to make payments to the United States of America pursuant to section 148 of the Code.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

and the financial obligations of the City relating to all PFC Eligible Airport-Related Projects after giving effect to the treatment of the Credit Agreement as a Parity PFC Obligation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) ***Amendments With Consent of Holders and Credit Providers***. Except as provided in Section 17(a) above, each Credit Provider and the Holders of Parity PFC Obligations aggregating a majority in principal amount of the aggregate principal amount of then Outstanding Parity PFC Obligations which are the subject of a proposed amendment or are affected by a proposed amendment shall have the right from time to time to approve any amendment to this Master Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the Holders in aggregate principal amount of the then Outstanding Parity PFC Obligations affected

by such amendment, nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this Master Ordinance or in any of the Parity PFC Obligations affected by such amendment so as to:

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

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

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

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

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

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

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

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

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

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

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

SECTION 18. INVESTMENTS. Money in any Fund established pursuant to this Master Ordinance or any Supplement may, at the option of the City, be invested in any investment permitted by the provisions of the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), or other applicable law; provided, however, that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments shall be valued in terms of current market value as of the last day of each Fiscal Year of the City. All interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, except to the extent otherwise provided in Section 8 of this Master Ordinance with respect to the PFC Bond Reserve Fund. Such investments shall be sold promptly when needed or when necessary to prevent any default in connection with the Parity PFC Obligations, consistent with the ordinances, respectively, authorizing their issuance. It is further provided, however, that any interest earnings on proceeds of Parity PFC Obligations, or on funds on deposit in any Fund or Account, which are required to be rebated to the United States of America in order to prevent any Parity

PFC Obligations from being arbitrage bonds shall be deposited to the Rebate Fund authorized to be established by a Supplement in accordance with Section 11 of this Master Ordinance and shall not be considered as interest earnings for the purposes of this Section or for the purposes of determining PFC Revenues.

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

SECTION 7. SECURITY. (a) ***PFC Revenues.*** The Series 2002 Bonds are special obligations of the City payable from and secured by a first lien on and pledge of the PFC Revenues pursuant to the Master PFC Ordinance and this First Supplement. The PFC Revenues are hereby pledged to the payment of the principal of, premium, if any, and interest on the Series 2002 Bonds as the same shall become due and payable.

(b) ***Lien on Subordinate Net Revenues***. (i) The Series 2002 Bonds are additionally secured by a lien on and pledge of the Subordinate Net Revenues. As provided in the definition of Subordinate Net Revenues, all payments from Net Revenues to pay debt service on the Series 2002 Bonds shall be subordinated to the timely payment of debt service on all Parity Obligations issued pursuant to the Master GARB Ordinance and any "Supplement" related thereto which are then outstanding or subsequently issued; consequently, the Series 2002 Bonds are considered "Subordinated Debt" as permitted by Section 4(f) of the Master GARB Ordinance.

(ii) This First Supplement, to the extent that it grants, and for the purpose of (i) additionally securing the Series 2002 Bonds with, a lien on Subordinate Net Revenues as permitted by the Master GARB Ordinance, and (ii) establishing conditions for the issuance of obligations payable in whole or in part with a lien on and pledge of Subordinate Net Revenues, also serves as the "Fourth Supplemental Ordinance" or the "Fourth Supplement" to the Master GARB Ordinance.

(iii) In the event it becomes necessary for the City to use Subordinate Net Revenues of the Airport System to pay all or any portion of any debt service payment on the Series 2002 Bonds, the City will establish a "Subordinated Debt Fund" in the manner contemplated and required by Section 10 of the Master GARB Ordinance (if such Subordinated Debt Fund has not previously been established) and may establish an account within the Subordinated Debt Fund specifically for the purpose of depositing Subordinate Net Revenues to pay all or a portion of the debt service coming due on the Series 2002 Bonds. Each Designated Financial Officer is further authorized from time to time to transfer funds on deposit in the Subordinated Debt Fund relating to the Series 2002 Bonds to the PFC Bond Fund to pay principal, premium, if any, and interest on the Series 2002 Bonds.

(c) ***PFC Bond Reserve Fund.*** The Series 2002 Bonds are to be secured by the PFC Bond Reserve Fund. Immediately following the issuance of the Series 2002 Bonds, the Required Reserve Amount will be ***$2,747,178.16***. To comply with the requirements of Section 8(a) of the Master PFC Ordinance, on the date of issuance of the Series 2002 Bonds, the City will deposit into the PFC Bond Reserve Fund proceeds of the Series 2002 Bonds in an amount equal to the Required Reserve Amount.

SECTION 8. PAYMENTS; PFC BOND FUND. (a) ***Moneys Made Available to Paying Agent.*** The City agrees to pay the principal of, premium, if any, and the interest on the Series 2002 Bonds when due, whether by reason of maturity or redemption. The City shall make available to the Paying Agent/Registrar, on or before such principal, redemption, or interest payment date, money sufficient to pay such interest on and such principal of the Series 2002 Bonds as will accrue or mature, or be subject to redemption prior to maturity. The Paying Agent/Registrar shall cancel all paid Series 2002 Bonds and shall furnish the City with an appropriate certificate of cancellation upon the City's request.

(b) ***PFC Bond Fund.*** Pursuant to Section 6 of the Master PFC Ordinance, moneys in the PFC Revenue Fund shall be applied by the City on the dates and in the amounts, and in the order of priority with respect to the Funds and Accounts that such applications are described in the Master PFC Ordinance, including making monthly deposits into the PFC Bond Fund to provide sufficient funds to pay all principal of and interest on all Parity PFC Obligations, including the Series 2002 Bonds.

SECTION 9. PFC CONSTRUCTION FUND; REBATE FUND. (a) ***PFC Construction Fund.*** There is hereby created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund designated as the PFC Construction Fund. Proceeds from the sale of the Series 2002 Bonds, other than accrued interest, capitalized interest and moneys, if any, for deposit to the credit of the PFC Bond Reserve Fund, shall be deposited to the credit of the PFC Construction Fund for use by the City for payment of all lawful costs associated with the construction, improvement, renovation, enlargement and equipping of the Projects, as hereinbefore provided. Upon payment of all such costs, any moneys remaining on deposit in the PFC Construction Fund shall be transferred FIRST to the Rebate Fund, to the extent the City is liable to pay rebate amounts to the United States of America pursuant to the terms of the Code and NEXT to the PFC Bond Fund. Amounts so deposited to the PFC Bond Fund shall be used in the manner described in the Master PFC Ordinance. Additionally, if the Series 2002 Bonds are optionally or mandatorily redeemed prior to maturity as a whole in accordance with their terms, any amount remaining in the PFC Construction Fund shall be transferred to the Rebate

Fund to the extent the amount therein is less that the rebate amount the City is liable to pay the United States of America pursuant to the terms of section 148 of the Code as of the date of such redemption.

(b) ***Rebate Fund.*** There is hereby created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund designated as the Rebate Fund. The Rebate Fund shall be for the sole benefit of the United States of America and shall not be subject to the lien created by this First Supplement or to the claim of any other Person, including the Holders of the Series 2002 Bonds. Amounts deposited to the Rebate Fund, together with any investment earnings thereon, shall be held in trust and applied solely as provided in section 148 of the Code.

SECTION 10. AMENDMENT OF SUPPLEMENT. (a) ***Amendments Without Consent***. This First Supplement and the rights and obligations of the City and of the owners of the Series 2002 Bonds may be modified or amended at any time without notice to or the consent of any owner of the Series 2002 Bonds or any other Parity PFC Obligations, but with prior notice to the Insurer, solely for any one or more of the following purposes:

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

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

(iii) To supplement the security for the Series 2002 Bonds, replace or provide additional credit facilities, or change the form of the Series 2002 Bonds or make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding Series 2002 Bonds;

(iv) To make any changes or amendments requested by (A) any Credit Rating Agency then rating or requested by the City to rate Parity PFC Obligations, as a condition to the issuance or maintenance of a rating, or (B) as may be necessary or desirable in order to obtain the approval of the Series 2002 Bonds by the Office of the Attorney General of the State of Texas, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding Parity PFC Obligations;

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

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

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

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

(b) ***Amendments With Consent***. Subject to the other provisions of this First Supplement, the Insurer and the owners of Outstanding Series 2002 Bonds aggregating a majority in Outstanding Principal Amount shall have the right from time to time to approve any amendment, other than amendments described in Subsection (a) of this Section, to this First Supplement which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the Outstanding Series 2002 Bonds, the amendment of the terms and conditions in this First Supplement or in the Series 2002 Bonds so as to:

(i) Make any change in the maturity of the Outstanding Series 2002 Bonds;

(ii) Reduce the rate of interest borne by Outstanding Series 2002 Bonds;

(iii) Reduce the amount of the principal payable on Outstanding Series 2002 Bonds;

(iv) Modify the terms of payment of principal of or interest on the Outstanding Series 2002 Bonds, or impose any conditions with respect to such payment;

(v) Affect the rights of the owners of less than all Series 2002 Bonds then Outstanding; or

(vi) Change the minimum percentage of the Outstanding Principal Amount of Series 2002 Bonds necessary for consent to such amendment.

(c) ***Notice***. If at any time the City shall desire to amend this First Supplement other than pursuant to subsection (a) of this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Registrar for inspection by all owners of Series 2002 Bonds. Such publication is not required, however, if the City gives or causes to be given such notice in writing to each owner of Series 2002 Bonds.

(d) ***Receipt of Consents***. Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the City shall receive an instrument or instruments executed by the Insurer and all of the owners or the owners of at least a majority in Outstanding Principal Amount of Series 2002 Bonds, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the City may adopt the amendatory ordinance in substantially the same form.

(e) ***Effect of Amendments***. Upon the adoption by the City of any ordinance to amend this First Supplement pursuant to the provisions of this Section, this First Supplement shall be deemed to be amended in accordance with the amendatory ordinance, and the respective rights, duties, and obligations of the City and all the owners of then Outstanding Series 2002 Bonds and all future owners of the Series 2002 Bonds shall thereafter be determined, exercised, and enforced under the Master PFC Ordinance and this First Supplement, as amended.

(f) ***Consent Irrevocable***. Any consent given by any owner of Series 2002 Bonds pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same Series 2002 Bonds during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Registrar and the City, but such revocation shall not be effective if the owners of a majority in Outstanding Principal Amount of Series 2002 Bonds, prior to the attempted revocation, consented to and approved the amendment.

(g) ***Ownership***. For the purpose of this Section, the ownership and other matters relating to all Series 2002 Bonds registered as to ownership shall be determined from the Registration Books. The Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Registrar.

SECTION 11. ISSUANCE OF ADDITIONAL INDEBTEDNESS SECURED WITH SUBORDINATE NET REVENUES. (a) ***No Superior Lien Permitted***. No Debt or other obligations of the City may be issued which is secured in whole or in part with a lien on and pledge of Subordinate Net Revenues that is superior to the lien on and pledge of Subordinate Net Revenues that has been granted in this First Supplement to secure the Series 2002 Bonds (or that may be granted in the future on a parity basis in connection with any Additional Parity PFC Obligations or other indebtedness of the City).

(b) ***Additional Indebtedness Secured in Whole or in Part with Parity Pledge of Subordinate Net Revenues***. The City reserves the right to secure Debt (including Additional Parity PFC Obligations) or other indebtedness, secured in whole or in part with a lien on and pledge of Subordinate Net Revenues on a parity with the lien on and pledge of Subordinate Net Revenues which has been granted in this First Supplement to further secure the Series 2002 Bonds, upon satisfaction of the following conditions (which conditions are in addition to satisfaction of the conditions set forth in Section 15 of the Master PFC Ordinance if such additional indebtedness is considered to be Additional Parity PFC Obligations):

(i) *No Default*. The Designated Financial Officer and the Aviation Director certify that, upon incurring, issuing or otherwise becoming liable in respect to such additional indebtedness, the City will not be in default under any term or provision of any ordinance which authorized the issuance of indebtedness then outstanding that is secured in whole or in part with a lien on Subordinate Net Revenues on a parity with the lien on Subordinate Net Revenues which has been granted in this First Supplement to further secure the Series 2002 Bonds (including, if applicable, the Master PFC Ordinance and any Supplement).

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

GARB Ordinance will contain the applicable Required Reserve Amount or so much thereof as is required to be funded at such time; and (iv) all other similar debt service reserve funds established in connection with the issuance of any obligations payable in whole or in part with a lien on and pledge of Subordinate Net Revenues will contain the amount then required to be funded at such time.

(iii) *Subordinate Net Revenue Coverage*. The Designated Financial Officer certifies that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Subordinate Net Revenues were equal to at least 1.10 times the maximum Annual Debt Service Requirements on all indebtedness of the City which is secured in whole or in part with a lien on and pledge of the Subordinate Net Revenues on parity with the lien on and pledge of Subordinate Net Revenues granted in this First Supplement to secure the Series 2002 Bonds, and which is scheduled to occur in the then current or any future Fiscal Year after taking into consideration the additional indebtedness proposed to be issued or incurred.

(c) ***Other Indebtedness Secured in Whole or in Part with Junior Pledge of Subordinate Net Revenues***. The City further reserves the right to issue Debt or other indebtedness secured in whole or in part with a lien on and pledge of Subordinate Net Revenues which is junior and subordinate to the lien on and pledge of Subordinate Net Revenues that has been granted in this First Supplement to further secure the Series 2002 Bonds without the necessity of complying with any historical or projected revenue requirements unless otherwise required by the ordinance or ordinances which authorize the issuance of such Debt or other indebtedness.

SECTION 14. FIRST SUPPLEMENT AND MASTER PFC ORDINANCE TO CONSTITUTE A CONTRACT; EQUAL SECURITY. In consideration of the acceptance of the Series 2002 Bonds, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this First Supplement shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Series 2002 Bonds and the pledge made in this First Supplement by the City and the covenants and agreements set forth in this First Supplement to be performed by the City shall be for the equal and proportionate benefit, security, and protection of all Holders, without preference, priority, or distinction as to security or otherwise of any of the Series 2002 Bonds authorized hereunder over any of the others by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this First Supplement.

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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, 2001 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

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

February 13, 2002

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2001. Through our dedication and commitment to excellence, the City maintained its bond ratings with the nationally recognized rating agencies: Fitch, Inc. at AA+, 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. 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 CAFR is presented in three sections: Introductory, Financial, and Statistical.

- The Introductory Section contains the transmittal letter, a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, and a list of principal officials.
- The Financial Section includes the Independent Auditors' Report, 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 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 separate documents. 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.

"AN EQUAL OPPORTUNITY EMPLOYER

THE REPORTING ENTITY AND CITY SERVICES

Reporting Entity

The City is a home rule city that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two year terms, limited to two consecutive terms. San Antonio is located in South Central Texas, approximately seventy-five miles south of the state capital of Austin and serves as the county seat for Bexar County. In fiscal year 2001, the City annexed an area of 12.89 square miles and as of September 30, 2001, its geographic area was approximately 430.02 square miles. The United States Census Bureau cites the City as the third largest city in the state of Texas and ninth largest city in the country. The estimated population grew from 1,207,500 in fiscal year 2000 to 1,226,250 in fiscal year 2001, an increase of 1.6%.

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 CAFR as blended or discretely presented component units. Blended component units are those entities that are considered as part of the City's operations but are legally separate entities. Those entities are the City of San Antonio Health Facilities Development Corporation, the City of San Antonio Industrial Development Authority, the San Antonio Fire and Police Pension Fund, the San Antonio Fire and Police Retiree Health Care Fund, and the City of San Antonio Texas Municipal Facilities Corporation.

Entities that require discrete presentation are the San Antonio Development Agency (SADA), the City of San Antonio Education Facilities Corporation (SAEFC), the Greater Kelly Development Authority (GKDA), the San Antonio Housing Trust Foundation, Inc. (SAHTF), the San Antonio Local Development Company, Inc. (SALDC), 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 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) is one of the largest municipally owned utilities in the country. It provides electric and gas services to the greater San Antonio area. 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. 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. Additional information regarding CPS is discussed in the section "Infrastructure 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. Revenues from its customers fund SAWS' operations, capital improvements, and related debt service requirements. Similar to CPS, the City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. SAWS is governed by a Board of Trustees that includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. SAWS is included as a significant discretely presented Proprietary Component Unit Fund, and it is discussed further in the "Infrastructure Development" section.

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 Education Facilities Corporation (SAEFC), formerly the San Antonio Higher Education Authority, 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. An eleven member Board of Directors appointed by the City Council governs the SAEFC 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. An eleven member Board of Directors appointed by the City Council governs the GKDA.

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. An eleven member Board of Directors appointed by the City Council governs the SAHTF.

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, a HUD 108 Fund, an Enterprise Communities Loan Program, and an SBA MicroLoan Program. 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 govern the SALDC.

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 an integral part by completing "A Strategic Plan for Enhanced Economic Development" and establishing a new economic development collaboration named San Antonio, Inc. in May 2001. It is undertaking on-going infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as

ECONOMIC OVERVIEW (Continued)

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 2001, according to statistics provided by the Texas Workforce Commission are as follows:

Industry Sector	Percentage of Total Employment	Jobs Gained/Lost (9/00 to 9/01)	%Increase (9/00 to 9/01)
Services	32.45%	8,800	3.67%
Retail & Wholesale Trade	24.43%	5,500	3.04%
Government	17.18%	(6,500)	(5.11%)
Manufacturing	7.49%	100	0.18%
Finance, Insurance & Real Estate	6.99%	(300)	(0.58%)
Construction	5.61%	2,100	5.06%
Other	5.85%	6,300	14.55%
Total	100.00%	16,000	2.21%

The total number of San Antonio's nonagricultural jobs in September 2001 was 739,800, a gain of 16,000 jobs (or 2.21%) over September 2000. The City's largest employment sectors are Services, Retail and Wholesale Trade, and Government, which comprise about 74% of the area's employment. Transportation and public utilities within the Other sector, posted the greatest gain in sheer numbers as well as the greatest gain in terms of percentage growth.

The City's health care sector, a component of Services, provides major health care services through its medical, research, education, and development facilities. The City's biomedical industry continues to dominate as the largest industry segment in the San Antonio economy. The Greater San Antonio Chamber of Commerce's Biomedical Economic Impact Study 2001 announced that this industry had a total direct economic impact of $8.1 billion in 2000. This industry provides 14% of all jobs in the San Antonio area, employing more than 96,000 with an annual payroll of $3 billion. Between 1990 and 1999, the economic impact of the health care industry nearly doubled (97.2% increase). Additionally, employees in the health care sector earn more than the San Antonio average wage.

San Antonio is unique because our research institutions have a strong array of expertise in basic and applied research talents in instrumentation, pharmacology, diabetes, cancer therapy, transplant medicine, geriatric medicine, dental medicine, specialized medical instruments, and information security technologies. These strengths provide San Antonio with a rich collection of world-class research facilities, affording us the opportunity to capitalize and leverage this significant combination of resources.

Some of the biomedical assets that this City possesses are: the Air Force Center for Environmental Excellence (AFCEE), BioMedical Enterprises, Biomedical Development Corporation, Brooke Army Medical Center (BAMC), Brooks Air Force Base, the Cancer Therapy and Research Center (CTRC), Conceptual Mindworks, Inc, DPT Laboratories, ILEX Oncology, Inc., Incell Corporation, KARTA Technologies, Lipitek International,

ECONOMIC OVERVIEW (Continued)

Employment Sectors (Continued)

Mission Pharmacol, Probetex, OsteoBiologics, Philips Semiconductor of San Antonio, Research Dynamics, Inc., Sony Semiconductor Company of America, Southwest Foundation for Biomedical Research (SFBR), Southwest Oncology Group, Southwest Research Institute (SwRI), TEKSA Innovations, Texas Blood and Tissue Center, Texas Research Park Foundation, the University of Texas at San Antonio (UTSA), University Hospital, University of Texas Health Science Center (UTHSC), USAF School of Aerospace Medicine, U.S. Army Institute of Surgical Research, U.S. Army Medical Department Center and School, and USAF Wilford Hall Medical Center.

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.

Recent terrorist events resulted in unforeseen national defense strategies. The nation is faced with having to protect its citizens from the direct effects of biological warfare. In addition, a more concentrated effort to mitigate or prevent biological terrorism has been generated in the information security industries. As a result of San Antonio's rich biosciences and information technology industries, the City has positioned itself to surface as the world's foremost Homeland Security Solutions City. The biosciences and information technology industries will play a pivotal role in applying the skills and expertise to security efforts. A collaboration between the Air Intelligence Agency (AIA), UTSA, Trinity University, University of the Incarnate Word, and the Alamo Community College District (ACCD) has been designed to leverage San Antonio's Infrastructure and Assurance (IAS) strengths as part of the solution to the nation's Homeland Defense. This collaboration will also determine infrastructure and assurances deficits. Targeted areas of research will focus on both Department of Defense and industry vulnerability issues to include infrastructure protection, convergence security, intrusion detection, computer forensics, security technician training, privacy, and biometrics.

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 1,087 conventions in fiscal year 2001, with 894,626 associated room nights and an estimated economic impact of $488.5 million. The San Antonio Convention & Visitors Bureau (SACVB) has booked approximately 3.3 million room nights from November 2001 through 2020.

Significant hospitality industry developments include the completion of the Henry B. Gonzalez Convention Center Expansion and Renovation Project. Phase I encompassed a bright new addition to the center that is integrated into San Antonio's River Walk and the surrounding HemisFair Park. Phase II comprised improvements made to the existing convention facilities. The completion of the expansion and renovation project has increased

ECONOMIC OVERVIEW (Continued)

Employment Sectors (Continued)

the contiguous exhibit hall space to approximately 440,000 square feet, while the facility's building footprint is now more than 1.3 million gross square feet. 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, 2001, the military employed approximately 74,427 military, civilian and part-time guard and reserve personnel with an estimated direct economic impact of about $3 billion. Four major installations comprise the military sector: Brooks, Lackland, Randolph, and Fort Sam Houston.

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 forty 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 downtown in 1999, and Ultramar Diamond Shamrock, which recently completed a campus-style headquarters near the University of Texas at San Antonio. Valero Energy Corporation and Ultramar Diamond Shamrock merged in 2001 to form one corporation with corporate headquarters remaining in 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 Chase, CitiCorp, WorldCom, World Savings & Loan, QVC, Kraft, 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

In response to recent terrorism events, the Mayor appointed the Blue Ribbon Commission on San Antonio's Economy. The commission is comprised of seven task forces that will evaluate the local economy and make recommendations to counter the economic slowdown resulting from the terrorism. The commission will focus on key economic sectors and identify new, innovative, and resourceful solutions for both the short-term and long-term actions to stimulate and sustain the local economy. As a result, San Antonio's economy is still stronger than the nation's average.

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

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

expand. In 2001, approximately 3,205 jobs were created through economic development programs. Among the companies that located or expanded business operations in San Antonio in 2001 include Zachry Corporation, Chase Bank, Boeing, and Chromalloy.

The Industry Development Division of the City's EDD continues to focus on working with the Greater Kelly Development Authority in the successful redevelopment of KellyUSA, formerly Kelly Air Force Base, which officially closed on July 13, 2001. EDD 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, reduce infrastructure support costs, preserve jobs and enhance economic development opportunities.

KellyUSA
At KellyUSA, the Greater Kelly Development Authority (GKDA) continues implementation of the community's 1995 Initial Base Adjustment Strategy Committee strategic plan. To date, GKDA has successfully created over 5,000 new commercial jobs and leased out 70% of the available space. New tenants include major aerospace industry players such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero and Pratt & Whitney. In the past 12 months, GKDA has completed over $70 million in new construction and facility upgrades, to include the building of a new hangar facility to accommodate Boeing's expansion. Boeing now employs approximately 2,000 personnel as they continue to expand and grow their operations at KellyUSA.

With the anticipated completion of the City's Air Cargo Study in 2002, planning is also underway to establish air cargo operations at KellyUSA. In addition, GKDA is partnering with the City, the Port of Corpus Christi, the Texas Department of Transportation and major railroad companies to establish inter-modal operations at KellyUSA with critical linkage to the planned Kelly Parkway. The success of this initiative is key to creating Inland Port San Antonio and establishing San Antonio as a major center of logistics and distribution for NAFTA trade.

Brooks City-Base
Congress granted the Air Force special authority to improve mission effectiveness and reduce the cost of providing quality installation support at Brooks Air Force Base (AFB) by passing special legislation in October 1999 which was then amended in September 2001. This special authority allows Brooks AFB to transfer and lease back federal land in a more streamlined manner without being subjected to some existing federal property statutes and presents an opportunity for high quality, multiple-use development in a unique public-private partnership with the Air Force. Development of underutilized real property, including sale or lease of Air Force assets, is part of an integrated strategy for transforming the base into a technology and business park.

Situated on 1,310 acres on the southeast side of San Antonio, Brooks AFB has over two million square feet of buildings and provides employment for approximately 3,500 highly educated people, including 1,800 military personnel. Of the 1,310 acres, nearly a square mile (510 acres) is prime undeveloped land. The base provides expert consultation in a broad spectrum of environmental fields. In addition to the environmental aspects of Brooks AFB contributions, the School of Aerospace Medicine provides medical education and training for Air Force personnel. The Air Force Research laboratory uses world-class facilities to direct energy bioeffects, aerospace physiology, and intelligence training and tutor technology research for the Air Force.

Legislative authority to use Brooks AFB as a demonstration model for more efficient operation of military installations makes this project an important one for the Air Force, the private sector and for the City. The enabling legislation permits the Air Force, among other things, the opportunity to convey real property assets at Brooks AFB and lease back the facilities required for mission accomplishment. Congress

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

Brooks City-Base (Continued)
allowed the Air Force to use this authority "to convey or transfer real and personal property located at the Base to the Community or to another public or private party."

The City's primary focus has been on retaining over approximately 3,500 jobs at Brooks AFB by making Brooks AFB more cost efficient, enhancing economic development opportunities for the surrounding community, and operating Brooks AFB as a financially self-sustaining enterprise. The first step in transferring ownership occurred in December 2001 with the execution of a non-binding agreement between the City and the United States Air Force. This agreement sets forth the general terms and conditions for the transfer of base ownership. Since August 2000, the Air Force and the City have been negotiating the terms and conditions of the final transfer agreement.

To carry out this development strategy, the Air Force is partnering with the City and is pursuing the conveyance of Brooks AFB property to the "Brooks Development Authority", which was established by San Antonio City Council Resolution on September 27th, 2001. The Brooks Development Authority will leaseback facilities to the Air Force, provide municipal and property management services, and promote economic development of available land and facilities. It is anticipated that the contractual documents will be executed by summer of 2002 with a transfer of the property to follow.

Fort Sam Houston
At Fort Sam Houston the Army has signed a fifty-year lease with Orion Partners, Inc. and Roy F. Weston, Inc. on 502,196 square feet of space in three historic buildings--the old Brooke Army Medical Center and two wings of the Beach Pavilion Complex. Orion/Weston expects to finance approximately $50 million in renovations secured through long-term leases with commercial public sector tenants. The success of this unique partnership is critical to assisting the Army in reducing infrastructure maintenance costs and generating net cash flow for both the Army and Orion/Weston. The City is assisting Orion/Weston in finding tenants for these facilities.

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 are the development of the SATAI Network. The SATAI is an industry driven and multi-stakeholder organization that will accelerate the entrepreneurial job creation and increase community income through the growth of the technology sector of the San Antonio economy. The City continues to play an active role in the organization by serving on several SATAI committees and by hosting, on City computers, the online SATAI directory of local technology providers.

Aviation Industry Development
The City has three airport facilities: San Antonio International Airport, Stinson Municipal Airport and KellyUSA. The International Airport and Stinson Airport are owned by the City and operated by the City's Aviation Department. KellyUSA completed its transition from an Air Force Base in 2001. 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 has, therefore, identified aerospace as a targeted driver industry in its 2001 Strategic Plan for Enhanced Economic Development. To support the workforce requirements for growing and sustaining a viable aerospace industry, the community partnered to establish the Alamo Area Aerospace Academy, which opened in September 2001. Complementing this workforce initiative is the Advanced Technology Center scheduled for opening in April 2002. The City, in partnership with the Alamo Community College District, has funded this $3 million project.

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

Aviation Industry Development (Continued)
The City is also in the process of implementing the November 2000 Aviation Strategic Plan. The Plan identifies economic development opportunities at KellyUSA, San Antonio International Airport and Stinson Municipal Airport, specifically in the four business areas of: (1) air cargo; (2) aircraft maintenance, repair and overhaul (MRO); (3) general aviation; and (4) air passenger service. An air cargo study is underway to identify business opportunities at KellyUSA and San Antonio International Airport. This study will conclude in early 2002 with the delivery of strategic marketing plans for each facility. Aviation is also one of the four industry cluster groups identified in the San Antonio Technology Accelerator Initiative (SATAI). The SATAI Aviation Committee is also looking at initiatives that can create more growth and jobs in the aerospace industry, such as the establishment of a Center of Excellence for the maintenance, repair and overhaul of aging aircraft at KellyUSA.

International Consortium for the Environment (ICE)
ICE is a consortium of universities facilitated by Brooks Air Force Base (AFB) to address international environmental issues and public health concerns with an initial focus on the border region of the United States and Mexico through interdisciplinary research, teaching, and public service. Local ICE membership includes: Brooks Air Force Base, UTHSC, UTHSC Dental School, UTSA, Palo Alto College, University of the Incarnate Word, and the City's Metropolitan Health District. ICE augments the Air Force Institute of Environment, Safety and Occupational Health Risk Analysis (AFIERA) efforts to enhance mission effectiveness, protect health, improve readiness, and reduce costs through the assessment and management of risks to human health and safety, operational performance and the environment. Several AFIERA product divisions have established collaborations with ICE members. These product divisions will focus on threats to human health and safety due to occupational hazards. They provide expert field evaluations and consultations to Air Staff, MAJCOM, and Air Force bases worldwide in order to prevent or identify, evaluate, and control chemical, physical and biological occupational health hazards, reduce costs, and improve mission accomplishment and readiness.

New Business Prospects
The San Antonio Economic Development Foundation, Inc., reported in the fiscal year 2001 Summary and Fourth Quarter Report that the City had 87 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 2001, there were several downtown development projects being proposed. These included public and private projects, which were in various stages of development. The centerpiece of downtown revitalization is the Houston Street Redevelopment Project. This effort is spearheaded by Street Retail San Antonio, L.P., which acquired 14 buildings on E. Houston Street between the San Antonio River Walk and Presa Street. The developer is expected to invest more than $100 million to create a retail and entertainment district in the heart of downtown. Public improvements include, among other things, river walk, 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 Historic Civic Center project as it related to the Houston Street TIRZ Project Number Nine was completed this fall 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 704 space multi-level parking garage in the area of Travis and St. Mary's streets, which will be open to the public and is expected to alleviate day time corporate parking demand and increase parking for the hotels, restaurants, and night attractions.

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

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 2001, the International Affairs Department worked with 104 international delegations that included 617 delegates that visited the City. Delegations visited San Antonio from Germany, Israel, Mexico, Japan, Canada, Tibet, Argentina, Spain, Canary Islands, Ireland, Cyprus, India, Russia, Czech Republic, Great Britain, Nepal, Bolivia, South Africa, and Kenya. 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 Department's Annual Report for fiscal year 2001 cites NADBank activity since its establishment as having authorized loans, guaranties and/or border environment infrastructure fund grants totaling approximately $340 million to partially finance 37 infrastructure projects. These projects will represent a total investment of approximately $995 million benefiting an estimated 5.5 million residents in the United States and Mexico.

By the end of fiscal year 2001, NADBank signed a loan and/or Border Environment Infrastructure Fund (BEIF) agreement for 8 of the 34 projects with approved financing totaling $15 million and 16 BEIF grants totaling $325 million. In addition, approximately $86 million in NADBank loans and/or BEIF grants funds have been disbursed for 20 of these projects. The NADBank is currently involved in 13 institutional strengthening projects assisting 63 communities; 34 projects have been completed and delivered to the utilities and 59 projects are in progress.

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 roadway 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 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 on 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.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Safety
Fiscal year 2001 was the fifth year of the Vision 2001 Plan, a comprehensive five-year strategic plan augmented by the Management Accountability Program provides 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.

The improved Dispatch Facility, constructed in 2000 and funded with 1998 Certificates of Obligation, will accommodate the requirements for a new public radio system, which is currently under design and scheduled to become operational in 2002.

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 fiscal year 2001, $3,040,272 was budgeted for this project.

General Obligation Bonds – 1999 totaling $3,009,000 were allocated to Police Substation Expansion Projects for West, South, North, and Northwest Substations. In fiscal year 2001, $565,420 was budgeted for the expansion projects. The Police Substation Expansion Projects continue as scheduled; expansion of five police substations is necessary due to annexation, population growth, and crime trends in order to improve the ability to provide neighborhood policing and improved service delivery. Construction of the West, South, and North Substations will begin in February 2002.

In June 2001, the Department presented the 2001 Police Rolling Staffing Plan to City Council. The 2001 Plan was presented in the context of potential rising property and violent crime rates along with projections of unusual numbers of police officer retirements leaving potential gaps in police staffing. This potential increase in crime is due to recidivism as a result of early prison releases. The Plan proposes the redeployment of 61 existing police officer positions, the addition of 265 new sworn police positions, and the addition of 20 civilian support positions over the next five years, from fiscal year 2002 through 2006, at a total cost of $45 million. With the implementation of the 2001 Plan, the new Patrol Availability Factor goal for fiscal year 2002 will be 44.89% along with the continuation of dedicated directed patrols. Additionally, in 2001, the Police Department continued to provide and improve citizens' convenient access to information and investigative services at the Police Substations and through enhanced data availability on the Department Website.

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, 2001, Public Safety Infrastructure included 6 police stations, 48 fire stations, which house 47 engine companies, 18 truck companies, 8 brush trucks, 8 Fire command units, 5 EMS command units, 25 full-time EMS units and up to 10 peak period units.

With regard to Fire and EMS services, fiscal year 2001 included the continued implementation of the Fire Department Master Plan, a five-year rolling plan of comprehensive improvements targeted to enhance services provided such as fire suppression, fire prevention, and emergency medical services. Improvements implemented

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Safety (Continued)
included the addition of 1 first responder van, bringing the total to 15, which is 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 25. Technology and equipment enhancement related Mobile Data Terminals (MDTs) and the equipping of 2 trucks with medium rescue equipment bringing the citywide total to 5.

Parks and Recreation Department
As of September 30, 2001, the City's Parks and Recreation infrastructure included over 179 neighborhood, community and large urban parks, numerous sports complexes, 26 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 11,209 acres. During fiscal year 2001, approximately 29 Parks and Recreation capital improvement projects were completed at a construction cost of over $7.4 million, and an additional 95 Parks and Recreation capital improvement projects were under construction, bidding, or 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
The City adopted a new Unified Development Code (UDC) in fiscal year 2000-2001, which incorporated many new development regulations and established new criteria for development review by the City. A one time budget appropriation of $65,000 was made for the implementation and training for the UDC. The purpose of this was to retain the current UDC consultant for 12 months to assist in the training of city staff to monitor the UDC implementation process and to educate community groups on the new concepts, rules and procedures stemming from the revision of the UDC. The UDC was adopted by City Council on May 3, 2001, and is currently in the second phase of implementation. The third and final phase of implementation will occur February 3, 2002, bringing the project to completion.

During fiscal year 2001, the Planning Department also completed conversion of the City's Zoning Data from a Computer Aided Drafting (CAD) format to a Geographic Information System (GIS) format. This GIS format assisted in the implementation of the City's Information Technology Plan 2001 - 2003. This conversion has also made possible the creation of a City Intranet Zoning Website, which allows all city employees to access the current zoning via the COSA Web. The GIS has been programmed with UDC zoning attributes which will allow a seamless transition to occur in February 2002 resulting in the elimination of the 1938 and 1965 zoning districts without experiencing delays.

The Neighborhood Improvement Challenge Program (Challenge Program) provides neighborhood-based organizations the opportunity to implement small, public improvement projects in partnership with private groups. In fiscal year 2001, the Challenge Program awarded a total of $81,984 to 74 projects ranging from landscaping, murals, park enhancements, and special topics series that include newsletter design, advertising, and promotion and distribution. Additionally, the Neighborhood and Urban Design Division, as part of the Community Building

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)
and Neighborhood Planning Program, coordinated with Texas Department of Transportation to submit two competitive applications for Hazard Elimination Safety Funds. A total of $475,000 was awarded to our San Antonio area TxDOT district office for medians on Austin Highway to implement a strategy in the North East Inner Loop Neighborhoods Plan.

In order to provide high quality customer service, the Planning Department formulated a development application tracking system that can be accessed through the Internet. The system allows engineers, architects, builders and others to track the progress of applications as they are reviewed by the Planning Department. These applications include Master Development Plans, Planned Unit Development Plans, Vested Rights Permits, Manufactured Home Park Plans, Pedestrian Plan, Master Planned Community District Plans, Infill Development Zone Plans and plats. The database system is updated on a weekly basis and at the touch of a button is able to provide customers with up to the minute results.

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 unique partnership between the City and Northeast Independent School District), and 2 bookmobiles. The Central Library and 9 of the 18 library branches offer services seven days and three evenings a week. The Ronald Reagan High School/Public Library is open after school hours and evenings four days a week, Saturday and Sunday during the day. The remaining nine library branches are open six days and four evenings a week. The addition of Thursday evening hours at these locations provided increased library access and usage for families, students and neighborhood residents.

The Library system added Computer Centers (Gates Foundation grant) in 10 branches expanding the amount of citizen access to public use computers by 250%. The computer center workstations are loaded with word processing, spreadsheet and database software as well as Internet access. All 14 Gates Center locations received a full-time Department Systems Aide to assist customers with computer center training and use. This initiative reflects the important role played by the Library system in supporting enhanced educational opportunities and computer job skills training for city residents. Every branch library received a Kid's Connect workstation loaded with multiple CD-ROM programs designed for literacy development for young children. These workstations are popular and provide opportunities for parent/child interaction.

Over 3.2 million people utilized the Library's collection of print and non-print resources in fiscal year 2001. Citizens borrowed 6% more materials and asked 29% more reference questions than in the prior year. Usage of the Library's website, including access to full-text electronic information databases increased 124% over the previous year. A total of 156,369 citizens attended library programs designed for a variety of audiences including children, families and adults.

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

San Antonio International Airport is located on approximately 2,600 acres of land that is adjacent to Loop 410 freeway and U.S. Highway 281, and is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and is able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 28 second level gates. Presently, domestic air carriers providing service to San Antonio are American, America West, Atlantic

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
Southeast, Continental, Delta, Midwest Express, Northwest, Southwest, Sun Country, and United. 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 San Antonio International Airport and Stinson Municipal Airport.

San Antonio International Airport has two designated cargo areas: the West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992. 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 facilities are currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2000 totaled 130,199 tons.

The Airport System which consists of the San Antonio International Airport and the Stinson Municipal Airport 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 was developed in 2001 for the International Airport by AGA Consulting, Inc. 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 2004 to satisfy projected demand over the next ten years. The City is in the process of coordinating the facility layout for the new parking improvements and the additional terminal facilities. The construction of new parking facilities is expected to start in 2002 and the costs are included in the Capital Improvement Program.

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 revenue 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. In addition to the 12 full-time and 36 part-time positions, which were eliminated following the completion of the recent parking improvements, the recommendations involved a net reduction of 26 positions.

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 be 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 years 2000 and 2001, airline costs per enplaned passenger was $3.09 and $3.53, respectively.

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 $27.5 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

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
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 year Capital Improvement Program (CIP) pursuant to the Airport 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 Airport System's overall CIP for fiscal years 2002 through 2011, which may change as circumstances permit, is estimated to be $425.6 million. The CIP includes capital improvements as follows: $124.2 million for terminal related improvements, $51.8 million for parking improvements, $19 million for roadway improvements, $177.1 million for airfield improvements, $8.2 million for cargo facilities, $6.7 million for aircraft apron, $5.9 million for Stinson Airport improvements, and $32.7 million for other improvements. 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, as the owner and operator of the Airport, has received authority to "impose and use" Passenger Facility Charges (PFC) at the $3.00 level, which became effective November 1, 2001. The FAA issued a Record of Decision approving the City's PFC application on August 29, 2001. The CIP also anticipates the approval of a 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 with City Council's review, and approval anticipated in the Spring of 2002. 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), owned by the City, provides electric and gas services to San Antonio and surrounding areas. CPS generates power for its customers through two coal fired and five natural gas fired plants and owns 28% of the South Texas Project nuclear plant on the Gulf Coast. During fiscal year 2001, CPS obtained its generation from the following sources: Coal 47%; Nuclear 28.6%; and Natural Gas 24.4%. CPS also delivers natural gas to customers through its 4,368 miles of 2 to 16 inch steel mains and 1 ¼ to 6 inch high-density polyethylene (plastic) mains. As of year-end, CPS was serving approximately 578,300 electric customers and 305,800 natural gas customers.

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 third lowest among the 20 largest cities in the United States for the twelve months ending January 31, 2001. CPS remitted $182.4 million to the City of fiscal year 2001. With increased natural gas prices and usage during the past winter, the City provided approximately $8.6 million in rebates to San Antonio ratepayers to provide utility relief. Additionally, the City allocated approximately $678 thousand to the Project WARM to supplement the efforts of this project to provide utility relief to economically disadvantaged residents. These additional resources became available as a result of the increased payment from CPS to the City because of the aforementioned conditions.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

San Antonio Water System
The City's waterworks system, initially acquired in 1925, was included in a consolidation on 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 to San Antonio and certain surrounding areas. As of May 31, 2001, SAWS provides service to approximately 294,826 water customers and approximately 345,614 wastewater customers. SAWS has 4,072 miles of water mains in place and 4,845 miles of wastewater mains in place.

In October 2000, City Council approved the establishment of a Water Supply Fee to fund the development of additional water resources and accepted a five year multi-year financing plan. The fee must be utilized for water supply activities and was implemented in January 2001 at a rate of $.0358 per 100 gallons of usage. In accordance with the multi-year financing plan, the water supply fee was increased by $.0350 in January 2002 bringing it to a total of $0.0708 per 100 gallons of usage.

Housing and Neighborhood Development
The City's administration of housing and infrastructure development initiatives are being accomplished through initiatives such as the Housing Master Plan, Neighborhood Sweeps, Neighborhood Commercial Revitalization, Down Payment Assistance, Owner Occupied Rehabilitation and Reconstruction, Rental Rehabilitation, Affordable Parade of Homes, Tax Increment Financing, and the Housing Asset Recovery Program managed through the Neighborhood Action Department. In continuation of the Mayor and City Council's community revitalization efforts, the Department is developing public policies to support inner city revitalization in distressed areas.

In support of the Mayor and City Council's community revitalization efforts, the Neighborhood Action Department has defined a strategy for data gathering efforts to aid in the development of a comprehensive investment plan for the Community Revitalization Action Group (CRAG) target area, original 1940 city limit boundaries. In addition, the Mayor will be hosting a series of lectures led by the Urban Land Institute to be held in coordination with the Livable Cities Conference in Spring 2002.

Housing Asset Recovery Program
In an innovative approach to revitalization, the Neighborhood Action Department partnered with the Fannie Mae San Antonio Partnership Office utilizing a line of credit to rehabilitate valuable housing stock and thus create affordable housing opportunities for low to moderate-income families in San Antonio. The Housing Asset Recovery Program (HARP) takes a non-productive, residential structure and creates a useful asset for the community. Individuals, non-profit organizations, corporations, or any owner of a single-family home, residential lot, or tract of land can donate or sell the asset to the City. Beyond the flood recovery program, in most instances, the home can remain on the existing lot and is rehabilitated on site. In other cases, such as in school expansion projects, a home may need to be relocated to another city-owned parcel of land. To finalize the HARP transaction, the City refers the "project" to Fannie Mae for rehabilitation and sale. Once the home has been renovated, a licensed real estate broker lists and sells the property on behalf of the City. Net proceeds from the sale of the home are returned to the City for reinvestment in affordable housing.

In fiscal year 2001, the Neighborhood Action Department received a number of properties for this program through other governmental entities and non-profit organizations. The HARP concept evolved as a result of one of San Antonio's greatest natural disasters, the Flood of October 1998. The City formulated a program to

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Housing Asset Recovery Program (Continued)
purchase the homes of families who resided in a 100-year flood plain. The properties had sustained very little water damage and were ideal for recovery. The Department works with Public Works, Asset Management, and other departments to recover these properties and offer homeownership opportunities that ultimately placed these homes back on the tax rolls.

Housing Master Plan
In June 2001, the City was presented with a Housing Master Plan completed by J-QUAD & Associates, LTD, SA Research Corporation, and McConnell, Jones, Lanier and Murphy, LLP. The Master Plan is a result of recommendations found in the Community Revitalization Action Group Report and the Housing Performance Review. Both documents indicated a need for an overall plan to guide housing development in the City.

The Master Plan identifies and provides a series of recommendations for housing initiatives, processes and comprehensive development for the City. The Master Plan also provides a baseline and understanding of current conditions found in San Antonio's housing market as well as presents a definition of continuum of care and affordable housing. The Master Plan also makes a series of recommendations concerning the retooling of programs and processes to enable implementation of the recommendations defined in the plan. These recommendations are currently under review by the City Council Housing and Neighborhoods Council Committee.

Neighborhood Sweep Program
The Department coordinated and delivered 24 neighborhood sweeps during fiscal year 2001. Over the last 4 years, 86 communities have been recipients of this comprehensive service delivery program. The neighborhood sweeps represent an inclusive package of city services, such as code investigations, brush collection, street/pothole repair, graffiti and vacant lot abatement, that are delivered to a 55–60 block area over a period of two weeks. The program is designed to accomplish both short-term "clean-up" goals and long-term community development goals including accessing safe, decent housing and assisting special need populations.

Neighborhood Commercial Revitalization
The Neighborhood Commercial Revitalization (NCR) Program was created to bring renewed interest and investment to San Antonio's older commercial corridors. The NCR Program is currently working in eight target areas throughout the City's urban core. The NCR Program provides financial and technical assistance to community based non-profit organizations that undertake a full-time revitalization effort. The NCR Program is based on identifying and marketing the competitive advantages of these business districts in the hope of attracting private investment in new and existing businesses, thus creating job opportunities and enhancing the quality of life in the surrounding neighborhoods.

Collectively, NCR target areas have realized $3,044,650 in private investments and 188 new jobs. During fiscal year 2001, the Program's third year of operations, a comprehensive review was conducted. Changes to the funding and selection components were adopted by City Council on September 13, 2001. These changes will position the NCR Program to achieve greater success and productivity in fiscal year 2002 as the participants continue to implement strategies that will support inner-city revitalization.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Down Payment Assistance Programs
In February 2001, the Neighborhood Action Department acquired the down payment assistance program and homebuyer counseling services previously administered by the San Antonio Development Agency. The Department will continue to provide up to $8,000 in down payment and closing cost assistance for families wishing to purchase single family homes in the San Antonio area. Working in partnership with various lenders, realtors, builders, and non-profit agencies to reinforce the specifics of the program, Neighborhood Action has been able to expedite the processing of each file by ensuring complete and thorough information. During fiscal year 2001, more than 145 families received down payment assistance through this program.

Owner Occupied Rehabilitation & Reconstruction Programs
The City also acquired these programs from the San Antonio Development Agency in 2001. The Neighborhood Action Department administers the Owner-Occupied Rehabilitation and Reconstruction Program that provides loans and grant funds for renovation or reconstruction of housing units for qualifying families. This Program is also funded through the US Department of Housing and Urban Development providing Community Development Block Grant and HOME funds. The Department works closely with the families to determine rehabilitation and/or reconstruction needs based on assessments of the housing structure. The Department is responsible for providing oversight and monitoring of construction activities for the projects.

Rental Rehabilitation Program
The Neighborhood Action Department's Rental Rehabilitation Program provides funds for both single-family and multi-family rental units. It has been noted that much of the rental housing stock within the inner city is substandard and in need of rejuvenation; however, 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 dwellings. 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.

Tax Increment Financing
In order to stimulate major new construction and rehabilitation throughout the City, the Neighborhood Action Department diligently utilized the Tax Increment Financing (TIF) program. This program provides a means of presenting incentives that carry real costs by paying public improvement costs from the increased tax revenues generated by the project itself. The public purposes of TIF projects include 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. Since 1998, the City has created seven residential Tax Increment Revitalization Zones (TIRZ) administered through the Neighborhood Action Department with one residential TIRZ being dissolved and two commercial TIRZs administered through the Economic Development Department. During fiscal year 2002, the City projects the creation of five new residential TIF projects, evident from pending applications being processed. As of September 30, 2001, a total of 477 housing units have been constructed throughout the residential TIF projects.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Community Initiatives Department
The Department of Community Initiatives (DCI) serves as the primary human development agency for the City. In this role, DCI coordinates community-based human investment strategies designed to raise the education and skill level of the City's workforce. In this capacity, the Department acts as a vehicle for collaboration between public and private organizations. This focused facilitation strives to leverage and maximize resources toward significantly improving the community's human development outcomes. In fiscal year 2002, DCI will invest almost $130 million in human development. The DCI budget supports the City's strong commitment to strengthening long-term economic viability in San Antonio through the development of human capital.

DCI plays a major role in the City's Better Jobs Initiative, which supports human development efforts at all stages of life, beginning with early childhood development and continuing through adult education. DCI carries out these human development strategies primarily through family strengthening, early childhood education, kindergarten readiness, youth development, college scholarships, long-term job training and adult literacy services.

The goal of the Department's early childhood education and kindergarten readiness efforts is to provide high quality and affordable childcare in order to improve workforce participation and prepare children to enter school ready to learn. Through Head Start, the Child Care Delivery System and local initiatives, the Department will provide childcare to over 17,000 low-income children of parents participating in workforce activities. To help accomplish this goal, the City provides $10.4 million in In-Kind contributions to the Head Start program. This In-Kind contribution consists of rent-free space for day care sites with grant and volunteer service hours provided by parents, nurses, and doctors. The nurses and doctors volunteer services are provided through the San Antonio Metropolitan Health District.

The Better Jobs Kindergarten Readiness Project prepares children for elementary school by developing their mastery of problem solving, communications and life skills. Kindergarten Readiness operates fully in 17 elementary school neighborhoods. To increase public awareness about the issue of school readiness and parental involvement, DCI initiated Early On, a multi-media campaign to disseminate the Kinder Readiness guidelines. Last year, the Kinder Readiness Project engaged over 2,500 parents and 200 teachers in the use of the guidelines. According to a University of Texas at San Antonio (UTSA) research study on the project, 86% of children assessed displayed mastery of the guidelines. The project distributed more than 46,000 brochures through public and private partnerships.

The San Antonio Education Partnership (SAEP) encourages students to stay in school and advance to higher education by providing advising services, college preparation activities and scholarships to students who graduate with a 95% attendance rate and 80% grade point average. Annually, the SAEP serves over 15,000 9th - 12th grade students at the 15 participating high schools. Since the program's inception, over 1,000 scholarship recipients have received their Bachelor's degrees from local colleges and universities.

Funded primarily through the City, Project QUEST serves as an employer and industry driven long-term job training program. It provides certificate and two-year degree graduates for the demand occupations linked to San Antonio's driver industries. The program serves undereducated adults who have completed high school or a GED certificate. Project QUEST offers a continuum of basic and occupational skills training, job placement and job retention services. In addition, Project QUEST works closely with the aviation and healthcare industries to

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Community Initiatives Department (Continued)
provide customized training programs, which addresses the critical job training needs of these driver industries. In fiscal year 2001, 60 participants completed customized aerospace training programs. Since the program's inception in 1993, over 1,500 participants have completed training and have been placed in jobs at an average wage of $9.57.

The Department's Literacy Services Division offers adult education services including GED preparation, adult basic education, English as a Second Language (ESL), and computer literacy. In addition, the Department has implemented the Better Careers and Literacy for Life programs in partnership with local employers to improve the workplace skills of adult learners who have a limited work history through life skills training classes, intensive job counseling, motivational sessions, financial literacy and job placement. Over the past 18 months, over 300 adult learners have completed these programs and been placed in jobs. Through a grant from the Texas Workforce Commission, the Better Careers program will expand and serve 300 adult learners in fiscal year 2002.

Strategic partnerships, which demonstrate a high level of impact and public accountability, will continue to be the key to successfully raising the community's education and skill levels, a prerequisite to making Better Jobs a reality for all San Antonians. Over the last year, the Department continued to strengthen existing partnerships and form new strategic alliances. For example, the Kindergarten Readiness Project operates in collaboration with Bexar County school districts, childcare centers, UTSA, and community based organizations including Family Services Association, KLRN, AVANCE and YMCA. The Department's other essential partners include but are not limited to the United Way, Annie E. Casey Foundation, Alamo Workforce Development, Inc., (AWD), Smart Start, Tourism Council, employers and congregations.

As a single entity operating alone, the City cannot achieve a higher standard of living and long-term economic vitality. In fiscal year 2002, the Department will continue to facilitate the coordination of community assets to empower citizens, foster partnerships and provide effective and efficient services to promote self-sufficiency and ensure the best possible results for families and children in San Antonio.

Information Services Department: (ISD)
The Security Initiative's goal is to protect the City's critical missions by reducing risks, complying with laws and regulations, and ensuring business continuity, information integrity and confidentiality. To achieve this goal, in June 2001, ISD established its new Security Office and hired a Security Manager. The Security Initiatives focus is to institute and manage new security policies, guidelines and operating procedures for all City systems and infrastructure. It will monitor, maintain, revise and disseminate current security policies, procedures and administrative directives to ensure they are current and will enforce security policies to insure the City's systems and data are secure from unauthorized access, protected from inappropriate alteration, physically secure and available to authorized users in a timely manner. The Security Manager will plan, and schedule vulnerability assessments to properly analyze the risk to City systems and data integrity.

The E-San Antonio project provides Internet access in order to enhance the City's effectiveness and efficiency in serving its employees, citizens, businesses and visitors. During 2001 a new easier-to-use and easier-to-remember address for the City's website was implemented – sanantonio.gov – and a new community web portal was introduced. San Antonio stakeholders will have one-stop access to government services, including e-commerce, regardless of which political entity provides the service.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Services Department: (ISD) (Continued)
The Alamo Area Community Information System Initiative (AACIS), an ongoing partnership of non-profit, educational and government agencies, is dedicated to improving the quality of life in San Antonio by making internet access and social service delivery more accessible, particularly to the underserved in our community. In support of AACIS, the City's Information Services Department is now hosting a community hub, a device consisting of integrated telecommunication components which will efficiently link local networks, maintained by separate Greater-San Antonio organizations, into a single internet-based metropolitan area network (MAN).

Information Technology (IT) is the employment of computer hardware, software, networks and telecommunications to process and distribute information in digital, audio, video and various other forms. The City has developed an Information Technology Plan to provide a coordinated IT planning effort across all departments of the City and to effectively manage the City's technology investments in concert with its strategic business processes. This long-range plan projects future IT needs and makes critical decisions about IT through fiscal year 2004. The City uses IT to be more cost efficient, deliver better and more comprehensive services, and provide easy access to information to its employees, citizens, businesses and visitors. Demands for the ability to conduct business electronically, allow for faster response time, increase participation and involvement in government, along with economic pressures to do more with less, are major factors that affect the use of technology at the City. This plan is intended to be dynamic and is updated annually to reflect changes in technology, trends, and the organization.

The Information Technology Vision of the City is to provide business solutions that will enhance the City's effectiveness in serving its employees, citizens, businesses and visitors through the successful use of IT. Information Technology will be used to lead the City into the 21st century and to achieve citywide goals. This plan is built on a vision of IT in which employees, citizens, businesses, and visitors have access to appropriate technologies and experience quality service without the constraint of boundaries such as time or location. It promotes a technological environment that provides electronic access, retrieval and use of city information and services for employees, citizens, businesses and visitors anytime and anywhere.

The Information Technology Plan forges a logical link between business strategies and the information delivery system supporting the strategies. The City's Information Technology Plan is a roadmap for defining where the City's IT environment is headed and how it will get there. The plan reflects an underlying philosophy that substantive, long-term efficient and effective improvements for the City cannot be obtained without an integrated assessment of business processes, people and technology. Technology is an enabler that must support the business needs and direction of the City.

The City realized there was a need to stabilize the desktop computing environment and the multiple operating system platforms. It was ascertained that the most expeditious and cost effective approach would be to enter a seat management lease program whereby within 3 years all City users would be on a uniform operating platform with the most current equipment. This initiative, coupled with the City's Enterprise License Agreement (ELA) with Microsoft, will enable the City to have the most current operating system and suite of office tools. The lease program is currently being developed and should be in place next fiscal year.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Enterprise Resource Management (ERM) Project
The Enterprise Resource Management Project is an initiative to reengineer business processes and replace existing software systems in order to improve efficiency, accountability, and to provide enhanced services to the customers of the City. Project sponsors include the City Manager, Director of Finance, and Director of Information Services. The City has hired a consulting firm to assist the City with this effort. The ERM Project consists of three phases, of which Phase 1: Strategy and Process was completed in September 2001. Phase 2: Software Solitication and Selection is scheduled for completion by July 2002, and Phase 3: Software Implementation is expected to be phased in over the upcoming years and completed in 2005.

Contracting Initiatives
In August 2000, the City Council approved the selection of an independent project team led by the consulting firm of DMG-MAXIMUS, Inc. to conduct an independent review of the City's management of business contracts. The comprehensive review was an effort to improve the efficiency and effectiveness of the City's current contracting operations and procedures. As a result of the May 2001 report, which provided various contract process improvement strategies, the City Council approved the creation of a Contracts Services Division in the Department of Asset Management.

The newly created division is focused on creating and promoting City-wide standards and systems for improving the management of contracts through the development and implementation of: 1) standards for contract management, planning, and solicitation; 2) strategies to streamline contract negotiations and approvals; 3) rigorous monitoring practices; and 4) training programs for contract managers. A first phase component of these efforts included the design and creation of the Electronic Contract Management System that serves as the City's central repository for City-wide contracting data. While an ongoing process, many changes and improvements to the City's contracting efforts will be completed by mid-2002.

Code Compliance Department
The Code Compliance Department seeks to enhance neighborhoods and their citizens' health, safety and general welfare through efficient and effective City Code enforcement. This Department also strives to promote a higher quality of life by promoting awareness and compliance with City Codes to stabilize and reverse deterioration of neighborhoods.

The Department's fiscal year 2001 staff complement for code enforcement includes 55 Code Enforcement Officers, 8 Dangerous Premises Officers, and 5 Abatement Officers. Each Code Officer patrols the City in marked vehicles equipped with a computer laptop providing effective and efficient code enforcement activities. Monitoring vacant lots is an example of one activity that falls under this Department's jurisdiction of enforcement for improving the quality of life for the citizens of San Antonio.

Public safety is one of the City's major concerns in its enforcement of overgrown vacant lots. Abandoned properties, whether vacant lots or structures, present adverse conditions impacting the quality of life in the community. The Department recognizes these issues and is attempting to increase community awareness and voluntary compliance by encouraging and developing partnerships with neighborhood organizations, community groups, and local businesses to ensure a safer, cleaner and more beautiful San Antonio.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Code Compliance Department (Continued)
If private property lots are not cleaned by their owners, the City hires a private contractor. Contracting with small businesses to perform the cleanups helps stimulate the local economy, in addition to accomplishing the Department's objectives. The majority of these private contractors are small business operators and/or Historically Underutilized Businesses (HUBs). This business activity is an opportunity that allows small business owners to compete with larger businesses. Last fiscal year, $379,799 was expended on vacant lot clean up through these contracts.

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, a specialized treatment center and the renowned Cancer Treatment and Research Center that attracts 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 is the local public health agency for the City. It provides preventive health services, health code enforcement, clinical services, environmental monitoring, animal control, disease surveillance, health education, dental services, and is the local registrar of vital statistics.

Developmental Services
In April 2001, the Building Inspections Department with the Zoning and Subdivision division of the Planning Department and the Development Engineering Division of the Public Works Department were combined. This new department encompasses most of the development review, permitting and inspections components for the City and is appropriately named the Development Services Department.

This reorganization is especially important in light of the opening of the City's new One Stop Development Services Center slated for early 2003. In May 2001, the San Antonio Municipal Facilities Corporation (an entity created by the San Antonio City Council in February 2001) authorized the execution of a Development Agreement for the design, construction, and purchase of a facility for the One Stop Development Services Center (Center). The purpose of the Center is to provide a convenient, single source of information and assistance to private sector entities that are expanding, developing, or relocating their business.

The new center will be a state-of-the-art facility, which will be centrally located on the south side of the City's Central Business District. The Center, to be located at the northwest corner of Alamo and Flores streets just south of downtown, will be a two story facility, encompassing approximately 75,000 square feet along with over 300 parking spaces and situated on approximately 5.3 acres of land. Located at the Center will be an estimated 230 employees from various City Departments of Development Services, Planning, Health, Fire Inspections/Fire Marshal, and the Economic Development/Small Business Outreach Program, as well as individuals from the water, electric and gas utilities, and related departments of Bexar County that provide services to private sector businesses.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Developmental Services (Continued)
The City adopted a new Unified Development Code (UDC) in fiscal year 2000-2001, which incorporated many new development regulations and established new criteria for development review by the City. Recognizing the increased workload stemming from the new UDC and in the interest of improving the efficiency of the overall development process, the City raised staffing levels among several of the development-related agencies within the City by 36 positions, including 21 for Development Services.

Environmental Services Department
The Environmental Services Department was created this fiscal year by realigning the Environmental Services Division and Solid Waste Division from the Department of Public Works into the new Environmental Services Department. This Department is funded by the Environmental Services Revenue Fund, which receives revenues from the Residential Solid Waste Fee, the Environmental Fee, and the new Brush Collection Fee which is collected by City Public Service.

The Environmental Management Division is responsible for ensuring City property and construction projects are in compliance with all federal, state and local environmental rules and regulations. This Division assesses and investigates the environmental conditions of land, air and groundwater for the City. Other major responsibilities of the Division involve administering the City's Air Quality and Household Hazardous Waste Programs, monitoring and maintaining the City's closed landfills, and overseeing or performing asbestos assessments and environmental remediation.

The Solid Waste Division is responsible for the collection of refuse generated by over 296,715 homes and businesses within the City. The primary services provided by this Division include biweekly collection of residential garbage, weekly curbside collection of residential recyclables, dead animal collection, downtown night garbage collection, and the tri-annual collection of residential brush and bulky items. Other services include out-of-cycle collection requests for brush and bulky items, supporting neighborhood associations and civic groups through the weekend Dial-A-Trailer program, sponsorship of Keep San Antonio Beautiful, an Annual Citywide Clean Up, Neighborhood Sweeps in 20 locations, and quarterly Free Landfill Disposal Days. The Solid Waste Division also provides cleanups for special events, weather related emergencies and high priority needs of other City departments, as resources are available.

Public Works Department
The Public Works Department provides public services and infrastructure in a quality manner through the use of modern engineering and management practices. The department provides design, construction, and renovation of City buildings, streets and drainage facilities, and operates the traffic network.

Significant projects underway during 2001 include the St. Mary's Parking Garage which is currently under construction at the northeast corner of N. St. Mary's and Travis. This six-story parking garage will provide 704 parking spaces and 13,950 square feet of retail space and is anticipated to be completed in January 2002. The Presa Street Linkage project consists of enhancements to the Presa and Crockett Street bridges and sidewalk improvements. A linkage from the River Walk to Houston Street will also be constructed and is scheduled for completion in February 2002. The River Walk Park project, which is scheduled to be completed April 2002, will provide a continuous connection from the north around to the Arneson River Theater and west towards the International Center. Additionally, Americans with Disability Act (ADA) improvements, an elevator, and public restrooms will be constructed.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Works Department (Continued)
The Capital Programs Division completed 36 street and drainage projects at a cost of $37,565,000. These projects will minimize flooding, reduce the number of potholes, reduce traffic delays, and allow for greater mobility.

The Streets Maintenance Division was granted approval for the purchase of a road reclaimer that is specifically designed for full-depth street reclamation. The reclaimer also recycles existing asphalt in place instead of having to purchase new asphalt for street maintenance projects. The addition of the reclaimer will allow city street maintenance crews to cut the amount of time it now takes to maintain street surfaces by half. This will improve customer service by minimizing inconvenience to the citizens while working in their neighborhoods. Recycling of the existing asphalt will also divert waste from the landfill and will save time and money from having to haul off excavated dirt. An additional paver was also approved in the budget which will assist city crews in meeting increased customer demand for paved asphalt projects with smooth riding surfaces with skid resistance to improve safety.

Neighborhood Accessibility & Mobility Program (NAMP) funding has been increased to $200,000 and the scope of work under this program has been expanded from sidewalks and speed humps to other transportation improvements such as street maintenance, traffic signals, school flashers, and medians. The additional funding and expansion of projects under NAMP will be positive for neighborhoods needing specific improvements.

A Customer Service Team pilot program in Streets has been implemented to give assigned personnel the knowledge and ability to expedite 311 Customer Service inquires. This will allow supervisory staff more time for planning, coordinating and monitoring projects for quality assurance and timely completion of projects. The Flood Response and Emergency Response programs have been updated to include department wide participation in responding to emergencies such as flooding, to improve response times and prevent the loss of life or property.

The adoption of the Right of Way (R.O.W.) ordinance by City Council in May 2001 will significantly impact the City's infrastructure by requiring utilities, telecommunications companies and others needing to excavate City streets make repairs to those streets to maintain integrity and life of the streets. Public Works implemented e-commerce processing of R.O.W. permits on-line to improve customer convenience in obtaining street cut permits. The prior system required applicants to drive to the permit office to obtain the permit. This significant improvement makes the process much more convenient for customers.

The record flood of 1998 prompted some major policy changes that have provided a more proactive approach to flood control. One of the major initiatives was to conduct a "buy-out" of properties within the floodplain to prevent the possibility of future catastrophic damage and potential loss of life. This voluntary buy-out continues today. The adoption of the Unified Development Code (UDC) in May 2001 provided a revised Storm Water Management section and further codified the Floodplain Ordinance. The UDC uses a watershed management approach. Storm Water Engineering is reorganizing to form Watershed Teams for the Leon Creek, Salado Creek and San Antonio River watersheds. The new UDC also developed specific conditions under which floodplain development may occur without jeopardizing the City's goals of natural floodplain preservation and flood mitigation.

The Storm Water Operations Division completed a joint venture with the Natural Resource Conservation Service (NRCS) to remove debris from 14 miles of the Leon and Salado Creeks. This was a $1.2 million project with over 500 tons of trash, tires and debris being removed from both creeks. This project improved the quality of life for residents along both creeks by removing obstructions that could contribute to future flooding.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Works Department (Continued)
An electronic instrumentation and control system was installed on the two flood control tunnels. These tunnels are monitored electronically 24 hours a day, seven days a week. The Foxboro system ensures the control and direction of storm flows into or bypassing the two tunnels. It also monitors the flood level behind the Olmos Basin Dam, which is a critical part of the system that ultimately safeguards the safety of the citizens and commerce in the Downtown Central Business District.

In fiscal year 2001, the building maintenance and repair activities previously reported in the General Fund were reorganized into an internal service fund. The Building Maintenance and Repair Fund will provide for the general maintenance, janitorial, security, utilities and other preventative maintenance services contracts for 21 selected facilities, many of which are located in the downtown area. Additional facilities will be added to the Building Maintenance and Repair Fund once the initial implementation has been completed and evaluated. The City Departments that occupy certain facilities will be assessed annual fees which will support this internal services fund.

The Office of the City Architect, a division within Public Works, completed numerous projects in fiscal year 2001, and has many in progress for completion in fiscal year 2002. The Houston Street improvements, which consisted of new trees being planted, new lighting installed, and other improvements were completed in fiscal year 2001. The Historic Civic Center River link, which provides a River Walk connection to the Civic Center of the City, was also completed in fiscal year 2001. In addition, improvements were made to Fire Stations, No. 16 and No. 46, were also improved upon. A new building was built for Fire Station No. 46, and a new walkway, which links the street to river level, was built for Fire Station No. 16.

Supporting Infrastructure Components

Convention Center Expansion
The Convention Center Expansion and Renovation Project was completed in 2001. This project was financed from the proceeds of Hotel Occupancy Tax Revenue Bonds sold in March of 1996, and 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 River Walk.

The Convention Center Expansion Project, which includes 867,495 square feet of additional space to the Center and renovations, construction and upgrades of the original center, is fully operational, with more than 1.3 million gross square feet. The Convention Center boasts 440,000 square feet of contiguous exhibit space, 113,287 square feet of meeting room space with optimum flexibility of up to 59 room divisions. Three hotel quality ballroom/banquet rooms, with the largest at 40,000 square feet is designed to hold up to 4,000 people. The Center also includes two full service banquet kitchens, two loading docks, a pressroom, VIP lounge, dressing rooms, and 29,000 square feet of designated registration areas. The navigable portion of the river construction and the River Walk continuing into Plaza Mexico in HemisFair Park, were completed during the summer of 2001. Interior finishes throughout the Convention Center, East and West Banks, include artist-designed carpet patterns incorporating elements of San Antonio's history and culture. Also featured is an in-house business center to

ECONOMIC OVERVIEW (Continued)

Supporting Infrastructure Components (Continued)

Convention Center Expansion (Continued)
service many of the Convention Center clients. This service is operated by a nationally recognized leader in business center services and enhances the Center's marketability. The completed Convention Center allows the City to improve its competitive position to attract large, revenue generating conventions, and to expand tourism, while enhancing the viability of the local economy for San Antonio.

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 900 events and has hosted over thirteen million visitors. The Alamodome has enhanced San Antonio's ability to attract major public sporting and entertainment events.

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 host the Women's Final Four Basketball Tournament in March 2002, the Men's Southern Regional Basketball Tournament in 2003 and the Men's Final Four Basketball Tournament in 2004. A significant first for the Alamodome occurred in 2001 when it hosted seven performances of the Ringling Brothers & Barnum & Bailey Circus and eight performances of Disney on Ice. Those shows were the first of a five-year run for both performances.

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 a multi-purpose design which allows for events such as professional baseball, concerts, boxing, and high school, college, and amateur sports. The stadium is home to the San Antonio Missions. In 2000, the 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 also hosts two PGA tour events, the Valero Texas Open and Senior PGA SBC Championship.

International Outlook

In a new international initiative, the City'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 for about fifteen companies to be successful in exporting and offers the participants a new export experience. In its second year, the program graduated thirteen 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 has operated three commercial trade offices in

ECONOMIC OVERVIEW (Continued)

International Outlook (Continued)

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 San Antonio, 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 2002 totals $1.377 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 2001 Goals and Objectives Work session, as well as eliminates a projected General Fund shortfall. The General Fund budget did not require an increase in the property tax rate for the ninth consecutive year. The General Fund budget expenditures and transfers total $601.1 million for 2002, representing an increase of 5.58% over the previous year. For the tax roll year 2001 (fiscal year 2002), the total adopted tax rate of $0.57854 decreased 1/8 cent from the prior year's rate. The fiscal year 2002 tax rate is now comprised of $0.35454 per $100 valuation for the maintenance and operations component, and $0.22400 per $100 valuation for the debt service component.

The adopted 2002 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 Existing Infrastructure ($2.8 million), Housing & Neighborhood Planning ($1.9 million), Public Safety ($11.34 million), Human Development ($3.4 million), Charter Review/Governance ($1.2 million), Unified Development Code Implementation ($951,574), and Parks and Libraries ($1.76 million). Within the Public Safety Budget Priority, the Adopted Budget includes $1.06 million for continued implementation of the Police Staffing Plan and $2.03 million for the Fire Master Plan. Within the Housing & Neighborhood Planning Budget Priority, a total of $773,987 in improvements is included in order to enhance significantly the City's proactive code enforcement efforts with the addition of 12 new enforcement positions.

Budgetary Controls

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. For the fiscal year beginning October 1, 2000, The Government Finance Officers Association of the United States and Canada ("GFOA") presented an award of Distinguished Budget Presentation to the City.

Activities of the General Fund, the Special Revenue Funds (excluding the Home Program, Categorical Grants-In Aid Fund, 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 Community Services Fund, which are not budgeted) 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

FINANCIAL INFORMATION

Budgetary Controls (Continued)

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, 2001, 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 2000	Percent of Increase (Decrease)
Taxes	$437,572	41.61%	$36,864	9.20%
Licenses and Permits	12,683	1.21	425	3.47
Intergovernmental	171,573	16.32	6,672	4.05
Revenues from Utilities	187,940	17.88	15,639	9.08
Charges for Services	71,919	6.84	5,399	8.12
Fines and Forfeits	11,116	1.06	(477)	(4.11)
Miscellaneous	39,519	3.76	3,634	10.13
In-Kind Contributions	11,021	1.05	(1,723)	(13.52)
Transfers-In	107,985	10.27	12,831	13.48
Totals	**$1,051,328**	**100.00%**	**$79,264**	

Revenues from taxes increased by $36,864 which was primarily attributable to: (1) a $1,680 or 1.2% increase in sales tax revenue for the General Fund, (2) a $1,959 or 4.4% increase in Hotel Motel tax revenue in the Special Revenue Fund, and (3) a $14,403 or 7.45% 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, and (4) a $17,101 increase in sales tax revenue in the Parks Development & Expansion Fund (Special Revenue) due to a 1/8th cent sales tax increase beginning October 1, 2000 for park development and expansion. Revenues for the utilities

FINANCIAL INFORMATION

Funds and Accounting Overview (Continued)

GENERAL GOVERNMENT FUNCTIONS (Continued)

category which is represented in the City's General Fund increased by $15,639 or 9.1% which is primarily attributed to an increase of $15,272 in the City's payment from CPS which is based on CPS' gross revenues. CPS revenues are impacted by variables such as fuel costs, weather, types of electric generation used, as well as other variables.

The following schedule shows the Primary Governments General Fund, Special Revenue Funds and Debt Service Funds expenditures for the fiscal year ended September 30, 2001, and the amounts and percentages of increases from the prior year.

Expenditures and Other Uses	Amount	Percent of Total	Increase (Decrease) from 2000	Percent of Increase (Decrease)
General Government	$ 69,276	6.74%	$ 13,477	24.15%
Public Safety	339,812	33.04	19,300	6.02
Street and Roadways	59,233	5.76	(3,179)	(5.09)
Health Services	71,901	6.99	8,091	12.68
Environmental Protection and Control	106	.01	(29)	(21.48)
Sanitation	2,754	.27	153	5.88
Welfare	121,641	11.83	20,003	19.68
Culture and Recreation	65,357	6.36	5,714	9.58
Convention and Tourism	42,316	4.12	3,604	9.31
Conservation	42	0.00	33	366.67
Urban Redevelopment and Housing	16,147	1.57	(2,286)	(12.40)
Economic Development and Opportunity	23,141	2.25	1,791	8.39
Principal Retirement	43,885	4.27	3,135	7.69
Interest	51,178	4.98	1,462	2.94
Issuance Costs	271	0.03	69	34.16
Transfers-Out	121,089	11.78	9,393	8.41
Total	**$1,028,149**	**100.00%**	**$ 80,731**	

The total fund balance of the General Fund at year-end was $96,198, a decrease of $9,504 from the total fund balance for the close of fiscal year 2000. The undesignated fund balance in the General Fund at the close of the fiscal year was $49,437, a decrease of $13,527 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 2000 and 2001, total enplaned passengers were 3,647,094 and 3,443,434 respectively. Airport System retained earnings as of September 30, 2001, totaled $101,839 of which $6,066 was unreserved.

FINANCIAL INFORMATION

PROPRIETARY OPERATIONS (Continued)

Parking Facilities: The City's Parking Facility operation includes 5 parking garages with 3,347 parking spaces, 10 City-owned and 9 leased surface parking lots providing approximately 4,605 parking spaces, and 2,124 on-street parking meters for a total of 10,076 parking spaces. It also includes over 42,000 square feet of retail/office space. Retained earnings as of September 30, 2001 totaled $11,444 of which $3,413 was unreserved.

Golf Course System: Operations include six 18-hole golf courses, two par 3 nine-hole golf courses, and 3 driving and practice ranges. Retained earnings as of September 30, 2001 totaled ($1,513) of which ($536) was unreserved.

Solid Waste System: The Solid Waste Systems operation includes the disposal of curbside solid waste, brush collection, and recycling, for over 297,113 residential customers, and the maintenance and monitoring of the City's eight closed landfills. Retained earnings as of September 30, 2001 totaled $3,710 of which $1,538 was unreserved.

Discretely Presented Proprietary Component Units: The San Antonio Water System (SAWS), City Public Service (CPS), 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.

Other Internal Services: The Other Internal Service Funds include activity pertaining to Central Stores, Motor Pool, Communications Service, Automotive Repair, Building Maintenance and 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, Workers' 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 2001, Fire and Police employees contributed 12.32% of covered payroll while the City contributed 24.64% of covered payroll, as indicated in Footnote No. 8 entitled "Pension and Retirement Plans".

FINANCIAL INFORMATION

FIDUCIARY OPERATIONS (Continued)

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, 2001, contributions to the Health Fund were comprised of 9.4% of base pay plus longevity for both firefighters and police officers. Additionally, beginning in January 2001, active firefighters and police officers each contribute $20 per month. Please note this $20 is not stated in thousands.

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 $2,348,315 at year-end compared to $2,208,380 at the beginning of the year, a net increase of $139,935.

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 $27 from $1,023,489 at the end of fiscal year 2000 to $1,050,456 at the end of fiscal year 2001.

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 11.61%. Both the City and its covered employees made the required contributions of $11,105 and $21,610 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 fund's investment. Each investment strategy statement will describe strategy objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

(Monetary Amounts Are Expressed in Thousands)

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics (Continued)

Cash and Investment Management (Continued)
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 investment in callable obligations, but does not contain any derivative products. It is not the City's policy to use such investment vehicles or strategies in its portfolio, nor does the City leverage its investments.

At September 30, 2001, investable City funds were 72.88% invested in obligations of the United States, or its agencies and instrumentalities, and 24.11% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 3.01% of the City's portfolio includes the Convention Center debt service reserve fund of $16,999, which is 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 agreement, at September 30, 2001, the City's investment portfolio had a par value of $411,954, with an average life of 81 days and a weighted average yield of 4.46%.

Risk Management Programs
In fiscal year 2001, the financial status and development of the City's Risk Management and Self-Insurance Programs reflected, for the fourth time in ten years, both the Liability Reserve Fund and the Workers' Compensation Fund ending with positive fund balances in the amounts of $7,649 and $3,292 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, in the respective Internal Service Self-Insurance Program Funds. This change resulted in considerable negative account balances in the related funds at that time. The Liability and Workers' Compensation Funds carried cash reserves at September 30, 2001 in the amount of $26,097 and $19,390, respectively.

The Risk Management Division Safety Office has continued aggressive efforts this year to promote Accident Prevention/Loss Control projects. This year 3,186 employees received formal classroom training on a number of subjects, totaling 15,642 classroom hours collectively. Training classes include Defensive Driving, First Aid and CPR, Drug and Alcohol Awareness training for commercial drivers and supervisors, New Employee Safety Orientations, Professional Truck Driving, Supervisor's Accident Investigation training, Hazardous Chemicals training, Ergonomics Awareness, and other specialized training courses. The Safety Office has spent in excess of 1,900 hours in delivering the aforementioned formal training. In addition, the Safety Office continues to improve the quality of safety and health education to serve the needs of all City employees by developing customized training programs and updating training materials and/or training methods. The Safety Office has also provided City Departments 1,913 hours of technical assistance and one-on-one informal training on a variety of safety and health topics in fiscal year 2001. It has initiated the use of a more comprehensive format during consultative visits with Departments this year to assist in identifying and evaluating both safety, health and liability risk exposure. Loss Control abatement measures are recommended wherever possible. Preventing cumulative trauma and repetitive motion injuries have continued to receive major focus by the inspection and evaluation of employee work environments with recommendations for adjustments or changes when needed. Facility inspections and accident investigations are also conducted by the Safety Specialists. Review of accident statistics continues to represent a significant area of responsibility for the Section in order to assist Departments identify and correct

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics (Continued)

Risk Management Programs (Continued)
negative trends in frequent and loss severity. This year, 6,583 employee driver evaluations were processed with records being updated.

Employee Benefits Programs
The City's Self-Insurance Fund continues to experience increased expenses due to rising health care costs, increased claims volume and changing employee demographics. Cost containment programs including hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization are utilized to manage the rising cost of medical care. Such strategies have been effective for the City in managing medical cost in a changing health care industry. In addition to continuing enhancement of these cost containment programs, the City will seek the services of an outside consultant in 2002 to perform a comprehensive review of the employee benefits programs. In fiscal year 2001, the Employee Benefits Fund had cash reserves of $970 and a deficit retained earnings of $4,819.

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, 2001, the City's gross principal amount of outstanding indebtedness that is secured by an ad valorem tax pledge was $768,693. The table shown below illustrates the composition of the City's long-term indebtedness payable from ad valorem taxes.

LONG-TERM INDEBTEDNESS
PAYABLE FROM AD VALOREM TAXES

General Improvement and Refunding Bonds	$ 642,878
Tax-Exempt Commercial Paper Notes	15,000
Taxable Combination Tax and Revenue Certificates of Obligation	17,010
Combination Tax-Exempt and Revenue Certificates of Obligation	93,805
Total Debt Payable from Ad Valorem Taxes	768,693
Less Self-Supporting Debt	22,255
Net Debt Payable from Ad Valorem Taxes	$ 746,438

The total and net debt amounts contained in the schedule above are equal to 2.13% and 2.07% respectively of the tax roll year 2000 for fiscal year ended September 30, 2001 net taxable assessed valuation of $36,033,321. Authorized but unissued debt as of September 30, 2001 equaled $114,245, of which the City does not intend to

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics (Continued)

Debt Administration (Continued)
issue $16,660 authorized by the January 26, 1980 election. This results in net authorized but unissued debt totaling $97,585 as of the fiscal year-end.

On November 30, 2000, the City issued the following: $15,615 General Improvement Bonds, Series 2000A (the "2000A Bonds"); $8,810 Combination Tax and Revenue Certificates of Obligation, Series 2000A (the "2000A Certificates"); $1,755 Taxable Combination Tax and Revenue Certificates of Obligation, Series 2000B (the "2000B Taxable Certificates"); and $6,415 Combination Tax and Revenue Certificates of Obligation, Series C (the "2000C Certificates"). As of September 30, 2001, the City has $15,000 outstanding of the Tax-Exempt Commercial Paper Notes. The bonds and tax-exempt commercial paper notes are secured by a pledge of ad valorem taxes and revenues from certain revenue generating operations.

Proceeds from the 2000A Bonds will be utilized to fund capital improvement projects to include streets and pedestrian improvements, drainage improvements, flood control with park improvements, parks and recreation facilities improvements, library system improvements, and public safety improvements.

Proceeds from the 2000A Certificates will be utilized to fund capital improvement projects to include public safety, including renovations to existing fire stations and construction of new fire stations, street, sidewalk and drainage improvements; to acquire land and rights-of-way for public purposes and costs related to the implementation of a new Enterprise Resource Management System.

Proceeds from the 2000B Taxable Certificates will be utilized to construct, acquire, equip, renovate, and repair public works including improvements to municipally-owned facilities including the Alameda Theater.

Proceeds from the 2000C Certificates will be utilized to fund improvements to redevelop areas along Houston and Presa Streets, a pedestrian linkage from the River Walk to the Historic Civic Center area, and disability access improvements along Crockett Street in connection with the Houston Street Redevelopment Project. The Houston Street Redevelopment Project is a private and public economic development venture to revitalize commercial activity in San Antonio's downtown district.

On April 19, 2001 the City Council approved the sale of the $50,230 Airport System Forward Refunding Revenue Bonds, Series 2003 to refund a portion of the Airport System Improvement Bonds, Series 1993 to effect a present value savings. It is expected that the Series 2003 Bonds will be available for delivery on or about April 8, 2003.

On May 31, 2001, the City Council approved the sale of the $14,465 Municipal Facilities Corporation Lease Revenue Bonds, Series 2001 to provide funds for the construction of the One Stop Development Services Center. The purpose of the One Stop Development Services Center is to provide a convenient, single source of information and assistance to private sector entities that are expanding, developing or relocating their business. Municipal Facilities Corporation Lease Revenue Bonds, Series 2001 were delivered on July 11, 2001.

On August 30, 2001, City Council approved the sale of $17,795 Airport System Improvement Revenue Bonds, Series 2001 to provide funds for construction, improvements, equipment, renovation, and additions to the International Airport. The City effectuated a cash defeasance of $17,875 in Airport System Improvement Revenue Bonds, Series 1996 utilizing available funds in the Airport Capital Improvement Fund, which generated total savings of $1,165 and present value savings of $865 or 4.84%. The Airport System Improvement Revenue Bonds, Series 2001 were delivered on September 20, 2001.

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics (Continued)

Debt Administration (Continued)
On November 8, 2001, the City Council approved the sale of the following obligations: $84,945 General Improvement and Refunding Bonds, Series 2001 (the "2001 Bonds"); $65,195 Combination Tax and Revenue Certificates of Obligation, Series 2001 (the "Series 2001 Certificates"); and $251,280 General Improvement Forward Refunding Bonds, Series 2002 (the "2002 Forward Refunding Bonds").

The proceeds from the 2001 Bonds will be utilized to refund a portion of the City's outstanding tax supported debt to effect a present value savings, 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.

The proceeds from the 2001 Certificates will be utilized to fund capital improvement projects to include constructing public safety improvements, including constructing new fire stations and renovating and improving existing fire stations, the construction of public works; constructing street improvements, sidewalk improvements, bridge improvements, drainage improvements, and drainage incidental thereto, the construction of public works; constructing improvements and renovations to existing municipal facilities, the construction of economic development improvements, including the acquisition of buildings, construction of street improvements and drainage improvements and utility relocation related thereto, and demolition of buildings, relating to KellyUSA, the construction of park improvements, the purchase of materials, supplies, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, street and public works purposes, to pay the costs associated with the implementation of a new Enterprise Resource Management System, including development and installation costs relating thereto.

The 2002 Forward Refunding Bonds will be utilized to refund a portion of the City's outstanding tax supported debt to effect a present value savings. It is expected that the 2002 Forward Refunding Bonds will be available for delivery on or about May 8, 2002.

No direct debt limitation is imposed on the City under current Texas law, however, the City Charter provides that the total bonded debt of the City must never exceed ten percent (10%) of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. In addition, Article XI, Section 5 of the Texas Constitution is applicable to the City and limits its maximum ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes. The City operates under a City Charter that adopts this constitutional provision. The Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at ninety percent (90%) collection. There is no limitation within the $2.50 for interest and sinking fund purposes.

The ad valorem tax rate approved by City ordinance for the fiscal year ended September 30, 2001, was $0.57979 per $100 assessed valuation, of which the debt service component is $0.22900 and the maintenance and operation portion is $0.35079. (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 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+".

FINANCIAL INFORMATION

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.

AWARDS

San Antonio's appeal to its citizens, potential businesses and visitors stems from its historical beauty, high quality of life and low cost of living. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended September 30, 2000. This was the 25th 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 CAFR. 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 CAFR continues to meet the Certificate of Achievement Program's requirements.

The North American Small Business International Trade Educators (NASBITE) has awarded its 2001 Program Excellence Award to the San Antonio Export Leader Program (SAELP), which is run by the International Affairs Department, for its innovative approach to assisting and educating existing San Antonio businesses that have a high potential to develop and expand international markets for their products and services.

The Planning Department received the "Texas Chapter 2001 American Planning Association Award Recipient - Current Planning Award" for development of the Unified Development Code (UDC). This award is the result of over 8,500 hours of stakeholder input over a period of 18 months. The UDC unifies all development-related ordinances and infrastructure standards into one "stand alone" document. It streamlines the development review processes that create certainty for developers while neighborhoods benefit from stricter design controls and increased opportunities for public involvement. The UDC was adopted by City Council in May 2001.

Planning also received Honorable Mention in the "Texas Chapter 2001 American Planning Association Award Recipient - Project Planning Award" for their Midtown Neighborhoods Plan. This award is the result of a partnership between the Alta Vista Neighborhood, the Beacon Hill Neighborhood, the St. Ann's Neighborhood, and the MidTown on Blanco Partnership, with the City's Planning Department. Despite the fact that over one-third of the area is below the poverty level and despite an annual median household income of less than $15,000, hundreds of neighborhood leaders were able to participate over the course of one year to produce a detailed action plan for the future. This plan is unique in that every structure in the 10,000 acre planning area was inventoried for its condition. Indicators included roof and siding condition, as well as the number of cracks, and the extent of structural leaning. The plan was adopted by City Council in October 2000.

OTHER INFORMATION (Continued)

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2001, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division. Each member of the Department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Manager, Assistant City Managers, Assistants to the City Manager, and their staff, for their continued support.

Respectfully Submitted,

Milo Nitschke
Director
Finance Department

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio, Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2000

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

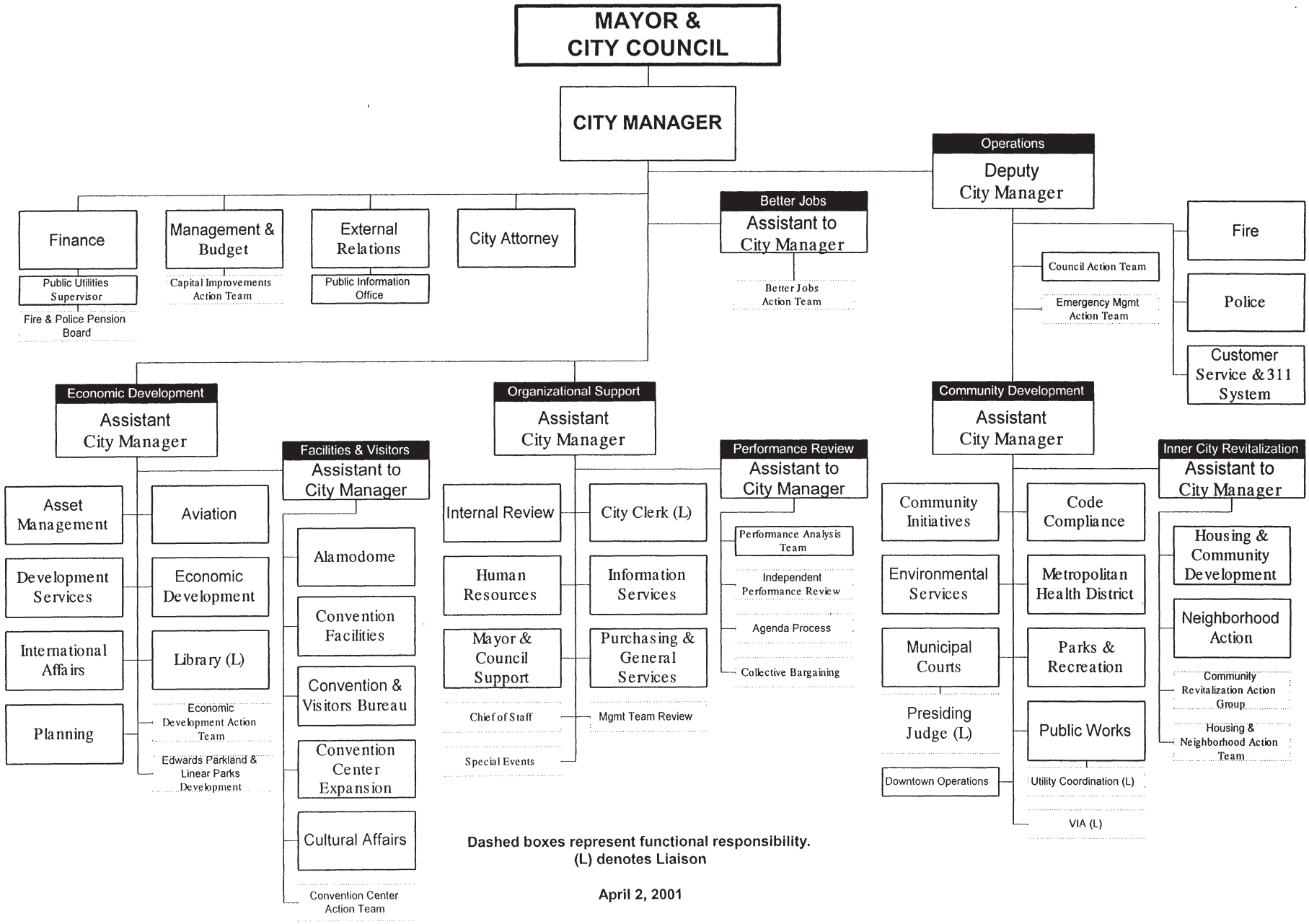
Executive Director

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, 2000. This was the 25th 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



CITY OF SAN ANTONIO, TEXAS

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

CITY COUNCIL
Edward D. Garza, Mayor

Bobby Perez
John H. Sanders
Antoniette Moorhouse
Enrique Martin
David A. Garcia
Enrique M. Barrera
Julian Castro
Bonnie Conner
Carroll W. Schubert
David Carpenter

CITY MANAGER
Terry M. Brechtel

DEPUTY 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
Frances A. Gonzalez

ASSISTANT TO THE CITY MANAGER
Roland A. Lozano

ASSISTANT TO THE CITY MANAGER
Erik J. Walsh

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

City of San Antonio
Texas

Financial Section

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City of San Antonio
Texas

Independent Auditors' Report

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KPMG

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 Edward D. Garza, 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, 2001 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 25% and 16% 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 75% and 85% 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, 2001, 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 85-86 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 Barrera/Gonzalez & Associates

February 8, 2002

City of San Antonio
Texas

General Purpose Financial Statements

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

ASSETS AND OTHER DEBITS	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
Assets:						
Cash and Cash Equivalents	$ 19,014	$ 46,896	$ 26,921	$ 87,596	$ 8,148	$ 37,076
Security Lending Collateral-Cash and Cash Equivalents						
Investments	17,331	51,931	60,750	66,108	9,375	42,704
Receivables:						
Taxes, Including Interest, Penalties and Liens	15,326		10,005			
Other Accounts	17,819	3,803			2,323	94
Less Allowances for Uncollectibles	(5,547)		(1,607)		(442)	
Notes		6,663	1,053			220
Accrued Interest	473	505	424	766	126	406
Accrued Revenue	45,855	13,806			3,994	53
Contributions						
Prepaid Expenditures	20	43				
Due from Other Funds	24,539	2,050	228		319	571
Due from Other Governmental Agencies	322	30,486		2,553	127	534
Inventories of Materials and Supplies, at Cost	2,808	1,441			866	2,071
Prepayments					13	
Deposits				261		789
Restricted Assets:						
Cash and Cash Equivalents					30,158	
Investments					44,321	
Receivables - Accrued Interest					377	
Due from Other Funds				19	610	
Prepaid Expenditures					466	
Fixed Assets (Net of Accumulated Depreciation)					270,986	42,082
Prepaid Rent Long Term-Leaseback						
Unamortized Debt Expense					2,371	
Other Debits:						
Amount Available in Debt Service Fund						
Amount to be Provided for Retirement of General Long-Term Debt						
Total Assets and Other Debits	$ 137,960	$ 157,624	$ 97,774	$ 157,303	$ 374,138	$ 126,600

The notes to the financial statements are an integral part of this statement.

CITY OF SAN ANTONIO, TEXAS –1–

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

ASSETS AND OTHER DEBITS	FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)			TOTALS (MEMORANDUM ONLY)	
	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	PRIMARY GOVERNMENT	COMPONENT UNITS GOVERNMENTAL	COMPONENT UNITS PROPRIETARY	REPORTING ENTITY 2001	REPORTING ENTITY 2000
Assets:								
Cash and Cash Equivalents	$ 94,273	$ 0	$ 0	$ 319,924	$ 13,328	$ 23,264	$ 356,516	$ 207,920
Security Lending Collateral-Cash and Cash Equivalents	86,510			86,510			86,510	135,554
Investments	1,274,037			1,522,236	446	204,780	1,727,462	1,927,377
Receivables:								
Taxes, Including Interest, Penalties and Liens				25,331			25,331	28,337
Other Accounts	11,524			35,563	5,913	209,173	250,649	165,513
Less Allowances for Uncollectibles				(7,596)			(7,596)	(6,356)
Notes				7,936	1,800	2,633	12,369	11,198
Accrued Interest	6,744			9,444		495	9,939	11,375
Accrued Revenue				63,708			63,708	59,957
Contributions	372			372			372	
Prepaid Expenditures				63			63	21
Due from Other Funds				27,707			27,707	16,951
Due from Other Governmental Agencies				34,022	2,998	32	37,052	35,964
Inventories of Materials and Supplies, at Cost				7,186	236	102,072	109,494	113,683
Prepayments	146			159		28,334	28,493	23,766
Deposits				1,050			1,050	977
Restricted Assets:								
Cash and Cash Equivalents				30,158		76,514	106,672	28,853
Investments				44,321		823,182	867,503	639,489
Receivables - Accrued Interest				377			377	672
Due from Other Funds				629			629	366
Prepaid Expenditures				466			466	
Fixed Assets (Net of Accumulated Depreciation)	379	2,348,315		2,661,762	134,728	5,712,522	8,509,012	8,235,782
Prepaid Rent Long Term-Leaseback						595,341	595,341	
Unamortized Debt Expense				2,371		33,998	36,369	23,271
Other Debits:								
Amount Available in Debt Service Fund			89,171	89,171			89,171	85,109
Amount to be Provided for Retirement of General Long-Term Debt			961,285	961,285	28,607		989,892	957,166
Total Assets and Other Debits	$ 1,473,985	$ 2,348,315	$ 1,050,456	$ 5,924,155	$ 188,056	$ 7,812,340	$ 13,924,551	$ 12,702,945

(Cont'd)

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

	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	2001	2000
LIABILITIES AND EQUITY AND OTHER CREDITS														
Liabilities:														
Vouchers Payable	$ 4,132	$ 13,109	$ 0	$ 7,892	$ 1,185	$ 2,487	$ 2,951	$ 0	$ 0	$ 31,756	$ 7,225	$ 180,356	$ 219,337	$ 171,241
Deferred Revenues	29,855	6,663	8,398		464					45,380	878		46,258	47,102
Accounts Payable-Other	2,020	2,728	128	9,640	8,202	41,120	28,334			92,172	980	12,185	105,337	102,248
Accrued Payroll	2,443	1,099			619	506	79			4,746		3,685	8,431	8,515
Accrued Leave Payable	2,858	568			2,107	1,089	3			6,625	237	4,122	10,984	10,823
Accrued Interest					3	4				7			7	8
Lease Purchase Agreements - Current						420				420			420	336
Lease Purchase Agreements - Long-Term						700				700			700	18
Matured Bonds and Interest Payable			9							9			9	9
Commercial Paper Notes									47,700	47,700		417,800	465,500	195,100
Payable from Restricted Assets:														
Vouchers Payable					393					393			393	514
Other Payables					3,057					3,057		224,894	227,951	198,609
Lease Purchase Agreements - Current					135					135			135	153
Lease Purchase Agreements - Long-Term					360					360			360	1,202
Accrued Revenue Bond and Certificate Interest					1,930					1,930		2,954	4,884	3,939
Current Portion of General Obligation Bonds and Certificates					1,480					1,480		96,800	98,280	97,690
Current Portion of Revenue Bonds					5,080					5,080			5,080	
Due to Other Funds					965					965			965	19
Deferred Lease Revenue												22,561	22,561	
Due to:														
Other Funds	453	23,981	68	410	719	1,149	591			27,371			27,371	17,298
Other Governmental Agencies	1	2,057				711				2,769	4,832		7,601	8,434
Security Lending							86,510			86,510			86,510	135,554
Amounts Held In Trust		4								4			4	163
Notes Payable/Lease Purchase									3,654	3,654	28,607		32,261	23,224
Notes Payable - Long-Term					1,053					1,053			1,053	702
General Obligation Bonds Payable									626,113	626,113			626,113	645,918
Certificates of Obligation Payable									108,585	108,585			108,585	99,240
Revenue Bonds Payable									189,712	189,712			189,712	188,652
General Obligation Bonds and Certificates (Net of Current Portion)					17,515					17,515			17,515	18,995
Revenue Bonds (Net of Current Portion)					125,135					125,135		3,300,475	3,425,610	3,450,095
Unamortized Premium												1,704	1,704	1,816
Less: Unamortized Discount on New Series Bonds					(653)					(653)		(19,498)	(20,151)	(36,090)
Deferred Amount on Refunding					(106)					(106)		(167,592)	(167,698)	(201,439)
Long-Term Debt												592	592	15,418
Deferred Lease Revenue												678,696	678,696	
Accumulated Accrued:														
Sick Leave									48,477	48,477			48,477	44,749
Annual Leave									26,215	26,215			26,215	23,819
Total Liabilities	41,762	50,209	8,603	17,942	169,643	48,186	118,468		1,050,456	1,505,269	42,759	4,759,734	6,307,762	5,274,074
Fund Equity and Other Credits:														
Contributed Capital (Net of Amortization)					89,015	39,418				128,433		622,615	751,048	727,486
Investment in General Fixed Assets								2,348,315		2,348,315	134,728		2,483,043	2,275,627
Retained Earnings:														
Reserved for Bond Retirement					13,763					13,763		2,196	15,959	15,018
Reserved for Construction					78,616					78,616		125,074	203,690	98,925
Reserved for Improvement and Contingency					12,621					12,621		502,771	515,392	398,013
Reserved for Equipment Renewal and Replacement						20,769				20,769			20,769	16,111
Unreserved					10,480	18,227				28,707		1,799,950	1,828,657	1,966,605
Fund Balances:														
Reserved:														
Reserved for Encumbrances	6,712	10,584		92,847			43			110,186			110,186	193,559
Reserved for Inventories	2,808	1,441								4,249	236		4,485	4,940
Reserved for Prepaid Expenditures	20	43								63			63	21
Reserved for Employees' Pension/Postemployment Healthcare Benefits							1,340,903			1,340,903			1,340,903	1,486,044
Reserved for Debt Service			69,369							69,369			69,369	65,379
Reserved for Convention Center Project			18,749							18,749			18,749	19,728
Reserved for Notes			1,053							1,053	2,410		3,463	2,728
Reserved for Other Restricted Purposes											2,548		2,548	520
Unreserved:														
Designated	37,221	18,531					2,670			58,422	2,233		60,655	45,296
Undesignated	49,437	76,816		46,514			11,901			184,668	3,142		187,810	112,871
Total Equity and Other Credits	96,198	107,415	89,171	139,361	204,495	78,414	1,355,517	2,348,315		4,418,886	145,297	3,052,606	7,616,789	7,428,871
Total Liabilities and Fund Equity and Other Credits	$ 137,960	$ 157,624	$ 97,774	$ 157,303	$ 374,138	$ 126,600	$ 1,473,985	$ 2,348,315	$ 1,050,456	$ 5,924,155	$ 188,056	$ 7,812,340	$ 13,924,551	$ 12,702,945

The notes to the financial statements are an integral part of this statement.

(end of statement)

CITY OF SAN ANTONIO, TEXAS –2–

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, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	TOTALS (MEMORANDUM ONLY)	GOVERNMENTAL	TOTALS (MEMORANDUM ONLY)	
		SPECIAL	DEBT	CAPITAL	EXPENDABLE	PRIMARY	COMPONENT	REPORTING ENTITY	
	GENERAL	REVENUE	SERVICE	PROJECTS	TRUST	GOVERNMENT	UNITS	2001	2000
Revenues									
Taxes	$ 291,379	$ 63,342	$ 82,851	$ 0	$ 0	$ 437,572	$ 0	$ 437,572	$ 400,708
Licenses and Permits	12,683					12,683		12,683	12,258
Intergovernmental	2,866	168,707		13,468		185,041	15,331	200,372	206,848
Revenues from Utilities	187,940					187,940		187,940	172,301
Charges for Services	23,212	48,707			26	71,945	14,351	86,296	78,870
Fines and Forfeits	11,116					11,116		11,116	11,593
Miscellaneous	14,249	18,612	6,658	12,992	760	53,271	14,134	67,405	65,160
In-Kind Contributions		11,021				11,021	261	11,282	13,014
Total Revenues	543,445	310,389	89,509	26,460	786	970,589	44,077	1,014,666	960,752
Expenditures									
Current:									
General Government	68,364	912			139	69,415		69,415	55,929
Public Safety	326,228	13,584				339,812		339,812	320,512
Streets and Roadways	9,804	49,429				59,233		59,233	62,412
Health Services	13,401	58,500				71,901		71,901	63,810
Environmental Protection and Control		106				106		106	135
Sanitation	2,754					2,754		2,754	2,601
Welfare	16,465	105,176				121,641		121,641	101,638
Culture and Recreation	58,137	7,220				65,357		65,357	59,643
Convention and Tourism		42,316				42,316		42,316	38,712
Conservation		42				42		42	9
Urban Redevelopment and Housing		16,147			1,300	17,447	5,021	22,468	29,883
Economic Development and Opportunity	6,394	16,747				23,141	42,562	65,703	70,517
Capital Projects				136,279		136,279		136,279	132,740
Debt Service:									
Principal Retirement			43,885			43,885		43,885	40,750
Interest			51,178			51,178		51,178	49,716
Issuance Costs			271			271		271	202
Total Expenditures	501,547	310,179	95,334	136,279	1,439	1,044,778	47,583	1,092,361	1,029,209

(Cont'd)

Excess (Deficiency) of Revenues Over (Under) Expenditures	41,898	210	(5,825)	(109,819)	(653)	(74,189)	(3,506)	(77,695)	(68,457)
Other Financing Sources (Uses)									
Proceeds of Debt Issuance				79,760		79,760		79,760	67,285
Proceeds from Notes and Loans							8,614	8,614	3,709
Operating Transfers In	19,043	79,055	9,887	23,136		131,121		131,121	117,960
Operating Transfers Out	(70,445)	(50,644)		(8,391)	(29)	(129,509)		(129,509)	(117,123)
Total Other Financing Sources (Uses)	(51,402)	28,411	9,887	94,505	(29)	81,372	8,614	89,986	71,831
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(9,504)	28,621	4,062	(15,314)	(682)	7,183	5,108	12,291	3,374
Fund Balances, October 1 as Previously Reported	93,145	76,369	85,109	154,675	17,721	427,019	4,627	431,646	430,164
Change in Accounting Principle	12,557					12,557		12,557	11,499
Prior Period Adjustment		2,425			(2,425)		834	834	
Beginning Fund Balance as Restated	105,702	78,794	85,109	154,675	15,296	439,576	5,461	445,037	441,663
Fund Balances, September 30	$ 96,198	$ 107,415	$ 89,171	$ 139,361	$ 14,614	$ 446,759	$ 10,569	$ 457,328	$ 445,037

The notes to the financial statements are an integral part of this statement.

(end of statement)

CITY OF SAN ANTONIO, TEXAS

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, 2001
(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	$ 292,800	$ 291,379	$ (1,421)	$ 64,390	$ 63,165	$ (1,225)	$ 81,433	$ 82,851	$ 1,418
Licenses and Permits	13,957	12,683	(1,274)						
Intergovernmental	2,427	2,866	439	2,957	3,052	95			
Revenues from Utilities	154,110	187,940	33,830						
Charges for Services	22,286	23,212	926	46,691	47,009	318			
Fines and Forfeits	12,896	11,116	(1,780)						
Miscellaneous	13,960	14,249	289	3,674	6,996	3,322	7,000	6,658	(342)
Total Revenues	512,436	543,445	31,009	117,712	120,222	2,510	88,433	89,509	1,076
Expenditures									
Current:									
General Government	82,656	69,213	13,443	7	7				
Public Safety	328,518	327,363	1,155	2,305	1,759	546			
Streets and Roadways	10,044	9,869	175	38,522	37,925	597			
Health Services	13,716	13,423	293	37,309	37,588	(279)			
Sanitation	2,767	2,755	12						
Welfare	17,193	17,159	34						
Culture and Recreation	60,443	58,341	2,102	1,483	1,270	213			
Convention and Tourism				49,019	43,789	5,230			
Economic Development and Opportunity	7,660	6,791	869	2,000	1,072	928			
Debt Service							94,920	95,334	(414)
Total Expenditures	522,997	504,914	18,083	130,645	123,410	7,235	94,920	95,334	(414)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,561)	38,531	49,092	(12,933)	(3,188)	9,745	(6,487)	(5,825)	662
Other Financing Sources (Uses)									
Operating Transfers In	19,163	19,043	(120)	60,431	60,560	129	8,643	9,887	1,244
Operating Transfers Out	(73,647)	(73,790)	(143)	(68,557)	(46,991)	21,566			
Total Other Financing Sources (Uses)	(54,484)	(54,747)	(263)	(8,126)	13,569	21,695	8,643	9,887	1,244
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(65,045)	(16,216)	$ 48,829	(21,059)	10,381	$ 31,440	2,156	4,062	$ 1,906
Fund Balances, October 1	93,145	93,145		72,452	72,452		85,109	85,109	
Change in Accounting Principle (See Note 1, Section V)		12,557							
Beginning Fund Balance as Restated	93,145	105,702		72,452	72,452		85,109	85,109	
Add Encumbrances		6,712			10,172				
Fund Balances, September 30	$ 28,100	$ 96,198		$ 51,393	$ 93,005		$ 87,265	$ 89,171	

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, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	PROPRIETARY	TOTALS (MEMORANDUM ONLY)	
		INTERNAL	PRIMARY	COMPONENT	REPORTING ENTITY	
	ENTERPRISE	SERVICE	GOVERNMENT	UNITS	2001	2000
Operating Revenues						
Charges for Services	$ 96,129	$ 118,773	$ 214,902	$ 1,539,997	$ 1,754,899	$ 1,436,898
Operating Expenses						
Personal Services	42,787	27,613	70,400		70,400	61,568
Contractual Services	27,198	54,972	82,170	484	82,654	72,444
Commodities	5,235	3,698	8,933	13	8,946	8,303
Other	1,535	17,726	19,261		19,261	16,605
Materials		15,627	15,627		15,627	13,769
Gas, Electric & Water Systems Operations and Maintenance				1,064,235	1,064,235	784,641
Depreciation	8,638	8,684	17,322	246,927	264,249	231,726
Total Operating Expenses	85,393	128,320	213,713	1,311,659	1,525,372	1,189,056
Operating Income (Loss)	10,736	(9,547)	1,189	228,338	229,527	247,842
Nonoperating Revenues (Expenses)						
Interest and Other	5,286	4,063	9,349	58,950	68,299	57,786
Net Increase in Fair Value of Investments	81	83	164		164	
Other Nonoperating Revenue	3,268	1,773	5,041		5,041	1,787
Gain (Loss) on Disposition of Fixed Assets	(11)	779	768	48	816	434
Interest and Debt Expense	(9,717)	(49)	(9,766)	(186,203)	(195,969)	(194,887)
Other Nonoperating Expenses	(1,989)		(1,989)	(25,337)	(27,326)	(26,858)
Allowance for Funds Used During Construction				12,593	12,593	13,286
Total Nonoperating Revenues (Expenses)	(3,082)	6,649	3,567	(139,949)	(136,382)	(148,452)
Income (Loss) Before Operating Transfers	7,654	(2,898)	4,756	88,389	93,145	99,390
Operating Transfers In (Out)						
Operating Transfers In	2,351	5,265	7,616		7,616	7,518
Operating Transfers Out	(4,315)	(4,913)	(9,228)		(9,228)	(8,355)
Total Operating Transfers	(1,964)	352	(1,612)		(1,612)	(837)
Income (Loss) Before Extraordinary Item	5,690	(2,546)	3,144	88,389	91,533	98,553
Extraordinary Item						
Cash Defeasance of Bonds	(711)		(711)	(2,586)	(3,297)	
Net Income (Loss)	4,979	(2,546)	2,433	85,803	88,236	98,553
Add Amortization of (Depreciation of) Federally Contributed Fixed Assets	1,555		1,555		1,555	1,629
Increase (Decrease) In Retained Earnings	6,534	(2,546)	3,988	85,803	89,791	100,182
Retained Earnings/Fund Balances, October 1, as Previously Reported	108,946	41,542	150,488	2,344,184	2,494,672	2,394,494
Prior Period Adjustment				4	4	
Retained Earnings as Restated	108,946	41,542	150,488	2,344,188	2,494,676	2,394,494
Retained Earnings/Fund Balances, September 30	$ 115,480	$ 38,996	$ 154,476	$ 2,429,991	$ 2,584,467	$ 2,494,676

The notes to the financial statements are an integral part of this statement.

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COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	PROPRIETARY	TOTALS (MEMORANDUM ONLY)	
					REPORTING ENTITY	
	ENTERPRISE	INTERNAL SERVICE	PRIMARY GOVERNMENT	COMPONENT UNITS	2001	2000
Cash Flows from Operating Activities						
Cash Received from Customers	$ 97,651	$ 118,877	$ 216,528	$ 1,478,808	$ 1,695,336	$ 1,446,044
Cash Payments to Suppliers for Goods and Services	(35,154)	(90,953)	(126,107)	(940,011)	(1,066,118)	(829,934)
Cash Payments to Employees for Service	(42,704)	(27,382)	(70,086)	(51,634)	(121,720)	(115,064)
Other Nonoperating Revenues	325	1,773	2,098		2,098	1,787
Net Cash Provided by Operating Activities	20,118	2,315	22,433	487,163	509,596	502,833
Cash Flows from Non-Capital Financing Activities						
Operating Transfers In from Other Funds	2,822	5,265	8,087		8,087	7,743
Operating Transfers Out to Other Funds	(3,813)	(4,551)	(8,364)		(8,364)	(8,463)
Cash Payments from Other Governments						538
Net Cash Provided by (Used for) Non-Capital Financing Activities	(991)	714	(277)		(277)	(182)
Cash Flows from Capital and Related Financing Activities						
Acquisition and Construction of Capital Assets	(17,288)	(12,879)	(30,167)	(365,094)	(395,261)	(567,881)
Proceeds from Issuance of Long-Term Debt	18,658		18,658	542,356	561,014	272,932
Principal Payments on Long-Term Debt	(5,980)	(366)	(6,346)	(91,071)	(97,417)	(94,527)
Defeasance of Revenue Bonds	(17,875)		(17,875)		(17,875)	
Cost of Defeasance	(423)		(423)		(423)	
Interest Paid on Long-Term Debt	(9,913)	(51)	(9,964)	(191,888)	(201,852)	(199,292)
Debt Issuance Cost	(235)		(235)	(3,327)	(3,562)	(1,354)
Costs for Cash Defeasance of Debt				(198,160)	(198,160)	
Proceeds from Notes	350		350		350	350
Principal Payment on Notes	(158)		(158)	(766)	(924)	(796)
Interest Paid on Notes	(28)		(28)		(28)	(20)
Proceeds from Joint Operations Agreement				72,607	72,607	15,239
Proceeds from Litigation Settlement				10,306	10,306	18,975
Proceeds from Lease Transactions				725,000	725,000	
Payments for Leaseback Transactions				(637,027)	(637,027)	
Redemption of Commercial Paper				(8,300)	(8,300)	(139,700)
Payment on Defeasement on Revenue Bonds				(12,570)	(12,570)	
Capital Contributed for Construction				23,289	23,289	21,902
Proceeds from Sale of Assets	44	3,001	3,045	50	3,095	2,748
Net Cash (Used for) Capital and Related Financing Activities	(32,848)	(10,295)	(43,143)	(134,595)	(177,738)	(671,424)
Cash Flows from Investing Activities						
Purchase of Investment Securities	(473,174)	(292,039)	(765,213)	(1,390,864)	(2,156,077)	(1,796,594)
Maturity of Investment Securities	491,597	318,340	809,937	1,089,857	1,899,794	1,875,805
Notes Principal						(199)
Principal Collection on Notes		101	101	955	1,056	517
Loans Disbursed				(489)	(489)	(673)
Interest on Notes		19	19		19	28
Interest on Investments	5,697	4,422	10,119	36,276	46,395	55,080
Net Cash Provided by (Used for) Investing Activities	24,120	30,843	54,963	(264,265)	(209,302)	133,964
Net Increase (Decrease) in Cash and Cash Equivalents	10,399	23,577	33,976	88,303	122,279	(34,809)
Cash and Cash Equivalents, October 1	27,907	13,499	41,406	11,475	52,881	87,690
Cash and Cash Equivalents, September 30	$ 38,306	$ 37,076	$ 75,382	$ 99,778	$ 175,160	$ 52,881

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, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	PROPRIETARY	TOTALS (MEMORANDUM ONLY)	
					REPORTING ENTITY	
	ENTERPRISE	INTERNAL SERVICE	PRIMARY GOVERNMENT	COMPONENT UNITS	2001	2000
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities						
Operating Income (Loss)	$ 10,736	$ (9,547)	$ 1,189	$ 228,338	$ 229,527	$ 247,843
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	8,638	8,684	17,322	246,927	264,249	231,726
Other Nonoperating Revenues	325	1,773	2,098		2,098	1,787
Amortization Expense				15,825	15,825	18,142
Changes in Assets and Liabilities:						
(Increase) Decrease in Accounts Receivable				(59,126)	(59,126)	8,009
(Increase) Decrease in Other Accounts Receivable	750	(8)	742	(19,977)	(19,235)	(11,111)
Increase in Allowance for Uncollectibles	442		442		442	
(Increase) Decrease in Accrued Revenues	483	(53)	430	(162)	268	2,765
(Increase) Decrease in Due from Other Funds		59	59		59	(188)
(Increase) Decrease in Due From Other Gov't Agencies		129	129	(13)	116	(149)
(Increase) Decrease in Inventories		(205)	(205)	3,939	3,734	(19,117)
(Increase) in Prepaid Expenses	(479)		(479)	(16,105)	(16,584)	(4,786)
(Increase) Decrease in Deposits		(267)	(267)		(267)	142
Increase (Decrease) in Vouchers Payable	173	(746)	(573)	59,252	58,679	16,960
Increase (Decrease) in Other Payables	(881)	2,268	1,387	27,553	28,940	11,089
Increase (Decrease) in Due to Other Funds		(3)	(3)		(3)	3
Increase (Decrease) in Accrued Payroll	12	173	185	(582)	(397)	(49)
Increase in Accrued Leave Payable	71	58	129	195	324	625
(Decrease) in Deferred Revenue	(152)		(152)		(152)	(916)
Increase in Customer Deposits				1,099	1,099	58
Net Cash Provided by Operating Activities	$ 20,118	$ 2,315	$ 22,433	$ 487,163	$ 509,596	$ 502,833
Noncash Investing, Capital and Financing Activities:						
Acquisition and Construction of Capital Assets from Capital Contributions	$ 2,943	$ 3,440	$ 6,383	$ 13,505	$ 19,888	$ 23,030
Net Increase in Fair Value of Investments	$ 81	$ 83	$ 164	$ 0	$ 164	$ 0

(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, 2001
(With comparative totals for September 30, 2000)
(In Thousands)

	FIRE AND POLICE PENSION FUND	FIRE AND POLICE RETIREE HEALTH CARE FUND	TOTALS 2001	TOTALS 2000
Additions				
Contributions:				
City Contribution	$ 42,065	$ 14,741	$ 56,806	$ 54,127
Contributions from Employees	21,032	867	21,899	20,342
Total Contributions	63,097	15,608	78,705	74,469
Investment Income (Loss):				
Interest and Dividends	34,130	2,436	36,566	61,898
Net Appreciation (Depreciation) in Fair Value of Investments	(189,396)	(13,724)	(203,120)	166,623
Real Estate Income, Net	223		223	250
Securities Lending Income	6,536		6,536	7,464
Other Income	463	27	490	359
Less Investment Expenses:				
Investment Management and Custodial Fees	(4,528)	(670)	(5,198)	(5,368)
Securities Lending Borrower Rebates	(5,873)		(5,873)	(6,840)
Securities Lending Fees	(229)		(229)	(218)
Net Investment Income (Loss)	(158,674)	(11,931)	(170,605)	224,168
Total Additions	(95,577)	3,677	(91,900)	298,637
Deductions				
Benefits Paid to Participants:				
Postemployment Healthcare		4,404	4,404	4,266
Annuities	43,503		43,503	40,202
Back DROP Payments	3,108		3,108	8,404
Refunds of Participant Contributions	688		688	454
Personnel Costs	513	73	586	447
Contractual Services	354	216	570	662
Other		71	71	12
Depreciation	21		21	16
Maintenance and Utilities	289		289	277
Total Deductions	48,476	4,764	53,240	54,740
Net Increase (Decrease)	(144,053)	(1,087)	(145,140)	243,897
Net Assets Held in Trust for Pension/Postemployment Healthcare Benefits, October 1	1,403,629	82,414	1,486,043	1,242,146
Net Assets Held in Trust for Pension/Postemployment Healthcare Benefits, September 30	$ 1,259,576	$ 81,327	$ 1,340,903	$ 1,486,043

The notes to the financial statements are an integral part of this statement.

CITY OF SAN ANTONIO, TEXAS

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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 EDUCATION FACILITIES CORPORATION (SAEFC) *- SAEFC, formerly the San Antonio Higher Education Authority, 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, 2001
(With comparative totals for September 30, 2000)

	SAN ANTONIO DEVELOPMENT AGENCY	SAN ANTONIO EDUCATION FACILITIES CORPORATION	GREATER KELLY DEVELOPMENT AUTHORITY	SAN ANTONIO HOUSING TRUST FOUNDATION INC.	TOTALS 2001	TOTALS 2000
Assets						
Cash and Cash Equivalents	$ 1,160,360	$ 50,894	$ 10,364,274	$ 1,752,153	$ 13,327,681	$ 6,958,423
Investments				446,284	446,284	445,072
Receivables:						
Notes	1,799,943				1,799,943	2,727,496
Other Accounts			2,782,482	3,130,097	5,912,579	7,946,196
Inventories of Materials and Supplies	235,935				235,935	476,292
Due from Other Governmental Agencies	230,316		2,767,996		2,998,312	7,909,697
General Equipment	190,947	824	134,529,426	6,425	134,727,622	67,246,606
Amount to be Provided for Long-Term Debt			28,607,169		28,607,169	18,787,213
Total Assets	$ 3,617,501	$ 51,718	$ 179,051,347	$ 5,334,959	$ 188,055,525	$ 112,496,995
Liabilities and Fund Equity						
Liabilities:						
Vouchers Payable	$ 21,093	$ 0	$ 7,196,958	$ 7,166	$ 7,225,217	$ 14,006,867
Accounts Payable-Other	246,454	100	715,750	17,800	980,104	867,569
Notes Payable			28,607,169		28,607,169	18,787,213
Accrued Leave Payable	41,272		195,378		236,650	406,194
Deferred Revenue			154,124	723,669	877,793	875,784
Due to Other Governmental Agencies			1,082,796	3,749,430	4,832,226	4,845,691
Total Liabilities	308,819	100	37,952,175	4,498,065	42,759,159	39,789,318
Fund Equity:						
Investment in General Fixed Assets	190,947	824	134,529,426	6,425	134,727,622	67,246,606
Fund Balances:						
Reserved:						
Reserved for Inventories	235,935				235,935	476,292
Reserved for Notes	1,799,943		610,187		2,410,130	2,727,496
Reserved for Other Restricted Purposes	1,081,857		711,800	754,058	2,547,715	520,695
Unreserved:						
Designated			2,233,365		2,233,365	
Undesignated		50,794	3,014,394	76,411	3,141,599	1,736,588
Total Fund Balances	3,117,735	50,794	6,569,746	830,469	10,568,744	5,461,071
Total Fund Equity	3,308,682	51,618	141,099,172	836,894	145,296,366	72,707,677
Total Liabilities and Fund Equity	$ 3,617,501	$ 51,718	$ 179,051,347	$ 5,334,959	$ 188,055,525	$ 112,496,995

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, 2001
(With comparative totals for September 30, 2000)

	SAN ANTONIO DEVELOPMENT AGENCY	SAN ANTONIO EDUCATION FACILITIES CORPORATION	GREATER KELLY DEVELOPMENT AUTHORITY	SAN ANTONIO HOUSING TRUST FOUNDATION INC.	TOTALS 2001	TOTALS 2000
Revenues						
Intergovernmental	$ 3,495,510	$ 0	$ 10,812,053	$ 1,023,327	$ 15,330,890	$ 31,981,811
Charges for Services	292,201	25,500	14,033,538		14,351,239	12,323,114
Miscellaneous:						
Sales			1,702,749		1,702,749	6,500,000
Recovery of Expenditures			9,758,645		9,758,645	7,516,319
Other			1,828,160		1,828,160	
Interest	87,561	715	563,207	192,442	843,925	2,479,035
In-Kind Contributions			260,908		260,908	269,804
Total Revenues	3,875,272	26,215	38,959,260	1,215,769	44,076,516	61,070,083
Expenditures						
Urban Redevelopment and Housing	4,122,413			898,543	5,020,956	11,206,339
Economic Development and Opportunity		2,557	42,559,181		42,561,738	49,167,649
Total Expenditures	4,122,413	2,557	42,559,181	898,543	47,582,694	60,373,988
Excess (Deficiency) of Revenues Over (Under) Expenditures	(247,141)	23,658	(3,599,921)	317,226	(3,506,178)	696,095
Other Financing Sources						
Proceeds from Notes and Loans			8,613,851		8,613,851	3,709,061
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	(247,141)	23,658	5,013,930	317,226	5,107,673	4,405,156
Fund Balances, October 1 as Previously Reported	3,694,509	27,136	392,668	513,243	4,627,556	1,055,915
Prior Period Adjustment	(329,633)		1,163,148		833,515	
Beginning Fund Balance as Restated	3,364,876	27,136	1,555,816	513,243	5,461,071	1,055,915
Fund Balances, September 30	$ 3,117,735	$ 50,794	$ 6,569,746	$ 830,469	$ 10,568,744	$ 5,461,071

The notes to the financial statements are an integral part of this statement.

COMPONENT UNIT PROPRIETARY FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2001
(unless otherwise indicated)
(With comparative totals for September 30, 2000)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2001 SAN ANTONIO WATER SYSTEM	JAN. 31, 2001 CITY PUBLIC SERVICE	TOTALS 2001	TOTALS 2000
Assets					
Current Assets					
Cash and Cash Equivalents	$ 2,361,679	$ 0	$ 20,902,000	$ 23,263,679	$ 7,626,715
Investments		21,506,960	183,273,000	204,779,960	126,090,742
Receivables:					
Other Accounts	200,000	23,397,841	185,575,000	209,172,841	130,200,687
Notes	2,632,655			2,632,655	3,097,996
Accrued Interest	10,654	484,162		494,816	391,997
Due from Other Governmental Agencies	31,756			31,756	18,797
Inventories		4,326,002	97,746,000	102,072,002	106,011,421
Prepaid Expenses		1,751,229	26,583,000	28,334,229	22,016,759
Total Current Assets	5,236,744	51,466,194	514,079,000	570,781,938	395,455,114
Restricted Assets					
Debt Service Accounts:					
Cash and Cash Equivalents		344,502	40,216,000	40,560,502	2,977,094
Investments			32,741,000	32,741,000	
Construction Accounts:					
Cash and Cash Equivalents		34,889,002		34,889,002	204,016
Investments		101,786,292		101,786,292	53,121,630
Improvement and Contingency Accounts:					
Cash and Cash Equivalents					
Investments			465,206,000	465,206,000	369,716,000
Other Restricted Accounts:					
Cash and Cash Equivalents			1,065,000	1,065,000	667,000
Investments		10,749,588	212,699,000	223,448,588	159,456,783
Total Restricted Assets		147,769,384	751,927,000	899,696,384	586,142,523
Property, Plant and Equipment					
Land		44,918,163		44,918,163	34,935,056
Utility Plant in Service		1,777,147,226	5,829,614,000	7,606,761,226	7,263,415,301
Machinery and Equipment	43,904	98,158,264		98,202,168	89,592,097
Construction in Progress		319,250,658	142,090,000	461,340,658	581,022,630
Utility Property Leased			18,647,000	18,647,000	18,713,000
Nuclear Fuel -Net			34,420,000	34,420,000	39,152,000
Held for Future Use			12,599,000	12,599,000	12,599,000
Total	43,904	2,239,474,311	6,037,370,000	8,276,888,215	8,039,429,084
Less: Accumulated Depreciation		616,135,512	1,948,230,000	2,564,365,512	2,377,582,024
Net Property, Plant and Equipment	43,904	1,623,338,799	4,089,140,000	5,712,522,703	5,661,847,060
Prepaid Rent Long Term-Leaseback			595,341,000	595,341,000	
Unamortized Debt Expense		5,809,423	28,189,000	33,998,423	20,753,071
Total Assets	$ 5,280,648	$ 1,828,383,800	$ 5,978,676,000	$ 7,812,340,448	$ 6,664,197,768

(Cont'd)

The notes to the financial statements are an integral part of this statement.

COMPONENT UNIT PROPRIETARY FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2001
(unless otherwise indicated)
(With comparative totals for September 30, 2000)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2001 SAN ANTONIO WATER SYSTEM	JAN. 31, 2001 CITY PUBLIC SERVICE	TOTALS 2001	TOTALS 2000
Liabilities and Fund Equity					
Current Liabilities: (Payable from Current Assets)					
Vouchers Payable	$ 99,324	$ 11,649,610	$ 168,607,000	$ 180,355,934	$ 131,606,897
Sewer Collections Payable		185,844		185,844	208,620
Other Payables and Accruals	40,209	11,958,890		11,999,099	12,414,478
Accrued Payroll		3,685,448		3,685,448	4,267,862
Accrued Leave Payable		4,121,882		4,121,882	3,926,937
Total Current Liabilities	139,533	31,601,674	168,607,000	200,348,207	152,424,794
Current Liabilities: (Payable from Restricted Assets)					
Accrued Bond and Certificate Interest		2,954,459		2,954,459	1,780,866
Current Portion of Bonds and Certificates		25,045,000	71,755,000	96,800,000	91,710,000
Customer Deposits		5,069,352	26,879,000	31,948,352	30,849,097
Contract Retainage Payable		4,061,824		4,061,824	4,735,917
Deferred Lease Revenue			22,561,000	22,561,000	
Customer Advances for Construction		2,734,776	18,771,000	21,505,776	19,510,703
Total Current Liabilities (Payable From Restricted Assets)		39,865,411	139,966,000	179,831,411	148,586,583
Restricted Funds					
Long-Term Liabilities					
Revenue Bonds (Net of Current Portion)		703,410,000	2,597,065,000	3,300,475,000	3,319,800,000
Unamortized Premium		1,704,064		1,704,064	1,815,521
Less: Unamortized Discount		(16,013,355)	(3,485,000)	(19,498,355)	(34,452,127)
Deferred Amount on Refunding		(8,900,519)	(158,691,000)	(167,591,519)	(201,325,097)
Long-Term Debt	591,590			591,590	418,114
Commercial Paper		165,000,000	252,800,000	417,800,000	195,100,000
Deferred Lease Revenue			678,696,000	678,696,000	
Other Payables		3,191,041	164,187,000	167,378,041	139,535,707
Total Long-Term Liabilities	591,590	848,391,231	3,530,572,000	4,379,554,821	3,420,892,118
Total Liabilities	731,123	919,858,316	3,839,145,000	4,759,734,439	3,721,903,495
Fund Equity					
Contributed Capital:					
Local Government	30,000			30,000	30,000
Customers		622,584,562		622,584,562	598,076,317
Total Contributed Capital	30,000	622,584,562		622,614,562	598,106,317
Retained Earnings:					
Reserved for Revenue Bond Retirement		2,195,864		2,195,864	1,106,228
Reserved for Construction		125,073,929		125,073,929	45,824,026
Reserved for Improvement and Contingency			502,771,000	502,771,000	369,716,000
Unreserved	4,519,525	158,671,129	1,636,760,000	1,799,950,654	1,927,541,702
Total Retained Earnings	4,519,525	285,940,922	2,139,531,000	2,429,991,447	2,344,187,956
Total Fund Equity	4,549,525	908,525,484	2,139,531,000	3,052,606,009	2,942,294,273
Total Liabilities and Fund Equity	$ 5,280,648	$ 1,828,383,800	$ 5,978,676,000	$ 7,812,340,448	$ 6,664,197,768

(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, 2001
(unless otherwise indicated)
(With comparative totals for September 30, 2000)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2001 SAN ANTONIO WATER SYSTEM	JAN. 31, 2001 CITY PUBLIC SERVICE	TOTALS 2001	TOTALS 2000
Operating Revenues					
Charges for Services	$ 1,143,327	$ 199,883,596	$ 1,338,970,000	$ 1,539,996,923	$ 1,237,477,944
Operating Expenses					
Contractual Services	483,681			483,681	428,347
Commodities	12,972			12,972	9,873
Gas, Electric and Water Systems - Operating and Maintenance		125,083,575	939,152,000	1,064,235,575	784,641,245
Depreciation		49,604,578	197,322,000	246,926,578	211,784,685
Total Operating Expense	496,653	174,688,153	1,136,474,000	1,311,658,806	996,864,150
Operating Income	646,674	25,195,443	202,496,000	228,338,117	240,613,794
Nonoperating Revenues (Expenses)					
Interest and Other		7,341,296	51,609,000	58,950,296	47,788,123
Gain (Loss) on Disposition of Assets		48,235		48,235	(126,394)
Interest and Debt Expense		(35,048,738)	(151,154,000)	(186,202,738)	(185,643,632)
Other Nonoperating Expense		(3,376,419)	(21,961,000)	(25,337,419)	(26,556,499)
Allowance for Funds Used During Construction			12,593,000	12,593,000	13,286,000
Total Nonoperating Revenues (Expenses)		(31,035,626)	(108,913,000)	(139,948,626)	(151,252,402)
Income (Loss) before Extraordinary Item	646,674	(5,840,183)	93,583,000	88,389,491	89,361,392
Extraordinary Item					
Cash Defeasance of Bonds			(2,586,000)	(2,586,000)	
Net Income (Loss)	646,674	(5,840,183)	90,997,000	85,803,491	89,361,392
Retained Earnings, October 1, as Previously Reported	3,868,314	291,781,105	2,048,534,000	2,344,183,419	2,254,826,564
Prior Period Adjustment	4,537			4,537	
Retained Earnings as Restated	3,872,851	291,781,105	2,048,534,000	2,344,187,956	2,254,826,564
Retained Earnings, September 30	$ 4,519,525	$ 285,940,922	$ 2,139,531,000	$ 2,429,991,447	$ 2,344,187,956

The notes to the financial statements are an integral part of this statement.

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COMPONENT UNIT PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(unless otherwise indicated)
(With comparative totals for September 30, 2000)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2001 SAN ANTONIO WATER SYSTEM	JAN. 31, 2001 CITY PUBLIC SERVICE	TOTALS 2001	TOTALS 2000
Cash Flows from Operating Activities					
Cash Received from Customers	$ 942,516	$ 198,021,372	$ 1,279,844,000	$ 1,478,807,888	$ 1,248,001,818
Cash Payments to Suppliers for Goods and Services	(406,487)	(71,250,260)	(868,353,000)	(940,009,747)	(719,403,796)
Cash Payments to Employees for Service		(51,634,222)		(51,634,222)	(52,255,125)
Net Cash Provided by Operating Activities	536,029	75,136,890	411,491,000	487,163,919	476,342,897
Cash Flows From Non-Capital Financing Activities					
Cash Payments from Other Governments					538,000
Cash Flows From Capital and Related Financing Activities					
Acquisition and Construction of Capital Assets	(15,837)	(116,922,835)	(248,155,000)	(365,093,672)	(538,217,887)
Proceeds from Issuance of Long-Term Debt	270,000	196,850,869	345,235,000	542,355,869	248,086,547
Principal Payments on Long-Term Debt	(96,524)	(23,760,000)	(67,215,000)	(91,071,524)	(88,210,384)
Interest Paid on Long-Term Debt		(40,733,711)	(151,154,000)	(191,887,711)	(190,154,938)
Debt Issuance Cost		(1,073,214)	(2,254,000)	(3,327,214)	(544,143)
Costs for Cash Defeasance of Debt			(198,160,000)	(198,160,000)	
Principal Payments on Notes		(766,429)		(766,429)	(718,467)
Proceeds from Joint Operations Agreement			72,607,000	72,607,000	15,239,000
Proceeds from Litigation Settlement			10,306,000	10,306,000	18,975,000
Proceeds from Lease Transactions			725,000,000	725,000,000	
Payments for Leaseback Transaction			(637,027,000)	(637,027,000)	
Redemption of Commercial Paper		(8,300,000)		(8,300,000)	(139,700,000)
Payment on Defeasement on Revenue Bonds		(12,570,000)		(12,570,000)	
Capital Contributed for Construction		10,972,130	12,317,000	23,289,130	21,902,115
Proceeds from Sale of Assets		50,444		50,444	31,641
Net Cash Provided by (Used for) Capital and Related Financing Activities	157,639	3,747,254	(138,500,000)	(134,595,107)	(653,311,516)
Cash Flows From Investing Activities					
Purchase of Investment Securities		(261,992,492)	(1,128,871,000)	(1,390,863,492)	(1,152,667,580)
Maturity of Investment Securities		207,571,807	882,285,000	1,089,856,807	1,235,733,000
Principal Collection on Notes	511,474	443,045		954,519	438,423
Loans Disbursed	(489,178)			(489,178)	(672,919)
Interest on Investments		7,235,890	29,040,000	36,275,890	45,158,973
Net Cash Provided by (Used for) Investing Activities	22,296	(46,741,750)	(217,546,000)	(264,265,454)	127,989,897
Net Increase (Decrease) in Cash and Cash Equivalents	715,964	32,142,394	55,445,000	88,303,358	(48,440,722)
Cash and Cash Equivalents, October 1	1,645,715	3,091,110	6,738,000	11,474,825	59,915,547
Cash and Cash Equivalents, September 30	$ 2,361,679	$ 35,233,504	$ 62,183,000	$ 99,778,183	$ 11,474,825

(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, 2001
(With comparative totals for September 30, 2000)

	SAN ANTONIO LOCAL DEVELOPMENT COMPANY	MAY 31, 2001 SAN ANTONIO WATER SYSTEM	JAN. 31, 2001 CITY PUBLIC SERVICE	TOTALS 2001	TOTALS 2000
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income	$ 646,674	$ 25,195,443	$ 202,496,000	$ 228,338,117	$ 240,613,794
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation		49,604,578	197,322,000	246,926,578	211,784,685
Amortization Expense			15,825,000	15,825,000	18,142,000
Changes in Assets and Liabilities:					
(Increase) Decrease in Accounts Receivable			(59,126,000)	(59,126,000)	10,855,000
(Increase) in Other Accounts Receivable	(199,451)	(1,816,703)	(17,961,000)	(19,977,154)	(10,996,478)
(Increase) Decrease in Accrued Revenues	2,587	(164,512)		(161,925)	62,304
(Increase) Decrease in Due from Other Govt. Agencies	(12,959)			(12,959)	8,612
(Increase) Decrease in Inventories		1,074,419	2,865,000	3,939,419	(18,702,547)
(Increase) in Prepaid Expenses		(619,293)	(15,486,000)	(16,105,293)	(4,631,294)
Increase in Vouchers Payable	98,797	2,580,240	56,574,000	59,253,037	18,182,744
Increase (Decrease) in Other Payables	381	(307,068)	27,860,000	27,553,313	9,148,961
Increase (Decrease) in Accrued Payroll		(582,414)		(582,414)	1,429,470
Increase in Accrued Leave Payable		194,945		194,945	387,459
Increase (Decrease) in Customer Deposits		(22,745)	1,122,000	1,099,255	58,187
Net Cash Provided by Operating Activities	$ 536,029	$ 75,136,890	$ 411,491,000	$ 487,163,919	$ 476,342,897
Noncash Investing, Capital and Financing Activities:					
Acquisition and Construction of Capital Assets from Capital Contributions	$ 0	$ 13,505,188	$ 0	$ 13,505,188	$ 17,904,931
Noncash Payment for Water, Reuse, Supply and Sewer Billings to City	$ 0	$ 1,576,658	$ 0	$ 1,576,658	$ 0
Purchase of Water Rights	$ 0	$ 480,000	$ 0	$ 480,000	$ 0

(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, 2001

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in 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, 2001, 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.

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.

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.

City of San Antonio Texas Municipal Facilities Corporation

The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in accordance with state law for the purposes of and to act on behalf of the City in acquisition, construction, equipping, financing, operation and maintenance of land and other municipal facilities for the City. The TMFC is governed by a Board of Directors which is comprised of the City Council of the City.

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 Education Facilities Corporation

The City of San Antonio Higher Education Authority (SAHEA), was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and as its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to the San Antonio Education Facilities Corporation (SAEFC). The Act authorizes the SAEFC to issue revenue bonds for these purposes on behalf of the City but the bonds are not obligations of the City. SAEFC is governed by an eleven member Board of Directors appointed by the City Council for two year terms.

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 (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA has the powers previously enjoyed by the GKDC while at the same time clarifying such powers and preserving the property tax exempt status of prior commercial tenants at Kelly 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.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office. The addresses are as follows:

Discretely Presented Component Units

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298
Contact Person: 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 Education Facilities Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

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

Blended Component Units

San Antonio Health Facilities Development Corporation
P. O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio 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

San Antonio Texas Municipal Facilities Corporation
P.O. Box 839966
San Antonio, Texas 78283
Contact Person: Milo Nitschke
Telephone No. (210) 207-8620

San Antonio 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 Pension Fund
311 Roosevelt
San Antonio, Texas 78210-2700
Contact Person: Larry Reed
Telephone No. (210) 534-3262

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 the underlying transaction has occurred and the resources are available. 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.

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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 and prepaids 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 for (fiduciary funds) and retained earnings (all others).

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.

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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. There were several new GASB implementations that occurred for fiscal year 2001, as well as several that will occur in fiscal year 2002.

During fiscal year 2001, the City implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33".

GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", is effective for periods beginning after June 15, 2001 and will be implemented for fiscal year 2002. 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. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus", which amends certain information disclosed in Statement No. 34, is effective for periods beginning after June 15, 2001, and will be implemented simultaneously with Statement No. 34.

GASB Statement No. 38, "Certain Financial Statement Note Disclosures" establishes and modifies certain footnote disclosures. Statement No. 38 is effective for periods beginning after June 15, 2001, and will be implemented simultaneously with Statement No. 34.

The City has not fully determined the effects that the implementation of Statement No. 34, No. 37 and No. 38 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 Department 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 following Special Revenue Funds: HOME Program, Categorical Grant-In Aid, Housing and Urban Development 108 Loan Program, Community Development Program, and Community Services), 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 following Special Revenue Funds: HOME Program, Categorical Grant-In Aid, Housing and Urban Development 108 Loan Program, Community Development Program, and the Community Services Fund 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.

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 2001 results:

Special Revenue Funds

	Actual		
	Revenues	Expenditures	Other Sources
Budgeted on an annual basis	$120,222	$123,410	$13,569
Less: Encumbrances		(3,492)	6,680
Budgeted on a project basis	190,167	190,261	8,162
Total Special Revenue Funds	$310,389	$310,179	$28,411

The budget is prepared using the modified accrual basis of accounting except for the recognition of encumbrances within the expenditure appropriations.

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, 2001, the City's investment portfolio did not contain any other derivative products nor is it leveraged in any way, except as noted in the Fire and Police Pension Fund. For a listing of authorized investments, see Note 3.

The City accounts for and reports investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". 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. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, SAWS and CPS consider all highly liquid investments with an original maturity of approximately ninety days or less to be cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 sixty 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 grant's legal requirements and are valued at estimated fair market value at the date of receipt.

K. Fixed Assets and Depreciation

1. City of San Antonio

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 in the cost of the assets being constructed based upon guidelines established by the Statement of Financial Accounting Standards No. 34, as amended by Financial Accounting Standards Statement No. 62.

2. City Public Service (CPS)

The CPS utility plant is stated at the cost of construction, including costs of contracted services, direct equipment material and labor, indirect costs, including general engineering, labor, equipment, and material overhead, and an allowance for funds used during construction (AFUDC). CPS computes AFUDC using rates which approximate the cost of borrowed funds, or the short-term investment rate for other funds used for construction. AFUDC is applied to projects estimated to cost in excess of $250 and to require thirty days or more to complete. Proceeds from customers, litigation settlements, and insurance recoveries to partially fund construction expenditures are credited against utility plant costs.

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 total utility plant was 3.35 % in 2001.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Fixed Assets and Depreciation (Continued)

2. City Public Service (CPS) (Continued)

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 charge is included in fuel expense monthly. For further discussion regarding the STP, see Note 10.

3. San Antonio Water Systems (SAWS)

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 depreciate the costs of the asset group over their estimated average useful lives. 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, holiday pay and bonus pay.

The City's uniformed police employees also accrue compensatory time pay. The current portion of the 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 are accounted for in the respective proprietary fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, Travelers Insurance insured the City's property, while the North River Insurance Company of New Jersey provided excess liability coverage. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made, and claims incurred but not reported prior to the end of the fiscal year.

The City also provides employee health, workers' compensation, and unemployment benefits under its self-insured programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims for employees that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third party administrators. In addition, the City has excess workers' compensation coverage through the North River Insurance Company at September 30, 2001. The City records all worker's compensation loss contingencies, including claims incurred but not reported.

Employee health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits. Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent". A.M. Best is an industry recognized rating service for Insurance Companies. For a more detailed explanation of the City's self-insurance programs, see Note 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.

P. Fund Equity

Reservations of equity represent amounts that are not appropriable or 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, municipal court fines and fees, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2001, CPS had accumulated approximately $119,800 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 $61,000 at December 31, 2000. Based upon the 1994 decommissioning study, the annual levelized funding into the trust of $9,400 for 2001 was expensed by CPS. As of January 2001, CPS increased its annualized funding amount to $15,900.

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.

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:			
Emergency Medical Service Fund	$ 35,336	$ 35,567	$ 231
Debt Service Fund	$ 94,920	$ 95,333	$ 413

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

U. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

V. Restatement of Prior Year Balances

For fiscal year 2001, the City implemented GASB Statement No. 33 "Accounting and Financial Reporting for Non Exchange Transactions," as amended by GASB Statement No. 36 "Recipient Reporting for Certain Shared Nonexchange Revenues," which resulted in the restatement of certain prior year balances for the City's General Fund. With regard to fiscal year 2000, the following balances were restated: beginning fund balance was increased by $11,499; sales tax revenue was increased by $1,314; sales tax collection expense was increased by $256; and accrued revenue was increased by $12,557. In addition, the fiscal year 2001 beginning fund balance was increased by $12,557.

The General Long-Term Debt Account Group fiscal year 2000 balances were also restated. The restatement of $7,049 to the amount to be provided for General Long-Term Debt and the Convention Center Bonds Payable lines reflect the accretion of interest over the life of the City's capital appreciation bonds.

The City, in preparation of implementing GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" in fiscal year 2002, created a new special revenue fund, the Community Services Special Revenue Fund, to account for various funds previously classified as Expendable Trust Funds. Funds previously presented as Memorial and Gifts within the Expendable Trust Fund have been properly reclassified into the Community Services Fund, with the exception of the Carver Cultural Center Endowment Fund, which remains classified as an Expendable Trust Fund. The creation of the Community Services Fund will allow for a smoother transition into GASB Statement No. 34 requirements as it relates to fund classifications. This resulted in an increase to the beginning Special Revenue Fund balance in the amount of $2,425 and a corresponding decrease in the Expendable Trust Fund.

During the year, management of the San Antonio Development Agency, Greater Kelly Development Authority and San Antonio Local Development Corporation, discretely presented component units, discovered certain errors and adjustments in their financial statements as of September 30, 2000. For fiscal year 2001, Governmental and Proprietary fund balances have been increased by $834 and $4, respectively.

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2. PROPERTY TAXES

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1, and becomes delinquent the following February 1. 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, 2001 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 receivables, net of allowances for uncollectible amounts, are offset by deferred revenues. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation. The tax rate approved by City ordinance for the year ended September 30, 2001 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 $691,915 per year based on the net taxable valuation of $36,033,321 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.

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, 2001.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The City accounts for and reports investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". The City's policy with respect to money market investments 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 $537 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 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, 2001, the Pension Fund had lending arrangements outstanding with a total market value of $84,562 which were fully collateralized with cash and securities. Related to these loaned securities, cash collateral of $86,510 is recorded in the accompanying statements. Net income for the year ended September 30, 2001 under the securities lending arrangement was $434.

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, 2001 was approximately $94,346.

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 $51,224 is included in net appreciation (depreciation) in fair value of investments at September 30, 2001.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

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. In accordance with the provisions of GASB Statement No. 31 the investments of 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.

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, 2001 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 $6,730 at January 31, 2001, and CPS' bank balances were $24,113 at year end.

CPS reports the STP Decommissioning Trust Investments at fair value since they mature more than one year from date of purchase. CPS recorded an adjustment in 2001 to report all investments in other fund portfolios with original maturities of greater than one year from their purchase date at fair value. Fair value is determined by using generally accepted financial reporting services and publications and approved dealers and brokers as necessary. The current year increase in fair value of $1,340 has been included in nonoperating income for 2001. All other investments are stated at amortized cost, which approximates fair value. These investments will mature within one year from their purchase date. The specific identification method is used to determine cost in computing gain or loss on sales of securities. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year.

At January 31, 2001, 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 for the account of CPS. The scope of allowable CPS investments as defined by CPS Board Resolution and Policy, Bond Ordinances, Tax-Exempt Commercial Paper Ordinance and State Law, includes U.S. Government or Government Agency or U.S. Government guaranteed obligations, collateralized mortgage obligations issued by the U.S., fully secured certificates of deposit issued by a state, national bank, or savings bank domiciled in the State of Texas, direct repurchase agreements, reverse repurchase agreements, defined bankers acceptances and commercial paper, no-load money market mutual funds, and other types of specific secured or guaranteed investments. However, CPS' current investment strategy limits investments primarily to direct obligations of the U.S. Government or its agencies and money market mutual funds. The carrying value of investments were $830,787 with a total fair value of $838,122 at January 31, 2001.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

At January 31, 2001, 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 fair values of $118,496 for 2001. These funds included U.S. Treasury Strips, purchased with the intent of holding until maturity, with a fair value of $41,013 for 2001. 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.

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	$ 350,082	$ 35,233	$ 62,183
Security Lending Collateral - Cash and Cash Equivalents	86,510		
Investments	1,848,314	148,637	949,283
Less: Investments with Original Maturities of Less Than Ninety Days Included in Cash Equivalents	(281,757)	(14,594)	(55,364)
Total	$2,003,149	$ 169,276	$ 956,102

[1]For the period ended May 31, 2001
[2]For the period ended January 31, 2001

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

	City	SAWS[1]	CPS[2]
Totals from combined balance sheet			
Cash and Cash Equivalents	$ 319,924	$	$ 20,902
Security Lending Collateral - Cash and Cash Equivalents	86,510		
Investments	1,522,236	21,507	183,273
Restricted Cash and Cash Equivalents	30,158	35,233	41,281
Restricted Investments	44,321	112,536	710,646
Total Cash, Cash Equivalents and Investments	$ 2,003,149	$ 169,276	$ 956,102

[1]For the period ended May 31, 2001
[2]For the period ended January 31, 2001

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	$ (5,111)	$ 20,613	$ 6,730
Investments with Original Maturities of Less than Ninety Days	281,757	14,594	55,364
Cash with Pension/Retiree Healthcare Fiscal Agents	73,150		
Cash with Fiscal Agents	57		
Cash with Bond Paying Agents	9		
Cash with Other Financial Agents	33		
Petty Cash Funds	187	26	89
Total Cash and Cash Equivalents	$ 350,082	$ 35,233	$ 62,183

[1]For the period ended May 31, 2001
[2]For the period ended January 31, 2001

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Healthcare Fund of the City 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.

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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	$ (5,111)	$ 17,120	$ 17,120	$ 0	$ 0
Deposits With Agents	73,249	73,249	73,207	42	
SAWS Deposits	20,613	23,618	23,618		
CPS Deposits With Financial Institutions	6,730	24,113	24,113		

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 $86,510 which is not categorized for credit risk as it had been invested in a securities lending collateral investment pool.

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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	$ 139,818	$	$	$ 139,818	$ 139,818
Preferred Stock	203			203	203
Common Stock	668,703			668,703	668,703
U.S. Treasury & Government Agency Securities	558,699			558,699	561,537
Repurchase Agreements		17,252		17,252	17,252
Total Categorized Investments	1,367,423	17,252		1,384,675	1,501,933
Investments not Categorized:					
Money Market Mutual Fund				164,444	164,444
Notes, Mortgages, Contracts				128,623	128,623
Real Estate Investments				56,152	56,152
Venture Capital Partnerships and Other Alternative Investments				114,420	114,420
Total City	$ 1,367,423	$ 17,252	$	$ 1,848,314	$ 1,851,152
SAWS:					
First Union Bank Held in Escrow	$	$ 24,443	$	$ 24,443	$ 24,443
U.S. Treasury & Government Agency Securities	124,194			124,194	124,192
Total SAWS	$ 124,194	$ 24,443	$	$ 148,637	$ 148,635
CPS:					
U.S. Treasury & Government Agency Securities	$ 949,283			$ 949,283	$ 956,618
Total CPS	$ 949,283	$	$	$ 949,283	$ 956,618

(amounts are expressed in thousands)

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, 2000	Additions	Deletions/ Transfers	Balance Sept. 30, 2001
Land and Land Improvements	$ 337,436	$ 29,072	$	$ 366,508
Buildings	450,211	195		450,406
Streets and Bridges	483,302	20,156		503,458
Storm Drainage and Flood Prevention	353,062	7,355		360,417
General City Equipment	144,040	19,834	1,963	161,911
Construction-in-Progress	440,329	96,764	31,478	505,615
Total General Fixed Assets	$ 2,208,380	$ 173,376	$ 33,441	$ 2,348,315

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, 2001	Committed	Required Future Financing
Buildings	$ 34,517	$ 29,286	$ 5,231	None
Streets and Bridges	180,804	119,710	61,094	None
Storm Drainage and Flood Prevention	143,488	109,138	34,350	None
Improvements Other Than Buildings	271,430	247,481	23,949	None
Total	$ 630,239	$ 505,615	$ 124,624	None

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(amounts are expressed in thousands)

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

A summary of Proprietary Fund Type and Fiduciary Fund Type property, plant and equipment at September 30, 2001 (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	$ 663	$ 119	$ 37	$ 162	$ 981	$ 5,717	$ 76	$ 6,774	$ 0	$ 0
Land	2,970	8,125	2,579	893	14,567			14,567		44,918
Buildings	112,133	18,985	4,016	46	135,180	178	491	135,849		
Improvements Other Than Buildings	145,824	1,639	5,522	3,025	156,010	194		156,204		
Gas and Electric System									5,848,261	
Water System										1,777,147
Machinery and Equipment	9,011	691	2,755	3,480	15,937	92,257	66	108,260		98,158
Construction-In-Progress	67,504	8,557		410	76,471			76,471	142,090	319,251
Held for Future Use									12,599	
Nuclear Fuel, at Amortized Cost									34,420	
Total	338,105	38,116	14,909	8,016	399,146	98,346	633	498,125	6,037,370	2,239,474
Less: Accumulated Depreciation	111,827	8,128	5,082	3,123	128,160	56,264	254	184,678	1,948,230	616,135
Net Property, Plant and Equipment	$ 226,278	$ 29,988	$ 9,827	$ 4,893	$ 270,986	$ 42,082	$ 379	$ 313,447	$ 4,089,140	$ 1,623,339

The City, SAWS and CPS capitalize 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 $6,859 and $12,593, respectively, and the City of San Antonio capitalized no interest for construction.

[1] For the period ended January 31, 2001

[2] For the period ended May 31, 2001

(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, 2001.

Summary Table of Interfund Receivables and Payables at September 30, 2001

	Due From Other Funds	Due To Other Funds
General Fund	$ 24,539	$ 453
Special Revenue Funds:		
Convention Center Expansion		19
Alamodome		130
Special Revenue Reserve		3
Street Maintenance and Improvements	765	
Public Health Support Revenue Fund		22
Nelson Wolff	130	47
International Center		12
Stormwater Operations	255	
Community Services	587	1253
Home Program		270
Categorical Grants-In-Aid Fund	313	22,095
Community Development Program Fund		130
Total Special Revenue Funds	2,050	23,981
Debt Service Funds	228	68
Capital Projects Funds:		
Improvement Projects		410
Convention Center Expansion	19	
Total Capital Projects Funds	19	410
Enterprise Funds:		
Airport System Fund	926	1,109
Parking Facilities	3	
Golf Course System		365
Solid Waste		210
Total Enterprise Funds	929	1,684
Internal Service Funds:		
Other Internal Services	443	1,149
Information Services	119	
Self Insurance	9	
Total Internal Service Funds	571	1,149
Fiduciary Agency Funds:		
Tax Clearance Account		228
911 District Fund		67
Special Events Security Trust Fund		296
Total Agency Funds		591
Total	$ 28,336	$ 28,336

(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, 2001.

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 2001. In November 2000, the City issued the following: $15,615 General Improvement Bonds, Series 2000A; $8,810 Combination Tax and Revenue Certificates of Obligation, Series 2000A; $1,755 Taxable Combination Tax and Revenue Certificates of Obligation, Series 2000B; and $6,415 Combination Tax and Revenue Certificates of Obligation, Series 2000C. Additionally, in November 2000, the City authorized the implementation of a $35,000 Sales Tax Commercial Paper Program, Series A. As of September 30, 2001 the City has issued $32,700 of the Sales Tax Revenue and Commercial Paper Notes. The bonds are secured by a pledge of ad valorem taxes while the certificates are secured by a pledge of ad valorem taxes and revenues from certain revenue generating operations. Commercial Paper Notes are supported by an irrevocable direct pay letter of credit dated December 5, 2000 to be issued by Landesbank Hessen-Thuringen Girozentrale, acting through its New York Branch ("Helaba" or the "Bank"); as authorized by the Note Ordinance.

The General Improvement Bonds, Series 2000A will be utilized to fund capital improvement projects to include street improvements, drainage, flood control, park improvements, library improvements, and public safety improvements. The Series 2000A Bonds are retired serially in the years 2003 through 2021 and bear interest rates ranging from 5.250% to 5.375%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2000A will be utilized to fund capital improvements to include public safety, including renovations to existing fire stations and construction of new fire stations; street, sidewalk, and drainage improvements; acquisition of land and rights-of-way for public purposes, and costs related to the implementation of a new financial management system. The certificates are retired serially in the years 2003 through 2021 and bear interest rates ranging from 5.250% to 5.375%.

The Taxable Combination Tax and Revenue Certificates of Obligation, Series 2000B will be utilized to fund capital improvement projects to construct, acquire, equip, renovate, and repair public works to include improvements to municipally-owned facilities including the Alameda Theatre. The Series 2000B certificates are retired serially in the years 2003 through 2021 and bear interest rates ranging from 7.450% to 7.550%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2000C will be utilized to fund capital improvements to redevelop areas along Houston and Presa streets located in the center of the downtown business district. The certificates are retired serially in the years 2004 through 2020 and bear interest rates ranging from 5.000% to 5.500%.

Sales Tax Commercial Paper Notes, Series A have been issued to provide for the planning, acquisition, establishment, development, construction, and renovation of the Parks Development and Expansion Venue Project. (See Note 7 Commercial Paper Program).

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

On November 30, 2000, a revolving line of credit not to exceed $1,500, was established with the American Communities Fund (ACF) of the Fannie Mae Corporation, in order for the City to acquire and own properties and move homes that can be renovated for the purpose of selling the newly renovated homes at affordable prices. As of September 30, 2001 the line of credit had not been utilized.

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, 2001, $69,394 of previously defeased bonds were outstanding.

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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, 2001 for debt reported in the General Long-Term Debt Account Group.

General Long-Term Debt Account Group

Issue	Original Amount	Final Principal Payment[1]	Interest Rates (%)[1]	Balance Outstanding October 1, 2000	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2001
General Obligation Bonds							
1988 Refdg.	$ 132,978	2006	7.250-7.400	$ 4,008	$	$	$ 4,008
1991	60,645	2001	8.625	1,575		1,575	0
1992 Refdg.	380,540	2013	5.200-5.750	272,955		15,875	257,080
1993 Refdg.	92,165	2014	4.000-8.000	82,305		5,265	77,040
1994	30,450	2004	5.800-6.000	4,950		1,100	3,850
1996	35,330	2015	5.100-5.250	29,775		1,300	28,475
1996A Refdg.	82,235	2016	4.375-6.000	76,895		1,330	75,565
1996B Refdg.	6,030	2008	6.350-6.700	4,920		485	4,435
1998 Refdg.	30,855	2018	4.500-5.000	30,145		750	29,395
1998A Refdg	53,950	2008	5.500-6.000	51,175		6,915	44,260
1998A Refdg.	47,740	2019	4.000-5.250	47,650		825	46,825
1999	12,000	2020	5.375-6.000	12,000			12,000
2000	27,565	2020	4.500-5.000	27,565			27,565
2000A	15,615	2021	5.250-5.375		15,615		15,615
Subtotal	$ 1,008,098			$ 645,918	$ 15,615	$ 35,420	$ 626,113
Tax –Exempt Commercial Paper							
Series 2000	$ 15,000	2020	5.000	$ 15,000	$	$	$ 15,000
Series 2001	32,700	2004	4.000		32,700		32,700
Subtotal	$ 47,700			$ 15,000	$ 32,700	$	$ 47,700
Tax –Exempt Certificates of Obligation							
Series 1986A	$ 22,600	2001	6.700	$ 1,410	$	$ 1,410	$ 0
Series 1988	4,400	2002	7.300	525		250	275
Series 1991	10,075	2001	6.250	750		750	0
Series 1992	17,655	2013	5.200-5.750	9,080		1,460	7,620
Series 1994	9,900	2004	5.750-6.000	1,635		375	1,260
Series 1996	8,415	2015	5.200-5.400	7,115		310	6,805
Series 1996A	12,515	2016	4.375-5.375	10,820		465	10,355
Series 1998	4,315	2018	4.625-5.000	4,030		300	3,730
Series 1998A	36,535	2019	4.000-5.250	35,085		1,500	33,585
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
Series 2000A	8,810	2021	5.250-5.375		8,810		8,810
Series 2000C	6,415	2020	5.000-5.500		6,415		6,415
Subtotal	$ 154,355			$ 83,170	$ 15,225	$ 6,820	$ 91,575
Taxable Certificates of Obligation							
Series 1988	$ 6,700	2008	9.400-9.500	$ 4,300	$	$ 375	$ 3,925
Series 1996	6,160	2015	6.550-7.125	5,300		200	5,100
Series 1996B	7,375	2016	6.350-7.250	6,470		240	6,230
Series 2000B	1,755	2021	7.450-7.550		1,755		1,755
Subtotal	$ 21,990			$ 16,070	$ 1,755	$ 815	$ 17,010
Hotel Occupancy Tax Revenue Bonds[2]							
Series 1996	$ 182,012	2026	4.700-5.700	$ 181,603	$	$ 830	$ 180,773
Total	$ 1,414,155			$ 941,761	$ 65,295	$ 43,885	$ 963,171

[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.

[2]A portion of the Hotel Occupancy Tax Revenue Bonds, Series 1996 were sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from the date of delivery and will be payable only at maturity or redemption. The interest accreted through Fiscal Year 2001, resulted in an increase of $8,939 in Revenue Bonds Payable. This increase is reflected on the Combined Balance Sheet but is not shown on the above table.

(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, 2001, are as follows:

Principal and Interest Requirements

Year Ending September 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Tax Exempt Commercial Paper Principal	Tax Exempt Commercial Paper Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Hotel Occupancy Tax Revenue Bonds Principal	Hotel Occupancy Tax Revenue Bonds Interest	Total Annual Requirements
2002	$ 42,455	$ 32,915	$ 12,370	$ 1,638	$ 6,185	$ 5,809	$ 1,380	$ 8,821	$ 111,573
2003	45,770	30,485	15,695	1,318	5,320	5,490	2,045	8,756	114,879
2004	47,000	28,100	6,125	784	5,750	5,227	2,785	8,658	104,429
2005	44,069	30,686	555	661	5,725	4,940	3,515	8,522	98,673
2006	43,124	28,539	585	633	6,025	4,631	4,255	8,346	96,138
2007	47,970	21,415	615	309	6,400	4,301	5,105	8,091	94,206
2008	50,230	18,792	645	294	6,735	3,935	5,995	7,823	94,449
2009	52,415	15,771	680	294	6,015	3,551	6,970	7,505	93,201
2010	54,865	13,217	720	278	6,365	3,223	8,035	7,129	93,832
2011	58,265	10,190	760	539	6,710	2,873	3,737	12,150	95,224
2012	34,180	7,088	800	504	7,070	2,501	3,785	12,862	68,790
2013	33,130	5,288	840	467	7,450	2,105	3,662	13,335	66,277
2014	26,045	3,565	885	428	7,060	1,687	3,419	13,577	56,666
2015	11,405	2,248	935	386	5,985	1,327	3,190	13,807	39,283
2016	9,005	1,651	985	343	5,025	983	2,973	14,024	34,989
2017	7,020	1,179	1,040	298	3,615	700	2,797	14,200	30,849
2018	7,395	808	1,095	250	3,805	507	10,310	6,687	30,857
2019	5,950	464	1,155	200	3,930	308	10,905	6,094	29,006
2020	4,485	191	1,215	146	2,495	138	11,530	5,467	25,667
2021	1,335	36		89	920	27	12,190	4,810	19,407
2022				30			12,885	4,115	17,030
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
Total	$ 626,113	$ 252,628	$ 47,700	$ 9,889	$ 108,585	$ 54,263	$ 180,773[1]	$ 203,464	$ 1,483,415

1 A portion of the Hotel Occupancy Tax Revenue Bonds, Series 1996 were sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from the date of delivery and will be payable only at maturity or redemption. The interest accreted through Fiscal Year 2001, resulted in an increase of $8,939 in Revenue Bonds Payable. This increase is reflected on the Combined Balance Sheet but is not shown on the above table.

(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		
5-07-94	Drainage Improvements	34,400	34,400		
5-07-94	Parks and Recreation	41,600	41,600		
5-01-99	Streets and Pedestrian Improvements	41,300	9,558	11,966	19,776
5-01-99	Drainage	19,000	3,082	376	15,542
5-01-99	Flood Control	12,200	4,210	1,850	6,140
5-01-99	Parks and Recreation	24,200	6,345	808	17,047
5-01-99	Library System	13,200	185		13,015
5-01-99	Public Safety	30,300	4,235		26,065
Total		$ 315,959	$ 186,714	$ 15,000	$ 114,245

[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 2001 was $36,033,321 which provides a debt ceiling of $4,038,680. The total outstanding debt that is secured by an ad valorem tax pledge is $768,693.

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

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. 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, 2001, 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
2002	$ 107	$ 13	$ 120
2003	113	7	120
Total	$ 220	$ 20	$ 240

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. General Long-Term Debt (Continued)

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, 2001 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, 2001 are as follows:

General Long Term Debt

Year EndingSeptember 30,	Total Payments
2002	$ 1,113
2003	1,113
2004	763
2005	646
2006	162
Total Payments	3,797
Less portion representing interest	(363)
Present value of minimum lease payments	$ 3,434

Accumulated Accrued Benefits

The following is a summary of changes in the accumulated accrued benefits for the year ended September 30, 2001:

Accumulated Accrued Benefits

Description	Balance October 1, 2000	Additions	Reductions	Balance September 30, 2001
Sick Leave	$ 44,749	$ 8,234	$ 4,506	$ 48,477
Annual Leave	23,819	22,350	19,954	26,215
Total Accrued Benefits	$ 68,568	$ 30,584	$ 24,460	$ 74,692

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.

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

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. In September 2001, the City sold $17,795 Airport System Improvement Revenue Bonds, Series 2001 which will be utilized to provide funds for the construction, improvements, equipment, renovation, and additions to the International Airport and to pay costs of issuances thereof. The bonds are retired in years 2014 to 2016 and have an interest rate of 5.375%. 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.

Additionally, in April 2001, the City sold $50,230 of City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003, to be delivered April 8, 2003. The Series 2003 Bonds are payable from a lien on and pledge of the gross revenues of the airport system. The obligations bear interest rates ranging from 5.50% to 6.00% and will be retired serially in the years 2004 through 2013. Total annual principal and interest requirements for the Airport System are shown in the table at the end of this section.

The City effectuated a cash defeasance of $17,875 in Airport System Improvement Revenue Bonds, Series 1996 utilizing available funds in the Airport Capital Improvement Fund which generated total savings of $1,165 and present value savings of $865 or 4.84%. In addition, an extraordinary loss of $711 resulted from the defeasance.

Parking System: The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters and retail/office space. Long-term debt is allocated to the Parking System on a pro-rata basis from proceeds received from the issuance of general obligation and certificate of obligation debt and is paid from revenues derived from the operation of the Parking System. This allocated debt is additionally secured by an ad valorem tax pledge. No additional long-term indebtness was incurred by the Parking System during fiscal year 2001. 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 2001. Total annual principal and interest requirements for the Golf Course System are shown in the table at the end of this section.

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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, 2001.

Proprietary Long-Term Debt

Issue	Original Amount	Final Principal Payment[1]	Interest Rates (%)[1]	Balance Outstanding October 1, 2000	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2001
Airport System							
Revenue Bonds:							
Series 1992	$ 3,130	2009	6.100	$ 3,130	$	$	$ 3,130
Series 1992 Refdg.	21,655	2006	5.500-5.750	11,230		1,555	9,675
Series 1993 Refdg.	73,785	2013	7.000-7.375	58,420		2,875	55,545
Series 1996	38,000	2014	5.700	37,425		18,200	19,225
Series 2001	17,795	2016	5.375		17,795		17,795
Subtotal	$ 154,365			$ 110,205	$ 17,795	$ 22,630	$ 105,370
Parking System							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 24,845	$	$	$ 24,845
General Obligation:							
Series 1992 Refdg.	16,785	2013	5.000-5.750	12,030		700	11,330
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	5.200-5.750	1,315		70	1,245
Series 1994	700	2004	5.750-6.000	115		25	90
Series 1996	1,105	2015	5.100-5.400	935		40	895
Subtotal	$ 46,820			$ 40,890	$	$ 835	$ 40,055
Golf Course System							
General Obligation:							
Series 1992 Refdg.	$ 3,295	2011	5.200-5.750	$ 2,335	$	$ 160	$ 2,175
Series 1993 Refdg.	1,515	2006	4.750-8.000	1,410		15	1,395
Series 1998A Refdg.	215	2011	4.000-5.000	215			215
Tax-Exempt Certificates Of Obligation:							
Series 1986A	3,400	2001	6.700	215		215	
Subtotal	$ 8,425			$ 4,175	$	$ 390	$ 3,785
Total	$ 209,610			$ 155,270	$ 17,795	$ 23,855	$ 149,210

[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.

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, 2001, are as follows:

Proprietary Long-Term Debt

Year Ending	Airport System			Parking System			Golf Course System		
Sept. 30:	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2002	$ 5,080	$ 6,701	$ 11,781	$ 1,055	$ 2,204	$ 3,259	$ 425	$ 208	$ 633
2003	5,410	6,492	11,902	1,135	2,147	3,282	455	179	634
2004	5,765	6,142	11,907	1,595	2,088	3,683	490	154	644
2005	6,120	5,762	11,882	1,690	2,005	3,695	515	129	644
2006	6,540	5,358	11,898	1,785	1,916	3,701	550	103	653
2007	6,370	4,927	11,297	1,870	1,821	3,691	240	76	316
2008	6,810	4,498	11,308	1,950	1,721	3,671	255	62	317
2009	7,255	4,039	11,294	2,050	1,615	3,665	265	48	313
2010	7,770	3,538	11,308	2,370	1,502	3,872	285	33	318
2011	8,310	3,006	11,316	2,525	1,370	3,895	305	17	322
2012	8,860	2,436	11,296	1,875	1,233	3,108			
2013	9,485	1,828	11,313	1,855	1,132	2,987			
2014	6,790	1,175	7,965	1,380	1,033	2,413			
2015	7,205	796	8,001	1,390	957	2,347			
2016	7,600	408	8,008	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	$105,370	$57,106	$ 162,476	$ 40,055	$ 27,507	$ 67,562	$ 3,785	$ 1,009	$ 4,794

Leases

Long-term debt of the City's Internal Service Funds and Golf Course Fund consisted of eight 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 and a printer. The gross value of these assets at September 30, 2001 was $3,163. The remaining future lease payments under these capital leases together with the present value of the net minimum lease payments as of September 30, 2001 are as follows:

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

Proprietary Long Term Debt

Year Ending September 30,	Total Payments
2002	$ 622
2003	539
2004	271
2005	183
2006	109
Thereafter	42
Total Payments	1,766
Less portion representing interest	(151)
Present value of minimum lease payments	$ 1,615

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2001, there were thirty-five series of Industrial Revenue Bonds, fifteen series of Health Facilities Development Bonds, and ten series of Special Facility Revenue Bonds outstanding. The aggregate principal amount payable for the one series of Industrial Revenue Bonds, the one series of Health Facilities Development Bonds, and the three series Special Facility Revenue Bonds issued after October 1, 1997 was $5,500, $15,500, and $26,080, respectively. The aggregate principal amount payable for the remaining series of Industrial Revenue Bonds, Health Facilities Development Bonds, and Special Facility 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. In addition, the Health Facilities Development Corporation also gave consent approval for the financing of capital improvements and refinancing of certain outstanding debt of the Bexar County Hospital District in the amount of $83,375. The bonds were issued by the Tarrant County Health Facilities Development Corporation.

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, 2001, there were twenty-seven series of tax exempt revenue bonds outstanding with an aggregate principal amount payable of $144,955.

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, 2001 was $4,800 and $4,133, respectively.

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

Conduit Debt Obligations (Continued)

The City created the Municipal Facilities Corporation to aid and act on behalf of the City to acquire, construct, equip, finance, operate and maintain land and municipal facilities for the City at the request of the City Council of the City. The City of San Antonio, Texas Municipal Facilities Corporation Lease Revenue Bonds, Series 2001 were issued to finance the acquisition and construction of a municipal office facility which will be leased to the City of San Antonio. The bonds are secured by the property financed and are payable solely from lease payments made by the City sufficient to pay principal and interest on the Bonds, subject to yearly budget appropriations. The bonds are not reported as liabilities in the accompanying financial statements. At September 30, 2001 Municipal Facilities Corporation Lease Revenue Bonds outstanding totaled $14,465.

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.

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, 2001, there were no Special Assessment Revenue Refunding Bonds, Series 1997 outstanding. The final payment on the Bonds was made on March 1, 2001.

Tax Increment Financing

The City has 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 has utilized TIF as a vehicle to fund in whole or in part eligible capital costs related to economic development, commercial and residential projects. As of September 30, 2001, City Council passed and approved ordinances establishing eight TIRZ. These TIRZ are also referred to as the Rosedale, Highland Heights, New Horizons, Mission Del Lago, Brookside, Houston Street, Stablewood Farm, and Inner City Projects. The TIRZ 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 and multi-family residential housing, single family housing and commercial development projects.

B. City Public Service (CPS)

As of January 31, 2001 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.

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	2001	2000
Tax Exempt New Series Bonds, 1992-2000	2002-2021	5.236%	$ 2,521,350	$ 2,631,965
Taxable New Series Bonds, 1998-2000	2002-2021	6.666%	147,470	98,610
Total New Series Bonds outstanding		5.327%	2,668,820	2,730,575
Less: Current maturities of bonds			71,755	67,215
Revenue bonds, net of current maturities			$ 2,597,065	$ 2,663,360

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
2002	$ 71,755	$ 140,904	$ 212,659
2003	77,825	137,404	215,229
2004	100,740	133,754	234,494
2005	120,335	128,598	248,933
2006	126,635	122,352	248,987
Thereafter to maturity	2,171,530	892,084	3,063,614
Total	$ 2,668,820	$ 1,555,096	$ 4,223,916

In November 2000, $215,700 par value of 1992 New Series bonds were legally defeased with cash. The net accounting loss of $2,600 reported included the par value of debt less $198,100 paid for the actual defeasance, plus unamortized reacquistion and bond issue costs of $20,200.

In 2001, CPS issued $221,200 in revenue bonds. The issue consisted of $170,800 in Tax Exempt Bonds at an avearge interest rate of 5.4% and $50,400 in Taxable Bonds at an average interest rate of 7.44%. The bonds were sold at a combined net premium of $6,000. Of the net proceeds from the New Series 2000 Bonds, $184,900 was used to reimburse the Repair and Replacement Account for prior construction expenditures. In addition, $34,000 of new money proceeds were deposited into the Bond Construction Fund to finance transmission projects.

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS)

On April 30, 1992, City Ordinance No. 75686 was adopted. This ordinance authorized the issuance of $635,925 Water System Revenue Refunding Bonds, Series 1992, dated April 15, 1992. These bonds were issued to refund, in advance of maturity, $253,065 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 52091, $330,125 of Sewer Revenue Bonds authorized and outstanding under terms of City Ordinance No. 51975, $14,500 of other bonded debt of annexed water districts, and $49,200 of Sewer System Commercial Paper. The purpose of this advance refunding was to release and discharge the covenants contained in City Ordinance No. 52091 and No. 51975 in order to permit the City to consolidate the operations of the water related utilities.

The System: City Ordinance No. 75686 defines SAWS as all properties, facilities, plants owned, operated and maintained by the City and/or the Board of Trustees, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS; 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 and are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this contract were $1,976 in 2001.

SAWS is developing a recycled water system which will provide nonpotable water to various customers now using Edwards Aquifer water. In 2001, the System generated an additional $200 in revenue from sales of recycled water. Revenue from recycled water sales is recorded as revenue of the System and does have the restrictions of the reuse contract.

Stormwater: In addition to the water related utilities which the Board has under its control, the City Council approved Ordinance No. 77949 on May 13, 1993, which established initial responsibilities over the Stormwater Program with the System and adopts a schedule of rates to be charged for stormwater services and programs. The Stormwater Program is deemed to not be a part of SAWS as the term is defined in City Ordinance No. 75686. Accordingly, operations of the Stormwater Program are not considered when determining compliance with debt covenants contained in City Ordinance 75686 or in calculating payments to be made to the City. In fiscal year 1997, the City Council placed the administrative responsibility with its own staff and entered into an interlocal agreement with SAWS for the provision of services related to certain water quality monitoring functions.

No Free Service: City Ordinance No. 75686 also provides for no free services except for municipal fire-fighting purposes.

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds

On March 8, 2001 the City Council adopted Ordinance No. 93532 authorizing the issuance of $58,700 City of San Antonio Water System Senior Lien Revenue and Refunding Bonds, Series 2001 with interest rates ranging from 4.75% to 6.25% and having an average life of 17.792 years. With the inclusion of all costs of issuance, the true interest costs for the Series 2001 Bonds is 5.08%. The net proceeds of $58,618 (after payment of bond issuance costs) were used for the purpose of financing qualified System improvements related to wastewater and recycled water systems through the placement of $8,294 in an escrow fund to refund $8,300 of commercial paper notes and the issuance of $50,324 of new debt. The Senior Lien issuance 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.

On March 8, 2001 the City Council adopted Ordinance No. 93533 authorizing the placement of $9,715 City of San Antonio Water System Junior Lien Revenue Bonds, Series 2001 with the Texas Water Development Board. The bonds were sold under the Federal Cross Cutter Program with interest rates ranging from 1.85% to 3.70% and having an average life of 13.875 years. With the inclusion of all costs of issuance, the true interest costs for the Series Junior Lien 2001 Bonds is 3.35%. The net proceeds of $9,443 (after payment of the TWDB administration fee and bond issuance costs) are to be used for the purpose of financing qualified System improvements related to wastewater and recycled water systems.

On March 8, 2001 the City Council adopted Ordinance No. 93534 authorizing the issuance of $15,435 in City of San Antonio Water System Junior Lien Revenue Bonds, Series 2001-A. The bonds were sold under the State Revolving Fund (SRF) Program with interest rates ranging from 2.35% to 4.20% and having an average life of 13.850 years. With the inclusion of all costs of issuance, the true interest costs for the Junior Lien Series 2001-A Bonds is 3.847%. The net proceeds of $15,000 (after payment of TWDB administration fee and bond issuance costs) are to be used for the purpose of financing qualified System improvements related to water resources and water projects.

Senior Lien Water System Revenue Bonds, comprised of Series 1992, Series 1996, Series 1997, Series 1999, and Series 2001, outstanding in the amounts of $594,200 and $567,440 at May 31, 2001, and 2000, respectively are collateralized by a senior lien and pledge of Gross Revenues of SAWS after deducting and paying the current expenses of operation and maintenance of the System and maintaining an operating reserve for operating and maintenance expenses. At May 31, 2001 these bonds are due in varying amounts, from a low of $13,540 in 2019 to a high of $38,690 in 2012. At May 31, 2000 these bonds were due in varying amounts, from a low of $10,355 in 2019 to a high of $38,385 in 2012.

Junior Lien Water System Revenue Bonds, comprised of Series 1999, Series 1999-A, Series 2001, and Series 2001-A outstanding in the amount of $134,255 at May 31, 2001, and 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, 2001 the Junior Lien bonds were due in varying amounts, from a low of $1,920 in 2020 to a high of $10,900 in 2019.

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

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
2002	$ 9,435	$ 55,680	$ 65,115
2003	9,434	55,372	64,806
2004	9,439	55,412	64,851
2005	9,433	55,414	64,847
2006	9,433	55,497	64,930
Thereafter	144,273	722,651	866,924
	$ 191,447	$ 1,000,026	$ 1,191,473
Principal	$ 134,255	$ 594,200	$ 728,455
Interest	57,192	405,826	463,018
Total	$ 191,447	$ 1,000,026	$ 1,191,473

Capitalized Interest Costs

Interest costs incurred on revenue bonds and commercial paper totaled $41,683 during fiscal year 2001, of which $6,859 was capitalized as part of the cost of SAWS' utility plant additions.

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Debt Coverage Ratio (Unaudited)

SAWS is required to comply with various provisions included in the ordinances which authorized the bond issuances. Debt coverage ratios are shown as follows:

San Antonio Water System
Revenue Bond Debt Coverage Ratio

	For the Fiscal Years Ended May 31: 2001	2000
Operating Revenues	$ 199,884	$ 195,727
Less: Revenues from City Public Service Contract	1,976	2,048
	197,908	193,679
Nonoperating Revenues	7,341	8,468
Less: Interest on Debt Service and Project Funds	2,358	4,701
	4,983	3,767
Gross Revenues	202,891	197,446
Maintenance & Operation Expense	121,351	115,016
Pledged Revenues	$ 81,540	$ 82,430
Maximum Annual Principal and Interest Requirements on Outstanding Senior Lien Bonds	$ 56,293	$ 53,566
Debt Coverage Ratio	1.45%	1.54%
Maximum Annual Principal and Interest Requirements on all Outstanding Bonds	$ 66,994	$ 62,099
Debt Coverage Ratio	1.22%	1.33%
Debt Service Requirement for Fiscal Year	$ 60,765	$ 59,936
Debt Coverage Ratio	1.34%	1.38%

Leases

SAWS entered into various lease agreements for financing the acquisition of computer equipment and software. During fiscal year 2001 SAWS entered into a lease agreement for the purchase of heavy equipment for the Internal Service Fund. These lease agreements meet the requirements of capital lease for accounting purposes and, therefore, are recorded at the present value of the future minimum lease payments as of the inception date. The terms of the leases are for three to five years with payments of $19,905 monthly and $238,866 annually. The annual percentage rate of the leases range from 2.9% to 5.8%. 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, 2001, were as follows:

San Antonio Water System
Minimum Lease Obligation and Present Value of Lease Payments

Years Ending May 31,	
2002	$ 395
2003	286
2004	163
2005	132
2006	22
Total Minimum Lease Payments	998
Less: Amount Representing Interest	(88)
Present Value of Minimum Lease Payments	$ 910

Note Payable

During fiscal year 2000, a contract was entered into between SAWS and CPS whereby SAWS acquired water rights from certain CPS owned 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, 2001 is reflected on the balance sheet for both the current portion of $257 and long term amount of $2,580.

Principal and Interest Requirements

Year Ending May 31,	Principal	Interest	Total Annual Requirements
2002	$ 277	$ 203	$ 480
2003	298	182	480
2004	321	159	480
2005	346	134	480
2006	373	107	480
Thereafter	1,222	138	1,360
Total	$ 2,837	$ 923	$ 3,760

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. 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.

Under a revolving credit agreement, dated as of December 15, 1999, between the City and Bank One, NA (the Bank) the City may borrow up to an aggregate principal amount of up to $53,699, for the purposes of paying amounts due on the Commercial Paper notes. The notes were issued to pay costs of capital improvements authorized to be financed by the May 1, 1999 election.

The City issued $15,000 of the General Improvement Commercial Paper Notes on July 6, 2000. The proceeds of the notes have been used to provide financing to pay project cost for eligible projects. As of September 30, 2001, $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.

On November 9, 2000, the City Council approved issuance of $35,000 Sales Tax Commercial Paper Notes, Series A. The proceeds from the sale of the Notes are to provide for the planning, acquisition, establishment, development, construction, and renovation of the "Parks Development and Expansion Venue Project" authorized at an election held on May 6, 2000 which includes the acquisition of open space over the Edward Aquifer Recharge Zone and linear parks along Leon Creek and Salado Creek, and the construction of improvements or additions to such Open Space Parks and Linear Parks. The Notes are supported by an irrevocable direct-pay Letter of Credit, dated as of December 5, 2000 to be issued by Landesbank Hessen-Thuringen Girozentrale, acting through its New York Branch (Helaba or the Bank). The Letter of Credit in an amount equal to $37,589 enables the City to pay at maturity the principal amount of the Notes plus up to 270 days interest.

The City sold $32,700 in Sales Tax Revenue Commercial Paper Notes in fiscal year 2001. As of September 30, 2001, $32,700 of Commercial Paper notes are outstanding with interest rates on the notes between 2.000 and 3.500% and with various maturities ranging from 1 to 131 days.

The aforementioned Commercial Paper Notes have been classified as long term in accordance with the refinancing terms of the revolving credit agreement identified above.

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, 2002, and may be renewed for additional periods.

7. COMMERCIAL PAPER PROGRAMS (Continued)

B. City Public Service (CPS) (Continued)

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 New Series Bonds and any to be issued in the future.

CPS sold $118,000 of TECP in fiscal year 2001; $78,000 has been used to fund construction expenditures through January 2001. As of January 31, 2001, $252,800 in principal amount was outstanding, with a weighted average interest rate of approximately 3.95% and an average life outstanding of approximately 92 days.

C. San Antonio Water System (SAWS)

On January 11, 2001, the City Council authorized SAWS to expand the tax exempt short-term borrowing program (the "Commercial Paper Program") from $175 million to $350 million. 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 convenanted in the ordinance authorizing the Commercial Paper Program (the "Note Ordinance") to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing sufficient to pay the principal of the Commercial Paper Program.

The 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 issued $113,000 in notes under the Commercial Paper Program during the fiscal year ended May 31, 2001. The proceeds of the notes have been used solely for the financing of capital improvements of SAWS. Commercial paper notes in the amount of $165,000 are outstanding at May 31, 2001 with interest rates on the notes ranging from 2.90% to 4.17% and from 18 to 189 days in maturity.

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8. PENSION AND RETIREMENT PLANS

A. General Plan Information

The City, 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	$ 170,715	$ 21,032	$ 42,065	$ 63,097
	Texas Municipal Retirement System (TMRS)	Non Traditional Defined Benefit Agent Plan	185,083	11,105	21,610	32,715
Component Units:						
[1]SAWS	Texas Municipal Retirement System (TMRS)	Non Traditional Defined Benefit Agent Plan	51,312	1,581	1,620	3,201
	PMLIC Contract	Agent Multiple Employer Defined Benefit Plan	51,050		2,968	2,968
[2]CPS	CPS All Employees Plan	Single Employer Defined Benefit Plan	148,936	7,197	5,633	12,830

[1] Year ended May 31, 2001

[2] Year ended January 31, 2001

(amounts are expressed in thousands)

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 for employees retiring after September 30, 1999 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.

There is also a provision for a 13th and a 14th pension check. At the end of each fiscal year ending after 1996, the Board may authorize the disbursement of a 13th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. At the end of any fiscal year ending after 2000, the Board may authorize a 14th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The 13th and 14th pension checks are paid to each retiree and beneficiary receiving a pension at the time of the disbursement and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year).

If service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, based on the same number of years of the member's pay as used to compute normal retirement benefits. If a member is killed in the line of duty, the member's surviving spouse and dependent children are entitled to a pension based upon actual base salary at time of death.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Contribution requirements of plan members and the City are established and may be amended by State statute. In the current year, the City contributed 24.64% of covered payroll and employees contributed 12.32% of covered payroll. The employer's required contribution of $42,065 and the employee's required contribution of $21,032 were made to the Pension Fund. (See summary of contribution information at Part A of this footnote).

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

B. City of San Antonio (Continued)

Fire and Police Pension Plan (Continued)

For the year ended September 30, 2001, the City's annual pension cost of $42,065 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 2000 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 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, 2000 was 11.39 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 benefit 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 benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or calling (512) 476-7577.

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.

8. PENSION AND RETIREMENT PLANS (Continued)

B. City of San Antonio (Continued)

Texas Municipal Retirement System (Continued)

Contribution requirements are actuarially determined by TMRS's actuary (See summary of TMRS Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the City's employees is 6% and the matching percent is currently 11.61%, both as adopted by the governing body of the City. (See summary of contribution information in Part A of this footnote). Under the state law governing TMRS, the Employer's Contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's twenty-five year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is being amortized over a constant twenty-five year period as a level percent of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

C. San Antonio Water System (SAWS)

SAWS retirement program includes benefits provided by the Texas Municipal Retirement System, a contract with Principal Mutual Life Insurance Company, and Social Security.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

1. 20 Years of credited service regardless of age, or
2. 25 Years of credited service and at least age 50, or
3. 10 Years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of credited service. Average Compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31, out of the latest ten compensation years prior to normal retirement date which gives the highest average.

The normal retirement benefit under the Principal Mutual contract is equal to:

1. 1.2% of the Average Compensation, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.375% of the Average Compensation, times years of credited service in excess of 35 years.

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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, 2001.

Texas Municipal Retirement System

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The TMRS was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas, and is administered in accordance with the Texas Municipal Retirement System Act. It is the opinion of the TMRS management that the plans in the TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the SAWS- financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, 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. 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.

Contribution requirements are actuarially determined by TMRS's Actuary (See Summary of TMRS's Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the employees is 3% of salary, and SAWS matching rate approximates 100% of the employee rate, both as adopted by the SAWS. Under the state law governing TMRS, SAWS contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service 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.

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.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (Continued)

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, 2001 under this contract was $51,050.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit pension plan. Employees are eligible to participate in the plan on January 1 of the calendar year following date of hire. An employee covered by the plan may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. The plan allows an employee to accrue vesting benefits as follows:

Years of Service	Vested Percentage
Less than 5	0%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

Benefits for retired employees are fully guaranteed at retirement. The pension plans unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Life Insurance Co.

Significant assumptions used by PMLIC's actuary to compute the actuarially determined contribution requirements include: (a) a rate of return on the investment of present and future assets of 8.5 % 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 evenly from the date the employee is first eligible for the plan to the employee's assumed retirement date. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. Thus, as of the plan effective date, there are some accumulated Normal Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Principal Mutual Life Insurance Company (Continued)

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by 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, ended December 31, 2001 reflects an unfunded frozen initial liability of $8,884. For the plan year ended December 2000, SAWS annual pension cost of $2,770 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 benefit service and to those employees who are ages 55 or older with at least 10 years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55.

The Plan is sponsored by and may be amended by CPS, acting by and through the General Manager and Chief Executive Officer of CPS. The Plan assets are held in a separate trust that is periodically audited and which financial statements include historical trend information. Additional information may be obtained by writing the Employee Benefits Division of CPS, P.O. Box 1771, San Antonio, Texas 78296 or by calling (210) 978-2484.

Funding levels are established through annual actuarial evaluations and recommendations of an Administrative/Investment Committee, using both employee and employer contributions. Participating employees contribute 5 % of their total compensation and are fully vested after completing 7 years of credited service or at age 40. The balance of contributions made amounted to 3.8% 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, 2001 were $5,392 and $99 respectively. The annual required contribution was determined as part of the January 1, 2000 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 11.01 years and is calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 2000 actuarial valuation include (a) a rate of return on the investment of present and future assets of 8.5 % per year compounded annually, (b) projected salary increases averaging 5.0 %, and (c) post-retirement cost-of-living increases of 2.0 %. The projected salary increases include an inflation rate of 4.0 %.

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 Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End of Year	Percentage of APC Contributed
Fire and Police Pension – City of San Antonio	1999	$ 36,882	$	$	$ 36,882	$	$	$	$	100%
	2000	40,238			40,238					100%
	2001	42,065			42,065					100%
TMRS – City of San Antonio	1999	14,921			14,921					100%
	2000	19,352			19,352					100%
	2001	21,610			21,610					100%
CPS All Employee Plan[1]	1999	14,642			14,642	(14,152)	490		490	97%
	2000	12,288	42	(490)	11,840	(12,231)	(391)	490	99	103%
	2001	5,397	8	(13)	5,392	(5,392)		99	99	100%
TMRS – SAWS[2]	1999	1,576			1,576					100%
	2000	1,593			1,593					100%
	2001	1,620			1,620					100%
PMLIC – SAWS[2]	1999	3,344			3,344					100%
	2000	4,753			4,753					100%
	2001	2,770			2,770					100%

[1] Year ended January 31, 2001
[2] Year ended May 31, 2001

F. Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation by the Texas Municipal Retirement System's (TMRS) actuary are provided in the table below for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Investment Return	8%
Inflation Rate	None
Projected Salary Increases	None
Post Retirement Benefit Increases	Included as a percentage of the Consumer Price Index
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost

Location of Schedules of Funding Progress

The Schedule of Funding Progress is located in the "Required Supplementary Information" section of this report. The schedules are designed to provide information about each entity's progress in accumulating sufficient assets to pay benefits due.

9. POST 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 6,401 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, 2001, there were 1,375 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 $5,492. For the year ended September 30, 2001, total contributions were as follows:

City	$ 2,539
Employees	1,467
TOTAL	$ 4,006

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 3,297 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 749 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. Additionally, beginning in January 2001, active firefighters and police officers contribute $20 per month. Please note the number of firefighters and police officers, retirees, and City monthly contribution rates in this paragraph are not expressed in thousands. For the year ended September 30, 2001, total expenses for retired employees was $4,404 and total contributions were as follows:

City	$ 14,741
Employees and Retiree Dependent Premiums	867
TOTAL	$ 15,608

B. City Public Service (CPS)

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Plan assets are held as part of CPS' Group Health and Life Insurance Plans and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The Plans may be amended by CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs.

9. POST RETIREMENT BENEFITS (Continued)

B. City Public Service (CPS) (Continued)

These costs approximated $2,700 for 2001. CPS reimbursed certain retirees and their spouses enrolled in Medicare Part B a percentage of the monthly premium, which totaled $219 for fiscal year 2001.

Retired employees and covered dependents contributed $1,100 for their health care and life insurance benefits in fiscal year 2001. There were approximately 2,070 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, 2000 valuations are $45,200 for health and $16,000 for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $31,600 for health, $4,700 for life insurance, and $2,600 for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $2,600 in 2001, $3,700 in 2000, and $5,200 in 1999. 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, 2000 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 2001 and 2000.

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, 2001, there were 318 retirees with life insurance and 343 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, 2001, premiums for medical insurance and life insurance amounted to $2,147 and $44, 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 January 31, 2001, 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.

10. CPS SOUTH TEXAS PROJECT (STP) (Continued)

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 $9,340,000 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 $12,900 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 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, 2001, CPS has accumulated approximately $119,800 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 $61,000 at December 31, 2000. Based upon the 1994 decommissioning cost study, the annual levelized funding into the trust of $9,400 for 2001 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, 2001. Grants awarded by federal, state and other governmental agencies but not yet earned nor received in cash as of September 30, 2001 were $145,440.

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, 2001, the City recorded as revenue from CPS $182,411 in the General Fund.

Capital Improvement Program

The City will be undertaking various capital improvements to its airport system during fiscal year 2002. The estimated cost of these improvements is $88,829. Approximately $12,346 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, 2001, the City recorded as revenue from SAWS $5,529 in the General Fund. Additionally, the City recorded revenue in the amount of $16,797 in the Stormwater Special Revenue Fund for stormwater fees.

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. As of September 30, 2001, alleged damages in lawsuits are approximately $51,000. The Office of the City Attorney estimates the probable liability for these suits will approximate $11,000 which is reserved for claims liability in the amount of $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.

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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.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. City of San Antonio (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, Federal and State laws required the City to incur certain postclosure care costs over a period of thirty years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,800. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a thirty year period. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", the estimated postclosure cost of $3,800 for the Nelson Gardens Landfill was recorded as a liability and expensed in the 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, 2001 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,124. This represents a reduction of $41 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, 2001, the permit for the North East Transfer Station has been transferred from the City and the new permitee has provided adequate financial assurance for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. City of San Antonio (Continued)

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, 2001, the City has expended approximately $13,255 related to Alamodome soil remediation efforts, inclusive of the supplemental environmental projects, and estimates the remaining cost for soil remediation to be approximately $243. 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 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.

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. Final remediation is scheduled for fiscal year 2002 for the two remaining sites.

B. CPS

Other

Purchase and construction commitments amounted to approximately $1,800,000 at January 31, 2001. This amount includes approximately $671,900 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 $84,600 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 $47,400 for coal purchases through December 2003, $357,000 for coal transportation through December 2004, and $6,800 for treated cooling water through 2005, based upon the minimum firm commitment under these contracts.

Additional purchase commitments at January 31, 2001, which are related to STP include approximately $302,800 for raw uranium and associated fabrication and conversion services. This amount represents services that will be needed for future refueling through the year 2028.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

B. CPS (Continued)

Other

The Public Utility Commission of Texas (PUCT) 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, 2000 were approximately $1,300 $1,400, $5,900 and $20,500 million respectively. In March 2000, CPS began recovering these costs from customers.

CPS challenged the initial Rule's validity in State District Court. 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 was appealed by the Attorney General to the Texas Supreme Court, and the Supreme Court heard arguments on December 6, 2000, and the Supreme Court's decision is pending. This case will have only a limited effect for CPS in mitigating the impact of the PUCT's current Rules because the primary amounts CPS could potentially be refunded are only those deficit amounts from 1997, 1998, and 1999, referred to above.

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 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, 2001, CPS' total cumulative savings were $137,600.

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 $91,400 as of May 31, 2001. 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.

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, 2001 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	$ 39,815	$ 7,986	$ 6,677	$ 41,651	$ 96,129	$ 1,338,970	$ 199,884
Operating Expenses exclusive of Depreciation	21,223	4,894	6,209	44,429	76,755	939,152	125,084
Depreciation	7,289	607	534	208	8,638	197,322	49,605
Operating Income	11,303	2,485	(66)	(2,986)	10,736	202,496	25,195
Other Revenue (Expenses)	(2,243)	(949)	(255)	365	(3,082)	(108,913)	(31,035)
Operating Transfers In (Out)	(1,151)	(242)	(330)	(241)	(1,964)		
Extraordinary Items	(711)				(711)	(2,586)	
Net Income (Loss)	$ 7,198	$ 1,294	$ (651)	$ (2,862)	$ 4,979	$ 90,997	$ (5,840)
Total Assets	$ 298,702	$ 52,936	$ 10,396	$ 12,104	$ 374,138	$ 5,978,676	$ 1,828,384
Total Equity	$ 181,439	$ 11,635	$ 4,013	$ 7,408	$ 204,495	$ 2,139,531	$ 908,525
Working Capital	$ 6,065	$ 3,413	$ (536)	$ 2,607	$ 11,549	$ 345,472	$ 19,865
Additions to Fixed Assets	$ 9,411	$ 6,845	$ 33	$ 998	$ 17,287	$ 248,155	$ 116,923
Net Capital Contributions	$ 79,600	$ 190	$ 5,526	$ 3,699	$ 89,015	$	$ 622,585
Outstanding Revenue Bonds	$ 104,954	$ 24,700	$	$	$ 129,654	$ 2,506,644	$ 705,245
Outstanding Bonds and Certificates of Obligation	$	$ 15,035	$ 3,762	$	$ 18,797	$	$

[1]For the Fiscal Year Ended January 31, 2001
[2]For the Fiscal Year Ended May 31, 2001

(amounts are expressed in thousands)

13. INSURANCE

A. City of San Antonio

Property and Casualty Liability

At September 30, 2001, 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. The Travelers Insurance Company provides property coverage on the City's building and contents inventory. The City utilizes a third party administrator for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve 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 2001 and 2000, there were no significant reductions in insurance coverage and claims settlements did not exceed insurance coverage for each of the past three years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee benefit program including coverage for medical, dental and life insurance, vision, dependent care reimbursement accounts and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Self-Insurance Employee Benefits Insurance 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 a third party administrator 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, 2001, 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 reimbursement basis. All costs incurred are recorded on a claim paid basis.

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(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's 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 Program 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 Programs 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 Programs is based on a discounted rate of 4.5% 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, 2001:

Schedule of Changes In Claims Liability

Fund	Liability Balance October 1,	Claims & Adjustments	Claims Payments	Liability Balance September 30,
Insurance Reserve				
Fiscal Year 2000	18,531	5,119	(5,119)	18,531
Fiscal Year 2001	18,531	6,434	(6,434)	18,531
Employee Benefits				
Fiscal Year 2000	3,415	28,429	(28,429)	3,415
Fiscal Year 2001	3,415	34,238	(33,638)	4,015
Workers' Compensation[1]				
Fiscal Year 2000	16,858	8,496	(8,496)	16,858
Fiscal Year 2001	16,858	10,532	(8,685)	18,705

[1]The Worker's Compensation Liability Balance of $18,705 is comprised of $16,379 recorded in the Workers Compensation Fund and the remaining liability of $2,326 is recorded in Proprietary Funds.

(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 insurance retentions. 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, 2001 and 2000, CPS has accumulated approximately $139,100 and $143,400, respectively, in these external trusts. The trust accounts and related claims liabilities are not included in CPS' financial statements. CPS has recorded $18,300 of expense related to these plans for the year ended January 31, 2001 and $17,400 for the year ended January 31, 2000.

In January 2001, CPS recorded $12,000 additional depreciation expense for dismantling of storeroom and general property locations. CPS recorded estimated costs for landfill and fly ash pond closure, dismantling, and remediation of $400 in 2001. Closure and postclosure costs were estimated for the Class I non-hazardous waste landfill in accordance with EPA regulations.

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, 2001 and 2000:

Schedule of Changes In Claims Liability

Fund	Liability Balance February 1,	Claims & Adjustments	Claims Payments	Liability Balance January 31,
Property Insurance				
Fiscal Year 2000	10,252	7	(101)	10,158
Fiscal Year 2001	10,158	406	(620)	9,944
Employee & Public Liability Claims				
Fiscal Year 2000	3,540	5,549	(3,486)	5,603
Fiscal Year 2001	5,603	3,117	(2,880)	5,840

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(amounts are expressed in thousands)

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 $500 of each worker's compensation and $250 for general liability, automobile liability, public official's liability and $100 for pollution legal liability (new coverage during Fiscal Year 2001) claim whereby any claim which cost exceeded the self insured retention limit would be covered through SAWS' comprehensive commercial insurance program. For the fiscal year ended May 31, 2001, there were no reductions in insurance coverage from the previous year and there were no claims which exceeded the self insured retention limit. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

SAWS had recorded a liability in the amount of $2,174 as of May 31, 2001, 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
2000	$ 3,652	$ 714	$ (1,503)	$ 2,863
2001	$ 2,863	$ 913	$ (1,602)	$ 2,174

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14. DEFICITS IN FUND BALANCES / RETAINED EARNINGS

Special Revenue Funds

As of September 30, 2001, deficit fund balance at year end is reported in the Home Program and the Community Development Program in the amounts of $33 and $114 respectively. 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 balances disclosed above to total Special Revenue Fund Equity reported in the Combined Balance Sheet as of September 30, 2001:

Budgeted on an annual basis - Fund Balances		$ 93,005
Budgeted on a project basis - Fund Balances		
Home Program	$ (33)	
Community Development Program	(114)	
Categorical Grant-in Aid	2,759	
Community Services	11,665	
HUD 108 Loan Program	132	
Total budgeted on a project basis - Fund Balances		14,409
Total Special Revenue Fund Equity		$ 107,414

Enterprise Funds

As of September 30, 2001 a deficit retained earnings at year end is reported in the Golf Course System Fund in the amount of $1,513. 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 Department's Golf Operations Division to address these issues. The results of this review were presented to Council along with recommendations, which would increase revenues and improve the quality of the municipal courses. Implementation of the recommendations associated with the performance review are ongoing and it is anticipated that the golf courses will become more competitive in the marketplace in future years.

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, 2001:

Airport System - Retained Earnings	$ 101,839	
Parking Facilities - Retained Earnings	11,444	
Golf Course System - Retained Earnings	(1,513)	
Solid Waste System - Retained Earnings	3,710	
Total Enterprise Fund - Retained Earnings		$ 115,480
Enterprise Fund - Contributed Capital		89,015
Total Enterprise Fund Equity		$ 204,495

14. DEFICITS IN FUND BALANCES / RETAINED EARNINGS (Continued)

Internal Service Funds

As of September 30, 2001, a deficit retained earnings at year end is reported in the Information Services Fund in the amount of $5,733. 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.

As of September 30, 2001, deficit retained earnings at year end are reported within the Self-Insurance Fund in the Employee Benefits Program and the Unemployment Compensation Program in the amounts of $4,819 and $53 respectively. The City will fund the deficits through assessments charged to the various City funds in future years. Strategies such as cost containment programs including hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization are utilized to manage the rising costs of medical care. In addition to continuing enhancement of these cost containment programs, the City will seek the services of an outside consultant in 2002 to perform a comprehensive review of the Employee Benefits Program.

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, 2001:

Other Internal Services - Retained Earnings		$ 38,596
Information Services		(5,733)
Self-Insurance Programs - Retained Earnings		
Insurance Reserve Program	$ 7,649	
Employee Benefits Program	(4,819)	
Worker's Compensation Program	3,292	
Unemployment Compensation Program	(53)	
Other Self-Insurance Programs	64	
Total Self-Insurance Program - Retained Earnings		6,133
Internal Service Fund - Contributed Capital		39,418
Total Internal Service Fund Equity		$ 78,414

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(amounts are expressed in thousands)

15. CONTRIBUTED CAPITAL

Activity for the year ended September 30, 2001, 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	$ 81,154	$ 190	$ 5,526	$ 3,699	$ 90,569	$ 38,811	$ 129,380	$ 0	$ 598,076
Additions -									
Local Government						607	607		
Federal									
Customers									24,509
Intergovernmental									
Deductions -									
Amortization of Federally Contributed Fixed Assets	(1,554)				(1,554)		(1,554)		
Contributed Capital, September 30	$ 79,600	$ 190	$ 5,526	$ 3,699	$ 89,015	$ 39,418	$ 128,433	$ 0	$ 622,585

[1]For the fiscal year ended January 31, 2001
[2]For the fiscal year ended May 31, 2001

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(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, 2001 are comprised of the following:

General Fund				
Designated for Budget Carryforwards			$	14,053
Designated for Revenue Loss				23,168
Total Designated – General Fund			$	37,221
Special Revenue Fund				
Designated for Budget Carryforwards				
Convention Center System Development Fund	$	49		
Emergency Medical Services Fund		124		
Hotel Motel Tax Fund		1,080		
Alamodome Fund		122		
Special Revenue Reserve Fund		100		
Street Maintenance and Improvements Fund		1,115		
Stormwater Operations Fund		304		
International Center Fund		69		
Job Training, Neighborhood Revitalization and Economic Development Fund		3,528		
Community Services Fund		1		
Parks Development and Expansion Fund		48		
Total Designated for Budget Carryforwards			$	6,540
Designated for Improvement and Contingency				
Hotel Motel Tax Fund	$	7,511		
Alamodome Fund		230		
Nelson Wolff Stadium		21		
Total Designated for Improvement and Contingency				7,762
Designated for Renewal and Improvement				
Hotel Motel Tax Fund	$	1,670		
Alamodome Fund		2,559		
Total Designated for Renewal and Improvement				4,229
Total Designated – Special Revenue Fund			$	18,531

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 by $2,300 to $23,168 as of September 30, 2001.

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17. SUBSEQUENT EVENTS

A. City of San Antonio

Sale of Refunding and New Money General Obligation Debt

The market environment provided an opportunity for the City 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 8, 2001, the City Council approved the sale of the following obligations:

$84,945 General Improvement and Refunding Bonds, Series 2001, maturing 2002 through 2022, with interest rates ranging from 3.000% to 5.250%.

$65,195 Combination Tax and Revenue Certificates of Obligation, Series 2001, maturing 2003 through 2014, with interest rates ranging from 4.000% to 5.250%.

$251,280 General Improvement Forward Refunding Bonds, Series 2002, maturing 2002 through 2013, with interest rates ranging from 4.000% to 5.250%.

Delivery of the proceeds from the 2001 obligations occurred on November 29, 2001. Proceeds of the Series 2001 obligations will be utilized to refund a portion of the City's outstanding tax supported debt and to finance general improvements to the City, including streets and pedestrian improvements, drainage improvements, flood control with park improvements, parks and recreation facilities improvements, library improvements, and public safety improvements.

Delivery of the 2002 Forward Refunding bonds is scheduled to occur on May 7, 2002 and will be utilized to refund the Refunded Obligations.

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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
10-01-00	$ 1,181,582	$ 1,339,954	$ 158,372	88%	$ 168,944	94%
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%

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
12-31-00	$ 388,462	$ 499,824	$ 111,362	78%	$ 168,040	66%
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%

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
01-01-00	$ 648,100	$ 610,800	$ (37,300)	106%	$ 148,900	(25)%
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%

NOTES: (1) Abstracted from City payroll records.

(2) GASB Statement No. 27 requires the above trend information for a period of three years.

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
12-31-00	$ 44,206	$ 53,974	$ 9,768	82%	$ 51,312	19%
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%

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
01-01-01	$ 31,341	$ 40,797	$ 9,457	77%	$ 51,050	19%
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%

NOTES: (1) GASB Statement No. 27 requires the above trend information for a period of three years.

APPENDIX D

FEASIBILITY REPORT

UNISON MAXIMUS
CONSULTING SOLUTIONS

March 5, 2002

Mr. Kevin Dolliole
Director of Aviation
City of San Antonio
9800 Airport Boulevard
San Antonio, Texas 78216-9990

Subject: Financial Feasibility Report – City of San Antonio Airport System Revenue Improvement Bonds, Series 2002 and the City of San Antonio Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002

Dear Mr. Dolliole:

UNISON-MAXIMUS, INC. ("Unison") is pleased to submit the attached Financial Feasibility Report in support of the intent of the City of San Antonio (the "City") to issue the City of San Antonio Airport System Revenue Improvement Bonds, Series 2002 (the "Series 2002 Bonds") in the approximate amount of $99.675 million and the City of San Antonio Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002 (the "Series 2002 PFC Bonds") in the approximate amount of $38.1 million. The Series 2002 Bonds and the Series 2002 PFC Bonds are being issued to fund a portion of the costs of certain capital projects that are included in the Capital Improvement Program (the "CIP") of the City's Department of Aviation (the "Department"), as described below.

The Series 2002 Bonds will be issued on parity with certain currently outstanding revenue bonds and are special obligations of the City, payable solely from and secured by a first lien on and pledge of the Gross Revenues of the San Antonio Airport System (the "Airport System") and other sources of funds, including a Bond Reserve Fund. The Series 2002 Bonds are being issued pursuant to the *Master Ordinance Establishing the Airport System Revenue Bond Financing Program With Respect to the Issuance of Obligations by the City of San Antonio, Texas Secured by Gross Revenues of the Airport System* (the "Master GARB Ordinance") and the *Third Supplemental Ordinance to the Master Ordinance Authorizing the Issuance, Sale, and Delivery of City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2002* (the "Third Supplemental GARB Ordinance"). The Master GARB Ordinance and the Third Supplemental GARB Ordinance are collectively referred to in the attached Report as the "GARB Ordinances."

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The Series 2002 PFC Bonds are special, limited obligations of the City payable from and secured by a pledge of Passenger Facility Charge ("PFC") Revenues and a pledge of the Airport System Net Revenues subordinate to the Parity Obligations. PFC Revenues are generated from a PFC of $3.00 that was approved by the Federal Aviation Administration (the "FAA"), and was imposed by the City effective November 1, 2001. PFC Revenues are collected from certain enplaned passengers using SAT, less an air carrier collection fee of $0.08 per enplaned passenger. The Series 2002 PFC Bonds are being issued pursuant to the *Master Ordinance Establishing the Airport System Revenue Bond Financing Program with Respect to the Issuance of Obligations by the City of San Antonio, Texas Payable in Whole or in Part from Passenger Facility Charges* (the "Master PFC Ordinance") and the *First Supplemental Ordinance to the Master Ordinance Relating to the Issuance of Obligations Secured in Whole or in Part with "Passenger Facility Charges" and Fourth Supplemental Ordinance to the Master Ordinance Relating to the Issuance of Obligations Secured with Gross Revenues of the City's Airport System* (the "First Supplemental PFC Ordinance"). The Master PFC Ordinance and the First Supplemental PFC Ordinance are collectively referred to in the attached Report as the "PFC Ordinances." The GARB Ordinances and the PFC Ordinances are collectively referred to in the attached Report as the "Bond Ordinances."

The City owns and operates San Antonio International Airport ("SAT", or the "Airport") and Stinson Municipal Airport ("Stinson"), which together comprise the Airport System. SAT is the only commercial service airport serving the City and the San Antonio metropolitan area. Stinson is primarily a general aviation airport. SAT, which handled approximately 3.4 million enplanements in 2001, is classified by the FAA as a medium-hub airport. Based on 2000 airport data, which is the most recent available, the Airports Council International (the "ACI") ranked SAT 48th in the nation in terms of total passengers served, 50th in the nation in terms of aircraft operations, and 44th in the nation in terms of total cargo processed. Covering 2,600 acres, SAT is located approximately eight miles from the City's downtown central business district.

Purpose of the Bond Financing

The Department's Capital Improvement Program ("CIP") includes a number of capital projects for the Airport System during fiscal years[1] ("FY") 2002 through 2011. The Department management has determined that the projects are necessary to accommodate the expected continued growth in aircraft and passenger activity at SAT, as discussed in Section IV, and to replace or rehabilitate certain facilities and equipment at SAT and Stinson. Department management has evaluated the Department's CIP subsequent to the terrorist attacks that occurred on September 11, 2001 (the "September 11, 2001 Events"). Although revisions have been made to the CIP, Department management believes that the major projects included in the CIP are still necessary and represent a prudent approach to Airport

[1] The Department's fiscal year begins on October 1st and ends on September 30th.

expansion. The Department's CIP costs are estimated to total approximately $425.6 million for the period FY 2002 through FY 2011. The projects included in the CIP are expected to be funded with the Series 2002 Bonds, future airport revenue bond issues, the Series 2002 PFC Bonds, future PFC bond issues, Pay-As-You-Go PFCs, Department funds, and federal Airport Improvement Program ("AIP") grants.

The Series 2002 Bonds are being issued to fund a portion of the costs of certain projects in the CIP, which are described in Section II of the attached Report. It is anticipated that the Series 2002 Bonds will provide approximately $77.4 million in project funding, with the majority of the funding (approximately $60.5 million) anticipated to be provided for the construction of a new terminal concourse and a new parking garage. The new terminal concourse is planned in response to needs identified in the SAT Master Plan, and the new parking garage is planned in response to parking supply needs identified by a parking study recently completed for the Department. Other CIP capital costs totaling approximately $16.9 million, which include cargo facility improvements, terminal roadway improvements, airfield improvements, and other miscellaneous projects, will also be funded with the Series 2002 Bonds.

The Series 2002 PFC Bonds are being issued to fund approximately $16.0 million in improvements to the existing terminal buildings, and approximately $18.3 million towards the costs of the new terminal concourse.

GARB Rate Covenant

The Master GARB Ordinance requires the City to generate Gross Revenues from the Airport System in each Fiscal Year that are at least sufficient: (A) to pay all O&M Expenses during each Fiscal Year, and also (B) to provide an amount equal to 1.25 times the Annual Debt Service Requirements during each Fiscal Year on all outstanding Parity Obligations. This provision of the Master GARB Ordinance is referred to as the GARB Rate Covenant. One of the objectives of the attached Report is to determine the City's ability to fulfill the Rate Covenant during the forecast period.

In addition to the GARB Rate Covenant, the City has also covenanted to fix, maintain, enforce, charge, and collect additional rates, fees, charges, and amounts for the use, occupancy, services, facilities and operation of the Airport System sufficient to establish and maintain funds for the payment of any other obligations or indebtedness related to the Airport System.

Covenant to Budget PFC Debt Service Coverage

The Master PFC Ordinance requires the City to prepare an annual budget each Fiscal Year which will indicate that unused PFC revenues from prior years, plus PFC Revenues

during the current Fiscal Year, minus PFC "Pay-As-You-Go" costs during the current Fiscal Year, will equal at least 1.25 times the Annual Debt Service Requirements during the current Fiscal Year on all Outstanding Parity PFC Obligations. This provision of the Master PFC Ordinance is referred to as the Covenant to Budget PFC Debt Service Coverage. The attached Report examines the City's ability to fulfill this Covenant during the forecast period.

The Master PFC Ordinance also requires that in the event any Parity PFC Obligations which are also secured with a lien on and pledge of Subordinate Net Revenues (defined as Net Revenues available after the debt service requirements on all Parity GARBs are satisfied) remain outstanding and the City is for any reason unable to collect, or does not actually collect, PFC Revenues in an amount sufficient to provide PFC Revenues to satisfy the Covenant to Budget PFC Debt Service Coverage, the City will at all times fix, maintain, enforce, charge, and collect rates, fees, charges, and amounts for Airport System facilities and operations which will produce in each Fiscal Year Subordinate Net Revenues at least equal to 1.10 times the annual debt service requirements during each Fiscal Year on all then outstanding Parity PFC Obligations.

The attached Report contains projections of the total Pledged Revenues available to pay PFC debt service, which are calculated as Net Revenues minus parity (GARB) debt service, plus PFC Revenues. Included in the attached Report are projections of PFC debt service coverage.

Airline Leases

The City, through the Department, recently negotiated a new Airline-Airport Use and Lease Agreement ("Airline Agreement") with airlines operating at the Airport (the "Signatory Airlines"). The previous agreement expired on September 30, 2001, and the City Council approved the new Airline Agreement on September 27, 2001. The negotiations for the new Airline Agreement did not result in any significant changes. Eight airlines operating at SAT have signed the new Airline Agreement, and a ninth airline is expected to sign the Airline Agreement prior to the issuance of the Bonds. The Airline Agreement specifies the terms and conditions of the signatory airlines' use of Airport facilities and their operations at the Airport, and it will expire on the earlier of either the Date of Beneficial Occupancy ("DBO") of the planned new concourse or on September 30, 2006.

The principal types of rates and charges paid by the airlines are terminal rents, landing fees, charges for the Federal Inspection Service ("FIS") facilities, and other charges. Airline terminal rents and landing fees, which represent the majority of the rents and fees paid by the airlines, are calculated by the Department to recover the airlines' share of annual terminal and airfield expenses, respectively. However, the Signatory Airlines may be eligible for terminal rent credits after the end of each fiscal year equal to a portion of the Gross Revenues available after the payment of all parity and subordinate debt service requirements, other obligations pursuant to the Bond Ordinances, and O&M Expenses.

September 11, 2001 Events

Recent events have changed market conditions and warrant consideration of alternative growth trends in air traffic at SAT. On September 11, 2001, terrorists seized control of four U.S. commercial passenger flights crashing two aircraft into the World Trade Center in New York City, one aircraft into the Pentagon in Washington, D.C., and one aircraft in Somerset, Pennsylvania. These catastrophic events, which are referred to in the attached Report as the "September 11, 2001 Events," caused the complete shutdown of the U.S. aviation system for a period of two days. SAT, along with many other airports, re-opened on September 13, 2001, but with significantly lower traffic levels. By September 17, many airlines had restored service up to 80% of the total number of scheduled flights prior to September 11, 2001, and Southwest, the airline with the largest market share at the Airport, had restored its full flight schedule.[2] However, air travel demand has weakened system-wide as consumers are now concerned about the safety of the U.S. transportation system. Airports and airlines are implementing tighter security measures, but these measures have increased passenger processing times at airports and create another disincentive for air travel. The softening of air travel demand could be temporary, and traffic levels may eventually return to normal. On the other hand, the September 11, 2001 Events could alter consumers' travel choices significantly and reduce demand for air travel over a much longer horizon.

The above factors introduce uncertainties into the future trend of passenger traffic at SAT. The attached Report considers alternative air traffic activity forecasts ("Base," "Low," and "High" scenarios) to reflect the potential effects of the September 11, 2001 Events. The Financial Analysis section of the attached Report presents sensitivity analyses to evaluate the potential financial impact of the September 11, 2001 Events on the financial feasibility of the proposed financings.

Report Organization

Unison has prepared the attached Report to evaluate the ability of the City to meet the financial requirements established by the Bond Ordinances. In conducting the study, we analyzed the relevant aspects of the Airport System's operations, as well as various factors that can affect Airport System operations. The following summary of the components of the attached Report provides an overview of the comprehensive analysis performed:

Section I: Introduction. Section I provides background information regarding the Airport System and its facilities, the City and its officials, and the key Department staff members.

[2] Sources are Internet announcements and press releases of individual airlines, and various articles in *The Wall Street Journal*.

Section II: The Capital Improvement Program. Section II provides a brief discussion of the Department's Capital Improvement Program ("CIP") costs and funding sources, and a description of the capital projects to be financed with the proceeds of the Series 2002 Bonds and the Series 2002 PFC Bonds.

Section III: Local Economic Base of the Airport. Section III defines the Airport's air service area and discusses the relevant local demographic and economic trends. The assessment of the local economic base provides the context for the analysis and forecast of air traffic activity in Section IV.

Section IV: Aviation Activity Analysis and Forecast. Section IV reviews the historical aviation activity at the Airport, presents forecasts of aviation activity for the period 2002 through 2011, and explains the factors underlying both the historical and forecasted aviation trends. Presented in this section are a "base" air traffic forecasts and alternative air traffic forecasts that consider the potential effects of the September 11, 2001 Events.

Section V: Summary of the Airline Use Agreement. Section V presents a brief description of the recently negotiated Airline-Airport Use and Lease Agreement, with emphasis on its major terms and conditions.

Section VI: Financial Analysis. Section VI reviews the framework for the financial operation of the Department (including key provisions of the Bond Ordinances and the Airline Agreement), reviews the recent historical financial performance of the Department, and examines the ability of the Department to generate sufficient Gross Revenues and PFC Revenues in each year of the forecast period (FY 2002 through FY 2011) to satisfy the requirements of the Bond Ordinances. This section also discusses the information and assumptions underlying the financial forecasts, which include Gross Revenues, PFC Revenues, O&M Expenses, debt service requirements, debt service coverage, and the application of Gross Revenues and PFC Revenues to the funds and accounts established under the Bond Ordinances.

Assumptions

The analysis and forecasts contained in this report are based upon certain data, estimates, and assumptions that were provided by the Department, and certain data and projections from other independent sources. The attached Report should be read in its entirety for an understanding of the forecasts and the underlying assumptions. In our opinion, the data, estimates, and assumptions used in the report are reliable, and provide a reasonable basis for our forecast given the information available and circumstances as of the date of this Report. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, the actual results achieved may vary from the forecasts, and the variations could be material.

The major assumptions utilized in the attached Report are listed below:

1. The Department will complete the projects listed in the CIP, including the projects to be funded with the proceeds of the Series 2002 Bonds and the Series 2002 PFC Bonds, within the budgeted costs and according to the estimated schedule.
2. The City will issue future GARBs and PFC bonds during the forecast period to fund the costs of other projects included in the CIP.
3. The City will obtain PFC "Use" authority for the new concourse project, which to date has been approved as a PFC "Impose Only" project by the FAA. Prior to submitting a PFC "Use" application for the new concourse project, the City was required to receive from the FAA airspace approval for the project. The City received airspace approval for the new concourse project in January 2002. The Department plans to begin the PFC "Use" application process in February, and Department management anticipates that the City will receive PFC "Use" authority approval in August 2002.
4. The City will submit a PFC amendment application to request an additional $16.7 million in PFC funding for the new concourse project and an airfield project, and that the application will be approved by the FAA within the next year.
5. The PFC applications approved in August 2001 included estimated PFC-eligible project costs through FY 2005. Subsequent to the approval of the PFC applications in August 2001, the Department revised some of the estimated project costs of the approved PFC projects. It is assumed that the City will submit an application amendment to request approval to reallocate the approved PFC funding among the approved PFC projects. In addition, the current CIP includes project costs for FY 2006 through FY 2011, and it is assumed that the City will request additional PFC approval in the amount of approximately $80.0 million to fund a portion of those project costs.
6. Due to the timing of the estimated CIP project costs, it is assumed (under the "Base" scenario and the two alternate air traffic scenarios) that certain PFC-eligible project costs in FY 2007 and FY 2008 will be funded with Department cash and reimbursed with PFCs in later years. Under the "Base" scenario and the "High" air traffic scenario, it is assumed that the reimbursement will be completed prior to the end of the forecast period (FY 2011). However, under the "Low" scenario, PFC Revenues are projected to be insufficient to reimburse all of the Department cash prior to the end of the forecast period. Therefore, it is assumed that if air traffic activity at SAT follows the "Low" scenario, the Department's reimbursement of the PFC-eligible project costs paid with Department cash will continue past the end of the forecast period (years subsequent to FY 2011). The City may decide to seek approval from the FAA to increase the PFC level to $4.50 during the forecast period. If such an increase is approved, the City would realize increased PFC Revenues that would enable it to decrease the amount of Department cash used to

pay PFC-eligible costs as they are incurred, and to reimburse Department cash with PFCs at a faster rate.

7. The current airline rates and charges methodology will continue in effect after the expiration of the existing Airline Agreement, either through the extension of the existing Airline Agreement or through a new agreement with substantially similar terms.

8. Annual inflation is estimated at approximately 2.85% during the forecast period, based on the most recent Consumer Price Index (CPI) published by DRI/McGraw-Hill.

Findings and Conclusions

Based upon the assumptions and analysis presented in the report, we forecast that the Department will be able to comply with the provisions of the Bond Ordinances, while maintaining a reasonable airline cost per enplaned passenger. Specifically, we conclude the following:

- Under the "Base" air traffic forecast, GARB debt service coverage is projected to remain at or above 3.30 during the forecast period, well above the 1.25 coverage requirement pursuant to the GARB Rate Covenant. GARB debt service coverage based on Net Revenues is projected to remain at 1.77 or above each year during the forecast period.

- Under the alternative air traffic forecasts, Gross Revenue GARB debt service coverage is projected to remain at or above 3.21 during the forecast period, based on projections of Gross Revenues under the "Low" scenario. Net Revenue GARB debt service coverage is projected to remain at or above 1.68 during the forecast period, based on projected Net Revenues under the "Low" scenario.

- If the City does not receive an additional $16.7 million in PFC authority for the new concourse project and an airfield project, as mentioned in the assumptions above, projections indicate that Net Revenues would be sufficient to support the issuance of additional GARBs to provide the $16.7 million in project funding.

- The PFC debt service coverage (including Net Revenues available for subordinate debt service and PFC revenues) is projected to remain at or above 3.89 during the forecast period under the "Base" scenario, and at or above 3.46 under the "Low" scenario.

- During the forecast period, the City is projected to satisfy the 1.25 Covenant to Budget PFC Debt Service Coverage contained in the Master PFC Ordinance. Under the "Base" case, this coverage calculation is projected to remain at or above 1.74.

- The airline cost per enplaned passenger is projected to remain reasonable during the forecast period, compared to the airline cost per enplanement amounts for airports with a similar number of enplanements as SAT. SAT's airline cost per enplanement, under the "Base" case, is projected to increase to a forecast period maximum of $4.78 by FY 2009.

Based on the above, we conclude that it is financially feasible for the City to proceed with the issuance of the Series 2002 Bonds and the Series 2002 PFC Bonds.

Sincerely,

UNISON-MAXIMUS, INC.

Unison-Maximus, Inc.

SAN ANTONIO DEPARTMENT OF AVIATION
Financial Feasibility Report

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SECTION I
INTRODUCTION

This report considers the financial feasibility of issuing the City of San Antonio Airport System Revenue Improvement Bonds, Series 2002 (the "Series 2002 Bonds") and the City of San Antonio Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002 (the "Series 2002 PFC Bonds"). The proceeds of the Series 2002 Bonds and the Series 2002 PFC Bonds will be used to fund a portion of the cost of capital projects that are included in the Capital Improvement Program ("CIP") of the City of San Antonio Department of Aviation (the "Department"). The City of San Antonio (the "City") owns San Antonio International Airport ("SAT", or the "Airport") and Stinson Municipal Airport ("Stinson"). The Department operates both SAT and Stinson, which are collectively referred to as the "Airport System". SAT operates as a commercial service airport, and Stinson primarily serves the general aviation community.

Recent events have changed market conditions and warrant consideration of alternative growth trends in air traffic at SAT. On September 11, 2001, terrorists seized control of four U.S. commercial passenger flights crashing two aircraft into the World Trade Center in New York City, one aircraft into the Pentagon in Washington, D.C., and one aircraft in Somerset, Pennsylvania. These catastrophic events, which are referred to in this report as the "September 11, 2001 Events," caused the complete shutdown of the U.S. aviation system for a period of two days. SAT, along with many other airports, re-opened on September 13, 2001, but with significantly lower traffic levels. By September 17, many airlines had restored service up to 80% of the total number of scheduled flights prior to September 11th, and Southwest, the airline with the largest market share at the Airport, had restored its full flight schedule.[1] However, air travel demand has weakened system-wide as consumers are now concerned about the safety of the U.S. transportation system. Airports and airlines are implementing tighter security measures, but these measures have increased passenger processing times at airports and create another disincentive for air travel. The softening of air travel demand could be temporary, and traffic levels may eventually return to normal. On the other hand, the September 11, 2001 Events could alter consumers' travel choices significantly and reduce demand for air travel over a much longer horizon.

The above factors introduce uncertainties into the future trend of passenger traffic at SAT. This report considers alternative air traffic activity forecasts, as presented in Section IV, to reflect the potential effects of the September 11, 2001 Events. The Financial Analysis section of this report, Section VI, presents sensitivity analyses to evaluate the potential financial impact of the September 11, 2001 Events on the financial feasibility of the proposed financings.

[1] Sources are Internet announcements and press releases of individual airlines, and various articles in *The Wall Street Journal*.

This report is organized into the following sections:

- **Section I** describes the City's airports, the City and the Department.
- **Section II** describes the proposed projects to be funded with the proceeds of the Series 2002 Bonds and the Series 2002 PFC Bonds, and the Department's CIP.
- **Section III** defines the Airport's air service area and discusses the local economic base.
- **Section IV** analyzes the historical aviation activity at the Airport and presents forecasts of future aviation activity.
- **Section V** reviews the airline use and lease agreement and summarizes the airline rates and charges methodology specified in the agreement.
- **Section VI** analyzes the Department's historical expenses and revenues and presents forecasts of key financial factors, including operation and maintenance expenses, operating revenues, PFC revenues, airline cost per enplanement, the Department's debt service requirements, and the Department's debt service coverage.

A. THE CITY'S AIRPORTS

Stinson Flying School was founded in 1915, and soon thereafter it was named Stinson Airport, San Antonio's first municipal airport. Stinson is the second oldest continuously operated general aviation airport in the nation. In 1941, the City purchased 1200 acres to establish San Antonio Municipal Airport, and in 1942 the U.S. Army established Alamo Airfield on the new airport property. The Airport was renamed San Antonio International Airport in 1944.

B. SAN ANTONIO INTERNATIONAL AIRPORT

SAT is the only commercial service airport serving the City and the San Antonio metropolitan area. In 2001, SAT enplaned approximately 3.4 million passengers. The Federal Aviation Administration (the "FAA") classifies SAT as a medium-hub airport.[2] Based on 2000 airport data, the Airports Council International ("ACI") ranked SAT 48th in the nation in terms of total passengers served, 50th in the nation in terms of aircraft operations, and 44th in the nation in terms of total cargo processed. Covering 2,600 acres, SAT is located approximately eight miles from the City's downtown central business district, adjacent to the Loop 410 freeway and U.S. Highway 281.

[2] Airports that enplane between approximately 1.6 million and 6.6 passengers per year are classified as medium hub airports.

The following paragraphs describe the existing facilities at SAT. The Department is currently planning capital improvements to various facilities, as described in Section II ("Capital Improvement Program").

1. Airfield Facilities

The Airport's existing airfield infrastructure consists of runways and taxiways, ramp/apron areas and holding pads, and other airfield facilities. SAT has two all-weather air carrier runways (12R/30L and 3/21) and one general aviation runway (12L/30R), as follows:

	Length (ft.)	Width (ft.)	Type of Aircraft Accommodated
Runway 12R/30L	8502	150	air carrier
Runway 3/21	7505	150	air carrier
Runway 12L/30R	5519	100	general aviation

Each runway has a full-length parallel taxiway and a 90-degree entrance/exit taxiway located at each end, in addition to several 90-degree crossover taxiways along the runways. The airfield has approximately 85.9 acres of concrete apron for commercial aircraft parking in the terminal area and an additional 16.7 acres at the East Cargo Ramp. There are holding pads at the ends of Runways 12R and 3.

Other airfield facilities include underground storm sewer systems, fencing and security gates, navigational aids and an airfield lighting system, and an FAA Airport Traffic Control Tower.

2. Terminal Facilities

SAT has two passenger terminals with abutting apron areas for aircraft parking. Terminal 1, which was constructed in 1984, has 16 gates and contains approximately 395,000 square feet. Terminal 2, which has 12 gates (including four ground-loaded commuter aircraft gates) and contains approximately 210,000 square feet, was constructed in 1953 with a satellite concourse added in 1968.

3. Parking Facilities

The Airport has approximately 7,100 parking spaces, consisting of approximately 6,100 public parking spaces and 1,000 employee parking spaces. Parking facilities include a short-term parking garage, a long-term parking garage, and surface parking. Subsequent to the September 11, 2001 Events, the Airport lost the use of 177 public parking spaces, due to the security restrictions imposed by the FAA. The revenue implications of the loss of parking spaces are discussed in **Section VI** of this report.

4. Air Cargo Facilities

Air cargo facilities at the Airport include an Air Cargo East complex and an Air Cargo West complex. A total of over 137,000 square feet of cargo warehouse space, and over 1.2 million square feet of air cargo aircraft apron space are available. The Airport includes two Foreign Trade Zones ("FTZ") and is served by 12 air cargo service providers.

5. Other Facilities

Other facilities at the Airport include a roadway system, Fixed Base Operator ("FBO") facilities, aircraft maintenance and manufacturing facilities, corporate/business facilities, Airport maintenance shops, and utility systems.

C. THE CITY

The City is located in south central Texas, approximately 75 miles south of the Texas state capital in Austin. Established in 1837 and chartered in 1951, the City covers approximately 430 square miles and is the county seat of Bexar County. According to statistics compiled by the U.S. Census Bureau, the City's 2000 population was 1,144,646. The U.S. Census Bureau ranks the City as the third largest city in Texas and the ninth largest city in the U.S. in terms of population.

The City Council is composed of 10 members who are elected by district. The Mayor is elected City-wide. In 1991, an amendment to the City Charter was approved by the voters that limited the service by the Mayor and City Council members to two full terms, each of which is two years in duration. The City Manager, who serves as the chief administrative officer of the City, is appointed by the City Council.

The Department and all other departments of the City follow the same process for developing their respective annual budgets. Each year, the City prepares its "Five Year Financial Forecast," followed by a "Goals and Objectives Worksession." Each City department is given a target budget based on current service requirements. The City Council then holds a series of work sessions, which include presentations by each department. After receiving input from each department and from citizens at public hearings, the City Council adopts a balanced budget. City staff members closely monitor all departmental budgets during each year, and report to the City Council the status of the various City funds.

D. THE DEPARTMENT

The Department is an enterprise fund department of the City. The operations and improvements at SAT and Stinson are paid for by airport user charges, bond funds, and funds received from the FAA. No general tax fund revenues are used to

operate or maintain either SAT or Stinson. The City Council appoints an 11-member Airport Advisory Committee. The Committee actively participates in all Airport System policy matters before such matters are presented to the City Council.

Kevin C. Dolliole, Aviation Director, has overall responsibility for the management, administration, and planning of the Airport System. Mr. Dolliole has an experienced staff to aid him in carrying out the responsibilities of his position. The principal members of the Department's staff include the Director of Aviation, the Assistant Aviation Director – Operations and Maintenance, the Assistant Director of Aviation – Finance and Administration, and the Airport Finance Manager. The following are brief descriptions of the professional experience of each of the principal members of the Department's staff.

Director of Aviation

Kevin C. Dolliole was appointed Aviation Director effective October 1999. Prior to his appointment, Mr. Dolliole was Acting Aviation Director at New Orleans International Airport. He also served in several other executive positions at New Orleans International Airport, including Deputy Director for Operations and Maintenance and Deputy Director of Finance and Administration. Mr. Dolliole was employed by Eastern Airlines for 13 years prior to his tenure at New Orleans International Airport. He holds a Bachelor of Science degree in Business Administration from Xavier University and a Master of Business Administration degree from the University of New Orleans.

Assistant Aviation Director – Operations and Maintenance

Dom Smith, Assistant Aviation Director – Operations and Maintenance, has been employed by the Department since 1984. Mr. Smith served as Maintenance Manager prior to his appointment to his current position in 1999. His current responsibilities include airport operations, police, fire rescue coordination, ground transportation, noise abatement, and airport maintenance. Mr. Smith is a graduate of Texas A&M University with a degree in Agronomy.

Assistant Aviation Director – Finance and Administration

Ryan G. Martinez was appointed Assistant Aviation Director – Finance and Administration effective September 2001. Prior to his appointment, Mr. Martinez was employed by the Kansas City Department of Aviation, as Assistant Director of Aviation – Finance and Accounting, having previously served as the Finance Manager. He holds a Bachelor of Science degree in Accounting from Northwest Missouri State University and has taken Master of Business Administration courses at East Texas State University.

Airport Finance Manager

Rick Naylor, A.A.E., the Airport Finance Manager, has been with the City since 1972 and with the Department since 1982. Mr. Naylor's responsibilities include airport

finances, budget and personnel, accounting, and data processing. He has a Bachelor's degree in Business Administration and a Master's degree in economics from St. Mary's University.

SECTION II
CAPITAL IMPROVEMENT PROGRAM

The Department's CIP includes a number of capital projects for the Airport System during fiscal years[1] ("FY") 2002 through 2011. The Department management has determined that the projects are necessary to accommodate the expected continued growth in aircraft and passenger activity at SAT, as discussed in Section IV, and to replace or rehabilitate certain facilities and equipment at SAT and Stinson. The Master Plan Study completed in January 1998[2] determined that certain capital improvements were needed to the airfield facilities in order to avoid congestion and reduce aircraft delays in the future. In addition, the Master Plan Study found that the Airport's terminal gate capacity is insufficient to meet future demand. Therefore, the Department's CIP includes several runway and taxiway projects for SAT, as well as the construction of two new terminal concourses at SAT to replace Terminal 2, which has outlived its useful life and will be demolished.

Department management has evaluated the Department's CIP subsequent to the September 11, 2001 Events. Although revisions have been made to the CIP, Department management believes that the major projects included in the CIP are still necessary. The revised CIP reflects updated cost estimates and certain revisions in the timing of project costs. The Department's CIP costs are estimated to total approximately $425.6 million for the period FY 2002 through FY 2011. The projects included in the CIP are expected to be funded with the Series 2002 Bonds, future airport revenue bond issues, the Series 2002 PFC Bonds, future PFC bond issues, Pay-As-You-Go PFCs, Department funds, and federal Airport Improvement Program ("AIP") grants. The estimated CIP project costs and proposed funding sources are summarized on **Table II-1**.

A. PROJECTS TO BE FUNDED WITH THE SERIES 2002 BONDS

The Series 2002 Bonds, which will be secured by Airport System Gross Revenues, are being issued to fund a portion of the costs of various projects (the "Series 2002 Bond Projects") in the CIP, as summarized in **Table II-2** and described below.

1. Terminal Improvements

The Department has begun implementing a comprehensive terminal renovation project designed to improve the quality of services provided to passengers at SAT. The terminal renovations include redesigned, high-quality retail and food concessions that will offer a mix of regional and local products at street prices. As

[1] The Department's fiscal year begins on October 1st and ends on September 30th.
[2] Ricondo & Associates, Inc., et. al., *San Antonio International Airport Master Plan Study*, January 1998.

TABLE II-1
CAPITAL IMPROVEMENT PROGRAM
ESTIMATED COSTS BY COST CENTER AND FUNDING SOURCE
FY 2002 - FY 2011
(In Thousands)

Category	Series 2002 GARBs	Future GARBs[1]	Series 2002 PFC Bonds	Future PFC Bonds[2]	PFC Pay-As-You-Go	CIF and Stinson Reserve	AIP Grants	Totals
Airfield	$0	$4,000	$1,762	$31,066	$43,142	$12,922	$87,455	$180,347
Terminals	18,838	18,601	32,581	28,171	5,818	14,984	1,913	120,907
Parking	41,700	0	0	0	0	10,085	0	51,785
Roads	3,550	0	0	2,125	802	10,825	1,720	19,022
Cargo	5,984	0	0	0	0	1,870	330	8,184
Apron	0	0	0	0	1,722	186	4,813	6,722
Stinson	0	0	0	0	0	5,900	0	5,900
Other	7,287	0	0	0	0	21,579	3,861	32,726
Totals	$77,359	$22,601	$34,343	$61,362	$51,485	$78,351	$100,092	$425,593

[1] This funding plan assumes approximately $10.6 million in funding from a GARB issue in 2004 and approximately $12.0 million in funding from a GARB issue in 2007.

[2] This funding plan assumes approximately $16.7 million in funding from a PFC bond issue in 2003, approximately $19.0 million in funding from a PFC bond issue in 2004, and approximately $25.6 million in funding from a PFC bond issue in 2007.

part of the improvement plans, concession space will be expanded from 30,000 square feet to over 40,000 square feet. The planned terminal improvements to be funded partially with the proceeds of the Series 2002 Bonds include the Terminal Modifications project and the Concourse B and C projects, as follows:

a. *Terminal Modifications project*. Both of the existing terminal buildings need modifications because only minor improvements have been made to Terminal 1 since it was opened in 1984, and the last major improvements made to Terminal 2 were completed in 1988. The Terminal Modifications project will provide improvements to both terminal buildings, including the following: renovations to existing holdrooms; the expansion of the holdroom areas for Gates 8 and 9, ticketing, baggage claim, and concessions infrastructure; improvements to lighting, signage, and graphics; and new Flight Information Display Systems (FIDS).

b. *Concourse B project*. The Concourse B project will involve the construction of a new concourse, integral with and west of Terminal 1. Concourse B will contain approximately 150,000 to 200,000 square feet and will include six gates, holdrooms, operations areas, baggage handling areas, ticketing areas, concessions, aviation offices, and common areas.

TABLE II-2
SERIES 2002 BOND PROJECTS [1]
(In Thousands)

Project	Funding Sources			
	Project Costs [1]	Series 2002 Bonds	Future GARBs	Other Sources [3]
Terminal				
Terminal Modifications [2]	$27,000	$818	$0	$26,182
Concourse B	53,000	18,020	0	34,980
Parking				
New Parking Garage	50,000	41,700	0	8,300
Cargo				
West Cargo Facility	6,464	5,984	0	480
Roads				
Elevated Roadway	3,000	2,875	0	125
Terminal Roadway Signs	738	675	0	63
Other Projects				
Airport Maintenance Facility	3,500	3,500	0	0
Redevelop N. Loop Service Center	2,500	2,500	0	0
Replace Sky Place Box Culvert	5,148	1,287	0	3,861
Totals	$151,350	$77,359	$0	$73,990

[1] This table presents only those projects in the CIP that are funded in whole or in part with the proceeds of the Series 2002 Bonds. Project cost estimates were provided by Department management.
[2] The Terminal Modifications project includes costs incurred prior to FY 2002.
[3] Includes PFC funding, including PFC bond proceeds and Department cash.

2. Parking Improvements

The parking improvements will involve the construction of a new parking garage that will increase the Airport's parking capacity. A parking study was recently completed[3], which indicated that project peak period demand for parking at the Airport would exceed the available supply by the end of 2002. It is estimated that 2,400 additional parking spaces will be required in 2004 to satisfy projected demand during the next 10 years. However, due to the projected effects of the September 11, 2001 Events on parking demand, Department management has delayed implementation of the parking garage project, with the updated estimated completion date at the end of FY 2005. The Department is planning the new parking improvements in coordination with the plans for the new terminal improvements, as described above.

[3] AGA Consulting, *Parking Expansion and Financial Feasibility Study, San Antonio International Airport*, August 2001.

3. Cargo Improvements

The planned cargo improvements to be funded with the Series 2002 Bonds consist of a new freight logistics building, parking lot, and storage areas to replace the existing West Cargo Facility. The existing facility, which is approximately 25 years old, is at the end of its useful life and cannot be expanded to accommodate anticipated increases in demand for cargo facilities.

4. Road Improvements

Road improvements anticipated to be funded in part with proceeds of the Series 2002 Bonds include the Elevated Roadway and the Terminal Roadway Signs project, as follows:

a. *Elevated Roadway project*. This project will provide vehicular access to the upper and lower levels of the planned Concourses B and C, which is a necessary component of the terminal expansion program included in the Airport Master Plan.

b. *Terminal Roadway Signs project*. This project will involve installing new signage on the Terminal roadways to improve the flow of traffic.

5. Other Projects

Other projects anticipated to be funded in whole or in part with proceeds of the Series 2002 Bonds include an Airport Maintenance Facility (Phase 1), the Redevelopment of the North Loop Service Center project, and the Replace Sky Place Box Culvert project.

B. PROJECTS TO BE FUNDED WITH THE SERIES 2002 PFC BONDS

The Series 2002 PFC Bonds will be secured by a pledge of PFC Revenues and a pledge of the Net Revenues of the Airport System subordinate to the payment of the Parity Obligations, as described in Section VI. The Series 2002 PFC Bonds are being issued to fund a portion of the costs of the Terminal Modifications project and the Concourse B project (the "PFC Bond Projects"), as summarized in **Table II-3**. The PFC eligibility has been estimated by Department management to be 66% for the Terminal Modifications project and the Concourse B project.

TABLE II-3
PFC BOND PROJECTS
(In Thousands)

Project	Funding Sources			
	Project Costs	Series 2002 PFC Bonds	Future PFC Bonds	Other Sources
Terminal Modifications	$27,000	$16,000	$0	$11,000
Concourse B	53,000	18,343	14,980	19,677
Totals	$80,000	$34,343	$14,980	$30,677

C. THE DEPARTMENT'S PFC PROGRAM

The PFC Bond Projects are part of the Department's overall PFC Program, which has been developed in accordance with Federal regulations. In 1990, the United States Congress enacted the Aviation Safety and Capacity Expansion Act of 1990 (the "PFC Act"), which was amended in 1994, 1996, and 2000. The PFC Act, as amended, allows public agencies controlling commercial service airports (those with regularly scheduled service and enplaning 2,500 or more passengers annually) to charge enplaning passengers using the airport a $1.00, $2.00, $3.00, $4.00, or $4.50 facility charge, referred to as a Passenger Facility Charge or PFC. The purpose of the charge is to provide additional capital funding for the expansion of the national airport system. PFC collections are to be used to finance eligible airport-related projects that preserve or enhance safety, capacity, or security of the national air transportation system, reduce noise from an airport that is part of such system, or furnish opportunities for enhanced competition between or among air carriers. Public agencies wishing to impose a PFC must apply to the FAA for such authority and meet certain requirements specified in the PFC Act.

On August 29, 2001, the FAA approved two PFC applications that had been submitted by the City, and authorized the City to impose a $3.00 PFC effective November 1, 2001, with an estimated charge expiration date of November 1, 2009. The FAA issued a Record of Decision ("ROD") that authorized the City to impose a PFC to collect approximately $102.5 million for 11 projects and to use approximately $44.1 million in PFC revenue for 5 projects. The total approved PFC revenue includes debt service and financing costs of the proposed Series 2002 PFC Bonds. The approved PFC projects are summarized on **Table II-4**.

Pursuant to the PFC approval received by the City from the FAA in August 2001, the City has PFC "Impose Only" authority for the Concourse B project, which Department management anticipates funding partially with the proceeds of the Series 2002 PFC Bonds. The City is planning to sell the Series 2002 PFC Bonds

TABLE II-4
APPROVED PFC PROJECTS
(In Thousands)

PFC No.	Project Title	Total Project Cost	PFC Authority [1]	
			Impose	Use
1.1	Residential Noise Attenuation Program	$28,600	$2,400	$0
1.3	Construct Runway 30L Holding Apron	2,600	559	559
1.4	Contruction ARFF Training Facility	500	500	0
1.5	Construct 3 High-Speed Taxiway	2,700	2,700	0
1.6	Extend Runway 21 & Associated Development	20,000	5,279	0
1.7	Modify Wash Rack Apron	600	208	208
1.8	Replace Replace Overnight Apron	6,722	1,722	1,722
1.9	Terminal Modifications [2]	27,000	41,025	41,025
1.11	Reconstruct Perimeter Road	2,209	552	552
1.10	Concourse B [3]	53,000	45,329	0
1.12	Concourse B Access Road	0	2,250	0
	Totals	$143,932	$102,524	$44,066

[1] Includes PFC bond debt service and financing costs.
[2] This is a PFC Bond Project. Approved PFCs include $18,101 in project costs and $22,924 in financing costs. The total project cost includes costs expended prior to FY 2002.
[3] This is a PFC Bond Project. Approved PFCs include $20,000 in project costs and $25,329 in financing costs.

prior to receiving PFC "Use" authority from the FAA for the Concourse B project. Prior to submitting a PFC "Use" application for the Concourse B project, the City was required to receive from the FAA airspace approval for the project. The City received airspace approval for the Concourse B project in January 2002. The Department plans to begin the PFC "Use" application process in February, and Department management anticipates that the City will receive PFC "Use" authority approval in August 2002. The City also plans to submit a PFC amendment application to request approximately $15.0 million in additional PFC funding for the Concourse B project and approximately $1.7 million in additional PFC funding for an airfield project (the Construct Holding Bays project). It is assumed that FAA approval for the amendment application will be received within the next year.

The PFC applications approved in August 2001 included estimated PFC-eligible project costs through FY 2005. Subsequent to the approval of the PFC applications in August 2001, the Department revised some of the estimated project costs of the approved PFC projects. Department management intends to submit an application amendment to request approval to reallocate the approved PFC funding among the approved PFC projects. In addition, the current CIP includes project costs for FY 2006 through FY 2011, for which the Department plans to request additional PFC approval in the amount of approximately $80.0 million. If approved by the FAA, the changes in the PFC program contemplated by the City will extend the PFC expiration date (November 1, 2009) beyond the date estimated in the PFC applications approved by the FAA.

SECTION III
LOCAL ECONOMIC BASE

Local demographic and economic trends influence air travel demand, particularly the origination and destination ("O&D") segment. This section identifies the air service area (the "ASA") of the Airport and presents demographic and economic data that demonstrate the capability of the ASA to support traffic growth.

A. AIR SERVICE AREA

The Airport serves primarily the San Antonio Metropolitan Statistical Area ("MSA"), an area encompassing 3,327 square miles in south central Texas, near major Texas population centers and midway between the west and the east coasts. As shown in **Figure III-1**, the San Antonio MSA consists of four counties: Bexar, Comal, Guadalupe, and Wilson. The seat of Bexar County is the City of San Antonio, the third largest City in Texas and the ninth largest city in the United States.[1]

The Airport is the only major commercial airport in the San Antonio MSA. The other major commercial airports near San Antonio MSA are Austin-Bergstrom International Airport ("AUS"), 66 miles away; George Bush Intercontinental Airport/Houston and William P. Hobby Airport, 190 miles away; and Dallas/Fort Worth International Airport and Dallas Love Field, 244 miles away.

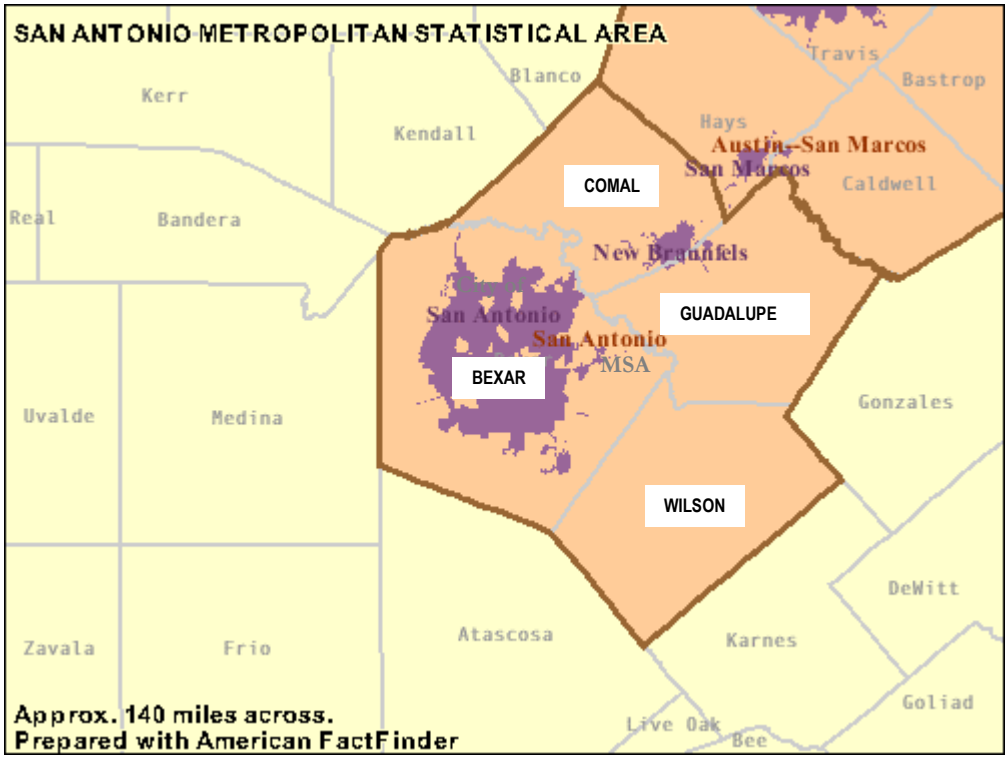
AUS, the major commercial airport closest to San Antonio MSA, can potentially provide alternative air service to San Antonio residents. The air service that is available at AUS is, in many ways, similar to the air service provided by SAT. For example, as of January 2002, 12 air carriers operate approximately 114 departures per day from AUS to 29 nonstop destinations, while 13 air carriers operate approximately 112 departures per day from SAT to 29 nonstop destinations.[2] Southwest operates approximately 39% of total daily departures from AUS, compared to 40% of total daily departures from SAT. In CY 2000, AUS served approximately 3.8 million enplanements,[3] compared to SAT's 3.6 million enplanements. However, AUS serves primarily the Austin-San Marcos MSA. It

[1] San Antonio Economic Development Foundation in *saedf.dcce.com* and U.S. Census Bureau, "Census 2000 PHC-T-5. Table 2. Incorporated Places (with population) of 100,000 or More, Ranked by Population: 2000," Released April 2, 2001 at *www.census.gov*.

[2] The statistics are based on scheduled commercial departures from each airport for the month of January 2002 as published in BACK Aviation Solutions OAG Database, downloaded on January 14, 2002. The number of departures per day in January 2002 equals total non-stop departures for the month divided by 31 days. The number of air carriers is based on the number of operators with scheduled departures in January 2002. The number of nonstop destinations is based on destinations with scheduled nonstop flights from AUS and SAT in January 2002. At AUS, nonstop service to Charlotte, North Carolina will commence in May 2002, bringing the total number of nonstop destinations from AUS to 30.

[3] The official website of Austin-Bergstrom International Airport at *www.ci.austin.tx.us/austinairport*.

FIGURE III-1
SAN ANTONIO INTERNATIONAL AIRPORT
PRIMARY AIR SERVICE AREA



does not serve international destinations. Most importantly, airfares at AUS are generally higher than those offered at SAT. Section IV provides evidence of the price competitiveness of air service at SAT relative to AUS, as well as other selected airports.

A survey of local travel agencies completed in August 2001 showed minimal leakage in air travel demand from SAT's air service area to AUS. In fact, SAT's annual passenger volume is more than twice the size of the local population. The study notes that a typical relationship between annual passenger volume and local population is 1:1, and attributes the higher ratio at SAT to the following: (i) traffic drawn from South Texas, (ii) relatively lower air fares at SAT, and (iii) strong inbound demand into SAT brought by tourism.[4]

B. POPULATION

The San Antonio MSA provides a large population base for travel demand (**Table III-1**). In 2000, the area's population was approximately 1.6 million[5] – the third largest in Texas and the 30th largest among 280 metropolitan areas[6] in the United States. Between 1990 and 2000, the area population grew by 1.9% per year – slightly less than Texas' population growth of 2.1% per year and outpacing the nation's population growth of 1.2% per year. Over the ten-year period, nearly 268,000 people were added to the population of the San Antonio MSA – this represents the 63rd largest population change among the nation's 280 metropolitan areas[7] between 1990 and 2000.[8] According to an industry publication that tracks economic and demographic trends for metropolitan areas across the country, the population of the San Antonio metropolitan area is projected to reach 1.75 million by 2006.[9]

Among the four counties that constitute the San Antonio MSA, Bexar County is the largest (**Table III-1** and **Figure III-2**). According to the United States Census 2000, Bexar County accounted for 87% of the metropolitan area's population and contributed the largest population gain of 207,537 between 1990 and 2000. Comal County, with 5% of the metropolitan area's population, experienced the second largest population gain of 26,189 and the highest population growth rate of 4.2% per year.

[4] Kiehl Hendrickson Group, *Passenger Traffic Leakage Analysis*, August 2001.
[5] U.S. Census Bureau, *United States Census 2000 Rankings, Comparisons, and Summaries*, April 2, 2001, at www.census.gov.
[6] Metropolitan areas include metropolitan statistical areas (MSAs) and consolidated metropolitan statistical areas (CMSAs).
[7] Ibid.
[8] U.S. Census Bureau, *United States Census 2000 Rankings, Comparisons, and Summaries*, April 2, 2001, at www.census.gov.
[9] Sales & Marketing Management, *Survey of Buying Power*, 2001.

TABLE III-1
SAN ANTONIO MSA - POPULATION BY COUNTY
1990-2006

County/Area	Population			Avg. Annual Growth	
	Historical[1]		Projected[2]	Historical	Projected
	1990	2000	2006	1990-2000	2000-2006
San Antonio MSA					
Bexar County	1,185,394	1,392,931	1,517,200	1.6%	1.4%
-City of San Antonio	935,933	1,144,646	n.a.	2.0%	n.a.
Comal County	51,832	78,021	93,200	4.2%	3.0%
Guadalupe County	64,873	89,023	103,500	3.2%	2.5%
Wilson County	22,650	32,408	38,600	3.6%	3.0%
Total - MSA	**1,324,749**	**1,592,383**	**1,752,500**	**1.9%**	**1.6%**
Texas	**16,986,510**	**20,851,820**	**22,797,400**	**2.1%**	**1.5%**
United States	**248,709,873**	**281,421,906**	**296,612,200**	**1.2%**	**0.9%**

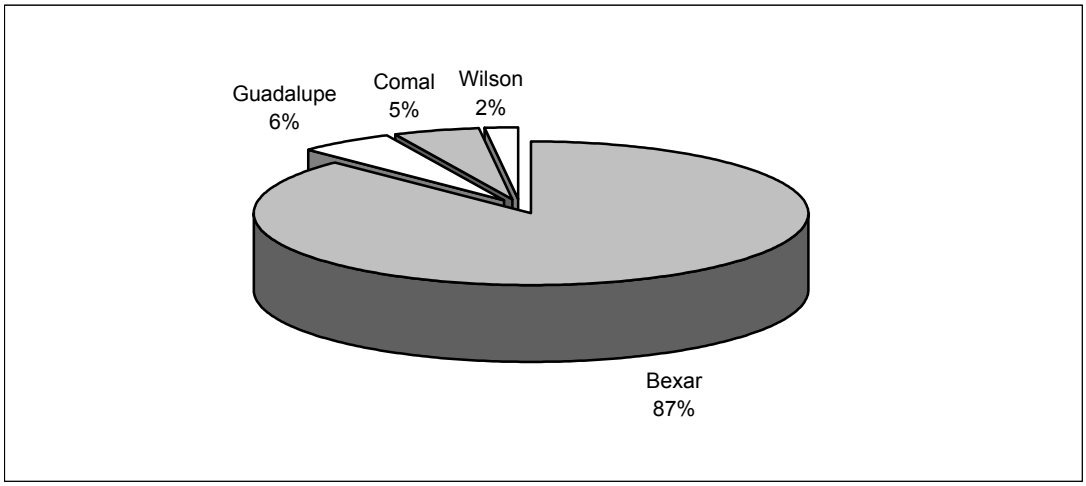
n.a. - not available

[1] These are population estimates as of April 1. Source: U.S. Census Bureau, *United States Census 2000 Rankings, Comparisons, and Summaries*, April 2, 2001, at *www.census.gov*.

[2] This is the projected population on January 1, 2006. Source: *Sales and Marketing Management, 2001 Survey of Buying Power*, September 2001.

Within Bexar County, the population of the City of San Antonio – the ninth largest city in the United States – is estimated in Census 2000 at 1.1 million. The City accounted for 82% of the entire population of Bexar County and 72% of the entire population of the San Antonio MSA (**Table III-1**). Between 1990 and 2000, the City of San Antonio gained 208,713 residents, which accounted for more than the net population gain in the entire county. Over the past decade, the City posted an average population growth rate of 2% per year.

FIGURE III-2
SAN ANTONIO MSA - POPULATION DISTRIBUTION BY COUNTY
2000



[1] Based on population estimates as of April 1. Source: U.S. Census Bureau, *United States Census 2000 Rankings, Comparisons, and Summaries*, April 2, 2001, at *www.census.gov*.

C. EMPLOYMENT

The health of the economy is generally reflected by employment trends. **Table III-2** presents historical data on the civilian labor force, employment, and unemployment in the San Antonio MSA. The civilian labor force consists of members of the population who are at least 16 years old and are either employed or actively seeking employment. The civilian labor force in the San Antonio MSA grew from approximately 632,000 in 1990 to 776,000 in 2000[10] at an average growth rate of 2.1% per year. The employment level increased at a faster rate – 2.5% per year on average, causing the unemployment level to decrease by 5.0% per year on average and the unemployment rate to fall from 7.0% in 1990 to 3.4% in 2000. The employment growth rate in the San Antonio MSA outpaced that of Texas (2.0% per year) and the United States (1.4% per year) between 1990 and 2000.[11]

[10] According to data from the U.S. Bureau of Labor Statistics, the City of San Antonio accounted for 69% of the San Antonio MSA's labor force and 68% of area employment in 2000.
[11] U.S. Bureau of Labor Statistics at *stats.bls.gov*.

TABLE III-2
SAN ANTONIO MSA - CIVILIAN LABOR FORCE
1990-2000

Year	Civilian Labor Force			Unemployment Rate
	Total	Employed	Unemployed	
1990	631,745	587,550	44,195	7.0%
1991	636,043	594,836	41,207	6.5%
1992	660,261	619,007	41,254	6.2%
1993	677,296	640,537	36,759	5.4%
1994	700,260	668,235	32,025	4.6%
1995	720,474	688,646	31,828	4.4%
1996	727,619	696,192	31,427	4.3%
1997	742,458	712,224	30,234	4.1%
1998	756,186	728,379	27,807	3.7%
1999	767,105	743,056	24,049	3.1%
2000	775,777	749,384	26,393	3.4%
	Average Annual Growth Rate			
1990-2000	2.1%	2.5%	-5.0%	

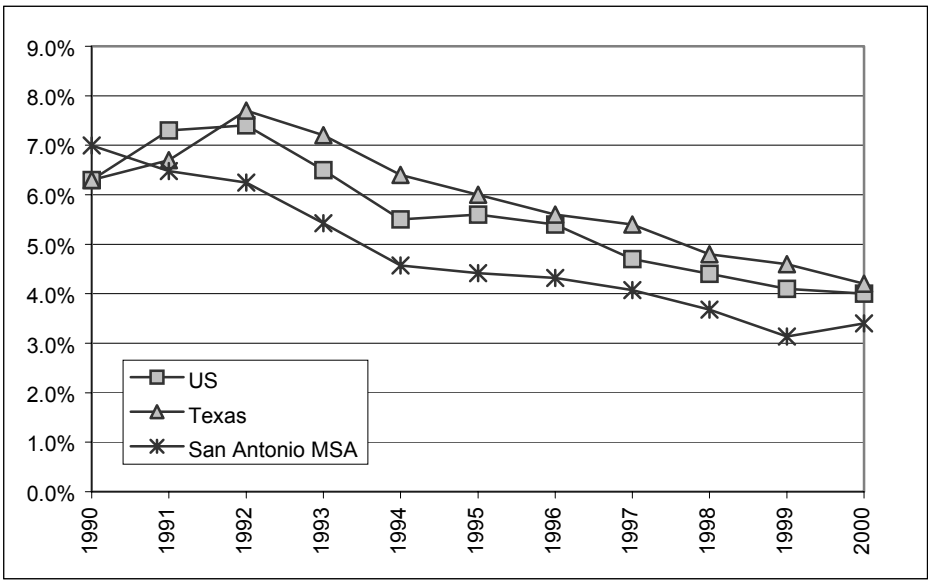
Source: U.S. Bureau of Labor Statistics, *Local Area Unemployment Survey*, at *stats.bls.gov*.

Figure III-3 depicts the declining trend in unemployment in the San Antonio MSA over the last 11 years. In addition, **Figure III-3** shows that the unemployment rate in the San Antonio MSA has fallen consistently below that of Texas and the United States since 1991.

The unemployment rate in the San Antonio MSA reached a low of 3.1% in 1999, then increased to 3.4% in 2000, and continued to inch up in 2001 as the U.S. economy entered into a recession beginning in April 2001.[12] In November 2001, the unemployment rate in the San Antonio MSA increased to 4.5%, but remained lower than the national unemployment rate of 5.6%.[13] [14]

[12] National Bureau of Economic Research, *The Business-Cycle Peak of March 2001*, November 26, 2001.
[13] U.S. Bureau of Labor Statistics at *stats.bls.gov*.
[14] "San Antonio Economic Outlook is Rosy in Comparison to Rest of Nation," *San Antonio Express-News*, January 8, 2002, in Hoover's Online.

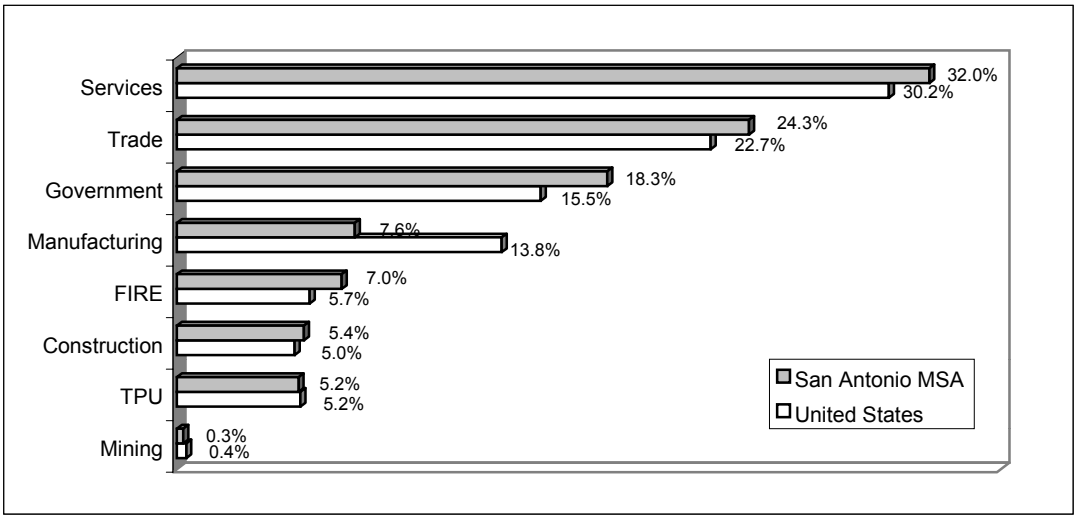
FIGURE III-3
UNEMPLOYMENT RATES IN THE SAN ANTONIO MSA, TEXAS, AND UNITED STATES
1990-2000



Source: U.S. Bureau of Labor Statistics at *stats.bls.gov*.

The ability of the local economy to weather economic shocks and business cycles depends on the diversity of the employment base. **Figure III-4** presents employment shares by industry sector in the San Antonio MSA in 2000, and how they compare with the distribution of employment nationwide. In the San Antonio MSA, no one sector accounts for more than a third of non-farm jobs. Consistent with national trends, the Services sector holds the largest share of employment (32.0%), followed by the Trade sector (24.3%). Relative to the United States, the San Antonio MSA has a significantly larger concentration of jobs in the Government sector (18.3%, compared to the nation's 15.5%) and a significantly smaller concentration of jobs in the Manufacturing sector (7.6%, compared to the nation's 13.8%).

FIGURE III-4
2000 NON-AGRICULTURAL EMPLOYMENT SHARES BY INDUSTRY
SAN ANTONIO MSA AND THE UNITED STATES



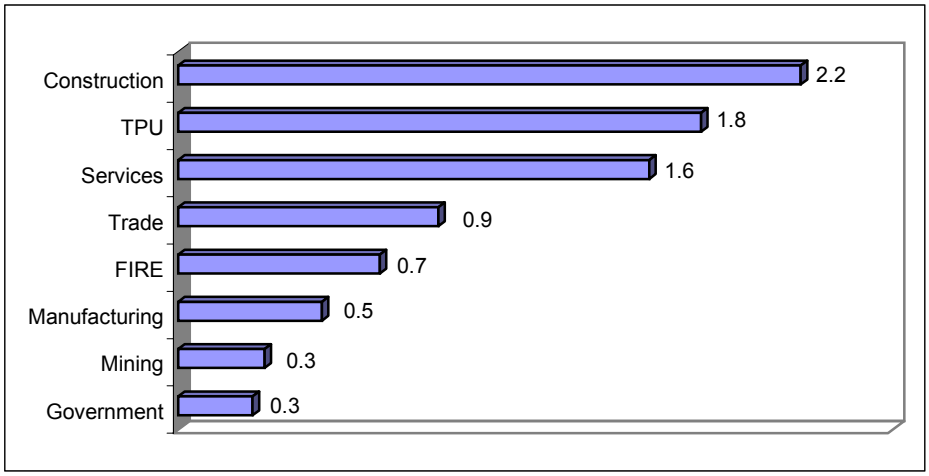
TPU - Transportation and public utilities; FIRE - Finance, Insurance, and Real Estate
Source: U.S. Bureau of Labor Statistics at *stats.bls.gov*.

Figure III-5 shows the employment growth index by industry in the San Antonio MSA between 1990 and 2000. The employment growth index shows how fast an industry sector is growing relative to overall employment growth in the area. The Construction, Transportation and Public Utilities, and Services sectors all have employment growth indices exceeding one – this means that these sectors have grown at above-average rates and have increased their share of total employment in the area.

Diversity is the strength of the local economy. The Greater San Antonio Chamber of Commerce identifies four main economic anchors: health care industry, military, tourism, and agribusiness. The health care industry employs 101,000 and supports an annual payroll of nearly $3 billion.[15] Tourism employs nearly 79,000 and supports an annual payroll of approximately $1.1 billion.[16] Agribusiness, which includes research, processing, and transportation of agricultural products, employs over 95,000 and supports over $1.5 billion annual payroll. Four military installations – Brooks Air Force Base, Fort Sam Houston, Lackland Air Force Base, and Randolph Air Force Base – circle the City of San Antonio and employ over 39,000 military personnel and over 28,000 civilian personnel.[17]

[15] The Greater San Antonio Chamber of Commerce, *2001 Economic Profile of San Antonio*, 2001.
[16] San Antonio Tourism Council and The Greater San Antonio Hotel and Motel Association, *Economic Impact – The Tourism Industry of San Antonio*, 2001.
[17] The Greater San Antonio Chamber of Commerce, *2001 Economic Profile of San Antonio*, 2001.

FIGURE III-5
SAN ANTONIO MSA - EMPLOYMENT GROWTH INDEX[1]
1990-2000



TPU - Transportation and public utilities; FIRE - Finance, insurance, and real estate.
[1] Ratio of an industry's percentage change in employment to the percentage change in total employment in the San Antonio MSA between 1990 and 2000; calculated by Unison-Maximus, Inc. using data on non-agricultural employment by industry from the U.S. Bureau of Labor Statistics.

Central location, availability of office space, and a positive business environment make the San Antonio MSA an attractive business location. **Table III-3** lists major companies with corporate headquarters and regional/divisional offices in San Antonio, and **Table III-4** lists San Antonio's leading manufacturers.

TABLE III-3
SAN ANTONIO MSA - MAJOR CORPORATE HEADQUARTERS AND REGIONAL/DIVISIONAL OFFICES
2001

Company	Business	San Antonio Employees
Major Corporate Headquarters		
H.E.B. Food Stores	Super market chain	17,805
United Service Automobile Assoc.	Insurance	17,069
SBC Communications	Telecommunications	8,000
Frost National Bank	Banking service	3,541
Taco Cabana	Fast food chain	3,000
West Telemarketing	Outbound telemarketing	2,850
Southwest Research Institute	Applied research	2,733
Ultramar Diamond Shamrock	Petroleum refining & marketing	2,008
Bill Miller Bar-B-Q	Fast food chain	2,000
Valero Energy	Oil refining & gasoline marketing	1,950
Luby's, Inc.	Cafeteria chain	1,575
H.B. Zachary Company	General contractors	1,300
Clarke American	Check printing	701
Kinetic Concepts, Inc.	Specialty medical products	650
Holt Company of Texas	Construction equipment	463
QWest Communications	Telecommunications	350
Texace Corporation	Headwear manufacturing	244
Lyda, Inc.	Commercial construction	250
Tesoro Petroleum Company	Petroleum exploration, extraction, & refining	200
Major Regional/Divisional Offices		
Southwestern Bell Telephone	District division office	4,589
QVC Network, Inc.	Order center	2,034
Boeing Aerospace Support Center	Aircraft maintenance facility	2,000
The Psychological Corporation	Psychological testing	2,000
Onpoint (formerly TeleService Resources)	Customer relationship management	1,850
Citicorp	U.S. customer service center	1,759
Lockheed Martin	Aircraft engine overhaul	1,700
United Parcel Service	Central Texas district office	1,075
World Savings and Loan	National customer service center	950
American Funds Service Company	Mutual funds and investments	819
JPMorgan Chase	Credit card customer service center	550
Pratt & Whitney	Engine maintenance/repair facility	330
La Quinta Motor Inns	Motel chain	300
Dee Howard Company	Aircraft maintenance	240

Source: San Antonio Economic Development Foundation at *saedf.dcci.com*.

TABLE III-4
SAN ANTONIO MSA - TOP TWENTY MANUFACTURERS*
2001

Company	Business	San Antonio Employees
Ultramar Diamond Shamrock	Petroleum refining & marketing	2,008
Miller Curtain Company	Curtains & draperies	1,300
San Antonio Express-News	Newspaper	1,200
Coca-Cola/Dr. Pepper Bottling	Soft drink bottling	1,100
Lancer Corporation	Soft drink dispensing equipment	1,000
SAS Shoemakers	Shoes & handbags	1,000
Sony Semiconductor Company of America	Semiconductors	1,000
Structural Metals, Inc.	Steel	883
Fairchild Aircraft	Turboprop aircraft	800
Clarke American	Check printing	701
Martin Marietta Materials Southwest	Crushed limestone, asphalt, concrete, lime, cement, prestress	700
L&H Packing Company	Boned beef & ground beef patties	690
Philips Semiconductor San Antonio	Semiconductors	670
Friedrich A/C and Refrigeration Co.	Commercial refrigeration & room air conditioners	665
DPT Laboratories, Inc.	Pharmaceutical and cosmetic products	650
Levi Strauss & Co.	Finishing plant	620
	Manufacturing plant	560
Kinetic Concepts, Inc.	Specialty medical products	551
Holt Company of Texas	Construction equipment (Caterpillar dealership)	463
Alamo Iron Works	Iron products	445
Oberthur Gaming Technology	Instant lottery tickets	420

*By number of employees in San Antonio.
Source: San Antonio Economic Development Foundation at *saedf.dcci.com*.

D. INCOME

Consumers tend to travel by air more frequently as their incomes increase. **Table III-5** shows that the median household effective buying income (EBI) in the San Antonio MSA increased by 3.7% per year between 1995 and 2000, or 1.2% above inflation. The EBI measures disposable income after taxes and mandatory non-tax payments. In 2000, the median household EBI in the San Antonio MSA was $35,137, 6.6% lower than the median household EBI in Texas and 10.2% lower than the national median household EBI.

Within San Antonio MSA, Guadalupe County residents have the highest median household EBI of $38,006 in 2000, while Comal County residents experienced the highest annual increase in the median household EBI of 4.1%.

TABLE III-5
SAN ANTONIO MSA - MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME
1995 and 2000

Area	Median Household EBI 1995	Median Household EBI 2000	Avg. Annual Growth 1995-2000
San Antonio MSA	**$29,255**	**$35,137**	**3.7%**
Bexar	$29,113	$34,896	3.7%
Comal	$30,322	$36,995	4.1%
Guadalupe	$31,630	$38,006	3.7%
Wilson	$27,874	$33,276	3.6%
Texas	**$30,747**	**$37,636**	**4.1%**
United States	**$32,238**	**$39,129**	**4.0%**

Source: Sales & Marketing Management, *Survey of Buying Power*, 1996 and 2001.

E. BUSINESS ESTABLISHMENTS

Another evidence of San Antonio's positive business environment is the steady increase in the number of business establishments. **Table III-6** shows that between 1992 and 1999, the number of business establishments in the San Antonio MSA increased by 2.9% per year on average. This outpaces the growth of business establishments nationwide – an average increase of 2.1% per year between 1992 and 1999.[18]

The San Antonio MSA has consistently placed among the top 50 metropolitan markets in number of business establishments, as surveyed by *Sales and Marketing Management*. Between 1992 and 2000, San Antonio's ranking improved from 48th to 42nd among over 320 metropolitan market areas.[19]

[18] Sales & Marketing Management, *Survey of Buying Power*, 1993-2001. The source data changed beginning in 2000.
[19] The sample includes primary metropolitan statistical areas (PMSAs) and MSAs.

TABLE III-6
SAN ANTONIO MSA - BUSINESS ESTABLISHMENTS
1992-2000

Year	No. of Business Establishments[1]	Metro Market Rank[2]
1992	26,424	48
1993	28,667	45
1994	28,748	45
1995	29,519	44
1996	30,297	43
1997	30,687	43
1998	31,478	43
1999	32,259	43
2000[2]	57,328	42
Average Annual Growth Rate		
1992-1999[2]	2.9%	

[1] An establishment is a single physical location at which business is conducted or where services or industrial operations are performed.
[2] Beginning in 2000, Sales & Marketing Management used a different data source that includes non-commercial and government establishments.

Source: Sales & Marketing Management, *Survey of Buying Power*, 1993-2001.

F. TRADE

Trade is a vital sector in San Antonio's economy. As shown in **Figure III-4**, trade accounted for the second largest share of employment – 24.3% in 2000. **Table III-7** and **Table III-8** present data on two trade sub-sectors: retail trade and international trade.

Table III-7 shows that retail sales in the San Antonio MSA increased by 5.4% per year from 1992 to 1998, or 2.9% above inflation, and 9.3% between 2000 and 2001, or approximately 6.3% above inflation. The annual growth in retail sales in San Antonio exceeded the national average by at least one percentage point.[20] San Antonio's retail sales ranked between 40th and 43rd highest among over 320 metropolitan market areas during the study period.[21]

[20] Sales & Marketing Management, *Survey of Buying Power*, 1993-2001.
[21] The sample includes PMSAs and MSAs.

TABLE III-7
SAN ANTONIO MSA - RETAIL SALES
1992-2001

Year	Retail Sales[1] (In Millions)	Metro Market Rank[2]
1992	$10,807	41
1993	$11,432	40
1994	$11,621	41
1995	$12,704	41
1996	$13,318	42
1997	$13,813	43
1998	$14,841	42
2000[4]	$19,129	41
2001[4]	$20,907	43
Average Annual Growth Rate[3]		
1992-1998[4]	5.4%	
2000-2001[4]	9.3%	

[1] Estimates of total retail sales reflect net sales (minus refunds and allowances for returns) for all establishments primarily engaged in retail trade, plus eating and drinking establishments. Receipts from repairs and other services (by retailers) are also included, but retail sales by wholesalers and service establishments are not. The reported values are expressed in current dollars.

[2] The sample includes over 320 PMSAs and MSAs.

[3] These represent the nominal growth rate. The average inflation rate is 2.5% between 1992 and 1998, and approximately 3% between 2000 and 2001.

[4] Sales & Marketing Management reported important changes to the survey between 1999 and 2000: (I) the 1999 Survey reported estimates of retail sales for the previous year (1998), while the 2000 Survey reported estimates of retail sales for the current year (2000), (ii) the 1999 Survey used the 1992 Census of Retail Trade (CRT) as benchmark, while the 2000 survey used the 1997 CRT, and (iii) the 2000 Survey included two new metropolitan market areas.

Source: Sales & Marketing Management, *Survey of Buying Power*, 1993-2001.

International trade is growing rapidly in San Antonio. **Table III-8** shows that San Antonio's total merchandise exports increased by 255.3% between 1993 and 1999 – the 12th highest percentage increase among 253 metropolitan areas.[22] In 1999, San Antonio's total merchandise exports were valued at $2.0 billion – the 63rd largest in the nation.[23]

TABLE III-8
SAN ANTONIO MSA - MERCHANDISE EXPORTS
1993-1999

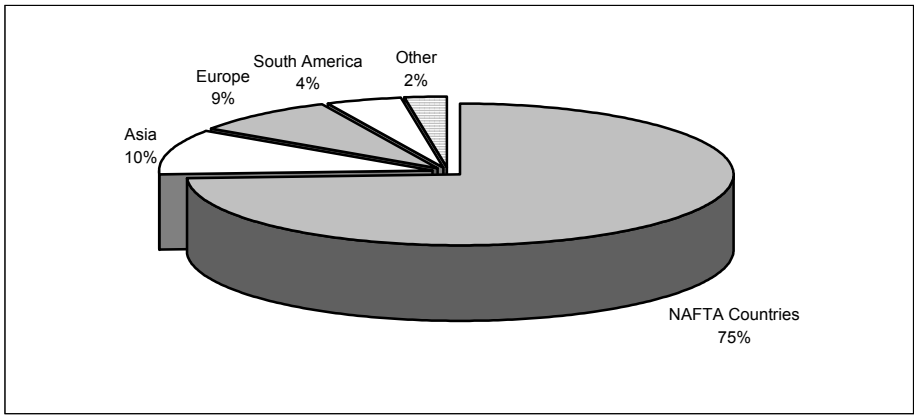
Market	Merchandise Exports ($000) 1993	Merchandise Exports ($000) 1999	% Change 1993-99
NAFTA Countries	$328,853	$1,484,657	351.5%
Caribbean & Central America	$11,772	$26,152	122.2%
South America	$12,209	$88,210	622.5%
Europe	$112,865	$171,889	52.3%
Asia	$66,786	$210,068	214.5%
Africa	$5,365	$3,597	-33.0%
Near East	$12,510	$11,736	-6.2%
Australia	$13,567	$7,421	-45.3%
Total	$563,927	$2,003,730	255.3%

Source: U.S. Department of Commerce, International Trade Administration, Office of Trade and Economic Analysis at *www.ita.doc.gov*.

Figure III-6 shows that the largest markets for San Antonio's merchandise exports are the NAFTA countries – Canada and Mexico. In 1999, these countries accounted for 75% of San Antonio's merchandise exports.

[22] The sample includes consolidated metropolitan statistical areas and metropolitan statistical areas.
[23] U.S. Department of Commerce, International Trade Administration, Office of Trade and Economic Analysis, *Metropolitan Area Export Ranking*, at *www.ita.doc.gov*.

FIGURE III-6
SAN ANTONIO MSA - MERCHANDISE EXPORTS BY DESTINATION
1999

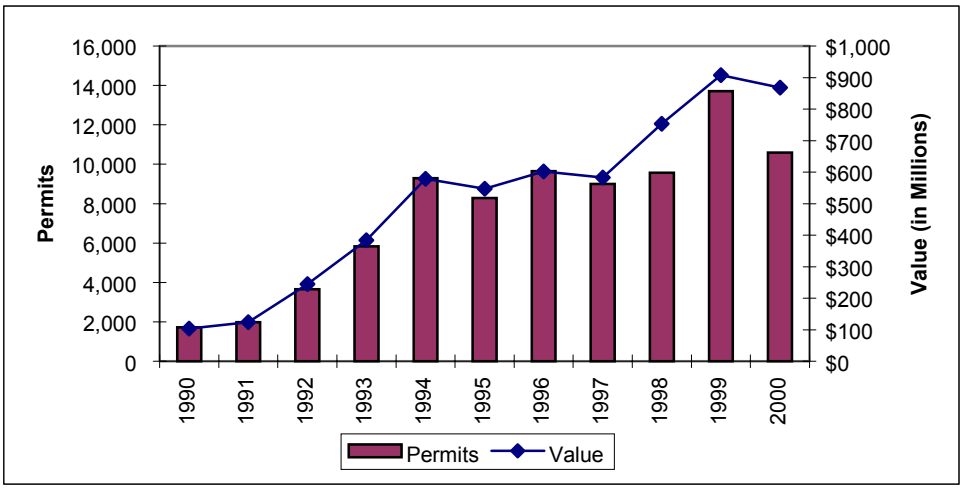


Source: U.S. Department of Commerce, International Trade Administration, Office of Trade and Economic Analysis at *www.ita.doc.gov*.

G. RESIDENTIAL CONSTRUCTION

Figure III-7 shows sustained high levels of new residential construction activity – both in terms of the number of permits and value – during the past seven years. From 1994 through 2000, an average of 10,012 permits were issued annually, compared to an annual average of 4,743 permits in 1992 and 1993, and 1,855 permits in 1991 and 1992. The value of authorized new construction averaged $691 million annually between 1994 and 2000, compared to $314 million in 1992 and 1993, and $114 million in 1991 and 1992.

FIGURE III-7
SAN ANTONIO MSA - BUILDING PERMITS
FOR NEW PRIVATELY-OWNED HOUSING
1990-2000



Source: U.S. Bureau of the Census at *www.census.gov*.

H. TOURISM AND CONVENTION ACTIVITY

A publication of The Greater San Antonio Chamber of Commerce describes various visitor sites in San Antonio which demonstrate that San Antonio is a popular leisure travel destination."[24] The following are a few of the places that visitors can explore in the San Antonio area:

- The Alamo – On the east side of Alamo Plaza is the most famous spot in Texas where 189 defenders fell on March 6, 1836, after repeated attacks by Mexican troops. Mission San Antonio de Valero (The Alamo) was established in 1718 as the city's first mission. Near the chapel is the Long Barracks Museum and Library, which contains relics and mementos from the Republic of Texas and offers narration on the fall of the Alamo.

- River Walk (Paseo del Rio) – The Paseo del Rio, in the heart of downtown, is the pride of the city. Lush green foliage lines the riverbanks, and cobblestone walkways lead to river-level restaurants and shops.[25]

- Buckhorn Saloon & Museum – This classic 1881 saloon and museum offers a taste of the Old West and wildlife exhibits from all over the world.

[24] The Greater San Antonio Chamber of Commerce, "Convention & Tourism," *2001 Economic Profile of San Antonio*, 2001, page 20.
[25] San Antonio Convention and Visitors Bureau, *Things to See and Do*, at *www.sanantoniocvb.com*.

- Other historic sites – Casa Navarro State Historical Park, King William Historic Area, San Antonio Missions National Historical Park, and Spanish Governor's Palace.

- Shopping and entertainment destinations – The IMAX Theatre at the Rivercenter, La Villita (a unique arts and crafts community), Majestic Theatre (home of the San Antonio Symphony and the AT&T Broadway Series), Market Square – El Mercado, Sunset Station, and Alamo Special Effects Theater.

- Gardens and aquariums – Japanese Tea Gardens, San Antonio Botanical Gardens, and San Antonio Zoological Gardens and Aquarium.

- Theme parks – SeaWorld San Antonio, Six Flags Fiesta Texas, and Splashtown.

- Alamodome – Completed in May 1993 in downtown San Antonio, the Alamodome hosts major sporting events, concerts, and conventions.

In sports, San Antonio boasts several teams, such as the San Antonio Spurs (basketball), the San Antonio Iguanas (hockey), the San Antonio Missions (baseball), and the Texas Coyote (football).[26]

San Antonio receives approximately 8 million visitors each year – up from approximately 7.6 million in 1997 and 6.9 million in 1995.[27] A recent economic impact study by Butler and Stefl estimated that visitors spend over $2 billion in the local economy, and the visitor industry generates over $4 billion in income for San Antonians.[28]

The City of San Antonio is also a popular location for conventions. **Table III-9** shows that the City has hosted an average of 1,424 conventions and 543,856 delegates annually over the last 10 years. Convention delegates stay in local hotels, eat at local restaurants, and shop at local stores, spending a total of $458 million each year, on average, in the local economy.

[26] San Antonio Convention and Visitors Bureau in *www.sanantoniovisit.com*.
[27] San Antonio Convention and Visitors Bureau and economic impact studies conducted by McNabb, McNabb, Desoto, Salter & Company in 1995 and 1997.
[28] Richard V. Butler and Mary E. Stefl (sponsored by the San Antonio Area Tourism Council), *San Antonio's Visitor Industry: An Economic Impact Analysis*, January 2000.

TABLE III-9
CITY OF SAN ANTONIO - CONVENTION ACTIVITY
1992-2001

Year	Conventions	Attendance	Delegate Spending[3] (In million $)
1992	1,219	513,205	$369.39
1993	1,597	576,720	$472.23
1994	1,647	488,979	$400.39
1995	1,536	512,045	$419.27
1996	1,391	575,668	$471.37
1997	1,502	571,950	$468.32
1998[1]	1,497	607,890	$547.64
1999[1]	1,511	552,234	$497.50
2000[1]	1,321	515,483	$464.39
2001E[1 2]	1,019	524,387	$472.42
Average	**1,424**	**543,856**	**$458.29**

[1] The convention center was under construction during these years.
[2] Calendar year estimate based on actual data for 11 months.
[3] Estimate of total spending by convention delegates, based on studies by Laventhol and Horwath, and Deloitte and Touche LLP.

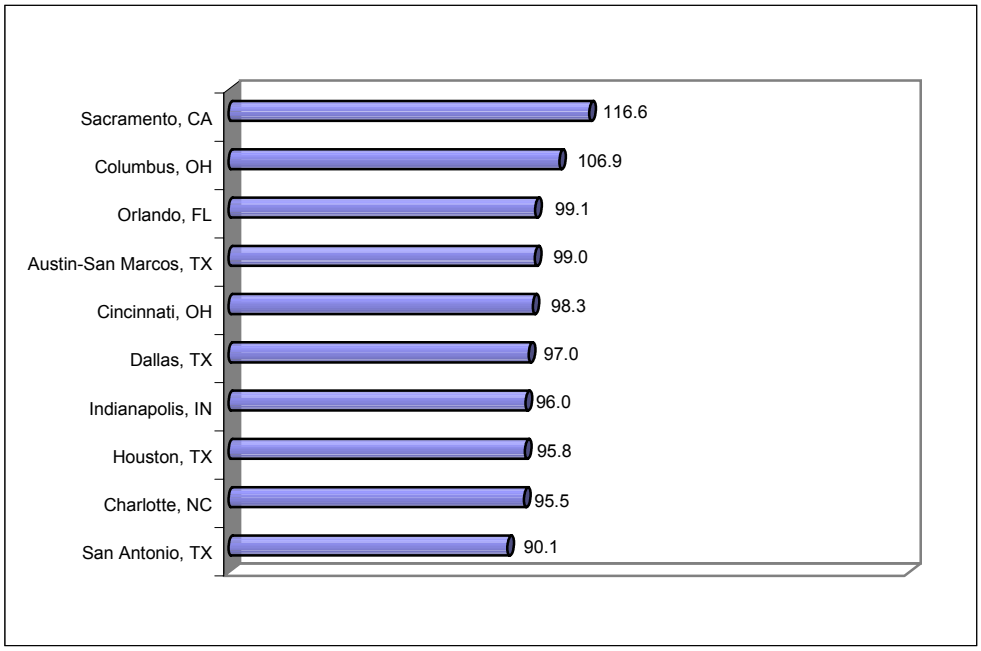
Source: City of San Antonio Convention and Visitors Bureau

I. COST OF LIVING

Living in San Antonio costs 10% less than the United States average, according to the ACCRA[29] Cost of Living Index for the first quarter of 2001. The cost of living in San Antonio is also the lowest compared to three other major metropolitan areas in Texas and six other U.S. metropolitan areas with similar population size (**Figure III-8**).

[29] American Chamber of Commerce Researchers Association.

FIGURE III-8
COST OF LIVING INDEX[1] OF SELECTED METROPOLITAN AREAS[2]
FIRST QUARTER 2001



[1] The Cost of Living Index measures relative price levels for consumer goods and services in participating 312 participating urban areas. The average for all participating areas is 100.
[2] Selected Texas metropolitan areas and metropolitan areas with population between 1.5 million and 1.7 million as of January 1, 2001.

Source: *ACCRA Cost of Living Index, Data for First Quarter 2001*, Published July 2001.

J. SUMMARY

The demographic and economic trends of the San Antonio MSA portray a thriving and diversified economic base that can support steady growth in aviation activity at San Antonio International Airport. The following are some of the characteristics that contribute to the economic health of the San Antonio MSA:

- **Large and growing population** – The population of San Antonio MSA is the third largest in Texas and the 30th largest among 280 U.S. metropolitan areas. Between 1990 and 2000, the area population grew by 1.9% per year, surpassing the nation's population growth of 1.2% per year.

- **Growing employment and low unemployment** – Jobs have been increasing faster than the labor force, causing unemployment to decline over the past eleven years. The unemployment rate in 2000 was a low 3.4%. It has since

increased consistent with national trends, but remains below the national unemployment rate.

- **Diversified employment base** – No one industry sector accounts for more than a third of non-farm jobs in the San Antonio MSA. Services, Trade, and Government are the three largest industry sectors by employment share.

- **Increasing household incomes** – Between 1995 and 2000, the median household EBI in the San Antonio MSA increased by 3.7% per year, or 1.2% above inflation.

- **Growing number of business establishments** – Another evidence of San Antonio's positive business environment is the steady increase in the number of business establishments: 10.2% per year between 1992 and 2000.

- **Active trade sector** – The vitality of San Antonio's trade sector is reflected in the strong growth of retail sales (5.4% annual nominal growth between 1992 and 1998 and 9.3% between 2000 and 2001) and the remarkable growth of merchandise exports (255% increase between 1993 and 1999).

- **Sustained high levels of new residential construction activity** – The value of authorized new construction averaged $691 million annually between 1994 and 2000, compared to $314 million in 1992 and 1993, and $114 million in 1991 and 1992.

- **Strong tourism industry** – San Antonio's broad array of attractions supports a strong tourism industry and brings approximately 8 million visitors each year.

- **Low cost of living** – The cost of living in San Antonio is 10% lower than the U.S. average and is the lowest compared to three other major metropolitan areas in Texas and six other U.S. metropolitan areas of similar population size.

SECTION IV
AVIATION ACTIVITY ANALYSIS AND FORECASTS

A review of the historical trends in passenger traffic and aircraft operations at SAT during the 1991-2001 period is presented in this section. Also, forecasts of aviation activity are developed for the 2002-2011 period. In addition, this section contains a discussion of the factors underlying both the historical and forecast trends.

A. HISTORICAL AVIATION ACTIVITY

1. The Airport

The FAA classifies SAT as a medium hub commercial airport, which is the class of airports that account for between 0.25% and 0.99% of annual U.S. domestic enplanements.[1] As of January 1, 2002, there were nine domestic air carriers, four foreign flag carriers, and several passenger charter airlines operating at SAT. The domestic air carriers were America West, American, Atlantic Southeast, Continental, Delta, Midwest Express, Northwest, Southwest, and United. The foreign airlines were Aerolitoral, Aeromar, Allegro, and Mexicana. A number of charter airlines serve SAT, including American Trans Air, Casino Express, Champion Air and Miami Air International. These airlines primarily serve O&D passengers, providing scheduled and non-scheduled service to over 100 destinations across the United States and Mexico.

A number of air cargo airlines also serve SAT. As of January 1, 2002, the cargo airlines were Ameriflight, Airborne, Baron Aviation, Capital Cargo, Emery Worldwide, Express One International, Federal Express, Kitty Hawk, Reliant, and UPS.

2. Enplanements

Table IV-1 shows the annual enplanements at SAT over the period of 1991-2001. Annual enplanements increased at an average annual rate of 2.8%, from approximately 2.6 million in 1991 to 3.44 million in 2001. The negative impact of the September 11, 2001 Events is reflected in the decrease observed in the 2001 enplanements figure. The two-day FAA-mandated closure of airports across the United States immediately following the terrorist attacks on the east coast caused a dramatic reduction in air passenger traffic nationwide. At SAT, the September 11, 2001 Events caused a 34.8% reduction in September 2001 enplanements compared to enplanements in September 2000. However, traffic volume at SAT is gradually recovering as evidenced by the relatively smaller drop of 12.4% in December 2001 enplanements compared to enplanements in December 2000. Overall, 2001 enplanements represent a 5.6% drop compared to the enplanements in 2000.

[1] The FAA *National Plan of Integrated Airport Systems (NPIAS): 1998-2002.* March 1999.

TABLE IV-1
ANNUAL PASSENGER ENPLANEMENTS
CY 1991-2001

	Domestic		Charter [1]		International [2]		Total Enplanements	
Year	Number	% of Total	Number	% of Total	Number	% of Total	Number	% Change
1991	2,506,925	96.2%	11,748	0.5%	87,730	3.4%	2,606,403	-
1992	2,621,481	95.3%	11,679	0.4%	117,883	4.3%	2,751,043	5.5%
1993	2,704,638	94.6%	27,811	1.0%	127,776	4.5%	2,860,225	4.0%
1994	2,894,968	94.5%	48,924	1.6%	120,876	3.9%	3,064,768	7.2%
1995	2,931,020	95.8%	56,365	1.8%	71,151	2.3%	3,058,536	-0.2%
1996	3,411,883	95.6%	58,922	1.7%	97,523	2.7%	3,568,328	16.7%
1997	3,329,969	95.6%	52,251	1.5%	101,921	2.9%	3,484,141	-2.4%
1998	3,321,106	94.7%	60,625	1.7%	123,641	3.5%	3,505,372	0.6%
1999	3,359,407	94.9%	62,750	1.8%	116,086	3.3%	3,538,243	0.9%
2000	3,497,616	95.9%	28,922	0.8%	120,556	3.3%	3,647,094	3.1%
2001	3,328,371	96.7%	7,192	0.2%	107,871	3.1%	3,443,434	-5.6%
Average Annual Growth Rate								
1991-2001	2.9%	-	-4.8%	-	2.1%	-	2.8%	-

[1] Charter enplanements include enplanements by primarily charter airlines serving SAT, as well as periodic charter enplanements reported by domestic air carriers serving the Airport.

[2] International enplanements include enplanements by foreign air carriers serving SAT, as well as periodic international enplanements reported by domestic air carriers serving the Airport.

Source: The City of San Antonio's Aviation Department records.

The duration and magnitude of the prospective impact of the September 11, 2001 Events are yet unclear. The forecasts of aviation activity presented in **sub-section IV-B** develop three scenarios, which incorporate reasonable estimates of likely prospective impact of the September 11, 2001 Events on passenger traffic at SAT over the 2002-2011 period. For example, the base forecast scenario assumes that the negative impact on passenger traffic at SAT will last through 2004, with traffic volume gradually returning to normal levels by 2005.

Table IV-1 shows that most of the enplaned passengers at SAT are domestic travelers. During the 1991-2001 period, scheduled domestic enplanements accounted for 95.4%, on average, of annual enplanements. Over the same period, there were significant domestic non-scheduled enplanements, which accounted for approximately 1.2% of annual enplanements, on average. International enplanements by foreign air carriers and some domestic air carriers accounted for 3.4%, on average, of annual enplanements during the 1991-2001 period.

The relative position of SAT in the U.S. domestic market is shown in **Table IV-2**. SAT's share of national enplanements is consistent with the Airport's classification as a medium hub. During the 1991-2000 period, SAT achieved a share of between 0.57% and 0.63%, which falls within the range for medium hub commercial airports. The 3.8% average annual growth rate achieved at SAT during the 1991-2000 period tracked the national average annual growth rate of 4.0%.

TABLE IV-2
SAT'S SHARE OF US DOMESTIC MARKET
CY 1991-2000

Year	SAT Enplanements (000) [1]	US Domestic Enplanements (000) [2]	SAT's Market Share
1991	2,606	450,600	0.58%
1992	2,751	466,125	0.59%
1993	2,860	480,625	0.60%
1994	3,065	516,250	0.59%
1995	3,059	537,850	0.57%
1996	3,568	563,350	0.63%
1997	3,484	581,925	0.60%
1998	3,505	596,025	0.59%
1999	3,538	619,450	0.57%
2000	3,647	642,550	0.57%
Average Annual Growth Rate			
1991-2000	3.8%	4.0%	-

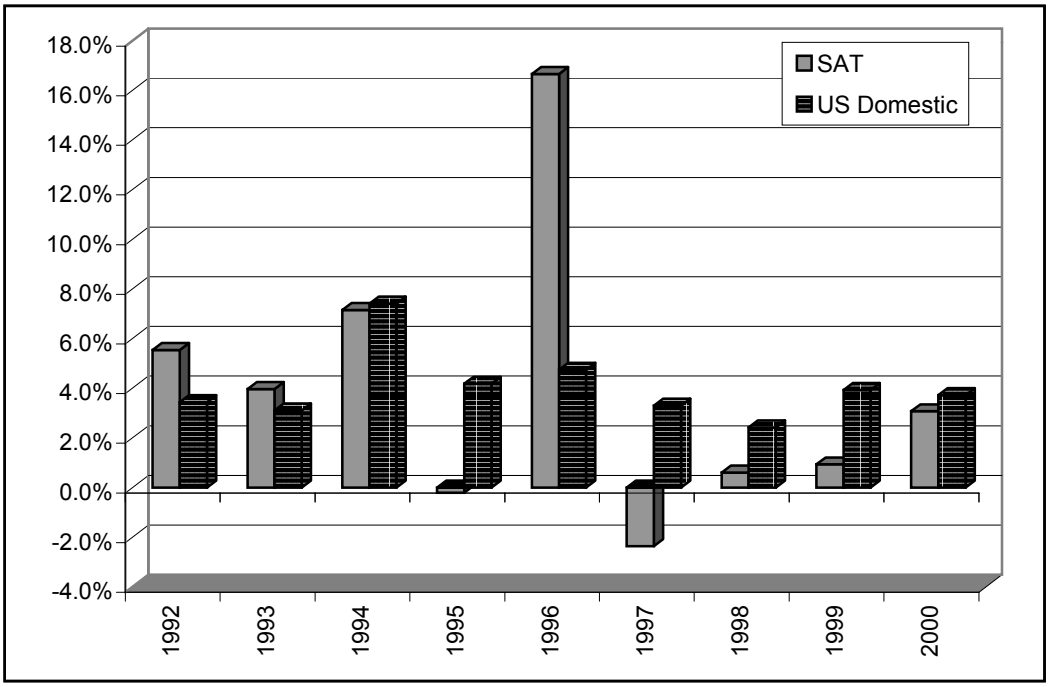
Sources:

[1] The City of San Antonio's Aviation Department records.

[2] FAA *Aerospace Forecasts: FY 2001-2012,* March 2001 and earlier versions of the report titled FAA *Aviation Forecasts*. The data presented in this table reflects FAA revised forecasts of March 19, 2001. FAA fiscal year data were converted to calendar year for the purpose of calculating SAT's annual market share.

Figure IV-1 compares the yearly growth rate of enplanements at SAT with the yearly growth rate at the national level. In three out of the nine years shown, the annual increase at SAT surpassed the annual increase at the national level. It is noteworthy that between 1995 and 1996, SAT reported an increase of 16.7% in enplanements compared to the national increase of 4.7%. Department management attributes the large increase in 1996 primarily to the promotional fares offered by Southwest Airlines in commemoration of the airline's 25th anniversary.

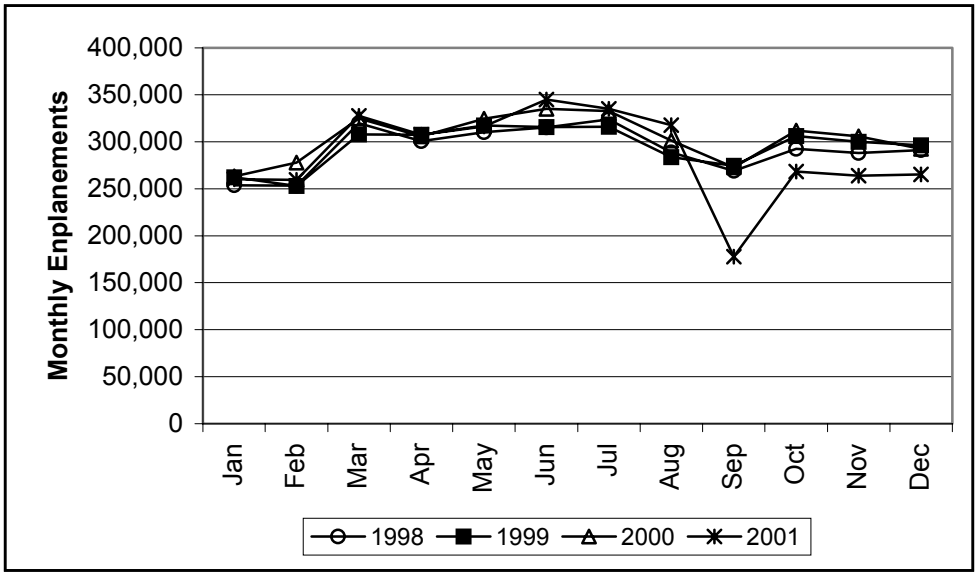
FIGURE IV-1
COMPARISON OF ANNUAL GROWTH RATE
CY 1992-2000



Sources:
1) The City of San Antonio's Aviation Department records for SAT enplanements.
2) FAA *Aerospace Forecasts: FY 2001-2012,* March 2001 and earlier versions of the report titled FAA *Aviation Forecasts,* for US domestic enplanements.

Air travel demand tends to be seasonal, with high demand levels occurring during holidays and favorable weather conditions. Although there were no sharp peaks or dips in traffic flow, the monthly enplanements trends at SAT shown in **Figure IV-2** reflect a seasonal pattern. During the 1998-2001 period, enplanements at SAT were generally higher in the months of May through July, which coincide with the popular spring and summer travel months. Passenger traffic was also high in March, which is the typical students' spring break month. The relatively high passenger traffic in November and December coincides with the holidays. Relatively low enplanements occurred in the winter months of January and February.

FIGURE IV-2
MONTHLY ENPLANEMENT TREND
1998-2001



Source: The City of San Antonio's Aviation Department records.

Table IV-3 presents a breakdown of annual enplanements into O&D and connecting traffic. Although there were slight fluctuations in the distribution, the breakdown confirms the fact that SAT is primarily an O&D airport. During the 1991-2000 period, O&D enplanements consistently accounted for over 88% of annual enplanements. The number O&D enplanements increased from approximately 2.4 million in 1991 to approximately 3.3 million in 2000, representing an average annual growth rate of 3.6%. Annual connecting enplanements shown in **Table IV-3** were derived by subtracting annual O&D enplanements from annual total enplanements. There were slight fluctuations in the volume of connecting traffic, but the annual share ranged between 7.9% and 11.7% during the 1991-2000 period. Connecting enplanements increased from 206,585 in 1991 to 353,376 in 2000, representing an average annual growth rate of 6.1% over that period. The growth in connecting traffic at SAT is attributable, in part, to the presence of Southwest at the Airport.

TABLE IV-3
O&D AND CONNECTING ENPLANEMENTS
CY 1991-2000

	O&D		Connecting		Total
Year	Number	Share	Number	Share	Enplanements
1991	2,399,818	92.1%	206,585	7.9%	2,606,403
1992	2,511,342	91.3%	239,701	8.7%	2,751,043
1993	2,614,797	91.4%	245,428	8.6%	2,860,225
1994	2,811,490	91.7%	253,278	8.3%	3,064,768
1995	2,810,576	91.9%	247,960	8.1%	3,058,536
1996	3,149,125	88.3%	419,203	11.7%	3,568,328
1997	3,092,992	88.8%	391,149	11.2%	3,484,141
1998	3,160,966	90.2%	344,406	9.8%	3,505,372
1999	3,185,016	90.0%	353,227	10.0%	3,538,243
2000	3,293,718	90.3%	353,376	9.7%	3,647,094
Average Annual Growth Rate					
1991-2000	3.6%	-	6.1%	-	3.8%

Sources:

1) Total enplanements were obtained from the City of San Antonio's Aviation Department records. See **Table IV-1**.
2) Scheduled domestic O&D enplanements were obtained from BACK Aviation Solutions, which cites the U.S. DOT OD1A database (10% sample ticket survey). For the purpose of the breakdown presented in this table, international and charter enplanements are included in the O&D category.
3) Annual connecting enplanements were derived by subtracting O&D enplanements from total enplanements.

3. Airline Market Shares

Table IV-4 presents the trend in airline market shares at SAT during the 1998-2001 period. Among the categories of service providers, domestic air carriers consistently accounted for the largest share of annual enplanements at SAT. The enplanements share of domestic air carriers increased from 95.5% in 1998 to 96.6% in 2001. Foreign air carriers serving SAT reported a growing market share during the 1998-2001 period. The enplanements share of foreign carriers increased from 1.6% in 1998 to 2.3% in 2001. The market share of charter operators at SAT dropped during the 1998-2001 period, from a high of 3.3% share in 1999 to 1.0% in 2001. One explanation is that non-scheduled passenger traffic typically exhibits significant fluctuations. For example, the fluctuations of charter enplanements at SAT in the last three years, in part, reflect the intermittent nature of American Trans Air's presence at SAT. Miami Air International provided charter service at SAT in December 2001.

TABLE IV-4
AIRLINE MARKET SHARES
CY 1998-2001

	Enplanements				Market Share			
Airline	**1998**	**1999**	**2000**	**2001**	**1998**	**1999**	**2000**	**2001**
Domestic Air Carrier								
America West	71,225	75,944	89,309	97,496	2.0%	2.1%	2.4%	2.8%
American	659,726	596,783	586,879	519,526	18.8%	16.9%	16.1%	15.1%
Atlantic Southeast	0	0	8,721	22,204	0.0%	0.0%	0.2%	0.6%
Continental	427,823	446,633	451,472	428,752	12.2%	12.6%	12.4%	12.5%
Delta	563,691	560,836	575,371	523,606	16.1%	15.9%	15.8%	15.2%
Midwest Express	0	0	29,791	32,221	0.0%	0.0%	0.8%	0.9%
Northwest	99,400	101,158	122,712	130,064	2.8%	2.9%	3.4%	3.8%
Southwest	1,174,537	1,230,512	1,272,039	1,237,899	33.5%	34.8%	34.9%	35.9%
Sun Country	0	0	54,192	32,021	0.0%	0.0%	1.5%	0.9%
TWA [1]	163,070	172,497	183,213	146,588	4.7%	4.9%	5.0%	4.3%
United	186,956	177,105	157,554	157,109	5.3%	5.0%	4.3%	4.6%
Subtotal - Domestic Carrier	**3,346,428**	**3,361,468**	**3,531,253**	**3,327,486**	**95.5%**	**95.0%**	**96.8%**	**96.6%**
Charter Airline								
American Trans Air	0	0	11,251	289	0.0%	0.0%	0.3%	0.01%
Casino Express	0	0	1,955	1,172	0.0%	0.0%	0.1%	0.03%
Champion Air	0	0	17,479	33,693	0.0%	0.0%	0.5%	1.0%
Miami Air International	0	0	0	40	0.0%	0.0%	0.0%	0.001%
Other	101,893	116,211	1,069	459	2.9%	3.3%	0.0%	0.01%
Subtotal - Charter	**101,893**	**116,211**	**31,754**	**35,653**	**2.9%**	**3.3%**	**0.9%**	**1.0%**
Foreign Air Carrier								
Aerolitoral	0	0	13,720	14,413	0.0%	0.0%	0.4%	0.4%
Aeromar	0	0	580	458	0.0%	0.0%	0.02%	0.01%
Allegro	0	0	3,622	1,621	0.0%	0.0%	0.10%	0.05%
Mexicana	57,051	60,391	66,165	63,803	1.6%	1.7%	1.8%	1.9%
Subtotal - Foreign Carrier	**57,051**	**60,391**	**84,087**	**80,295**	**1.6%**	**1.7%**	**2.3%**	**2.3%**
TOTAL - ALL AIRLINES	**3,505,372**	**3,538,070**	**3,647,094**	**3,443,434**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

[1] Prior to December 2001, enplanements by TWA were reported separately from American's enplanements at SAT. However, the re-branding of TWA as American Airlines is underway and effective from December 2001 TWA enplanements are reported along with American's.

Source: The City of San Antonio's Aviation Department records.

The fact that SAT is well positioned to fit into Southwest Airline's focus on dense, short-haul routes is evidenced by the airline's lead position at the Airport. Southwest consistently reported the largest market share at SAT during the 1998-2001 period. Southwest's share increased from 33.5% in 1998 to 35.9% in 2001.

On January 10, 2001, TWA filed for reorganization under Chapter 11 of the Bankruptcy Code, and on April 9, 2001, TWA sold all of its assets to a wholly-owned subsidiary of American Airlines Inc. (AMR Sub.) Prior to December 2001, enplanements by American and TWA at SAT were reported separately. However, the re-branding of TWA as American Airlines is underway and effective from December 2001 TWA enplanements at SAT are reported along with American's[2].

[2] See various press releases by AMR Corp. For example, "TWA Starts to Change its Name"; "American Airlines Changes Livery on TWA; Retains 50 Jobs", at www.amrcorp.com.

Based on the individual airline's enplanements, American was ranked second in the SAT market during the 1998-2000, with an average market share of 17.3% over that three-year period. American ranked third at SAT in 2001. Delta's market share remained relatively stable at approximately 16% during the 1998-2000 period, giving the airline third position at SAT. Delta moved up to second position in 2001, with a market share of 15.2%. Continental and TWA were the other airlines in the top five at SAT during the 1998-2001 period.

Foreign airlines serving SAT collectively accounted for 2.3% of enplanements in 2001. Among the foreign airlines, Mexicana reported the largest market share of 1.9% in 2001. Mexicana provides scheduled service to destinations in Mexico.

Nationwide, airlines are reporting a gradual recovery from the dramatic impact of the events of September 11, and the same is true of airlines serving the SAT market. As mentioned earlier, the events caused a 34.8% decrease in September 2001 enplanements at SAT compared to enplanements in September 2000. Traffic volume at SAT is gradually recovering as evidenced by the 12.4% reduction in December 2001 enplanements compared to enplanements in December 2000. A closer look at the activity data for the top five airlines at SAT confirms the onset of a recovery in aviation activity. Three indicators – enplanements, aircraft landings, and enplanements-per-departure – were selected for a closer examination of the aftermath of the September 11 events.

Table IV-5 summarizes activity indicators for Southwest, American, Delta, Continental, and TWA for the months of September through December in 2000 and 2001.

Each of the top five airlines reported significant decreases in enplanements and aircraft landings in September 2001, with American, TWA, and Delta reporting the largest negative impact. The data for October 2001 indicate that each of the airlines reported an improvement over September traffic volume, and a narrowing of the gap between October 2000 and October 2001 performance. Three of the airlines, American, Delta, and Continental, reported higher enplanements-per-departure in October 2001 than they did in October 2000. It is noteworthy that American's enplanements-per-departure in October 2001 was 10.5% higher than the figure for October 2000. Almost all of the top five airlines reported continuing improvements as evidenced by their November 2001 indicators. For example, Southwest reported a 3.6% increase in aircraft operations in November 2001 compared to November 2000, and Southwest's enplanements in November 2001 were only 10% lower than its enplanements in 2000. Southwest's continuing recovery is reflected in the performance indicators for December 2001. Southwest's enplanements in December were only 5.3% lower than its enplanements in December 2000. Although it is too soon to predict, the changes in the selected indicators suggest an onset of the recovery of air service at SAT.

TABLE IV-5
TOP FIVE AIRLINES - MONTHLY ACTIVITY INDICATORS [1]
2000 and 2001

	Enplanements - 2001				Enplanements - 2000				% Change			
Airline	**Sep**	**Oct**	**Nov**	**Dec**	**Sep**	**Oct**	**Nov**	**Dec**	**Sep**	**Oct**	**Nov**	**Dec**
Southwest	67,372	99,334	94,451	95,274	95,764	112,374	104,909	100,576	-29.6%	-11.6%	-10.0%	-5.3%
American [2]	25,935	40,419	40,410	51,611	45,774	48,324	49,194	43,204	-43.3%	-16.4%	-17.9%	19.5%
Delta	23,811	36,634	37,278	37,104	40,545	49,492	49,610	46,307	-41.3%	-26.0%	-24.9%	-19.9%
Continental	23,048	35,257	33,966	33,169	33,949	38,379	38,726	38,935	-32.1%	-8.1%	-12.3%	-14.8%
TWA [2]	7,464	12,563	11,293	n.a.	13,294	17,021	16,435	15,368	-43.9%	-26.2%	-31.3%	n.a.
	Aircraft Landings - 2001				**Aircraft Landings - 2000**				**% Change**			
	Sep	**Oct**	**Nov**	**Dec**	**Sep**	**Oct**	**Nov**	**Dec**	**Sep**	**Oct**	**Nov**	**Dec**
Southwest	1,113	1,346	1,322	1,303	1,273	1,342	1,276	1,307	-12.6%	0.3%	3.6%	-0.3%
American [2]	322	377	382	551	473	498	492	428	-31.9%	-24.3%	-22.4%	28.7%
Delta	357	380	373	391	514	556	528	492	-30.5%	-31.7%	-29.4%	-20.5%
Continental	295	342	335	349	372	396	374	386	-20.7%	-13.6%	-10.4%	-9.6%
TWA [2]	127	151	141	n.a.	172	183	173	154	-26.2%	-17.5%	-18.5%	n.a.
	EP/DEP - 2001				**EP/DEP - 2000**				**% Change**			
	Sep	**Oct**	**Nov**	**Dec**	**Sep**	**Oct**	**Nov**	**Dec**	**Sep**	**Oct**	**Nov**	**Dec**
Southwest	60.5	73.8	71.4	73.1	75.2	83.7	82.2	77.0	-19.5%	-11.9%	-13.1%	-5.0%
American [2]	80.5	107.2	105.8	93.7	96.8	97.0	100.0	100.9	-16.8%	10.5%	5.8%	-7.2%
Delta	66.7	96.4	99.9	94.9	78.9	89.0	94.0	94.1	-15.4%	8.3%	6.4%	0.8%
Continental	78.1	103.1	101.4	95.0	91.3	96.9	103.5	100.9	-14.4%	6.4%	-2.1%	-5.8%
TWA [2]	58.8	83.2	80.1	n.a.	77.3	93.0	95.0	99.8	-24.0%	-10.5%	-15.7%	n.a.

[1] The ranking of the airlines is based on their market shares at SAT in 2001. See **Table IV-4**.

[2] Prior to December 2001, enplanements by TWA were reported separately from American's enplanements at SAT. However, the re-branding of TWA as American Airlines is underway, and effective from December 2001 TWA enplanements are reported along with American's.

Source: The City of Antonio's Aviation Department records.

4. Air Service Markets

Table IV-6 lists the top 50 O&D markets for SAT in 2000. Clearly, the service markets extend across the United States, including large and small metropolitan areas. Dallas was the top destination, accounting for 14.2% of O&D passengers in 2000. There were, on average, 33 daily non-stop departures from SAT to Dallas in 2000. Houston ranked second, with an O&D market share of 6.2% and 27 daily non-stop departures in 2000. Metropolitan Los Angeles was served by two daily non-stop departures in 2000, giving that destination third position as an O&D market for SAT. The other markets in the top ten include Chicago, Las Vegas, New York, Baltimore, Atlanta, Washington, D.C., and Phoenix. Additional air service from SAT is expected when Mesa Airlines and Comair begin scheduled operations at the Airport in March 2002.

Figure IV-3 shows that the top ten markets in 2000 are located across the United States.

Table IV-7 compares recent trends in airfares reported in selected airports in Texas. Over the period January 1999 through June 2001, average one-way fare from SAT to all U.S. destinations was consistently lower than the average fare reported at Austin, Dallas/Fort Worth, and Houston/Intercontinental. SAT's average fare of $147.4 in the first half of 2001 was 30.3% lower than the average of $211.6 reported at DFW, and 2.5% lower than the average fare for the six airports shown in **Table IV-7**. One explanation for SAT's price competitiveness is the strong Southwest presence at the Airport. In 2000, Southwest accounted for 34.9% of enplanements at SAT.

TABLE IV-6
TOP 50 O&D MARKETS
CY 2000

Rank [1]	Destination	Airports	Air Miles from San Antonio [2]	O&D Market Share [3]	Daily Non-Stop Departures [4]
1	Dallas, TX	DAL, DFW	244	14.2%	33
2	Houston, TX	HOU, IAH	190	6.2%	27
3	Los Angeles Metro, CA	LAX, BUR, ONT	1,207	4.0%	2
4	Chicago, IL	ORD, MDW	1,044	3.8%	6
5	Las Vegas, NV	LAS	1,067	3.7%	4
6	New York Metro, NY	EWR, LGA, JFK	1,576	3.1%	1
7	Baltimore, MD	BWI	1,404	2.7%	1
8	Atlanta, GA	ATL	872	2.6%	9
9	Washington, D.C.	DCA, IAD	1,379	2.6%	0
10	Phoenix, AZ	PHX	842	2.3%	6
11	El Paso, TX	ELP	495	2.3%	4
12	St. Louis, MO	STL	785	2.1%	5
13	Minneapolis/St. Paul, MN	MSP	1,099	2.1%	2
14	Orlando, FL	MCO	1,034	1.9%	1
15	Denver, CO	DEN	794	1.9%	3
16	New Orleans, LA	MSY	504	1.7%	1
17	Seattle, WA	SEA	1,772	1.5%	0
18	Kansas City, MO	MCI	697	1.4%	2
19	Harlingen/San Benito, TX	HRL	234	1.4%	2
20	San Diego, CA	SAN	1,126	1.3%	0
21	Detroit, MI	DTW	1,230	1.3%	0
22	Nashville, TN	BNA	820	1.3%	1
23	San Francisco, CA	SFO	1,485	1.2%	0
24	Albuquerque, NM	ABQ	608	1.2%	0
25	Oklahoma City, OK	OKC	408	1.1%	0
26	Philadelphia, PA	PHL	1,493	1.1%	0
27	Tampa, FL	TPA	969	1.1%	1
28	Salt Lake City, UT	SLC	1,085	1.1%	1
29	Boston, MA	BOS	1,761	1.0%	0
30	Raleigh/Durham, NC	RDU	1,221	1.0%	0
31	Oakland, CA	OAK	1,472	1.0%	0
32	Tulsa, OK	TUL	484	0.9%	0
33	Sacramento, CA	SMF	1,451	0.9%	0
34	Indianapolis, IN	IND	985	0.9%	0
35	San Jose, CA	SJC	1,450	0.8%	0
36	Little Rock, AR	LIT	511	0.8%	0
37	Columbus, OH	CMH	1,138	0.8%	0
38	Cleveland, OH	CLE	1,239	0.8%	0
39	Portland, OR	PDX	1,712	0.8%	0
40	Hartford/Springfield, CT	BDL	1,665	0.7%	0
41	Fort Lauderdale, FL	FLL	1,141	0.7%	0
42	Miami, Fl	MIA	1,140	0.6%	0
43	Santa Ana/Orange County, CA	SNA	1,174	0.6%	0
44	Milwaukee, WI	MKE	1,095	0.6%	0
45	Louisville, KY	SDF	941	0.6%	0
46	Amarillo/Borger, TX	AMA	436	0.6%	0
47	Lubbock, TX	LBB	347	0.6%	0
48	Colorado Springs, CO	COS	733	0.6%	0
49	Jacksonville, FL	JAX	1,007	0.5%	0
50	Omaha, NE	OMA	825	0.5%	0
	DESTINATIONS LISTED	**-**	**-**	**88.3%**	**112**
	OTHER TOP DESTINATIONS	**-**	**-**	**11.7%**	**18**
	TOTAL	**-**	**-**	**100.0%**	**130**

[1] Ranking is based on share among the top 100 O&D destinations in 2000. Only the top 50 destinations are listed.

Sources:

[2] OAG *Flight Guide - North America,* September 2001.

[3] BACK Aviation Solutions OD1A Database/U.S. DOT 10% Ticket Survey data downloaded on November 16, 2001.

4 BACK Aviation Solutions OAG Database data downloaded on November 16, 2001. The number of daily non-stop departures equals annual non-stop departures divided by 365.

FIGURE IV-3
TOP TEN O&D DESTINATIONS
2000

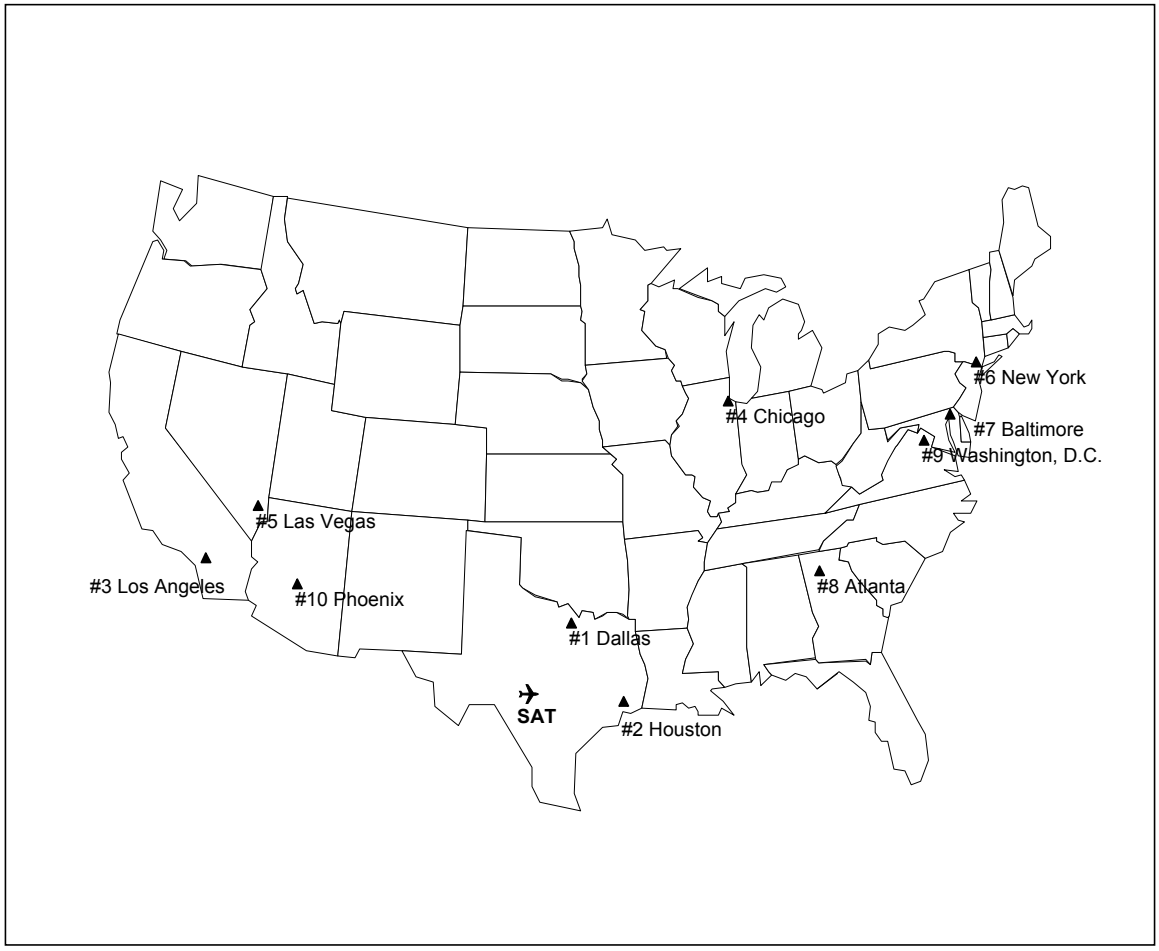


TABLE IV-7
COMPARISON OF AVERAGE AIRFARE [1]
1999-2001

Airport	1999		2000		2001
	1st Half	2nd Half	1st Half	2nd Half	1st Half
Dallas/Fort Worth (DFW)	$204.12	$191.50	$211.01	$210.29	$211.57
Houston/Intercontinental (IAH)	$186.53	$175.55	$195.97	$192.89	$193.23
Austin (AUS)	$150.88	$152.04	$164.74	$167.61	$157.41
San Antonio (SAT)	**$141.28**	**$138.13**	**$148.25**	**$147.66**	**$147.41**
Houston/Hobby (HOU)	$106.87	$104.58	$107.89	$108.80	$109.36
Dallas-Lovefield (DAL)	$78.51	$77.77	$82.37	$92.53	$88.25
AVERAGE FARE	**$144.70**	**$139.93**	**$151.71**	**$153.30**	**$151.21**

[1] Average airfare includes all fare classes to all U.S. destinations.

Source: BACK Aviation Solutions OD1A Database/U.S. DOT 10% Ticket Survey data downloaded on December 14, 2001. Data for 2nd half 2001 was not yet available as of 12/14/01.

5. Aircraft Operations

Table IV-8 shows the trends in aircraft operations at SAT during the 1991-2001 period. There were slight fluctuations in total annual aircraft operations, but overall, operations increased from 209,162 in 1991 to 246,133 in 2000, representing average annual growth rate of 1.8%. Annual air carrier operations also fluctuated slightly, reflecting changes in the composition of airlines serving SAT during the 1991-2000 period. For example, US Airways ceased operations at SAT in October 1997, and America West temporarily ceased operations in November 1991, but resumed service in June 1996. Midwest Express began service at SAT in 1999. Air carrier operation increased at an average annual rate of 0.1%, from 79,964 in 1991 to 80,879 in 2000. Annual air taxi operations increased from 17,455 in 1991 to 37,212 in 2000, representing an average annual growth of 8.8%.

General Aviation operations cover a broad range of aircraft activity, including recreational flying, flying for corporate business, pilot training, sightseeing, and the movement of large, heavy loads by helicopter. There is a significant volume of general aviation activity at SAT, recording an average annual growth of 1.1% over the 1991-2000. SAT is served by several general aviation operators, including Cutter Aviation, Piedmont Hawthorne, and Nayak Million Air. Piedmont Hawthorne is one of oldest continuously operating general aviation companies in the world. Military operations reflect the activity of the U.S. Department of Defense in the vicinity of an airport. Military operations at SAT increased from 5,488 in 1991 to 11,104 in 2000, representing an average annual growth of 8.1%.

TABLE IV-8
ANNUAL AIRCRAFT OPERATIONS
CY 1991-2001

Year	Air Carrier	Air Taxi	General Aviation	Military	TOTAL
1991	79,964	17,455	106,255	5,488	209,162
1992	76,869	26,184	105,105	6,233	214,391
1993	80,146	31,759	105,128	6,150	223,183
1994	84,785	38,825	107,622	10,211	241,443
1995	82,069	35,313	110,873	10,357	238,612
1996	87,464	40,224	124,243	10,497	262,428
1997	84,748	36,395	126,801	9,557	257,501
1998	80,982	39,305	142,063	11,011	273,361
1999	81,795	36,457	125,960	12,020	256,232
2000	80,879	37,212	116,938	11,104	246,133
Jan-Oct. 2001	60,562	33,605	88,999	8,998	192,164
Average Annual Growth Rate					
1991-2000	0.1%	8.8%	1.1%	8.1%	1.8%

Source: The City of San Antonio's Aviation Department records based on FAA Airport Operations report.

6. Commercial Aircraft Landed Weight

Table IV-9 shows commercial landed weight at SAT in the 1999-2001 period. Total commercial landed weight increased from 5.78 billion pounds in 1999 to 5.84 billion in 2000, representing an increase of 1.0%. However, partly as a result of the September 11, 2001 Events, total landed weight dropped to approximately 5.55 billion pounds in 2001, representing a 4.0% decrease from the level reported in 1999. A breakdown of landed weight by airline category shows a relatively stable share among the categories, with domestic air carriers accounting for the largest share. Although the landed weight reported by domestic air carriers dropped by 3.6%, from 4.87 billion pounds in 1999 to 4.69 billion pounds in 2001, they collectively accounted for 84.3%, on average, of total commercial landed weight over the three-year period. Foreign air carrier landed weight increased by 22.0% between 1999 and 2001, from 102.7 million pounds to 125.3 million pounds. Foreign air carriers accounted for 2%, on average, of the total commercial landed weight reported over the 1999-2001 period.

TABLE IV-9
COMMERCIAL AIRCRAFT LANDED WEIGHT BY AIRLINE
CY 1999- 2001

Airline	Landed Weight (000 lbs) 1999	2000	2001	% Change 1999-2001
Domestic Air Carrier				
America West	119,205	114,560	118,004	-1.0%
American	773,651	738,547	701,032	-9.4%
Atlantic Southeast	10,046	16,616	31,396	212.5%
Continental	609,664	612,198	586,344	-3.8%
Delta	879,945	881,200	781,215	-11.2%
Midwest Express	37,107	56,035	61,599	66.0%
Northwest	141,273	167,861	210,297	48.9%
Southwest	1,742,196	1,775,430	1,750,858	0.5%
Sun Country	93,152	78,238	38,827	-58.3%
TWA	230,955	253,471	208,164	-9.9%
United	230,263	212,138	204,201	-11.3%
Subtotal - Domestic Carrier	**4,867,454**	**4,906,294**	**4,691,936**	**-3.6%**
% of TOTAL	**84.2%**	**84.0%**	**84.6%**	
Charter Airline				
American Trans Air	0	12,162	309	n.a.
Casino Express	0	4,018	2,254	n.a.
Champion Air	0	23,360	40,165	n.a.
Miami Air International	0	0	161	n.a.
Other	54,638	582	749	n.a.
Subtotal - Charter	**54,638**	**40,122**	**43,638**	-
% of TOTAL	**0.9%**	**0.7%**	**0.8%**	
Foreign Air Carrier				
Aerolitoral	21,468	21,777	27,611	28.6%
Aeromar	2,382	2,214	2,053	-13.8%
Allegro	0	4,258	3,554	n.a.
Mexicana	78,856	89,166	92,119	16.8%
Subtotal - Foreign Carrier	**102,705**	**117,414**	**125,336**	**22.0%**
% of TOTAL	**1.8%**	**2.0%**	**2.3%**	
Air Cargo Carrier				
Ameriflight	0	13,690	7,276	n.a.
Airborne	61,929	63,876	61,782	-0.2%
Baron Aviation	0	2,644	3,715	n.a.
Capital Cargo	0	34,132	32,361	n.a.
Emery Worldwide	8,348	4,590	9,085	8.8%
Express One International	0	144,882	37,785	n.a.
Federal Express	199,980	162,274	197,643	-1.2%
Kitty Hawk	50,651	24,873	17,217	-66.0%
Merlin	0	2,046	0	n.a.
Reliant	0	6,201	519	n.a.
UPS	335,211	315,049	317,323	-5.3%
Other	97,491	99	945	n.a.
Subtotal - Air Cargo	**753,610**	**774,355**	**685,651**	**-9.0%**
% of TOTAL	**13.0%**	**13.3%**	**12.4%**	
TOTAL - ALL AIRLINES	**5,778,407**	**5,838,185**	**5,546,561**	**-4.0%**

Source: The City of San Antonio's Aviation Department records.

All-cargo landed weight decreased from 753.6 million pounds in 1999 to 685.6 million pounds in 2001 representing a decrease of 9%. Cargo landed weight accounted for 12.9%, on average, of total commercial landed weight reported in the 1999-2001 period. The changes in the number of charter airlines serving SAT distort the value of the change in landed weight between 1999 and 2001. However, charter operations accounted for approximately 0.8%, on average, of total commercial landed weight reported in the 1999-2001 period.

7. Air Cargo

Table IV-10 shows that SAT annually handles a large volume of mail and freight cargo. Enplaned cargo increased from 59.0 million pounds in 1991 to approximately 130.2 million pounds in 2000, representing an average annual growth of 9.2%. Freight cargo constituted a larger portion of air cargo, accounting for at least 66.4% of annual air cargo handled at SAT during the 1991-2000 period. Freight cargo increased from 40.9 million pounds in 1991 to 91.5 million pounds in 2000, representing an average annual growth rate of 9.4%. Mail cargo increased at an average annual rate of 8.8%, from 18.1 million pounds in 1991 to 38.7 million pounds in 2000. However, like all other aviation activity, cargo activity at SAT also experienced the negative impact of the September 11, 2001 Events. Although maintaining the historical distribution, the volume of cargo reported in 2001 was 26.4% lower than the level in 2000.

TABLE IV-10
ENPLANED CARGO
CY 1991-2001

	Mail (000 lbs)		Freight (000 lbs)		Total Cargo (000 lbs)	
Year	Weight	% of Total	Weight	% of Total	Weight	% Change
1991	18,121	30.7%	40,880	69.3%	59,001	-
1992	20,191	31.3%	44,421	68.7%	64,612	9.5%
1993	22,428	33.6%	44,323	66.4%	66,752	3.3%
1994	23,781	33.4%	47,503	66.6%	71,283	6.8%
1995	25,511	33.5%	50,619	66.5%	76,130	6.8%
1996	25,207	31.6%	54,611	68.4%	79,817	4.8%
1997	25,301	22.6%	86,758	77.4%	112,059	40.4%
1998	31,779	24.4%	98,257	75.6%	130,036	16.0%
1999	35,819	27.8%	93,009	72.2%	128,828	-0.9%
2000	38,694	29.7%	91,505	70.3%	130,199	1.1%
2001	25,605	26.7%	70,240	73.3%	95,845	-26.4%
Average Annual Growth Rate						
1991-2001	3.5%	-	5.6%	-	5.0%	-

Source: The City of San Antonio's Aviation Department records.

B. FORECASTS OF AVIATION ACTIVITY

1. Overview

Traditional approaches to aviation forecasting include judgmental estimation, trendline fitting, and variants of trend extrapolation. These traditional methods essentially assume that the historical trends observed at an airport will be exactly replicated in the forecast period. Forecasts obtained from such traditional methods may be flawed to the extent that future conditions deviate significantly from the past. More importantly, these traditional approaches fail to isolate the individual determinants of demand, and hence are not useful for systematically examining the sensitivity of air travel demand to changes in specific market factors.

Unison's preferred aviation forecast methodology is the multivariate regression approach. Multivariate regression modeling provides a systematic framework for quantifying economic relationships, performing sensitivity analyses, and generating forecasts. The multivariate regression approach is based on sound economic theory, and allows forecasts to be systematically linked to projected changes in relevant economic variables, thereby minimizing reliance on subjective inputs. In recognition of the superiority of the approach the FAA began, in 1997, to develop the annual U.S. aviation forecasts within a multivariate regression framework.[3]

The ability to conduct systematic sensitivity analyses is particularly important in the aftermath of the September 11, 2001 Events. The immediate negative impact of the events on the aviation industry is now clear. The short-term impact is gradually unfolding as airlines report fourth quarter performance. However, the long-term implications of the September 11, 2001 Events remain essentially unknown. Unison uses the multivariate regression approach to develop three alternative scenarios of likely future trends in aviation activity at SAT based on varying assumptions about the duration and magnitude of the impact of the September 11, 2001 Events. As fully discussed below, the scenarios represent alternative paths of recovery that enplanements and related aircraft operations at SAT could take during the 2002-2011 period.

2. Alternative Enplanements Forecast Methods

Enplanements represent the primary aviation activity at an airport. The assumptions and results of four forecasting methods are discussed below. The forecasts of enplanements obtained from Unison's multivariate regression model are compared to forecasts of enplanements generated from the trendline projection approach, the market share approach, and the FAA Terminal Area Forecast (TAF).

Trendline Projection: This method assumes that the historical trend in enplanements at SAT will be replicated during the forecast period. The trendline

[3] The FAA *Aerospace Forecasts, FY 2001-2012,* March 2001, pages III-18 & III-19.

forecast of enplanements is developed by fitting a line, with time as the only explanatory variable. The choice of the length of the historical period to use for the projection is somewhat arbitrary. To the extent that the past had been stable, and the future closely mirrors the past, trendline projection represents an acceptable approach to forecasting for general planning purposes. However, there are uncertainties, like the shock of the September 11, 2001 Events, which may not be adequately captured by a simple trendline projection. More importantly, trendline projection does not identify the specific market factors that influence enplanements, and hence does not provide a useful basis for interpreting the relative importance of the determining factors. For the purpose of the forecast comparison, a trendline was fitted on SAT's historical enplanements for 1990-2001 period. The result projects an average annual growth rate of 6.7% during the 2001-2003 period, and a 3.2% average annual growth rate over the 2001-2011 period. In the light of the September 11, 2001 Events, the average growth rate projected over the 2001-2003 period appears optimistic and indicates that the simple trendline forecast has not accounted for the dampened air travel demand in the aftermath of the attacks.

FAA Terminal Area Forecast (TAF): Forecasts of aviation activity are developed for FAA-towered airports within the National Plan of Integrated Airport System (NPIAS). TAF is based on the FAA's national forecasts and includes, where possible, the most recent historical data on individual airports. However, due to the lag in reporting time, the most recent historical data is frequently one or two years old, thereby creating an inherent discrepancy between TAF and individual airports' actual data. More importantly, nationwide, terminal area forecasts are developed independent of the ability of airports and air traffic control system to supply the capacity necessary to meet the projected demand. This means that the TAF approach essentially assumes an unconstrained demand for commercial air services.[4] The TAF of enplanements at SAT projects an average annual growth rate of 7.5% during the 2001-2003 period, and an average annual growth rate of 4.2% over the 2001-2011 period. It should be noted that the most current FAA TAF for all U.S airports do not reflect the impact of the September 11, 2001 Events. According to an FAA bulletin, an estimate of the impact will be incorporated in the March 2002 version of the FAA TAF report.

Market Share Projection: This approach extrapolates a historical trend by assuming that SAT's historical average annual share of U.S. domestic enplanements will remain the same over the forecast period. Like trendline projection, the market share projection fails to identify the specific market factors that influence enplanements at SAT, and the choice of which portion of the historical period to use in the projection is somewhat arbitrary. Given the relational basis of the market share projection, the resulting future trend at a particular airport essentially tracks the trend forecasted for U.S. domestic enplanements. The forecasts of U.S. domestic enplanements are developed by the FAA and published in its annual *Aerospace Forecasts* publication. The March 2001 version of the

[4] The FAA, *Terminal Area Forecasts Summary, FY 2000-2015.* December 2000, page 4.

report, combined with the FAA supplement published in July 2001, project an average annual growth rate of 4.0% in U.S. domestic enplanements over the 2000-2011. It should be noted that the most current FAA forecasts of U.S domestic enplanements do not yet include an estimate of the impact of the September 11, 2001 Events. For the purpose of comparing the alternative enplanements forecast methods in this Report, the market share projection for SAT assumes a constant annual share of 0.59% of U.S. domestic enplanements, which was the average share achieved at SAT during the 1996-2000 period. The market share projection for SAT results in an average annual growth rate of 9.8% during the 2001-2003 period, and an average annual growth rate of 5.1% over the 2001-2011 period.

Unison's Multivariate Regression Model: The multivariate regression model developed for SAT incorporates the historical trends in enplanements discussed in **sub-section IV-A** as well as reasonable assumptions about measurable changes in multiple factors that are relevant to aviation activity at SAT. Unison's model relates enplanements to the following explanatory variables: 1) a measure of the local economic base of SAT presented in **Section III** of this report. For the purpose of this model, non-agricultural employment for the San Antonio MSA was selected as a comprehensive indicator of the economic activity in SAT's air service area; 2) the price of air travel as measured by real revenue passenger yield[5]; and 3) a measure of air travelers' income. For the purpose of this model, U.S. real GDP per capita was selected as the appropriate income measure. Appropriate trend variables were also included in the model to account for the correlation between past and present values that is inherent in time series data.[6] The data used in the model cover the 1991-2011 period. A description of the explanatory variables is as follows:

- **SAT's local economic base.** The demographic and economic trends in the San Antonio MSA presented in **Section III** of this Report portray a diverse and dynamic socio-economic base necessary to support growth in air travel demand in the area. Growth in local economic activity is particularly important to continuing passenger traffic growth at an O&D airport like SAT. The multivariate regression model for SAT includes historical and forecast non-agricultural employment data for the San Antonio MSA, which was obtained from DRI-WEFA's database. Local non-agricultural employment increased at an average annual rate of 3.4% over the 1991-2000 period. DRI-WEFA projects a 2.0% average annual growth rate in non-agricultural employment over the 2000-2011 period.
- **Price of air travel.** Air travel demand is inversely related to the price of air travel. People tend to travel more frequently when airfares are low, particularly if the trip is for non-business purposes. The trend in airfares is

[5] Revenue passenger yield is measured as total airline revenues divided by revenue passenger miles. To adjust for the impact of inflation, passenger yield is generally expressed in real terms as real revenue passenger yield or simply as real passenger yield.
[6] The correlation observed in time series data is known as "serial correlation", which can be accounted for, statistically, in the regression model by appropriate auto-regressive factors.

represented in the multivariate regression model by real revenue passenger yield, which is measured as total airline revenues divided by revenue passenger miles and expressed in real (inflation-adjusted) terms. Trends in real passenger yield at SAT track the trend in U.S. real passenger yields. Real passenger yields at SAT decreased at an average annual rate of 0.7% during the 1991-2000 period, compared to the average annual decrease of 1.7% nationally. According to the FAA, competition among airlines, the entry of low-cost carriers, and increased airline productivity resulted in the observed decrease in U.S. real passenger yields. The FAA projects a relatively moderate decrease in real domestic passenger yields in the near future and identifies the rising airline unit costs driven by fuel price and labor costs as the contributing factors.[7] Future trends in real passenger yields at SAT are assumed to track the projected trends at the national level. Consequently, real passenger yields at SAT are projected to decrease at an average annual rate of 0.3% during the 2001-2003 period, and to decrease by 2.0% per year, on average, over the 2003-2011 period. Overall, real passenger yields at SAT are projected to decrease at an average annual rate of 1.5% over the 2000-2011 period. This assumption is consistent with the projected national trends and the price competitiveness of the SAT market demonstrated in **sub-section IV-4**. The projected trend also incorporates the FAA-approved PFC of $3.00, which the Airport started collecting in November 2001.

- **Air travelers' income.** Air travel demand is positively related to consumers' personal income. Since air travelers to the San Antonio area come from all over the United States, the average air traveler's income is represented by the U.S. real GDP per capita. Historical and forecast U.S. real GDP per capita data were obtained from the DRI-WEFA database. Real GDP per capita grew at an average annual rate of 2.7% during the 1991-2000 period, and DRI-WEFA projects a continuation of that trend through the 2001-2011 period. The growing concern about a slowing U.S. economy may cause DRI-WEFA to further revise their outlook on the economy, particularly in the short-term.

The multivariate regression model selected by Unison for this study clearly identifies local non-agricultural employment and the price of air travel as strong determinants of the level of enplanements at SAT. This finding is consistent with fact that SAT is primarily an O&D airport, and the strength of the local economy influences, to a large extent, travel demand in the area. The results of analysis show that the multivariate regression model fit the SAT market data well. The adjusted R-squared (the coefficient of multiple determination) obtained from the model estimation indicates that 98.1% of the variation in annual SAT enplanements could be explained by the

[7] The FAA *Aerospace Forecasts, FY 2001-2012.* March 2001, pages III-20 & III-22. The most recent FAA forecasts of real passenger yields do not reflect the impact of the September 11, 2001 Events. It is likely that the deep fare discount offers by most airlines to jump-start air travel in the period after September 11 may cause real yields to fall even lower, at least in 4th quarter 2001, and through 1st quarter 2002.

combined variations in the explanatory variables included in the model. The forecast of enplanements obtained from the multivariate regression model captures the implications of both the historical trends in enplanements at SAT, and the historical and forecast trends in each of the explanatory variables.

Table IV-11 presents the results of the alternative enplanements forecast methods. Clearly, each method projects future growth in enplanements at SAT, but they differ in both short-term and long-term growth paths. Over the entire forecast period of 2002 through 2011, the average annual growth trend projected by the market share method is at the high end, while the average annual growth trend projected by Unison's multivariate regression model is at the low end. The forecasts generated by the trendline approach and FAA TAF fall between the other two forecasts.

The market share approach projects an average annual growth rate of 5.1%, with enplanements reaching approximately 5.64 million in 2011. The "Base" enplanements forecast of the regression model projects an average annual growth rate of 3.5%, with enplanements reaching 4.85 million in 2011. The trendline projection results in an average annual growth rate of 3.7%, and enplanements of 4.97 million in 2011. The FAA TAF projects an average annual growth rate of 4.2%, and enplanements of 5.17 million by 2011.

It must be emphasized that among the alternative forecast methods, only the multivariate model incorporates assumptions about the prospective impact of the September 11, 2001 Events. Current FAA forecasts have not yet incorporated estimates of future impact of the events. Consequently, the FAA TAF and the market share approach forecasts do not account for the prospective impact of the September 11, 2001 Events.

TABLE IV-11
ALTERNATIVE FORECASTS OF ENPLANEMENTS
CY 2001-2011

Year	Multivariate Regression Model [1]			Trendline Projection [2]	FAA TAF [3]	Market Share Projection [4]
	Base	Alternative Impact Scenarios				
		Low	High			
Historical						
2000	3,647,094	3,647,094	3,647,094	3,647,094	3,647,094	3,647,094
2001	3,443,434	3,443,434	3,443,434	3,443,434	3,443,434	3,443,434
Forecast						
2002	3,410,118	3,410,118	3,410,118	3,821,252	3,831,284	4,006,100
2003	3,751,819	3,554,355	3,949,283	3,918,898	3,980,343	4,151,240
2004	3,965,844	3,660,779	4,067,532	4,016,545	4,129,402	4,310,688
2005	4,186,782	3,768,104	4,186,782	4,114,191	4,278,463	4,482,083
2006	4,304,376	3,873,938	4,304,376	4,211,838	4,427,522	4,657,165
2007	4,416,577	3,974,919	4,416,577	4,309,484	4,576,582	4,837,115
2008	4,527,659	4,074,893	4,527,659	4,407,131	4,725,641	5,024,735
2009	4,638,178	4,174,360	4,638,178	4,504,777	4,874,700	5,221,500
2010	4,751,657	4,276,491	4,751,657	4,602,424	5,023,761	5,426,378
2011	4,848,961	4,364,065	4,848,961	4,700,070	5,172,820	5,638,925
Average Annual Growth Rate						
2001-2003	4.4%	1.6%	7.1%	6.7%	7.5%	9.8%
2003-2005	5.6%	3.0%	3.0%	2.5%	3.7%	3.9%
2001-2011	3.5%	2.4%	3.5%	3.2%	4.2%	5.1%

[1] Results from Unison's multivariate regression model. Unison developed 3 scenarios that incorporate reasonable estimates of the prospective impact of the September 11, 2001 attacks on passenger traffic at SAT. The scenarios represent alternative growth paths of enplanements and related aviation activity at SAT during the forecast period. All three scenarios assume that the September 11 attacks will have an identical dampening effect on enplanements in 2002. In 2003 through 2011, each scenario assumes varying duration and magnitude of the negative impact of the attacks. Under the "Base" scenario, the negative impact diminishes gradually and enplanements return to normal levels by 2005. Under the "High" scenario, the negative impact lasts only through 2002, and enplanements return to normal levels by 2003. Under the "Low" scenario, the negative impact lingers throughout the forecast period.

[2] Result from fitting a trendline on SAT's historical enplanements for the 1990-2001 period.

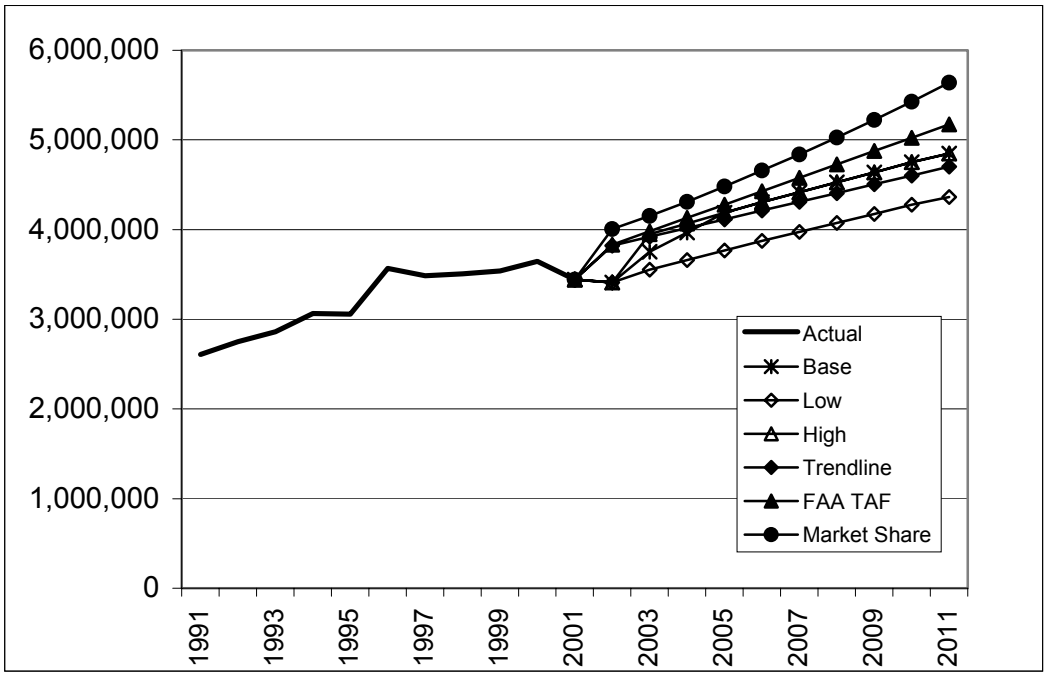
[3] FAA Terminal Area Forecast Summary Report for SAT downloaded from the FAA on-line database on December 3, 2001. According to an FAA bulletin, the current TAF figures for all U.S. airports do not yet reflect the impact of the events of September 11, 2001. The bulletin indicated that an estimate of the impact will be incorporated in the March 2002 version of the FAA-TAF report.

[4] Result from projecting a constant market share of U.S. domestic enplanements of 0.59% per year, which was the average share achieved at SAT during the 1996-2000 period. U.S. domestic enplanement forecasts were obtained from the FAA *Aerospace Forecasts,* FY 2001-2012, March 2001, which were updated in FAA's supplement report of July 2001. FAA fiscal year data were converted to calendar year for the purpose of the comparison presented in this table.

All forecasts are subject to uncertainty. The above regression forecasts are based on information available at the date of this Report. Unexpected events may occur and some of the underlying assumptions of the regression model may not be realized. Therefore, actual results may vary from the forecasts, and the variation may be material.

Figure IV-4 is a graphical illustration of the trends in enplanements projected by the alternative forecast methods.

FIGURE IV-4
HISTORICAL AND FORECAST ENPLANEMENT TRENDS
CY 1991-2011



1991-2001 figures are historical data. The 2002-2011 figures are alternative forecasts of enplanements presented in **Table IV-11**.

3. Sensitivity Analysis of Enplanements Forecast

Given the observed significant short-term negative impact of the September 11, 2001 Events on the U.S. aviation industry in general, and at individual airports, it is imperative that forecasts of aviation activity developed for SAT incorporate reasonable estimates of likely prospective impact of the September 11, 2001 Events. As mentioned earlier, the regression approach provides a systematic framework for performing sensitivity analysis, which addresses alternative assumptions about future trends.

Recognizing the uncertainty of the future trends in air travel demand, Unison developed three scenarios: - Base, Low and High - representing alternative growth paths of SAT enplanements over the 2002-2011 period. All three forecast scenarios include actual enplanements showing the reductions observed in September through November 2001, and estimates of the future “dampening effect” that is likely to occur at SAT. Enplanements reported in September 2001 were 34.9% lower than enplanements reported in September 2000. An indication that passenger traffic volume at SAT is gradually recovering is the 12.4% reduction in December 2001 enplanements compared to enplanements in December 2000. Overall, the

September 11, 2001 Events resulted in a 5.6% reduction in enplanements in 2001 compared to enplanements in 2000.

Immediately following the September 11, 2001 Events, the ATA issued estimates of likely future implications for domestic and international air travel demand. Among other things, the ATA projected a possible 10% to 25% reduction in U.S. domestic passenger traffic over the foreseeable future. Available industry-wide data show that U.S. domestic revenue passenger miles (RPMs) dropped 21.1% in October 2001 compared to October 2000, while in December 2001 domestic RPMs were 13.2% lower than the RPMs for December 2000.[8] Industry-wide, there is cautious optimism regarding the onset and pace of the recovery in air travel demand, with many experts acknowledging the weakness in air travel demand. Industry analysts, including DRI-WEFA economists, project that travel demand nationwide will remain dampened through the first half of 2002 and record only marginal improvements, before showing significant recovery in the second half of 2002.

The magnitudes of the prospective negative impact assumed in the three forecast scenarios are based on the impact observed so far at SAT. The initial industry-wide estimates developed by ATA provide additional guidelines for the range of impact. The three forecast scenarios project that the September 11, 2001 Events will have a similar magnitude of negative impact of approximately 11.2% on SAT enplanements in 2002. Beyond 2002, the three scenarios assume varying duration and magnitude of the negative impact of the September 11, 2001 Events. Under the "Base" scenario the negative impact diminishes gradually and enplanements return to normal levels by 2005. Under the "High" scenario, the negative impact lasts only through 2002, and enplanements return to normal levels by 2003. Under the "Low" scenario, the negative impact lingers throughout the forecast period. The specific impact assumptions are summarized as follows:

[8] Based on the monthly traffic reports published by the Air Transport Association, at www.airlines.org. A detailed discussion of some of the developments in the U.S. aviation industry in the post-September 11 period is presented in **sub-section IV-C**.

Period		Assumed Negative Impact - % drop		
		Base	Low	High
i Short-term		**(Compared to "Normal" Enplanement Levels)**		
Quarterly - 2002	**% of Annual EP**			
1st Qtr	23.8%	-12.4%	-12.4%	-12.4%
2nd Qtr	26.9%	-12.4%	-12.4%	-12.4%
3rd Qtr	24.7%	-10.0%	-10.0%	-10.0%
4th Qtr	24.6%	-10.0%	-10.0%	-10.0%
ii Annualized				
2002	-	-11.2%	-11.2%	-11.2%
2003	-	-5.0%	-10.0%	0.0%
2004	-	-2.5%	-10.0%	0.0%
2005	-	0.0%	-10.0%	0.0%
2006-11	-	0.0%	-10.0%	0.0%

Table IV-12 compares the three scenarios of enplanements forecasts for SAT over the 2002-2011 period.

The forecasts obtained from Unison's multivariate regression model form the basis for the forecasts of the distribution of passenger traffic, commercial aircraft operations, and commercial landed weight at SAT. It should be noted that all forecasts are subject to uncertainties. This is particularly true of long range forecasts covering periods longer than five years. One source of uncertainty is the cyclical nature of the economic variables that influence air travel demand. In the aftermath of the September 11, 2001 Events, there is an added uncertainty as to the duration and magnitude of the impact over the short-term and the long-term. The forecasts developed within Unison's multivariate regression model are based on the information available at the date of this Report. Currently unknown events may occur and some of the underlying assumptions of the regression model may not be realized. Therefore, actual results may vary from the forecasts and the variation may be material.

TABLE IV-12
COMPARISON OF ENPLANEMENTS SCENARIOS FROM REGRESSION MODEL[1]
CY 2001-2011

	Multivariate Regression Model			% Difference Compared to Base	
		Alternative Impact Scenarios			
Year	**Base**	**Low**	**High**	**Low**	**High**
Historical					
2001	3,443,434	3,443,434	3,443,434	-	-
Forecast					
2002	3,410,118	3,410,118	3,410,118	0.0%	0.0%
2003	3,751,819	3,554,355	3,949,283	-5.3%	5.3%
2004	3,965,844	3,660,779	4,067,532	-7.7%	2.6%
2005	4,186,782	3,768,104	4,186,782	-10.0%	0.0%
2006	4,304,376	3,873,938	4,304,376	-10.0%	0.0%
2007	4,416,577	3,974,919	4,416,577	-10.0%	0.0%
2008	4,527,659	4,074,893	4,527,659	-10.0%	0.0%
2009	4,638,178	4,174,360	4,638,178	-10.0%	0.0%
2010	4,751,657	4,276,491	4,751,657	-10.0%	0.0%
2011	4,848,961	4,364,065	4,848,961	-10.0%	0.0%
Average Annual Growth Rate					
2001-2003	4.4%	1.6%	7.1%	-	-
2003-2005	5.6%	3.0%	3.0%	-	-
2001-2011	3.5%	2.4%	3.5%	-	-

[1] See **Table IV-11**.

Table IV-13 presents a breakdown of the base forecast of enplanements into O&D and connecting traffic. The major determinant of the volume of O&D traffic is the strength of the local economy. On the other hand, non-local factors, such as routing decisions made by airlines are critical to the volume of connecting traffic. The projected breakdown of annual enplanements assumes that SAT will remain primarily an O&D airport, and that the distribution observed in 2000 will remain constant throughout the forecast period. Consequently, it is projected that O&D enplanements will account for 90.3% of annual enplanements, and connecting traffic will account for the remaining 9.7%. O&D enplanements are projected to increase from approximately 3.1 million in 2001 to approximately 4.38 million in 2011, representing an average annual growth rate of 3.5%. Connecting enplanements are projected to increase at an average annual rate of 3.5%, from 334,013 in 2001 to 470,349 in 2011.

TABLE IV-13
O&D AND CONNECTING ENPLANEMENTS - BASE FORECAST [1]
CY 2001-2011

Year	O&D Enplanements	O&D % Share	Connecting Enplanements	Connecting % Share	Total Enplanements
Historical					
2001	3,109,421	90.3%	334,013	9.7%	3,443,434
Forecast					
2002	3,079,337	90.3%	330,781	9.7%	3,410,118
2003	3,387,892	90.3%	363,926	9.7%	3,751,819
2004	3,581,157	90.3%	384,687	9.7%	3,965,844
2005	3,780,664	90.3%	406,118	9.7%	4,186,782
2006	3,886,851	90.3%	417,524	9.7%	4,304,376
2007	3,988,169	90.3%	428,408	9.7%	4,416,577
2008	4,088,476	90.3%	439,183	9.7%	4,527,659
2009	4,188,275	90.3%	449,903	9.7%	4,638,178
2010	4,290,746	90.3%	460,911	9.7%	4,751,657
2011	4,378,611	90.3%	470,349	9.7%	4,848,961
Average Annua Growth Rate					
2001-2011	3.5%	-	3.5%	-	3.5%

[1] The projected distribution is based on the shares observed in 2000, which is the most recent complete annual data.

The projected distribution of the base forecast of enplanements by type of service is shown in **Table IV-14**. Historically, the market share of each category of service providers at SAT has been relatively stable, with domestic air carriers accounting for at least 95% of annual enplanements.[9] The projected distribution assumes that the average market share of domestic air carriers, non-scheduled charter airlines, and foreign air carriers observed between 2000 and 2001 will remain constant throughout the forecast period. Between 2000 and 2001, domestic air carriers accounted for 97.7% of enplanements, while foreign air carriers accounted for the remaining 2.3%. Consistent with the nature of non-scheduled traffic the market share of domestic charter airlines showed some fluctuations. The projected distribution allocates 96.8% of domestic market share to scheduled domestic air carriers and 0.9% to charter airlines.

Enplanements by domestic air carriers are projected to increase from 3.33 million in 2001 to 4.69 million in 2011, representing an average annual growth rate of 3.5%. Domestic charter enplanements are projected to increase from 35,653 in 2001 to 43,641 in 2011. Enplanements by foreign air carriers, which include scheduled and charter, are projected to increase from 80,295 in 2001 to 111,526 in 2011.

[9] See **Table IV-4**.

TABLE IV-14
PROJECTED DISTRIBUTION OF ENPLANEMENTS BY TYPE OF SERVICE - BASE FORECAST [1]
CY 2001-2011

	Domestic Airlines					Foreign Airlines		TOTAL
	Scheduled		Charter		Subtotal			
Year	Enplanements	% Share	Enplanements	% Share	Domestic	Enplanements	% Share	ALL AIRLINES
Historical								
2001	3,327,486	96.6%	35,653	1.0%	3,363,139	80,295	2.3%	3,443,434
Projected								
2002	3,298,608	96.7%	32,396	1.0%	3,331,004	79,115	2.3%	3,410,118
2003	3,631,761	96.8%	33,766	0.9%	3,665,527	86,292	2.3%	3,751,819
2004	3,838,937	96.8%	35,693	0.9%	3,874,629	91,214	2.3%	3,965,844
2005	4,052,805	96.8%	37,681	0.9%	4,090,486	96,296	2.3%	4,186,782
2006	4,166,636	96.8%	38,739	0.9%	4,205,375	99,001	2.3%	4,304,376
2007	4,275,246	96.8%	39,749	0.9%	4,314,995	101,581	2.3%	4,416,577
2008	4,382,774	96.8%	40,749	0.9%	4,423,523	104,136	2.3%	4,527,659
2009	4,489,756	96.8%	41,744	0.9%	4,531,500	106,678	2.3%	4,638,178
2010	4,599,604	96.8%	42,765	0.9%	4,642,369	109,288	2.3%	4,751,657
2011	4,693,794	96.8%	43,641	0.9%	4,737,434	111,526	2.3%	4,848,961
Average Annual Growth Rate								
2001-2011	3.5%	-	2.0%	-	3.5%	3.3%	-	3.5%

[1] The distribution of enplanements by type of service is based on the observed distribution for each service category in 2000 and 2001.

4. Forecasts of Commercial Aircraft Landings

The forecasts of enplanements under the three scenarios were translated into forecasts of commercial aircraft landings. The underlying assumption is that airlines serving the SAT market will respond to the projected growth in air travel demand by adjusting various components of their service. In particular, airlines may adjust the routes they serve, the number of flights they offer on each route, the average aircraft they use to serve each route, and the competitiveness of the fares they offer.

According to the Air Transport Association (ATA), airlines reacted to the weak travel demand in the immediate aftermath of the September 11, 2001 Events by offering discount fares, frequent flyer bonuses and the lifting of many ticket restrictions. ATA also reports that airlines reduced their seat-mile capacity to match the lower level of demand.[10] Available airline performance data for 2001 indicate that most airlines reported passenger load factors that were within 1.2% to 5.4% lower than their load factors in 2000. In fact, America West reported a 1.4 points increase in 2001 load factor compared to 2000.[11] The projected trends in commercial aircraft operations assume that airlines serving SAT will gradually return to the levels of operations observed in 2000, and which they seem on track to attain prior to the September 11, 2001 Events. Domestic air carriers reported a passenger load factor of 70% in 2001, while the foreign carriers reported a passenger load factor of 87%.

The forecasts of commercial aircraft landings are presented in **Table IV-15A-C**: depicting the "Base", "Low" and "High" scenarios. The base forecast indicates that total commercial aircraft landings at SAT will increase from 44,696 in 2001 to 60,202 in 2011, representing an average annual growth rate of 3.0% over that period. Domestic air carrier aircraft landings at SAT are projected to increase at an average annual rate of 3.0%, from 38,315 in 2001 to 51,407 in 2011. Aircraft landings by foreign carriers at SAT are projected to increase from 1,826 in 2001 to 2,086 in 2011, representing an average annual growth of 1.3%. Air cargo landings are projected to increase at an average annual rate of 4.1%, from 4,271 in 2001 to 6,354 in 2011. Non-scheduled charter landings are projected to increase at an average annual rate of 2.2%, from 284 in 2001 to 355 in 2011.

The high and low forecasts represent alternative growth paths in aircraft landings reflecting alternative assumptions about the duration and magnitude of the impact of the September 11, 2001 Events. For example, if the recovery in air travel demand occurs fast and enplanements return to normal levels by 2003, the future would be reflected by the trends projected under the high forecast scenario. If, on the other hand, air travel demand remains weak throughout the forecast period, then the future would be reflected by the trends projected under the low forecast scenario.

[10] See Air Transport Association Communications of November 15, 2001 at www.airlines.org.
[11] Data obtained from the website of America West, American, Continental, Delta, and Southwest. .

TABLE IV-15A-C
FORECASTS OF COMMERCIAL AIRCRAFT LANDINGS
CY 2001-2011

(A) BASE FORECAST

Year	Domestic Airlines				Foreign Airlines	TOTAL ALL AIRLINES
	Air Carrier	Charter	All-Cargo	Subtotal		
Historical						
2001	38,315	284	4,271	42,870	1,826	44,696
Forecast						
2002	38,045	263	4,720	43,028	1,694	44,723
2003	41,750	274	5,173	47,197	1,812	49,009
2004	43,830	290	5,428	49,548	1,881	51,430
2005	46,066	306	5,702	52,075	1,954	54,029
2011	51,407	355	6,354	58,116	2,086	60,202
Average Annual Growth Rate						
2001-2011	3.0%	2.2%	4.1%	3.1%	1.3%	3.0%

(B) LOW FORECAST

Year	Domestic Airlines				Foreign Airlines	TOTAL ALL AIRLINES
	Air Carrier	Charter	All-Cargo	Subtotal		
Forecast						
2002	38,045	263	4,720	43,028	1,694	44,723
2003	39,553	260	4,900	44,713	1,717	46,430
2004	40,459	268	5,011	45,737	1,737	47,473
2005	41,459	275	5,132	46,867	1,759	48,626
2011	46,267	319	5,719	52,304	1,877	54,181
Average Annual Growth Rate						
2001-2011	1.9%	1.2%	3.0%	2.0%	0.3%	1.9%

(C) HIGH FORECAST

Year	Domestic Airlines				Foreign Airlines	TOTAL ALL AIRLINES
	Air Carrier	Charter	All-Cargo	Subtotal		
Forecast						
2002	38,045	263	4,720	43,028	1,694	44,723
2003	43,947	289	5,445	49,681	1,907	51,588
2004	44,954	297	5,567	50,819	1,929	52,748
2005	46,066	306	5,702	52,075	1,954	54,029
2011	51,407	355	6,354	58,116	2,086	60,202
Average Annual Growth Rate						
2001-2011	3.0%	2.2%	4.1%	3.1%	1.3%	3.0%

All forecasts are subject to uncertainty. The above forecasts are based on the results of Unison's regression model and information available at the date of this Report. Unexpected events may occur, and some of the underlying assumptions of the regression model may not be realized. Therefore, actual results may vary from the forecasts, and the varation may be material.

5. Forecasts of Commercial Aircraft Landed Weight

The forecasts of aircraft landings have direct implications for commercial aircraft landed weight at SAT. As with the preceding forecasts, three forecast scenarios of landed weight are presented in **Table IV-16**. Under the base forecast, total aircraft landed weight at SAT is projected to increase from 5.55 billion pounds in 2001 to 7.78 billion pounds in 2011, representing an average annual growth rate of 3.4% over that period.

A breakdown of the base forecast by airline category shows that domestic air carriers' landed weight is projected to increase from 4.7 billion pounds in 2001 to 6.6 billion pounds in 2011, representing an average annual growth rate of 3.5% over that period. Air Cargo landed weight is projected to increase at an average annual rate of 3.3%, from 685.6 million pounds in 2001 to 953.1 million pounds in 2011. Landed weight for the foreign carrier category is projected to increase from approximately 125.3 million pounds in 2001 to 169.7 million pounds in 2011, representing an average annual growth rate of 3.4% over that period. Charter landed weight is projected to increase at an average annual rate of 2.2%, and reach approximately 54.3 million pounds by 2011.

The high and low forecasts represent alternative growth paths for commercial landed weight reflecting alternative assumptions about the duration and magnitude of the impact of the September 11, 2001 Events. If the recovery in air travel demand occurs fast and aircraft operations return to normal levels by 2003, the trends projected under the high forecast scenario would represent the future. If, on the other hand, air travel demand remains weak throughout the forecast period, then the trends projected under the low forecast scenario would represent the future.

TABLE IV-16A-C
FORECASTS OF COMMERCIAL LANDED WEIGHT
CY 2001-2011

(A) BASE FORECAST

	Commercial Landed Weight (000 lbs)					ALL AIRLINES	
	Domestic Airlines				Foreign		Landed Weight
Year	Air Carrier	Charter	All-Cargo	Subtotal	Airlines	Landings	(000 lbs)
Historical							
2001	4,691,936	43,638	685,651	5,421,225	125,337	44,696	5,546,562
Forecast							
2002	4,658,854	40,293	708,042	5,407,189	121,364	44,723	5,528,553
2003	5,145,277	41,997	775,904	5,963,177	132,116	49,009	6,095,294
2004	5,423,094	44,392	814,226	6,281,713	139,478	51,430	6,421,191
2005	5,708,740	46,866	855,371	6,610,976	147,127	54,029	6,758,103
2011	6,602,129	54,278	953,101	7,609,509	169,705	60,202	7,779,214
Average Annual Growth Rate							
2001-2011	3.5%	2.2%	3.3%	3.4%	3.1%	3.0%	3.4%

(B) LOW FORECAST

	Commercial Landed Weight (000 lbs)					ALL AIRLINES	
	Domestic Airlines				Foreign		Landed Weight
Year	Air Carrier	Charter	All-Cargo	Subtotal	Airlines	Landings	(000 lbs)
Forecast							
2002	4,658,854	40,293	708,042	5,407,189	121,364	44,723	5,528,553
2003	4,874,473	39,786	735,067	5,649,326	125,163	46,430	5,774,489
2004	5,005,933	40,978	751,593	5,798,504	128,749	47,473	5,927,253
2005	5,137,866	42,179	769,834	5,949,879	132,414	48,626	6,082,293
2011	5,941,917	48,850	857,791	6,848,558	152,734	54,181	7,001,292
Average Annual Growth Rate							
2001-2011	2.4%	1.1%	2.3%	2.4%	2.0%	1.9%	2.4%

(C) HIGH FORECAST

	Commercial Landed Weight (000 lbs)					ALL AIRLINES	
	Domestic Airlines				Foreign		Landed Weight
Year	Air Carrier	Charter	All-Cargo	Subtotal	Airlines	Landings	(000 lbs)
Forecast							
2002	4,658,854	40,293	708,042	5,407,189	121,364	44,723	5,528,553
2003	5,416,081	44,207	816,741	6,277,029	139,070	51,588	6,416,099
2004	5,562,148	45,531	835,103	6,442,782	143,055	52,748	6,585,837
2005	5,708,740	46,866	855,371	6,610,976	147,127	54,029	6,758,103
2011	6,602,129	54,278	953,101	7,609,509	169,705	60,202	7,779,214
Average Annual Growth Rate							
2001-2011	3.5%	2.2%	3.3%	3.4%	3.1%	3.0%	3.4%

All forecasts are subject to uncertainty. The above forecasts are based on the results of Unison's regression model and information available at the date of this Report. Unexpected events may occur and some of the underlying assumptions of the regression model may not be realized. Therefore, actual results may vary from the forecasts, and the variation may be material.

C. OTHER FACTORS AFFECTING AVIATION DEMAND

The forecasts presented in **sub-section IV-B** focused on the immediate factors that influence air travel demand at SAT. As an integral part of the national aviation system, there are broader, industry-wide factors that have implications for future travel demand at SAT. Among those broader factors are the following:

1. The Aftermath of the September 11, 2001 Events

Arguably one of the most talked about issues prior to the September 11, 2001 Events was what appeared to be a growing trend toward consolidation in the airline industry through mergers and acquisitions. The acquisition of TWA by American in 2001 is an illustrative case. According to the FAA, airline consolidations and alliances involving joint marketing and service agreements could significantly alter the structure of the U.S. airline industry.[12] Other industry issues included concerns about losses that might result from a slowing economy, lower travel demand, and higher labor costs. However, the turbulence created by the September 11, 2001 Events appears to have created a more critical outlook for the airline industry.[13] The focus has shifted to urgent matters relating to air safety, security, loss reduction, financial stabilization, and continuing survival of the airlines.

Immediately following the September 11, 2001 Events, the FAA ordered the closure of all U.S. airports and effectively grounded aircraft operations nationwide for two days. Although practically shut down and not generating any revenues, airlines had to keep up the maintenance of their grounded aircraft and pay their crew during that 2-day period. Estimates indicate that, industry-wide, airlines may have lost up to $300 million per day during the period when they were grounded.[14] DRI-WEFA analysts project estimates of industry losses to run as high as $4.4 billion in 2001 alone.[15]

Airlines have reacted by implementing reduction in service frequencies and cutting jobs. President Bush and the U.S. Congress responded by putting together a $15 billion emergency economic assistance package to stem the large losses sustained by the nation's airlines. As enacted, the ***Air Transportation Safety and System Stabilization Act*** provides $10 billion in federal loan guarantees and credits, subject to terms and conditions that the President deems necessary. To monitor the disbursement and allocation of the funds and to provide oversight for the loan guarantee program, the Air Transportation Stabilization Board was established. The Board membership includes the Transportation Secretary, Treasury Secretary, Federal Reserve Board Chairman, and the U.S. Comptroller General.

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[12] The FAA *Aerospace Forecasts, FY 2001-2011.* March 2001, page III-16.
[13] See, for example, DRI-WEFA Economic Briefings at www.dri-wefa.com/features.
[14] See, for example, Michael Noer's article titled "The Airlines: Lots of Trouble, Some Hot Air" at www.forbes.com.
[15] See, DRI-WEFA Economic Briefings at www.dri-wefa.com/features.

The bill also provides $5 billion in compensation for direct losses incurred beginning September 11, 2001 as a result of the nationwide ground stop, and for the resulting losses that are anticipated through the end of the year. Passenger-only airlines and combined passenger-cargo airlines are eligible to share $4.5 billion of the $5 billion provision. Cargo-only airlines are eligible to share the remaining $500 million.[16] It is reported that as of February 8, 2002 the U.S. government had paid out approximately $3.9 billion in cash aid to 290 airlines in a two-phase process. For example, American has received $583 million; Delta received $528 million, and United received $644 million. Other major airlines that have received emergency cash assistance include Continental, which received 318 million, Northwest, which received $405 million, and US Airways, which received $255 million.[17] In addition, on January 18, 2002, America West reported that it had secured $429 million in loans backed by $380 million in government guarantees.[18] It is too soon to assess the impact of the emergency aid program on the financial viability of the industry. However, the pace at which the airlines return to a position of financial stability is critical to future aviation demand and supply.

2. Changing U.S. Airport Environment

In the aftermath of the September 11, 2001 Events, the FAA set up an ad-hoc Research Engineering and Development Advisory Committee (REDAC), which was charged with the primary objective to assess aviation research opportunities and provide short, mid and long-term recommendations on the most promising technologies for aviation security. The committee is to make its initial recommendations to the FAA administrator, and produce a final report by the spring of 2002.[19]

Prior to the September 11, 2001 Events, there were a variety of technologies in use at airports across the United States. For example, the FAA has been deploying explosives detection systems (EDS) at airports across the U.S. EDS was used primarily to screen checked bags belonging to air travelers identified by the Computer Assisted Passenger Prescreening System (CAPPS). Prior to September 11, CAPPS allowed for selective baggage screening. However, in the post September 11 era of heightened security, the FAA is increasing the use of CAPPS to include all passengers and has mandated all airlines to use EDS to the maximum extent possible. A multi-agency working group led by the FAA is accelerating research on biometrics technologies for possible applications at U.S. airports, particularly in the area of access control, passenger identification, and flight crew identification. Stricter limits on carry-on baggage are now being enforced at airports nationwide.

[16] A similar text of this bulletin was published by various industry sources, including the Air Transport Association, at www.airlines.org.
[17] As reported on the U.S. Department of Transportation web site at www.dot.gov.
[18] America West press release at www.biz.yahoo.com.
[19] FAA Press release at www.faa.gov, November 2001.

There is no doubt about the commitment of U.S airlines and airports to ensuring the safety of the traveling public. For example, in the Department's October 2001 publication, Department management echoed the national sentiment by affirming that "the best response is to provide a level of safety and service that can support a free and prosperous future".[20] The safety benefits of the heightened airport security procedures are clear. However, there are also costs, primarily in the form of longer time spent going through security checks, and the longer dwell time spent in holding areas at airports. There is likely to be a negative impact on travel demand, particularly discretionary travel, as air travelers make the adjustment to the added security measures. The faster air travelers adjust to the new security reality, the smaller the negative impact on aviation demand is likely to be.

3. Airline Industry Profitability

In addition to the usual operating costs items of labor, fuel and aircraft maintenance, airlines have had to incur the cost of providing additional costs relating to aircraft safety hardware and procedures. 1999 was the seventh consecutive year that operating revenues for U.S. commercial airlines grew faster than their operating expenses. According to the FAA, a major contributing factor to the financial success of the airline industry in 1999 was the 9.6% drop in jet fuel costs in 1999.[21] However, even prior to the September 11, 2001 Events, there were signs of weakening revenues among the major airlines.

Industry analysts agree that constant price wars, and the ever-present fuel and labor issues keep the airline industry among the most competitive, and subject the financial performance of airlines to greater volatility than many other businesses.[22] According to the Fitch report, sharply rising labor costs, price wars, and overexpansion had put increased pressure on U.S. airlines before September 11, such that only two (Continental and Southwest) of the nation's major airlines posted profits in the first quarter of 2001. The sharp drop in passenger volume in the aftermath of the September 11, 2001 Events reduced revenues faster than the airlines could cut costs, with the result that only two airlines (Southwest and Alaska) posted profits in the third quarter of 2001 without the benefit of the federal government emergency cash assistance.[23]

The financial challenges facing U.S. airlines may be ameliorated to some degree by the provisions of the $15 billion Air Transportation Safety and Stabilization Act. In addition, prior to the September 11, 2001 Events, there were significant structural changes underway in the industry. For example, the success of low-cost carriers like Southwest had caused most of the high-cost carriers to engage in route

[20] San Antonio Department of Aviation, *Flight Plan,* October 2001.
[21] The FAA *Aerospace Forecasts, FY 2000-2011.* March 2000, pages III-1 & III-2.
[22] See, for example, Fitch IBCA, Duff & Phelps, "U.S. Airport Bonds and Airlines Since 1978's Deregulation: The Great Credit Divide", November 29, 2001.
[23] Ibid. page 2.

rationalization and acquire more efficient aircraft equipment.[24] Although it is too soon to make any predictions, the combined implementation of the provisions of the federal emergency aid package and the ongoing structural changes is likely to have positive implications for the long-term profitability of the airline industry.

4. National Economic Conditions

As with most consumer goods, air travel demand is affected by prevailing economic conditions. Periods of economic expansion boost consumer confidence and the demand for most consumer goods and services. By contrast, economic downturns create uncertainties and dampen business and consumer demand. Even before the September 11, 2001 Events, there were indications that the U.S. economy was slowing down following a nine-year period of steady expansion – the second longest period of economic prosperity of the post-World War II era.[25] According to DRI-WEFA economists, prior to September 11, two factors combined to minimize a broader downturn in the U.S., namely the growth in consumer spending and the resilience of the service sectors.[26] However, in the aftermath of the September 11, 2001 Events, there are doubts that growth in consumer spending will be sustained. Consequently, DRI-WEFA has revised their pre-attack projections of U.S. growth to be 1.1% in 2001 and 1.6% in 2002, down from 1.6% and 2.3%, respectively. DRI-WEFA expects the downturn to be relatively brief, and for a strong recovery to be underway by mid-2002.[27] It is reasonable to expect consumers to adjust their prospective travel demand to changing economic conditions. Consequently, passenger traffic and related aviation activity at SAT are likely to continue to be sensitive to future U.S. business cycles.

D. SUMMARY

Table IV-17 summarizes the historical trends and forecasts of aviation activity at SAT that were discussed in this section. Highlights include the following:

- Enplanements at SAT increased at an average annual rate of 2.8%, from 2.6 million in 1991 to 3.44 million in 2001 Unison's base forecast of enplanements project an average annual growth rate of 3.5% during the 2001-2011 period, with annual enplanements reaching 4.85 million by 2011.
- Recognizing the added uncertainties in the aftermath of the September 11, 2001 Events, Unison developed three scenarios of aviation activity – Base, Low, and High - at SAT for the 2002-2011 period. The base forecast scenario

[24] The FAA *Aerospace Forecasts, FY 2000-2011*. March 2000, pages III-15 & III-17.
[25] The FAA *Aerospace Forecasts, FY 2001-2012.* March 2001
[26] DRI-WEFA, "U.S. and Global Economic Prospects: A Deeper Recession and a Stronger Recovery", at www.dri-wefa.com.
[27] Ibid.

TABLE IV-17
SUMMARY OF AVIATION ACTIVITY FORECASTS [1]
CY 2001-2011

		Forecast				
Activity	**2001**	**2002**	**2003**	**2004**	**2005**	**2011**
A. SUMMARY - ALTERNATIVE SCENARIOS						
Enplanements						
Base	3,443,434	3,410,118	3,751,819	3,965,844	4,186,782	4,848,961
Low	3,443,434	3,410,118	3,554,355	3,660,779	3,768,104	4,364,065
High	3,443,434	3,410,118	3,949,283	4,067,532	4,186,782	4,848,961
Commercial Aircraft Landings						
Base	44,696	44,723	49,009	51,430	54,029	60,202
Low	44,696	44,723	46,430	47,473	48,626	54,181
High	44,696	44,723	51,588	52,748	54,029	60,202
Commercial Landed Weight (000 lbs)						
Base	5,546,562	5,528,553	6,095,294	6,421,191	6,758,103	7,779,214
Low	5,546,562	5,528,553	5,774,489	5,927,253	6,082,293	7,001,292
High	5,546,562	5,528,553	6,416,099	6,585,837	6,758,103	7,779,214
B. BREAKDOWN - BASE FORECASTS						
Enplanements						
Domestic Air Carrier	3,327,486	3,298,608	3,631,761	3,838,937	4,052,805	4,693,794
Domestic Charter	35,653	32,396	33,766	35,693	37,681	43,641
Foreign Carrier	80,295	79,115	86,292	91,214	96,296	111,526
Total	**3,443,434**	**3,410,118**	**3,751,819**	**3,965,844**	**4,186,782**	**4,848,961**
Commercial Aircraft Landings						
Domestic Air Carrier	38,315	38,045	41,750	43,830	46,066	51,407
Domestic Charter	284	263	274	290	306	355
Air Cargo	4,271	4,720	5,173	5,428	5,702	6,354
Foreign Carrier	1,826	1,694	1,812	1,881	1,954	2,086
Total	**44,696**	**44,723**	**49,009**	**51,430**	**54,029**	**60,202**
Commercial Landed Weight (000 lbs)						
Domestic Air Carrier	4,691,936	4,658,854	5,145,277	5,423,094	5,708,740	6,602,129
Domestic Charter	43,638	40,293	41,997	44,392	46,866	54,278
Air Cargo	685,651	708,042	775,904	814,226	855,371	953,101
Foreign Carrier	125,337	121,364	132,116	139,478	147,127	169,705
Total	**5,546,562**	**5,528,553**	**6,095,294**	**6,421,191**	**6,758,103**	**7,779,214**

[1] **See Tables IV-11, IV-12, IV-14, IV-15, and IV-16.**

assumes that the prospective impact of the September 11, 2001 Events will diminish over time, and that aviation activity will return to normal levels by 2005. The high forecast scenario assumes that the negative impact of the attacks will last only through 2002, with activity returning to normal levels by 2003. The low forecast scenario assumes that the negative impact of the attacks will linger throughout the forecast period.

- SAT is primarily an O&D airport, with O&D traffic accounting for over 88% of annual enplanements during the 1991-2000 period. The forecast projects a

90.3% market share and an average annual growth of 3.5% in O&D enplanements over the 2001-2011 period, maintaining SAT's primary role as an O&D airport during the forecast period.

- Domestic air carriers will continue to serve the majority of enplaned passengers at SAT, accounting for 97.7% of annual enplanements during the 2001-2011 period. International enplanements by foreign carriers at SAT will constitute the remaining 2.3%.
- Annual aircraft operations, comprising commercial, general aviation, and military, increased from 209,162 in 1991 to 246,133 in 2000, representing an average annual growth rate of 1.8%. Unison's base forecast is for an average annual increase of 3.0% in commercial aircraft landings over the 2001-2011 period. Domestic aircraft landings will continue to constitute the majority of operations, increasing from 42,870 in 2001 to 58,116 in 2011. Foreign aircraft landings are projected to increase at an average annual rate of 1.3%, from 1,826 in 2001 to 2,086 in 2011.

Commercial aircraft landed weight decreased by 4.0%, from 5.78 billion pounds in 1999 to 5.55 billion pounds in 2001. Unison's base forecast projects an average annual growth of 3.4% in commercial landed weight at SAT reaching 7.78 billion pounds in 2011.

SECTION V
SUMMARY OF THE AIRLINE USE AGREEMENT

The City, through the Department, recently negotiated a new Airline-Airport Use and Lease Agreement ("Airline Agreement") with airlines operating at the Airport (the "Signatory Airlines"). The previous agreement expired on September 30, 2001, and the City Council approved the new Airline Agreement on September 27, 2001. The negotiations for the new Airline Agreement did not result in any significant changes. The current Signatory Airlines are the following: Aerolitoral, Continental, Delta, Midwest Express, Mexicana, Northwest, Southwest, and United. As of the date of this report, American Airlines is currently on holdover status pending lease area revisions resulting from the acquisition of TWA. Department management anticipates that American will execute the new Airline Agreement on or before April 1st.

The airlines operating at the Airport that are not parties to the Airline Agreement (the "Non-signatory Airlines") operate pursuant to a monthly permit. The monthly permits contain terms and conditions that are very similar to the Airline Agreement, except that the term is monthly, and the Non-signatory Airlines are not eligible to receive any rental credit, which is explained later in this section. The current Non-signatory Airlines include Aeromar, Allegro, America West, Atlantic Southeast, and several charter airlines, including America Trans Air (ATA) Casino Express, Champion Air, and Miami Air International.

In addition to the airlines operating at SAT as of the date of this report, Sun Country, which had ceased operations at SAT effective December 2001, plans to reinstate service at SAT as a non-signatory airline beginning on February 28, 2002. Effective March 1, 2002, Comair plans to begin service at SAT as an affiliate of Delta, and America West Express plans to begin service as an affiliate of America West.

A. TERM

The term of the Airline Agreement began on October 1, 2001 and shall terminate on the earlier of either the Date of Beneficial Occupancy ("DBO") of Concourse B or on September 30, 2006.

B. USE OF PREMISES

Under the terms of the Airline Agreement, the City agrees to lease to the Signatory Airlines certain exclusive use premises, preferential use premises, and joint use premises, as set forth in an attachment to the Airline Agreement.

C. RENTALS, FEES, AND CHARGES

Pursuant to the Airline Agreement, the Signatory Airlines agree to pay to the City certain rentals, fees, and charges in amounts estimated to be sufficient to produce, together with the rents and fees paid by other airlines and other Airport System tenants, revenues in each fiscal year to satisfy the rate covenant contained in the Bond Ordinances[1]. The rate covenant requires the City to charge and collect rentals, rates, fees, charges, and amounts for the use of Airport System facilities which will produce in each fiscal year total revenues at least sufficient (1) to pay the Operation and Maintenance Expenses ("O&M Expenses") in each fiscal year and also (2) to provide an amount equal to 1.25 times the debt service requirements during each fiscal year on all Parity Obligations outstanding during the fiscal year. On or about July 1st of each year (approximately 90 days prior to the end of the current fiscal year, the City is required to notify the Signatory Airlines of the amount of rates, fees, and charges it intends to establish for the following fiscal year.

The principal types of rates and charges paid by the Signatory Airlines are terminal rents, landing fees, charges for the Federal Inspection Service ("FIS") facilities, and other charges. The airline rates and charges are described briefly in the following paragraphs.

1. Landing Fees

The Signatory Airlines pay landing fees in each fiscal year based on the sum of the following costs attributable to the airfield for that fiscal year:

- Direct and indirect O&M Expenses,
- Debt service requirements,
- Debt service coverage,
- Amortization costs, and
- Any amounts necessary to replenish the balances required to be maintained in the various funds and accounts established pursuant to the Bond Ordinances.

The total annual airfield expenses, known as the "Total Revenue Requirement" amount, is multiplied by 83% to approximate the airlines' share of total annual airfield expenses. The Department then deducts Ramp Fees to arrive at the "Adjusted Airline Requirement," which is divided by total landed weight expressed in thousand-pound units to arrive at the landing fee per thousand-pound unit.

[1] The Bond Ordinances are discussed in Section VI.

2. Terminal Rent

Airline terminal rents are calculated on a compensatory basis, whereby the Signatory Airlines pay terminal rent for space they lease on an exclusive use, joint use, and preferential use basis. In each fiscal year, the Signatory Airlines pay terminal rent based on the sum of the following costs attributable to the terminal facilities in that fiscal year:

- Direct and indirect O&M expenses,
- Debt service requirements,
- Debt service coverage,
- Amortization costs, and
- Any amounts necessary to replenish the balances required to be maintained in the various funds and accounts established pursuant to the Bond Ordinances.

The sum of the above amounts is divided by total rentable terminal space to arrive at the average terminal rental rate.

The Signatory Airlines may be eligible for terminal rent credits after the end of each fiscal year. Pursuant to the flow of funds established in the bond ordinances, revenues (excluding PFC revenues) in excess of the sum of O&M Expenses, Parity and Subordinate debt service requirements, and reserve fund deposits are available for deposit into the Capital Improvement Fund (the "CIF"). After the completion of an independent audit of the Department's financial statements for each fiscal year, the Signatory Airlines receive a terminal rent credit equal to a portion of the revenues available to be deposited into the CIF. In the event the audit determines that the revenues available for deposit into the CIF exceeded the 25% debt service coverage requirement for the fiscal year, the Signatory Airlines will receive a terminal rent credit totaling approximately 50% of such remaining revenues, subject to certain limitations.

3. Federal Inspection Service Facilities Charges

Each airline using the Federal Inspection Service ("FIS") facilities is required to pay its proportionate share of the FIS charges based on a deplanement fee, multiplied by the number of international passengers processed through the FIS facilities.

4. Other Charges

The airlines pay other charges, including employee parking charges and other miscellaneous charges. If an airline provides parking for its employees, the airline is required to pay the City charges that are reasonably established by the City for the use of the employee parking areas. Other charges paid by the airlines include

charges for miscellaneous items or activities, including badges, extraordinary electrical usage, and personal property storage.

D. CAPITAL IMPROVEMENTS

On or about July 1st (approximately 90 days prior to the end of the fiscal year), the City shall notify the Signatory Airlines in writing of its proposed capital expenditures for the following fiscal year. The City is required to defer a proposed capital expenditure (except for the types of capital expenditures listed below) for 180 days, if a majority of the Signatory Airlines request such a deferral. A majority of the Signatory Airlines is defined as at least 51% in number of Signatory Airlines, representing at least 51% of the Airport's total landed weight for all Signatory Airlines during the most recent complete fiscal year. Not subject to a deferral are capital expenditures that:

- Have a net cost to the City of less than $761,000 adjusted annually in accordance with changes in the U.S. Implicit Price Deflator Index;
- Are required for public safety when directed by the FAA, the National Transportation Safety Board, or similar governmental authority with appropriate jurisdiction;
- Will remedy casualty damage to Airport System property in excess of insurance proceeds;
- Are for special purpose facilities;
- Are for improvements or additions necessary to insure compliance with the requirements of other governmental authorities;
- Are necessary to settle claims, satisfy judgments, or comply with orders against the City;
- Are of an emergency nature which will prevent the closure of an airport in the Airport System within 48 hours;
- Are to accommodate the increased requirements of a Signatory Airline, and that Signatory Airline has agreed in writing to pay the increased rentals, fees, and charges sufficient to pay the debt service (if financed with bonds) or an equivalent amount (if funded from the Capital Improvement Fund); and
- Are for projects that are financially self-supporting.

The provision allowing the airlines to defer capital projects has been included in the airlines' lease agreements at SAT since 1984. To date, no project has been deferred by the airlines.

E. USE OF CAPITAL IMPROVEMENT FUNDS

Monies available in the Capital Improvement Fund ("CIF") shall not normally be used to finance exclusive use facilities. If monies from the CIF are used to finance exclusive use facilities, the City shall require the benefiting airline to repay the monies within five years of the date of expenditure, including interest. The cost of projects in the airline cost centers that are paid from monies in the CIF shall be included in the calculation of rentals, fees, and charges paid by the Signatory Airlines, upon completion of those projects.

SECTION VI
FINANCIAL ANALYSIS

This section reviews the framework for the financial operation of the Department (including key provisions of the Bond Ordinances and the Airline Agreements), reviews the recent historical financial performance of the Department, and examines the ability of the Department to generate sufficient Gross Revenues and PFC Revenues in each year of the forecast period (FY 2002 through FY 2011) to (1) pay the Operation and Maintenance Expenses ("O&M Expenses") and meet all of the other funding requirements of the Bond Ordinances and (2) satisfy the Coverage Ratio requirement. This section also discusses the information and assumptions underlying the financial forecasts, which include Gross Revenues, PFC Revenues, O&M Expenses, debt service requirements, debt service coverage, and the application of Gross Revenues and PFC Revenues to the funds and accounts established under the Bond Ordinances.

As mentioned in Section I and Section IV, air travel demand has weakened since the September 11, 2001 Events, as consumers are now concerned about the safety of the U.S. transportation system. Airports and airlines are implementing tighter security measures, but these measures have increased passenger processing times at airports and create another disincentive for air travel. The softening of air travel demand could be temporary, and traffic levels may eventually return to normal. On the other hand, the September 11, 2001 Events could alter consumers' travel choices significantly and reduce demand for air travel over a much longer horizon. This section presents a discussion of Department management's reaction to the September 11, 2001 Events, and it also presents sensitivity analyses to evaluate the potential financial impact of the September 11, 2001 Events on the financial feasibility of the proposed financings.

The financial projections presented in this section are based on the "Base" air traffic forecast presented in Section IV. As explained in Section IV, the "Base" scenario assumes that the negative impact of the September 11, 2001 Events will diminish gradually, and enplanements will return to normal levels by 2005. However, near the end of this section, certain key financial factors are also projected under the two alternative air traffic forecasts developed with the regression model approach. Under the "High" scenario, it is assumed that the negative impact of the September 11, 2001 Events lasts through 2002, and enplanements return to normal by 2003. Under the "Low" scenario, it is assumed that the negative impact lingers throughout the forecast period.

A. FINANCIAL FRAMEWORK

The two airports owned by the City (SAT and Stinson) are operated by the Department. For financial statement purposes, the City combines the financial

operations of the City's two airports. Listed below are the City's currently outstanding general airport revenue bond ("GARB") issues that were sold prior to 2001 (the "Pre-2001 Parity Obligations"). Also listed are the outstanding principal amounts of each issue as of the date of this report:

- Series 1992 Revenue Refunding Bonds $9.7 million
- Series 1992 Revenue Bonds $3.1 million
- Series 1993 Revenue Refunding Bonds $6.4 million[1]
- Series 1996 Revenue Bonds $19.2 million

The City also has the following Special Facilities Bonds outstanding:

- Airport Lease Special Project Revenue Bonds (Raytheon Aircraft Services Project) – Approximately $4.2 million outstanding
- Airport Lease Special Project Revenue Bonds (Cessna Project) – Approximately $4.8 million outstanding

The Special Facilities Bonds are secured solely by special facility lease payments received from the tenants using the facilities. The Special Facilities Bonds are not secured by Airport System Gross Revenues, and the special facility lease payments are not available for the payment of airport revenue bond debt service.

1. Airport Revenue Bond Ordinances

On April 19, 2001, the City Council adopted the *Master Ordinance Establishing the Airport System Revenue Bond Financing Program With Respect to the Issuance of Obligations by the City of San Antonio, Texas Secured by Gross Revenues of the Airport System* (the "Master GARB Ordinance"). The following two GARB issues were authorized by the City Council pursuant to two supplemental ordinances:

- The Forward Refunding Revenue Bonds, Series 2003 (the "Series 2003 Bonds") were authorized pursuant to the "First Supplemental Ordinance," approved by the City Council on April 19, 2001, in the amount of $50.23 million. The Series 2003 Bonds are not currently outstanding, but are expected to be delivered on or about April 8, 2003. The proceeds of the Series 2003 Bonds will be used to retire approximately $49.2 million of principal amount of the Series 1993 Revenue Refunding Bonds when the Series 2003 Bonds are delivered.

[1] After giving effect to the defeasance of approximately $49.2 million of currently outstanding Series 1993 Revenue Refunding Bonds with proceeds of the Series 2003 Forward Refunding Bonds described below, which are expected to be delivered on April 8, 2003.

- The Airport System Revenue Bonds, Series 2001 (the "Series 2001 Bonds"), in the par amount of approximately $17.8 million, were authorized and delivered pursuant to the "Second Supplemental Ordinance," approved by the City Council on August 30, 2001.

The Series 2002 Bonds are being issued pursuant to the *Third Supplemental Ordinance to the Master Ordinance Authorizing the Issuance, Sale, and Delivery of City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2002* (the "Third Supplemental Ordinance"), expected to be approved by the City Council on March 7, 2002. The Master Ordinance and the supplemental ordinances are collectively referred to as the "GARB Ordinances." Pursuant to the GARB Ordinances, the City has pledged the Department's Gross Revenues (the revenues generated by the City's two airports, excluding PFCs and subject to certain exclusions described below), for the payment of debt service on the GARBs.

The Series 2001 Bonds and the Series 2003 Bonds were authorized on parity with the Pre-2001 Parity Obligations. The Series 2002 Bonds will also be issued on parity with the Pre-2001 Parity Obligations. The Pre-2001 Parity Obligations, the Series 2001 Bonds, the Series 2003 Bonds, and the Series 2002 Bonds are collectively referred to in this document as the "Parity Obligations." The City does not currently have any subordinate obligations outstanding.

The City's currently outstanding and planned GARB issues are summarized on **Table VI-1**. The Master GARB Ordinance requires the City to "fix, maintain, enforce, charge, and collect rentals, rates, fees, charges and amounts for the use, occupancy, services, facilities, and operation of the Airport System which will produce in each Fiscal Year Gross Revenues at least sufficient: (A) to pay all Operation and Maintenance Expenses during each Fiscal Year, and also (B) to provide an amount equal to 1.25 times the Annual Debt Service Requirements during each Fiscal Year on all then Outstanding Parity Obligations." This provision is referred to as the Rate Covenant.

Figure VI-1 illustrates the application and priority in the uses of Gross Revenues and PFC Revenues, as specified in the GARB Ordinances and the PFC Ordinances[2]. As explained in the subsequent sub-section, PFC Revenues are to be segregated and deposited into the PFC Revenue Fund. Gross Revenues (excluding PFC Revenues) are to be deposited to the following accounts in the order of priority indicated:

1. To the Revenue Fund;

2. To the Bond Fund to pay the interest and principal payments due on outstanding Parity Obligations;

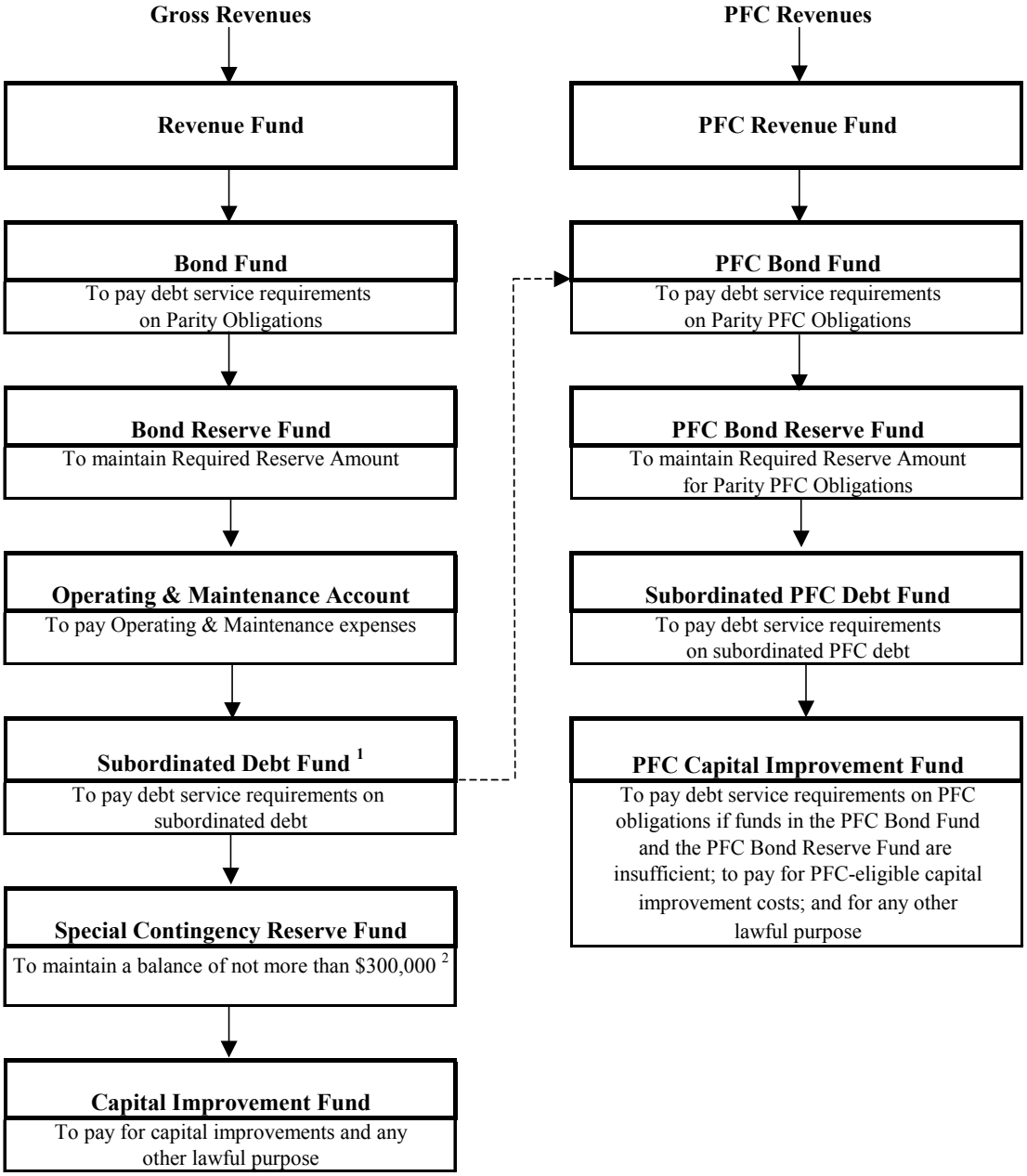
[2] The PFC Ordinances, which authorize the issuance of the Series 2002 PFC Bonds, are described in sub-section 2 below.

TABLE VI - 1
SAN ANTONIO DEPARTMENT OF AVIATION
SUMMARY OF AIRPORT REVENUE BOND ISSUES [1]

Bond Series	Principal As of 2/1/02
Currently Outstanding Airport Revenue Bonds	
Pre-2001 Parity Obligations	
Series 1992 Revenue Refunding Bonds	$9,675,000
Series 1992 Revenue Bonds	3,130,000
Series 1993 Revenue Refunding Bonds [2]	6,390,000
Series 1996 Revenue Bonds	19,225,000
Parity Obligations	
Series 2001 Revenue Bonds	$17,795,000
Series 2003 Forward Refunding Bonds [2]	50,230,000
Total Airport Revenue Bonds Currently Outstanding	$106,445,000
Planned Future Airport Revenue Bonds (Parity Obligations)	
Series 2002 Revenue Bonds	$99,675,000
Other Future Revenue Bonds	26,815,000
Total Planned Airport Revenue Bonds	$126,490,000
TOTAL REVENUE BONDS	**$232,935,000**

[1] This table reflects Airport Revenue Bond Issues only. It does not include PFC bond issues.
[2] Includes the effect of the Series 2003 Forward Refunding Bonds to be delivered in April 2003.

FIGURE VI-1
SAN ANTONIO DEPARTMENT OF AVIATION
FLOW OF FUNDS FOR REVENUE BONDS AND PFC BONDS



[1] If it becomes necessary for Net Revenues to be used to pay all or a portion of debt service on the Series 2002 PFC Bonds or any other Subordinated Debt, the Subordinated Debt Fund will be established. This will occur if PFC Revenues or other revenues pledged for other Subordinated Debt are not sufficient to pay debt service on the Series 2002 PFC Bonds or other Subordinated Debt. Monies deposited into the Subordinated Debt Fund for the payment of debt service on the Series 2002 PFC Bonds will be transferred to the PFC Bond Fund.

[2] Pursuant to the Master GARB Ordinance, the Special Contingency Reserve Fund will be dissolved and the balance therein will be transferred to the Capital Improvement Fund on the First Automatic Amendment Date, which is the date at which the total amount of outstanding Pre-2001 Parity Obligations becomes less than 49% of the total outstanding Parity Obligations. The First Automatic Amendment Date will occur on the date of delivery of the Series 2002 Bonds.

3. To the Bond Reserve Fund, if necessary, to maintain the Required Reserve Amount;

4. To the Operation and Maintenance ("O&M") Account in the Revenue Fund to pay the Department's O&M Expenses;

5. To the Subordinated Debt Fund to pay the principal and interest on the outstanding subordinate obligations;

6. To the Special Contingency Reserve Fund up to a maximum balance of $300,000[3];

7. To the Capital Improvement Fund to pay the costs of capital improvements and any other lawful purpose.

2. PFC Bond Ordinances

It is anticipated that in March 2002, the City Council will adopt the *Master Ordinance Establishing the Airport System Revenue Bond Financing Program with Respect to the Issuance of Obligations by the City of San Antonio, Texas Payable in Whole or in Part from Passenger Facility Charges* (the "Master PFC Ordinance"). It is also anticipated that in March 2002, the City Council will adopt the *First Supplemental Ordinance to the Master Ordinance Relating to the Issuance of Obligations Secured in Whole or in Part with "Passenger Facility Charges" and Fourth Supplemental Ordinance to the Master Ordinance Relating to the Issuance of Obligations Secured with Gross Revenues of the City's Airport System* (the "First Supplemental PFC Ordinance"). In this document, the Master PFC Ordinance and the First Supplemental PFC Ordinance are collectively referred to as the "PFC Ordinances."

Pursuant to the PFC Ordinances, the Series 2002 PFC Bonds are special, limited obligations of the City payable from and secured by a pledge of PFC Revenues and a lien on and pledge of the Net Revenues subordinate to the payment of the Parity Obligations. On August 29, 2001, the FAA approved two PFC applications that had been submitted by the City, and authorized the City to impose a $3.00 PFC effective November 1, 2001, with an estimated charge expiration date of November 1, 2009. The FAA issued a Record of Decision ("ROD") that authorized the City to impose a PFC to collect approximately $102.5 million for 11 projects and to use approximately $44.1 million in PFC revenue for 5 projects, as summarized in Section II. Under applicable federal laws and regulations, the air carriers serving SAT are required to

[3] Pursuant to the Master GARB Ordinance, the balance in the Special Contingency Reserve Fund will be transferred to the Capital Improvement Fund on the First Automatic Amendment Date, which is the date at which the total amount of outstanding Pre-2001 Parity Obligations becomes less than 49% of the total outstanding Parity Obligations. The First Automatic Amendment Date will occur on the date of delivery of the Series 2002 Bonds.

collect the $3.00 PFC and to remit the proceeds, less a $0.08 collection fee per PFC-eligible enplaned passenger, to the City on a monthly basis. The Series 2002 PFC Bonds are further secured by the moneys and funds held in certain funds and accounts established pursuant to the PFC Ordinances and the investment earnings thereon, and further secured by a pledge of Net Revenues subordinate to the payment of the Parity Obligations.

The Master PFC Ordinance requires the City to prepare an annual budget each Fiscal Year "which will indicate that the reasonably expected receipt of PFC Revenues during such Fiscal Year (together with any funds reasonably expected to be on deposit during such Fiscal Year in the PFC Revenue Fund or the PFC Capital Improvement Fund from prior Fiscal Years and available for purposes of acquiring and constructing PFC Eligible Airport-Related Projects), after payment of all costs to acquire and construct PFC Eligible Airport-Related Projects with PFC Revenues during such Fiscal Year, will provide an amount equal to 1.25 times the Annual Debt Service Requirements during such Fiscal Year on all then Outstanding Parity PFC Obligations." This provision is referred to as the Covenant to Budget Debt Service Coverage.

The Master PFC Ordinance also requires that in the event any Parity PFC Obligations which are also secured with a lien on and pledge of Subordinate Net Revenues (defined as Net Revenues available after the debt service requirements on all Parity GARBs are satisfied) remain outstanding and the City is for any reason unable to collect, or does not actually collect, PFC Revenues in an amount sufficient to provide PFC Revenues to satisfy the Covenant to Budget PFC Debt Service Coverage, the City will at all times fix, maintain, enforce, charge, and collect rates, fees, charges, and amounts for Airport System facilities and operations which will produce in each Fiscal Year Subordinate Net Revenues at least equal to 1.10 times the annual debt service requirements during each Fiscal Year on all then outstanding Parity PFC Obligations.

The PFC Ordinances require that PFC revenues be deposited into the PFC Revenue Fund. PFC revenues shall be segregated and kept separate and apart from all other moneys, revenues, funds, and accounts of the City. The moneys in the PFC Revenue Fund are to be administered pursuant to the flow of funds described in the Master PFC Ordinance, as depicted on **Figure VI-1** and summarized below:

1. To the PFC Bond Fund for the payment of principal and interest on all parity PFC obligations. Because the Series 2002 PFC Bonds are the first bonds being issued under the Master PFC Ordinance, the Series 2002 PFC Bonds are the first parity PFC obligations of the City.

2. To the PFC Bond Reserve Fund, if necessary, until the account balance is equal to the Required Reserve Amount.

3. To the Subordinated PFC Debt Fund for the payment of debt service requirements on subordinated PFC debt.

4. All remaining PFC revenues shall be deposited monthly to the PFC Capital Improvement Fund. Moneys in the PFC Capital Improvement Fund may be used by the City to pay debt service requirements on PFC obligations if the funds in the PFC Bond Fund and the PFC Bond Reserve Fund are insufficient to make such payments; to pay for PFC-eligible capital improvement costs; and for any other lawful purpose.

3. The Airport System Accounting and Financial Reporting

The Airport System is an enterprise fund of the City, and the financial operations of the Airport System are recorded in accordance with generally accepted accounting principles (GAAP) for governmental entities. The financial operations of the Airport System are included in the City's annual audited financial statements, which are prepared based on the City's fiscal year ending September 30. At the end of each fiscal year, independent certified public accountants examine the financial condition of the Airport System (and the other funds and accounts of the City) to determine compliance with GAAP and the requirements of the various state and federal agencies with whom the City has agreements and receives grants-in-aid.

The FY 2001 audited financial statements for the Airport System show that as of September 30, 2001, the Airport System had total assets of approximately $298.7 million, liabilities of approximately $117.3 million, and total fund equity of approximately $181.4 million. **Table VI-2** summarizes the operating results of the Airports Fund for FY 1997 through FY 2001 in accordance with GAAP and in accordance with the methodology set forth in the GARB Bond Ordinances, and reconciliation between the two methodologies. The reconciling items include depreciation expense, interest expense on the outstanding bonds, gain/loss on disposal of fixed assets, and other miscellaneous expense items, which are recorded as expenses in accordance with GAAP but are not included in the Department's costs of operation and maintenance pursuant to the Ordinances.

4. Airline Rates and Charges Methodology

The Department collects landing fees, terminal rents, and FIS facilities charges from the airlines operating at SAT to support the operation and maintenance of the facilities used by the airlines. These rents and fees, which accounted for approximately 28.4% of total Gross Revenues FY 2001, are collected from signatory airlines and non-signatory airlines.

a. *Landing Fees*. As discussed in Section V, under the terms of the Airline Agreements, the airlines are responsible for paying landing fees in an amount

TABLE VI - 2
SAN ANTONIO DEPARTMENT OF AVIATION
RECONCILIATION OF HISTORICAL AUDITED FINANCIAL RESULTS
FOR FISCAL YEARS ENDED SEPTEMBER 30

Category	Fiscal Year 1998	1999	2000	2001
Statement of Revenues and Expenses (per GAAP)				
Operating Revenues	$34,885,555	$35,756,586	$38,629,127	$39,815,502
Operating Expenses	(25,657,805)	(27,305,523)	(28,066,973)	(28,512,510)
Operating Income	$9,227,750	$8,451,063	$10,562,154	$11,302,992
Non-Operating Revenues	$4,389,025	$3,904,939	$4,027,713	$6,904,868
Non-Operating Expenses	(8,194,283)	(8,325,947)	(7,686,796)	(11,009,956)
Net Income	$5,422,492	$4,030,055	$6,903,071	$7,197,904
Net Revenues (per Master GARB Ordinance)				
Revenues	$37,134,968	$38,128,184	$41,523,081	$42,928,793
Operating and Maintenance (O&M) Expenses				
Personal Services	($12,787,410)	($13,837,299)	($13,779,825)	($14,664,547)
Contractual Services	($3,529,494)	($4,295,146)	($4,880,869)	($4,476,772)
Commodities	($861,902)	($1,205,318)	($1,183,443)	($1,031,408)
Other	($1,707,054)	($1,468,425)	($1,049,424)	($3,159,680)
Common Services	($583,477)	($642,820)	($692,266)	($280,227)
Total O&M Expenses	($19,469,337)	($21,449,007)	($21,585,827)	($23,612,635)
Net Revenues	$17,665,631	$16,679,177	$19,937,254	$19,316,158
Reconciliation				
Net Income per GAAP	$5,422,492	$4,030,055	$6,903,071	$7,197,904
Add Back:				
Depreciation	$6,986,984	$7,122,643	$7,438,934	$7,289,386
Interest Expense	7,932,775	7,697,794	7,425,288	7,218,355
Amortization Expense	261,508	261,508	261,508	255,433
Reduction of FAA Audit Finding	0	366,645	0	1,673,399
Defeasance of Bonds	0	0	0	711,278
Gain/Loss on Disposal of Fixed Assets	(2,078)	(334)	(49,609)	(30,952)
Other Non-Operating Expenses	(798,513)	(1,266,145)	(957,788)	(1,238,020)
	$14,380,676	$14,182,111	$14,118,333	$15,878,879
Deduct:				
Interest Income	$1,901,462	$1,218,900	$898,641	$430,109
Interest Earnings on Bond Accounts	$2,278,999	$2,435,734	$2,950,301	$3,165,427
Other Interest Income	($4,180,461)	($3,654,634)	($3,848,942)	($3,595,536)
Other Non-Operating Revenues	236,075	314,089	185,509	3,330,516
	$2,137,537	$1,532,989	$1,084,150	$3,760,625
Net Revenues per Master GARB Ordinance	$17,665,631	$16,679,177	$19,937,254	$19,316,158

necessary to recover the airlines' share of annual airfield expenses. Included in the calculation of total airfield expenses are direct and indirect operation and maintenance expenses ("O&M Expenses"), debt service requirements, debt service coverage, and amortization costs. The total annual airfield expenses, known as the "Total Revenue Requirement" amount, is multiplied by 83% to approximate the airlines' share of total annual airfield expenses. The remaining 17% of airfield expenses are recovered through rents and fees charged to the other airfield users, such as general aviation users. The Department then deducts Ramp Fees from the airlines' share of total annual airfield expenses to arrive at the "Adjusted Airline Requirement," which is divided by total landed weight expressed in thousand-pound units to arrive at the landing fee per thousand-pound unit.

b. *Terminal Rents*. As discussed in Section V, the Signatory Airlines pay terminal rent based on the sum of the following costs attributable to each terminal building in each fiscal year: Direct and indirect O&M expenses, debt service requirements, debt service coverage, and any other amounts necessary to replenish the balances in the various funds and accounts established pursuant to the bond ordinances. The total of the above amounts, known as the "Total Revenue Requirement," is reduced by the FIS area revenue and a credit for the Fenced Apron to arrive at the "Adjusted Revenue Requirement." That amount (for each terminal) is divided by the total rentable square footage (for each terminal) to determine the "Average Airline Rental Rate" for each terminal. The Signatory Airlines may be eligible for a terminal rent credit based on a portion of the revenues available to be deposited into the CIF, as described in Section V.

c. *FIS Facilities Charges*. The airlines that use the FIS facilities pay FIS facilities charges based on the costs of the FIS facilities. The charge is based on the number of international deplaned passengers.

5. Re-Engineering Study and Department Management's Reaction to the September 11, 2001 Events

During the last several years, Department management has implemented policies and procedures designed to control O&M Expenses and enhance revenues and customer service. In 1999, the Department completed a re-engineering study of its operations. The study focused on cost efficiencies, customer service improvements, and revenue enhancements. The goal of the re-engineering study was for the Department to incur costs commensurate with the level of services provided by the Department to the public. The re-engineering study also included recommendations on performance targets to be achieved over a three-year period, and an on-going evaluation process to monitor the status of the changes. Department management has already implemented many of the recommendations of the study, and is in the process of implementing most of the remainder of the recommendations. As a result

of implementing the study recommendations, the Department has experienced a net reduction of 26 employee positions, in addition to the elimination of 12 full-time and 36 part-time positions that resulted from the completion of new parking facility improvements. In addition, the Department's revenues are projected to increase due to the implementation of the revenue enhancement recommendations contained in the study, including commercial property development initiatives, employee parking rate increases, the imposition of an off-Airport parking privilege fee, and ground transportation access fees. Department management anticipates that the implementation of the recommendations will result in increased Net Revenues, approximately half of which will be used to reduce the airline's cost of operating at SAT (through increased credits pursuant to the airline rates and charges methodology, described above), and approximately half of which will be available to pay for new capital improvements at SAT and Stinson.

Subsequent to the September 11, 2001 Events, the Aviation Director implemented additional policies and procedures to ensure that the Department continues to operate in a cost-effective manner. Among other measures, Department staff members are required to follow the procedures listed below:

- The Director's approval will be required prior to posting personnel positions that were vacant as of September 11, 2001, or that become vacant after September 11, 2001.

- All capital expenditures, even those included in the Department's budget, will need to be approved by the Director prior to being requisitioned.

- All travel and related expenses will be examined by senior management on a case-by-case basis prior to incurring those expenses.

- All planned capital projects and major maintenance projects will be examined to determine if any expenditures can be delayed or eliminated.

- Division managers were required to submit a cost saving plan for the remainder of FY 2002. The plan should identify ways to achieve savings without hurting key Department services.

B. OPERATING AND MAINTENANCE EXPENSES

O&M Expenses are reported in the following categories: Personal Expenses; Contractual Services; Commodities; Other; and Common Services. O&M Expenses do not include depreciation expense, interest expense on bonds, amortization of bond costs, or gain/loss on disposal of fixed assets.

For purposes of calculating airline fees and rents at SAT, the Department also classifies O&M Expenses into the following cost centers:

- Direct cost centers
  - Airfield
  - Terminal 1
  - Terminal 2
  - Aviation Service Area (primarily FBO and cargo facilities)
  - Commercial and Industrial
  - Other Buildings and Areas
  - Parking
  - Stinson Airport
  - Administration

- Indirect cost centers
  - Fire and Rescue
  - Access
  - Central Plant
  - Maintenance, Direction, and Control
  - Security
  - Operations

The O&M Expenses for the indirect cost centers are allocated to the direct cost centers based on the amount of Personal Expenses incurred by each direct cost center.

Table VI-3 presents historical O&M expenses by category and by cost center for the period FY 1997 through FY 2001 (the historical period). Total O&M expenses increased from approximately $18.9 million in FY 1997 to approximately $23.2 million in FY 2001, representing an average annual increase of 5.3% during the historical period. The largest average annual percentage increase was recorded in the "Other" category, which increased at an average annual rate of 10.9%. However, each of the expense categories experienced fluctuations during the historical period, as discussed below.

During the forecast period, total O&M expenses are projected to increase to approximately $36.4 million in FY 2011, representing an average annual growth rate of 4.6%, as shown on **Table VI-4**. The projections of O&M Expenses are based on the following data and factors: (1) historical trends, (2) the Department's FY 2002 budget adjusted to reflect recent information and the estimated effects of the September 11, 2001 Events, and (3) anticipated future events and/or conditions, as discussed below by expense category.

TABLE VI - 3
SAN ANTONIO DEPARTMENT OF AVIATION
HISTORICAL OPERATING AND MAINTENANCE (O&M) EXPENSES
FOR FISCAL YEARS ENDED SEPTEMBER 30

O&M Expense	Audited 1997	1998	1999	2000	2001	Avg. Annual Growth Rate
By Expense Category						
Personal Services	$12,487,566	$12,787,410	$13,837,299	$13,779,825	$14,664,547	4.1%
Contractual Services	3,430,700	3,529,494	4,295,146	4,880,869	4,476,772	6.9%
Commodities	916,655	861,902	1,205,318	1,183,443	1,031,408	3.0%
Other	1,799,476	1,707,054	1,468,425	1,049,424	3,159,680	15.1%
Common Services	240,043	583,477	642,820	692,266	280,227	3.9%
Total O&M Expenses	$18,874,441	$19,469,337	$21,449,007	$21,585,827	$23,612,635	5.8%
By Cost Center						
Airline Cost Centers						
Airfield	$4,850,248	$5,164,945	$5,168,036	$5,343,888	$6,091,015	5.9%
Terminals	8,801,200	8,454,139	9,401,482	10,109,401	11,027,747	5.8%
Non-Airline Cost Centers	5,222,993	5,850,253	6,879,490	6,132,538	6,493,873	5.6%
Total O&M Expenses	$18,874,441	$19,469,337	$21,449,007	$21,585,827	$23,612,635	5.8%

TABLE VI - 4
SAN ANTONIO DEPARTMENT OF AVIATION
PROJECTED OPERATING AND MAINTENANCE EXPENSES
FOR FISCAL YEARS ENDED SEPTEMBER 30

O&M Expense	Fiscal Year 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Avg. Annual Growth Rate
By Expense Category											
Personal Services	$15,827,556	$16,459,935	$17,118,332	$17,803,065	$18,515,188	$19,255,796	$20,026,027	$20,827,069	$21,660,151	$22,526,557	4.0%
Contractual Services	5,233,347	5,599,681	5,991,659	6,411,075	6,859,851	7,340,040	7,853,843	8,403,612	8,991,865	9,621,295	7.0%
Commodities	1,251,485	1,289,030	1,327,700	1,367,531	1,408,557	1,450,814	1,494,339	1,539,169	1,585,344	1,632,904	3.0%
Other	1,267,764	1,303,261	1,339,753	1,377,266	1,415,829	1,455,472	1,496,226	1,538,120	1,581,187	1,625,461	2.8%
Common Services	788,831	810,918	833,624	856,965	880,960	905,627	930,985	957,053	983,850	1,011,398	2.8%
Total O&M Expenses	$24,368,983	$25,462,825	$26,611,068	$27,815,903	$29,080,386	$30,407,750	$31,801,420	$33,265,022	$34,802,397	$36,417,615	4.6%
By Cost Center											
Airline Cost Centers											
Airfield	$6,396,965	$6,669,255	$6,953,922	$7,251,576	$7,562,859	$7,888,447	$8,229,052	$8,585,425	$8,958,360	$9,348,690	4.3%
Terminals	11,745,512	12,283,251	12,848,742	13,442,780	14,066,943	14,722,902	15,412,429	16,137,405	16,899,819	17,701,786	4.7%
Non-Airline Cost Centers	6,226,506	6,510,320	6,808,404	7,121,547	7,450,584	7,796,401	8,159,938	8,542,192	8,944,218	9,367,139	4.6%
Total O&M Expenses	$24,368,983	$25,462,825	$26,611,068	$27,815,903	$29,080,386	$30,407,750	$31,801,420	$33,265,022	$34,802,397	$36,417,615	4.6%

1. Personal Services

Personal Services is the largest category of O&M expenses, representing approximately 63.3% of total O&M expenses in FY 2001. This category increased from approximately $12.5 million in FY 1997 to approximately $14.7 million in FY 2001, for an average annual increase of 4.1% during that period. The increases in this category during the historical period were primarily due to cost of living increases, merit increases, and other salary adjustments.

Department management does not expect significant increases in its staffing levels during the forecast period. However, Department management anticipates future average annual cost of living salary increases of approximately 4.0%. During the forecast period, Personal Services are projected to increase to $15.8 million in FY 2002, based on the salary and staffing levels anticipated by Department management. This category is projected to increase at 4.0% per year after FY 2002, to approximately $22.5 million in FY 2011.

2. Contractual Services

The Contractual Services category, which represented approximately 19.3% of total O&M expenses in FY 2001, is the second-largest expenditure category. It consists primarily of fees incurred for consulting services, security (police) and fire/rescue services provided by the City, and other contracts for services supplied by vendors, such as parking operation services, pest control, and heavy equipment maintenance. Contractual Services increased from approximately $3.4 million in FY 1997 to approximately $4.5 million in FY 2001, for an average annual increase of 6.9%. However, within the historical period, Contractual Services increased 21.7% in FY 1999 and 13.6% in FY 2000, and decreased by 8.3% in FY 2001. After experiencing increases in several contract categories in FY 1999 and FY 2000, the City was able to negotiate renewed contracts at a lower cost in FY 2001.

Contractual Services expenses are estimated to increase to approximately $5.2 million in FY 2002. The estimated increase in this category includes the anticipated increased security costs resulting from operational changes made subsequent to September 11, 2001. During the remainder of the forecast period, this category is projected to increase at approximately the historical average annual increase (7.0% per year), to approximately $9.6 million in FY 2011.

3. Commodities

The Commodities category, which represented approximately 4.5% of total O&M expenses in FY 2001, includes office supplies, janitorial supplies, facility repair parts, other supplies, and expenses recognized for the loss on equipment sales. Commodities expenses increased at an average annual rate of 3.0% during the historical period, from approximately $917,000 in FY 1997 to approximately $1.03

million in FY 2001. However, within the historical period, this expense category experienced fluctuations, including a large increase (39.8%) in FY 1999, followed by decreases in FY 2000 and FY 2001. According to Department management, these fluctuations were primarily due to the following two factors: (1) supply inventory adjustments that resulted in expenses recognized for the loss on equipment sales; and (2) expenses related to the temporary parking shuttle lots that were operated during the construction of the new parking garage.

It is anticipated that over time, the fluctuations in the Commodities category noted above, will continue to average out to an average annual growth rate of 3.0%, approximately consistent with inflation statistics reported by the U.S. Bureau of Labor Statistics[4]. Therefore, Commodities expenses are projected to increase at the historical average annual growth rate of 3.0% per year, to approximately $1.6 million in FY 2011.

5. <u>Other</u>

The Other expense category consists primarily of insurance premium costs, including contributions to insurance claim reserve funds. This category accounted for approximately 11.7% of total O&M Expenses in FY 2001, having increased from approximately $1.1 million in FY 1997 to approximately $2.7 million in FY 2001. The primary cause of the significant increase in this category (an average annual growth rate of 10.9% from FY 1997 to FY 2001) was the 158.5% increase in FY 2001, when the Department recorded a one-time charge resulting from an FAA audit. Prior to FY 1997, the FAA had determined that the City had overcharged the Department for services provided by the City to the Department. Therefore, the City reversed the charges disputed by the FAA. The City appealed the FAA audit determination, and in FY 2001, the City won its appeal. The Department recorded the disallowed expenses in FY 2001 in the "Other" category, which caused the significant increase in that year.

It is projected that Other expenses will increase at the annual inflation rate of approximately 2.8% during the forecast period, to approximately $1.6 million in FY 2011.

6. <u>Common Services</u>

The Common Services category consists primarily of charges from the City for services rendered to the Department, including the following: (1) administrative services such as accounting, payroll, and internal audit services; (2) the Department's share of the cost of the City's Disadvantaged Business Enterprise ("DBE") outreach program, and (3) health insurance premiums for Department retirees. The Common Services category, which represented approximately 1.2% of

[4] Historical inflation trends for 1990 to 2000, as reported by the U.S. Bureau of Labor Statistics in www.bls.gov, indicate that inflation was approximately 2.8% during the last decade.

total O&M Expenses in FY 2001, increased at an average annual rate of 3.9% during the historical period, from approximately $240,000 in FY 1997 to approximately $280,000 in FY 2001.

Department management does not anticipate any unusual fluctuations in the Common Services category during the forecast period. Therefore, Common Services are projected to increase at the annual inflation rate of approximately 2.8% during the forecast period, to approximately $1.0 million in FY 2011.

C. DEBT SERVICE AND AMORTIZATION CHARGES

As discussed in Section II, the Department's CIP includes a number of capital projects at SAT and Stinson during FY 2002 through FY 2011. The CIP projects are expected to be funded with federal AIP grants, PFC Revenues (both on a "Pay-As-You-Go" basis and through the issuance of PFC bonds), monies in the CIF, and GARBs. The financial analysis presented in this section reflects the CIP funding plan presented in Section II. This analysis includes the debt service and amortization assumptions described below.

1. GARB Debt Service

Debt service requirements for each of the future GARB issues included in this financial analysis were obtained from Coastal Securities, the City's financial advisor. The debt service schedules were developed using the following financing assumptions: an annual bond interest rate of 5.5% for the Series 2002 Bonds and 6.0% for all other future GARB issues; 25-year bond amortization period; capitalized interest period matching the design and construction period for each project; fulfillment of the debt service reserve requirement with a portion of the bond proceeds; and bond issue costs, underwriting discount, and bond insurance premium totaling approximately2.4%. The GARB debt service requirements during the forecast period are summarized on **Table VI-5**. Annual GARB debt service is projected to increase from approximately $10.8 million in FY 2003 to approximately $18.2 million in FY 2005, due to the additional debt service associated with the Series 2002 Bonds. Annual GARB debt service is projected to increase to approximately $19.6 million in FY 2008 and $20.8 million in FY 2009 through FY 2010 and $21.3 million in FY 2011 as a result of the anticipated additional requirements associated with a projected future GARB issue.

2. PFC Bond Debt Service

Debt service requirements for each of the future PFC bond issues included in this financial analysis were obtained from Coastal Securities, the City's financial advisor.

TABLE VI - 5
SAN ANTONIO DEPARTMENT OF AVIATION
PROJECTED DEBT SERVICE REQUIREMENTS
FOR FISCAL YEARS ENDED SEPTEMBER 30

	Fiscal Year									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Existing GARBs										
Series 1992 Revenue Refunding Bonds	$2,460,718	$2,426,118	$2,485,993	$2,429,443	$2,559,730	$1,175,930	$1,170,845	$1,172,405	$0	$0
Series 1993 Revenue Refunding Bonds	7,106,656	5,323,528	0	0	0	0	0	0	0	0
Series 1996 Revenue Refunding Bonds	1,374,163	1,408,488	1,364,963	1,397,863	1,277,913	2,063,663	2,078,813	2,064,688	3,247,713	3,259,488
Series 2001 Revenue Bonds	839,578	956,481	956,481	956,481	956,481	956,481	956,481	956,481	956,481	956,481
Series 2003 Forward Refunding Bonds	0	672,386	6,786,375	6,783,525	6,794,125	6,786,800	6,790,463	6,788,888	6,791,500	6,788,700
Total - Existing GARBs	$11,781,114	$10,787,000	$11,593,811	$11,567,311	$11,588,249	$10,982,874	$10,996,602	$10,982,462	$10,995,694	$11,004,669
Proposed GARBs [1]										
Series 2002 Airport Revenue Bonds	$0	$0	$0	$6,651,321	$6,656,393	$6,660,188	$6,662,157	$7,688,577	$7,691,967	$8,211,385
Series 2004 Airport Revenue Bonds	0	0	0	0	0	1,086,400	1,084,600	1,086,900	1,088,000	1,087,900
Series 2007 Airport Revenue Bonds	0	0	0	0	0	0	903,750	1,038,400	1,043,400	1,042,200
TOTAL GARB DEBT SERVICE	$11,781,114	$10,787,000	$11,593,811	$18,218,632	$18,244,642	$18,729,462	$19,647,109	$20,796,339	$20,819,061	$21,346,154
Cost Center Allocation										
Airfield	$1,097,876	$990,227	$1,073,709	$1,066,601	$1,082,005	$913,504	$1,214,871	$1,259,382	$1,135,127	$1,134,820
Terminals	5,853,468	5,072,945	5,644,996	7,479,289	7,471,862	8,623,327	9,230,175	9,601,046	9,779,994	9,922,792
Parking	3,706,758	3,723,770	3,782,248	3,770,687	3,764,459	3,471,224	3,479,597	3,469,885	3,610,278	3,618,927
Aviation Service Area	467,015	419,712	455,963	451,697	461,687	359,821	359,596	359,647	273,697	273,585
Commercial & Industrial Area	456,958	385,537	436,364	436,181	436,862	436,391	436,627	436,525	436,693	436,513
Other	199,039	194,808	200,531	5,014,178	5,027,767	4,925,195	4,926,244	5,669,854	5,583,271	5,959,517
TOTAL GARB DEBT SERVICE	$11,781,114	$10,787,000	$11,593,811	$18,218,632	$18,244,642	$18,729,462	$19,647,109	$20,796,339	$20,819,061	$21,346,154
PFC Bond Debt Service										
Series 2002 PFC Bonds	$659,161	$2,802,483	$2,803,756	$2,808,913	$2,808,200	$2,813,358	$2,813,762	$2,815,422	$2,818,042	$2,821,958
Series 2003 PFC Bonds	0	0	1,260,000	1,446,200	1,445,200	1,448,000	1,449,300	1,449,100	1,452,400	1,453,900
Series 2004 PFC Bonds	0	0	0	0	1,433,750	1,648,000	1,649,000	1,648,500	1,651,500	1,647,700
Series 2007 PFC Bonds	0	0	0	0	0	0	1,933,000	2,223,300	2,220,900	2,226,700
TOTAL PFC BOND DEBT SERVICE	$659,161	$2,802,483	$4,063,756	$4,255,113	$5,687,150	$5,909,358	$7,845,062	$8,136,322	$8,142,842	$8,150,258

[1] Debt service requirements on proposed GARB issues are shown net of capitalized interest.

PFC bond debt service requirements were estimated using the following financing assumptions: an annual bond interest rate of 5.5% for the Series 2002 PFC Bonds and 6.0% for all other future PFC bonds; 25-year bond amortization period; no capitalized interest period; fulfillment of the debt service reserve requirement with a portion of the bond proceeds; and bond issue costs, underwriting discount, and bond insurance premiums totaling approximately 2.4%. The PFC bond debt service requirements are summarized on **Table VI-5**. Annual PFC bond debt service is projected to increase from approximately $659,000 in FY 2002 to approximately $2.8 million in FY 2003, when the first full year of debt service on the Series 2002 PFC Bonds will begin. Annual PFC bond debt service is projected to increase to approximately $4.4 million in FY 2004, with the completion of a second PFC bond financing. Annual PFC bond debt service is projected to increase to approximately $6.3 million in FY 2006 and $6.5 million in FY 2007 through FY 2011, due to the projected debt service associated with another future PFC bond issue.

3. Amortization Charges

The new Airline Agreement allows the Department to include amortization charges in the airline rates and charges to reimburse the Department for capital project costs paid from the Capital Improvement Fund. The financial analysis assumes that such amortization charges will be included in the calculation of airline rates and charges during the forecast period. Amortization charges for the Airfield and Terminal cost centers are shown on the tables that present the landing fee and terminal rental calculations later in this section. If the City decides to seek approval of an increase in the PFC level to $4.50 during the forecast period, and if the FAA grants such approval, the Department intends to apply additional PFCs, if available, to the airfield projects in order to reduce the amount of Department cash used for those projects, thereby minimizing the amortization charges to the airlines for airfield projects.

D. GROSS REVENUES

Pursuant to the GARB Ordinances, the City has covenanted that all Airport System Gross Revenues (all revenues derived from the operation of the City's two airports, excluding PFC revenues, grant revenues, and revenues pledged to the payment of special facilities airport revenue bonds) will be deposited into the Revenue Fund to be pledged as security for the Parity Obligations.

Table VI-6 presents the historical total revenues for the period FY 1997 through FY 2001, and **Figures VI-2** and **VI-3** show the distribution of revenues for FY 1997 and FY 2001, respectively. Airline revenues consist primarily of landing fees and airline terminal rents. Landing fees and airline terminal rents, expressed as a percent of total Gross Revenues, decreased from 13.7% and 19.9%, respectively, in FY 1997 to 12.6% and 15.7%, respectively, in FY 2001. As described in Section V, the Signatory Airlines are eligible for a terminal rent credit based on a portion of the

TABLE VI - 6
SAN ANTONIO DEPARTMENT OF AVIATION
HISTORICAL REVENUES
FOR FISCAL YEARS ENDED SEPTEMBER 30

Department Revenues	Audited 1997	1998	1999	2000	2001	Avg. Annual Growth Rate
Airfield						
Landing Fees	$4,906,888	$5,178,548	$5,088,612	$5,433,788	$5,389,262	2.4%
Ramp Fees & Other Airfield Revenues	985,354	1,076,237	828,341	1,060,500	1,200,674	5.1%
Subtotal - Airfield Revenues	$5,892,242	$6,254,785	$5,916,953	$6,494,288	$6,589,937	2.8%
Terminal						
Airline Terminal Rentals	$7,138,594	$7,443,655	$7,318,395	$5,454,674	$6,738,338	-1.4%
Food and Beverage Concession Revenue	1,176,895	1,131,345	977,481	1,573,843	1,290,969	2.3%
News and Gifts Concession Revenue	1,060,594	1,124,310	1,177,449	1,264,685	1,165,960	2.4%
Car Rental Revenue	4,510,474	5,205,768	5,854,695	6,163,026	6,328,006	8.8%
Other Terminal Revenues	1,470,252	1,507,874	1,545,777	1,632,910	1,613,471	2.4%
Subtotal - Terminal Revenues	$15,356,808	$16,412,952	$16,873,797	$16,089,139	$17,136,744	2.8%
Parking Revenues	$8,609,632	$8,118,373	$8,408,007	$10,918,771	$10,955,229	6.2%
Aviation Service Area Revenues	$3,154,193	$3,291,596	$3,604,582	$3,931,072	$3,892,390	5.4%
Commercial/Industrial & Other Buildings/Areas	$561,877	$642,104	$715,865	$951,898	$1,003,193	15.6%
Stinson Airport	$118,482	$111,068	$146,098	$161,600	$163,269	8.3%
Interest and Other Income	$2,204,009	$2,304,089	$2,462,882	$2,976,314	$3,188,031	9.7%
TOTAL GROSS REVENUES	$35,897,243	$37,134,968	$38,128,184	$41,523,081	$42,928,793	4.6%

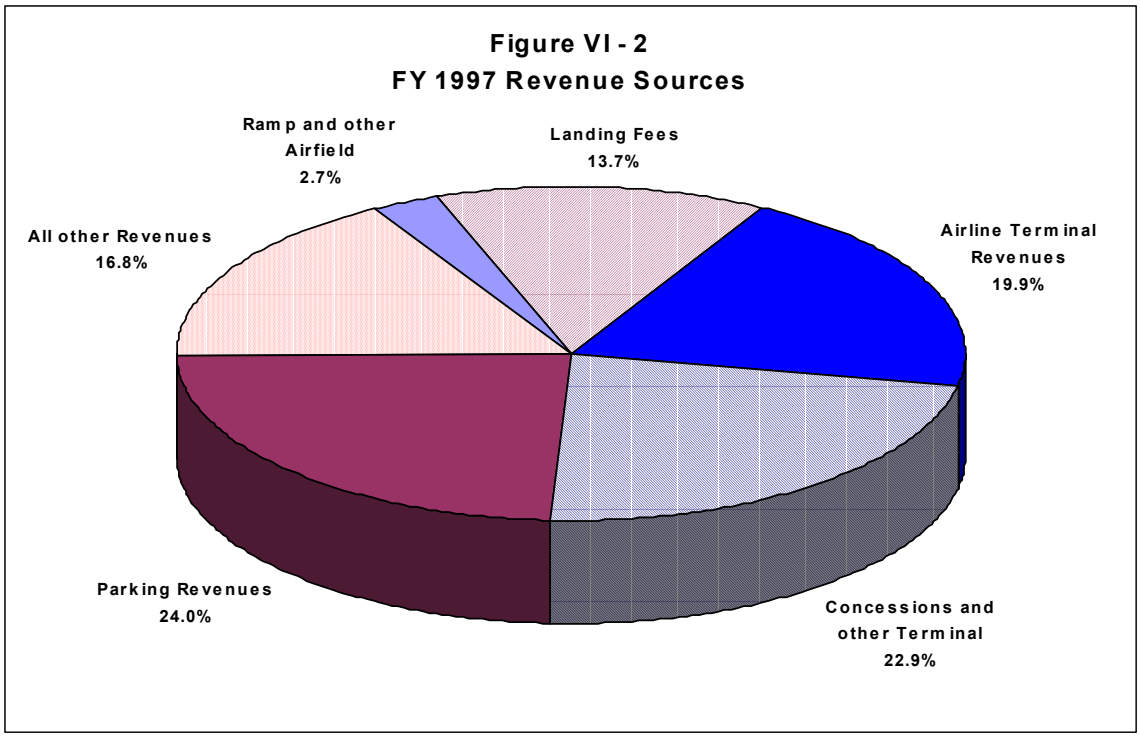


Figure VI - 2
FY 1997 Revenue Sources
Ramp and other Airfield 2.7%
Landing Fees 13.7%
All other Revenues 16.8%
Airline Terminal Revenues 19.9%
Parking Revenues 24.0%
Concessions and other Terminal 22.9%

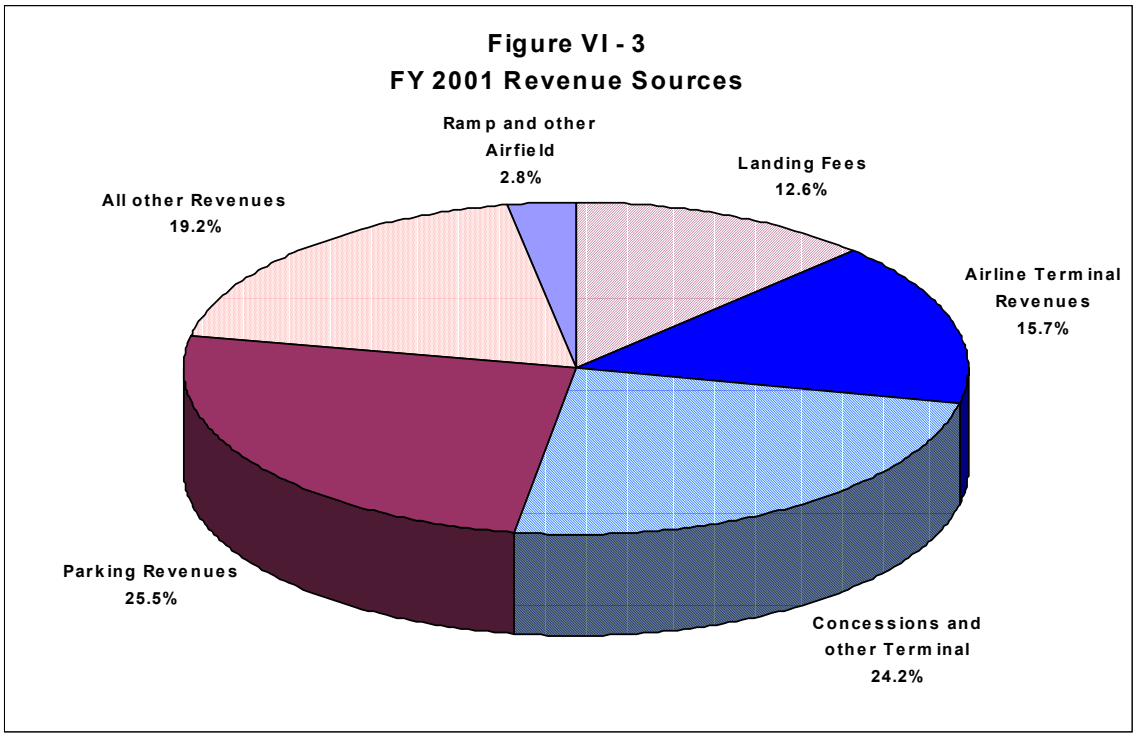


Figure VI - 3
FY 2001 Revenue Sources
Ramp and other Airfield 2.8%
Landing Fees 12.6%
All other Revenues 19.2%
Airline Terminal Revenues 15.7%
Parking Revenues 25.5%
Concessions and other Terminal 24.2%

revenues available to be deposited into the CIF. Therefore, as non-airline revenues, such as concession revenues and parking revenues, have increased as a percentage of total Gross Revenues, the airline terminal rentals have decreased. As shown on **Table VI-6**, airline terminal rentals decreased at an average annual rate of negative 1.4% from FY 1997 to FY 2001. During the same period, non-airline revenues, as a percent of total Gross Revenues, increased as follows: parking revenues: 24.0% to 25.5%; concessions and other terminal revenues: 22.9% to 24.2%; and all other non-airline revenues: 16.8% to 19.2%.

Table VI-7 presents projected revenues during the forecast period FY 2002 to FY 2011. Total revenues, net of the annual airline credit, are projected to increase from approximately $43.5 million in FY 2002 to approximately $71.7 million in FY 2011, based on the projections of the various revenue categories, described below.

1. Airfield Revenues

Airfield revenues consist primarily of landing fees, ramp fees, and other airfield revenues. As discussed in Section V and earlier in this section, the Signatory Airlines are required to pay landing fees in an amount sufficient for the Department to recover approximately 83% of total annual airfield expenses, less a credit for ramp fees. Ramp fees represent charges paid by the airlines for the use of the terminal ramp areas. Other Airfield revenues include: fuel sales, fees and charges based on gross revenues received by the FBOs, and other aviation income.

a. *Landing Fees.* Landing fee revenues, which totaled approximately $5.4 million in FY 2001, represented approximately 12.6% of total Gross Revenues. **Table VI-8** shows the calculation of the projected air carrier landing fee rate. Based on the projections of landed weight presented in Section IV, and the projections of the various cost components and credits included in the Adjusted Airline Requirement charged to the airlines, the landing fee is projected to increase from $1.11 per thousand pounds of landed weight in FY 2002 to $1.19 in FY 2011. Total airline landing fee revenues (which equal the Adjusted Airline Requirement for the airfield) are projected to increase from approximately $6.1 million in FY 2002 to approximately $9.2 million in FY 2011.

b. *Ramp Fees and Other Airfield Revenues*. The airlines pay ramp fees for the use of the terminal ramp areas, based on a per-square-foot rate. Other airfield revenues include fees received from FBOs operating at SAT and Stinson. Ramp fees and other airfield revenues increased from approximately $1.0 million in FY 1997 to approximately $1.2 million in FY 2001, representing an average annual growth rate of 5.1%. Ramp fees were projected based on the Airline Agreement provision that allows an adjustment

TABLE VI - 7
SAN ANTONIO DEPARTMENT OF AVIATION
PROJECTED REVENUES
FOR FISCAL YEARS ENDED SEPTEMBER 30

Department Revenues	Fiscal Year 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Avg. Annual Growth Rate
Airfield											
Landing Fees	$6,128,528	$6,281,474	$6,662,613	$6,909,563	$7,225,614	$7,337,264	$8,020,816	$8,597,698	$8,911,422	$9,241,841	4.7%
Ramp Fees & Other Airfield Revenues	1,108,922	1,131,012	1,153,720	1,186,024	1,210,022	1,234,692	1,269,263	1,295,334	1,322,134	1,359,154	2.3%
Subtotal - Airfield Revenues	$7,237,450	$7,412,486	$7,816,333	$8,095,587	$8,435,636	$8,571,956	$9,290,079	$9,893,032	$10,233,557	$10,600,995	4.3%
Terminal											
Airline Terminal Rentals	$12,919,406	$12,836,136	$13,781,496	$15,620,478	$16,080,818	$17,541,711	$18,778,551	$20,106,470	$20,767,250	$21,416,755	5.8%
Food and Beverage Concession Revenue	1,109,585	1,509,600	1,657,527	1,785,409	1,884,388	1,973,132	2,063,668	2,156,707	2,253,632	2,354,913	8.7%
News and Gifts Concession Revenue	1,204,616	1,340,917	1,472,315	1,585,907	1,673,826	1,752,654	1,833,073	1,915,716	2,001,811	2,091,775	6.3%
Car Rental Revenue	5,994,596	6,526,885	6,963,640	7,353,780	7,608,282	7,810,308	8,008,471	8,205,390	8,406,033	8,586,269	4.1%
Other Terminal Revenues	2,047,291	2,084,551	2,185,965	2,283,020	2,382,303	2,471,869	2,563,017	2,656,436	2,753,437	2,848,081	3.7%
Subtotal - Terminal Revenues	$23,275,494	$24,298,089	$26,060,943	$28,628,595	$29,629,617	$31,549,674	$33,246,780	$35,040,718	$36,182,163	$37,297,793	5.4%
Parking Revenues	$10,838,342	$11,764,088	$12,542,408	$15,644,551	$16,174,606	$16,595,447	$19,674,165	$20,163,205	$20,647,662	$23,906,227	9.2%
Aviation Service Area Revenues	$4,131,838	$4,175,625	$4,220,639	$4,526,913	$4,574,482	$4,623,384	$4,673,655	$4,725,333	$5,367,958	$4,785,989	1.6%
Comml./Indl. & Other Buildings/Areas	$1,389,133	$1,396,492	$1,404,056	$1,577,831	$1,585,823	$1,594,039	$1,602,483	$1,611,164	$1,620,087	$1,629,259	1.8%
Stinson Airport	$175,482	$181,202	$187,123	$193,252	$199,597	$206,166	$212,969	$220,013	$227,309	$234,865	3.3%
Interest and Other Income	$1,177,975	$971,749	$1,020,567	$1,402,398	$1,408,374	$1,365,241	$1,457,959	$1,499,828	$1,716,412	$1,983,797	6.0%
TOTAL GROSS REVENUES	$48,225,714	$50,199,732	$53,252,068	$60,069,127	$62,008,137	$64,505,907	$70,158,090	$73,153,293	$75,995,147	$80,438,926	5.8%
Airline Credit	($4,757,789)	($5,692,825)	($6,135,143)	($4,785,046)	($5,102,850)	($5,386,373)	($6,941,350)	($6,988,361)	($7,633,777)	($8,721,165)	7.0%
REVENUES NET OF AIRLINE CREDIT	$43,467,925	$44,506,907	$47,116,925	$55,284,081	$56,905,287	$59,119,534	$63,216,740	$66,164,933	$68,361,370	$71,717,760	5.7%
Airline Terminal Rentals, Net of Airline Credit [1]	$8,161,616	$7,143,311	$7,646,353	$10,835,432	$10,977,969	$12,155,339	$11,837,201	$13,118,109	$13,133,473	$12,695,590	5.0%

[1] Each year, the Signatory Airlines receive a credit against their terminal rents, in an amount equal to 50% of funds available in excess of the 25% debt service coverage requirement, after the payment of all O&M Expenses, debt service requirements and deposits to the bond funds.

TABLE VI - 8
SAN ANTONIO DEPARTMENT OF AVIATION
PROJECTED LANDING FEES AND REVENUES
FOR FISCAL YEARS ENDED SEPTEMBER 30

	Fiscal Year									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
O&M Expenses	$6,396,965	$6,669,255	$6,953,922	$7,251,576	$7,562,859	$7,888,447	$8,229,052	$8,585,425	$8,958,360	$9,348,690
Debt Service Requirements	$1,097,876	$990,227	$1,073,709	$1,066,601	$1,082,005	$913,504	$1,214,871	$1,259,382	$1,135,127	$1,134,820
Debt Service Coverage (25%)	274,469	247,557	268,427	266,650	270,501	228,376	303,718	314,845	283,782	283,705
Subtotal - Debt Service and Coverage	$1,372,346	$1,237,784	$1,342,137	$1,333,251	$1,352,506	$1,141,880	$1,518,588	$1,574,227	$1,418,908	$1,418,524
Amortization of CIP Projects	0	46,545	116,728	136,285	186,532	206,088	323,428	606,455	766,820	786,377
Total Revenue Requirement	$7,769,311	$7,953,583	$8,412,787	$8,721,112	$9,101,897	$9,236,415	$10,071,069	$10,766,108	$11,144,088	$11,553,591
Air Carrier's Share (83%)	$6,448,528	$6,601,474	$6,982,613	$7,238,523	$7,554,574	$7,666,224	$8,358,987	$8,935,869	$9,249,593	$9,589,481
Less: Ramp Fees	(320,000)	(320,000)	(320,000)	(328,960)	(328,960)	(328,960)	(338,171)	(338,171)	(338,171)	(347,640)
Adjusted Airline Requirement	$6,128,528	$6,281,474	$6,662,613	$6,909,563	$7,225,614	$7,337,264	$8,020,816	$8,597,698	$8,911,422	$9,241,841
Total Landed Weight (in '000 lbs.)	5,528,553	6,095,294	6,421,191	6,758,103	6,934,253	7,106,962	7,278,279	7,448,436	7,623,109	7,779,214
Landing Fee Rate	**$1.11**	**$1.03**	**$1.04**	**$1.02**	**$1.04**	**$1.03**	**$1.10**	**$1.15**	**$1.17**	**$1.19**

every five years. Therefore, ramp fees are projected to remain constant, except for an increase based on inflation every five years. Other Airfield revenues are projected to decrease slightly in FY 2002, and to increase in accordance with the estimated annual inflation rate during the remainder of the forecast period. Total ramp fees and other airfield revenues are projected to increase from approximately $1.1 million in FY 2002 to approximately $1.4 million in FY 2011.

2. Terminal Revenues

Terminal revenues include airline terminal building rents, FIS space and other terminal building rentals, terminal concession revenues, rental car concession revenues, and other terminal revenues. In FY 2001, total terminal revenues represented approximately 39.6% of total Gross Revenues.

a. *Airline Terminal Rentals*. Airline Terminal Rentals consist of terminal rents received from the airlines. Airline terminal rents provide the largest source of terminal revenues, having represented 38.1% of total terminal revenues in FY 2001. Airline terminal building rents for the terminal buildings, including the FIS facilities, are projected on **Table VI-9**. Based on the projections of the cost components included in Adjusted Revenue Requirement, airline terminal building rents are projected to increase from approximately $12.9 million in FY 2002 to approximately $21.4 million in FY 2011. As mentioned earlier, the Adjusted Revenue Requirement includes the projected effects of terminal capital projects in the Department's CIP that are expected to be funded with future revenue bond proceeds. As described in Section V, the Signatory Airlines may be eligible for a terminal rent credit based on a portion of the revenues available to be deposited into the CIF. During the forecast period, the Signatory Airlines are projected to receive annual credits ranging from approximately $4.8 million in FY 2002 to approximately $8.7 million in FY 2011. Total airline terminal rents, after deducting the airline credit, are projected to increase from approximately $8.2 million in FY 2002 to approximately $12.7 million in FY 2011.

b. *Concession revenues.* Concession revenues consist of percentage concession fees received from the following types of retail concession operators in the terminal buildings: food and beverage, news and gifts, rental cars, and other concessions. The Department receives revenue from the concessionaires based on concession fees that are calculated as a percentage of each concessionaire's sales, subject to negotiated minimum annual guarantee amounts.

(i) *Food and beverage concession revenues*. The food and beverage concessionaires that operate in the terminals pay the greater of an annual minimum guarantee or concession fees of 12% on their non-alcoholic gross

TABLE VI - 9
SAN ANTONIO DEPARTMENT OF AVIATION
PROJECTED TERMINAL RENTAL REVENUES
FOR FISCAL YEARS ENDED SEPTEMBER 30

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
O&M Expenses	$11,745,512	$12,283,251	$12,848,742	$13,442,780	$14,066,943	$14,722,902	$15,412,429	$16,137,405	$16,899,819	$17,701,786
Debt Service Requirements	$5,853,468	$5,072,945	$5,644,996	$7,479,289	$7,471,862	$8,623,327	$9,230,175	$9,601,046	$9,779,994	$9,922,792
Debt Service Coverage (25%)	1,463,367	1,268,236	1,411,249	1,869,822	1,867,965	2,155,832	2,307,544	2,400,261	2,444,999	2,480,698
Subtotal - Debt Service and Coverage	$7,316,835	$6,341,181	$7,056,245	$9,349,111	$9,339,827	$10,779,158	$11,537,719	$12,001,307	$12,224,993	$12,403,490
Amortization of CIP Projects	0	105,802	175,228	175,228	175,228	435,332	928,160	1,764,917	1,764,917	1,764,917
Total Revenue Requirement	$19,062,347	$18,730,234	$20,080,215	$22,967,119	$23,581,998	$25,937,392	$27,878,308	$29,903,629	$30,889,729	$31,870,193
Less: FIS Area (10.35%)	(1,310,231)	(1,266,785)	(1,370,221)	(1,642,731)	(1,679,391)	(1,892,078)	(2,062,374)	(2,240,226)	(2,301,118)	(2,367,215)
Credit for Fenced Apron	(168,765)	(168,765)	(168,765)	(168,765)	(168,765)	(168,765)	(168,765)	(168,765)	(168,765)	(168,765)
Adjusted Revenue Requirement	$17,583,351	$17,294,683	$18,541,229	$21,155,623	$21,733,842	$23,876,549	$25,647,169	$27,494,638	$28,419,847	$29,334,213
Terminal Rentable Square Footage	324,031	324,031	324,031	324,031	354,589	329,124	329,124	354,589	354,589	354,589
Average Airline Rental Rate	$54.26	$53.37	$57.22	$65.29	$61.29	$72.55	$77.93	$77.54	$80.15	$82.73
Airline Rented Space	221,411	221,411	221,411	221,411	242,899	224,992	224,992	242,899	242,899	242,899
Airline Space Rentals excluding Fenced Apron Rents	$12,014,737	$11,817,490	$12,669,257	$14,455,678	$14,888,042	$16,322,243	$17,532,656	$18,834,283	$19,468,066	$20,094,422
Add back: Credit for Fenced Apron	168,765	168,765	168,765	168,765	168,765	168,765	168,765	168,765	168,765	168,765
Airline Terminal Space Rentals	$12,183,502	$11,986,255	$12,838,022	$14,624,443	$15,056,807	$16,491,008	$17,701,421	$19,003,048	$19,636,831	$20,263,187
Add: FIS Rentals	735,904	849,881	943,474	996,035	1,024,011	1,050,704	1,077,130	1,103,423	1,130,419	1,153,568
Total Airline Terminal Rentals	$12,919,406	$12,836,136	$13,781,496	$15,620,478	$16,080,818	$17,541,711	$18,778,551	$20,106,470	$20,767,250	$21,416,755
Airline Credit	(4,757,789)	(5,692,825)	(6,135,143)	(4,785,046)	(5,102,850)	(5,386,373)	(6,941,350)	(6,988,361)	(7,633,777)	(8,721,165)
Airline Terminal Rentals, net of Airline Credit [1]	$8,161,616	$7,143,311	$7,646,353	$10,835,432	$10,977,969	$12,155,339	$11,837,201	$13,118,109	$13,133,473	$12,695,590

[1] Each year, the Signatory Airlines receive a credit against their terminal rents, in an amount equal to 50% of funds available in excess of the 25% debt service coverage requirement, after the payment of all O&M Expenses, debt service requirements and deposits to the bond funds.

sales and 20% on their alcoholic gross sales. Food and beverage concession revenues increased from approximately $1.2 million in FY 1997 to approximately $1.3 million in FY 2001, representing an average annual growth rate of 2.3%. However, Food and beverage concession revenues decreased in FY 1999 before increasing in FY 2000 and decreasing again in FY 2001. The fluctuations in revenue in FY 1999 and FY 2000 were primarily due to year-end incentive rentals for FY 1999 being recorded in FY 2000. The decrease in revenue in FY 2001 was primarily due to the terminal remodeling project, which includes the reconfiguration of the concession areas and the relocation of certain concessionaires to temporary facilities. The Department is currently in the process of reviewing bids for new concession agreements, so the exact terms of the new agreements have not yet been determined. Food and beverage concession revenues for FY 2002 and FY 2003 were projected by Westfield, the concession management firm at SAT. The revenue projections developed by Westfield reflect the anticipated effects of the remodeled concession areas in the terminals and the anticipated effects of the September 11th events. Food and beverage concession revenues for the remainder of the forecast period were projected based on the FY 2003 revenue per enplanement, inflated at 2.0% per year, and applied to projected enplanements. Food and beverage concession revenues are projected to increase to approximately $2.4 million in FY 2011.

(ii) *News and gifts concession revenues*. The news and gifts concessionaires that operate in the terminals pay the greater of an annual minimum guarantee or percentage concession fees based on their gross sales. The percentage fees vary from 10% to 25% depending on the type of merchandise. News and gifts concession revenues increased from approximately $1.1 million in FY 1997 to approximately $1.2 million in FY 2001, for an average annual growth rate of 2.4%. News and gifts concession revenues decreased from approximately $1.3 million in FY 2000 to approximately $1.2 million in FY 2001, primarily due to the terminal remodeling project, which includes the reconfiguration of the concession areas and relocation of certain concessionaires to temporary facilities. The Department is currently in the process of reviewing bids for new concession agreements, so the exact terms of the new agreements have not yet been determined. News and gifts concession revenues for FY 2002 and FY 2003 were projected by Westfield, the concession management firm at SAT. The revenue projections developed by Westfield reflect the anticipated effects of the remodeled concession areas in the terminals and the anticipated effects of the September 11, 2001 Events. News and gifts concession revenues for the remainder of the forecast period were projected based on the FY 2003 revenue per enplanement, inflated at 2.0% per year, and applied to

projected enplanements. News and gifts concession revenues are projected to increase to approximately $2.1 million in FY 2010.

(iii) *Rental car concession revenue*. The rental car companies that operate at SAT pay a concession fee of 10% of their gross revenues. Rental car concession revenue increased at an average annual rate of 8.8% during the historical period, from approximately $4.5 million in FY 1997 to approximately $6.3 million in FY 2001. However, the largest percentage increases occurred in FY 1998 and FY 1999, when rental car concession revenue increased approximately 15% and 12%, respectively. Rental car revenue per originating enplanement increased from $1.42 in FY 1997 to $1.97 in FY 2001. The significant increases in rental car revenue in FY 1998 and FY 1999 were mainly due to the increases in the concession fee percentage in those years. The Department increased the concession fee percentage from 9.0% to 9.5% in FY 1998, and to 10.0% in FY 1999. Rental car revenue was projected by applying the FY 2001 revenue per originating enplanement to the annual projected originating enplanements during the forecast period. Therefore, rental car revenue is projected to decrease to approximately $6.0 million in FY 2002 (due to the projected decrease in enplanements), and to increase each year thereafter to approximately $8.6 million in FY 2011.

c. *Other terminal revenues*. This category includes rents and fees collected from the operators of flight kitchen catering, advertising displays in the terminal buildings, pay telephones in the terminal buildings, ground transportation, and other terminal building rentals. Total revenue for this category increased from approximately $1.5 million in FY 1997 to approximately $1.7 million in FY 2001, representing an average annual growth rate of 3.1%. Other terminal revenues were projected based on FY 2001 revenues per enplanement, inflated at 1.0% per year, applied to projected enplanements. Other terminal revenues are projected to increase from approximately $2.0 million in FY 2002 to approximately $2.8 million in FY 2011.

3. Parking Revenues

Parking revenues represent revenue received by the Department from the public parking lots at the Airport, and parking revenues received from employees of the airlines and other tenants at the Airport. Parking revenues increased from approximately $8.6 million in FY 1997 to approximately $11.0 million in FY 2001, representing an average annual growth rate of 6.2%. However, within that period, total parking revenue increased almost 30% in FY 2000, mainly due to the increase in the maximum daily rate for the hourly parking facilities, from $12 to $18. Subsequent to the September 11, 2001 Events, the Airport lost the use of 177 public parking spaces, due to the security restrictions imposed by the FAA. Fiscal year-to-date parking revenue through December 31, 2001 was approximately 10.5% less

than the comparable months in FY 2000. This decrease in revenue approximately matched the percentage decrease in enplanements at SAT for the same period, demonstrating that parking revenue fluctuates with changes in enplanements.

A parking study recently completed for the Department estimated the average parking revenue per customer received by the Department for the parking operations at SAT[5]. The parking study also estimated that the Airport accommodates 0.48 parking customers per originating enplanement at SAT. Parking revenues were projected based on the per-customer revenue estimate determined by the parking study, applied to the projected number parking customers. Projected parking revenues include the estimated effect of the parking rate increases recommended in the parking study. After decreasing slightly in FY 2002 due to the projected decrease in enplanements, parking revenues are projected to increase from approximately $10.8 million in FY 2002 to approximately $23.9 million in FY 2011.

4. Aviation Services Area Revenues

Aviation Services Area revenues represent the building rentals and ground rentals received from the FBOs and cargo operators, and rentals received for the cargo apron area. Aviation Services Area revenues increased from approximately $3.2 million in FY 1997 to approximately $3.9 million in FY 2001, representing an average annual growth rate of 5.4% during that time. This category increased 4.4% in FY 1998, 9.5% in FY 1999, and 9.1% in FY 2000 before decreasing 1.0% in FY 2001. The large increases in FY 1999 and FY 2000 were primarily due to rent increases implemented by the Department pursuant to clauses in the existing leases, rent increases implemented pursuant to lease renewals, and new building rents received by the Department resulting from lease clauses that transferred ownership of the older buildings to the Department[6]. Aviation Services Area revenue decreased slightly in FY 2001 because during that year the West Cargo building was demolished to make room for a new taxiway, resulting in a reduction in cargo building rental revenue.

Future Aviation Services Area revenues were projected based on the FY 2001 revenue, adjusted for the following factors: (1) Cargo building rentals are projected to increase slightly (0.4%) in FY 2002 as a result of the combination of the first full year of the reduced available cargo building space (explained above), offset by an increase in building rental rates; and (2) the provisions of the existing lease agreements. After FY 2002, building and land rentals are projected to increase with inflation to reflect the lease clauses that provide for annual rent adjustments tied to economic indicators. In addition, rent revenue is projected to increase in FY 2005 pursuant to the lease provisions that allow the Department to implement rent

[5] AGA Consulting, *Parking Expansion and Financial Feasibility Study, San Antonio International Airport*, August 2001.

[6] The ownership of certain buildings that were constructed by several tenants reverted to the Department near the end of FY 1999. Therefore, the Department began charging rent to the tenants occupying those buildings.

increases every five years, and the anticipation that certain leases will be renewed every five years at higher rental rates. Based on the above assumptions, Aviation Services Area revenues are projected to increase from approximately $4.1 million in FY 2002 to approximately $4.8 million in FY 2011.

5. Commercial/Industrial and Other Buildings/Areas

Commercial/Industrial and Other Buildings/Areas revenue consists of building and ground rentals received from tenants that operate aircraft assembly, aircraft maintenance, and related commercial/industrial activities. This revenue category increased from approximately $562,000 in FY 1997 to approximately $1.0 million in FY 2001, representing an average annual growth rate of 15.6% during that time. However, that average annual growth rate included a 35% increase in FY 2000, which was caused by the rent increases implemented by the Department pursuant to clauses in the existing leases, and rent increases implemented pursuant to lease renewals.

Commercial/Industrial and Other Buildings/Areas revenue is projected to increase to approximately $1.4 million in FY 2002, mainly due to additional ground rent Department management expects to receive from several of the FBOs that plan to expand their areas at SAT. After FY 2002, this revenue category is projected to increase in accordance with the building and ground rental lease terms, to approximately $1.6 million in FY 2011.

6. Stinson Airport

Revenues from Stinson primarily consist of rentals, fees, and charges assessed to the FBOs operating at Stinson. From FY 1997 to FY 2001, Stinson revenue increased at an average annual rate of 8.3%, from approximately $118,000 to approximately $163,000. The largest annual increase in this category occurred in FY 1999, when Stinson revenue increased 31.5%, primarily due to new leases that provided revenue from large areas that had not been leased out previously.

Future Stinson revenues are projected to increase in accordance with inflation (2.8% per year), based on the lease clauses that provide for rent increases tied to certain economic indicators. Stinson revenues are projected to increase from approximately $175,000 in FY 2002 to approximately $235,000 in FY 2011.

7. Interest and Other Revenue

Approximately 90% of this revenue category in FY 2001 consisted of interest revenue. The Department earns interest on its cash balances, including balances in the various accounts established pursuant to the Ordinances. Interest revenue during the forecast period was projected by applying a 3.0% average annual rate to the Department's projected cash balances in the Operating Fund, the Capital Improvement Fund, and the debt service reserve accounts. The remaining 10% of

this category in FY 2001 consisted of other revenue, including badge processing fees, cargo building utility reimbursements, cellular tower lease revenues, and other miscellaneous revenue sources. Interest and other revenue is projected to increase from approximately $1.2 million in FY 2002 to approximately $1.9 million in FY 2011.

E. KEY FINANCIAL INDICATORS

This sub-section discusses the projections of the following key financial indicators: (1) the application of Gross Revenues pursuant to the provisions of the Master GARB Ordinance, (2) the City's ability to satisfy the Rate Covenant contained in the Master GARB Ordinance (Parity debt service coverage); (3) PFC debt service coverage and the City's ability to satisfy the Covenant to Budget Debt Service Coverage contained in the Master PFC Ordinance; and (4) the airline cost per enplaned passenger.

1. Application of Gross Revenues

Table VI-10 shows the forecast application of Gross Revenues pursuant to the provisions of the GARB Ordinances, for the period FY 2002 through FY 2011. Gross Revenues are applied in the order shown on **Figure VI-1**. Based on the financial projections contained in this section, it is projected that the annual deposit to the Capital Improvement Fund will range between approximately $7.3 million in FY 2002 and approximately $14.0 million in FY 2011.

2. GARB Rate Covenant

The City's ability to satisfy the Rate Covenant contained in the Master GARB Ordinance is evidenced by the projected GARB (Parity) debt service coverage, as shown on **Table VI-11**. As mentioned earlier, the Master GARB Ordinance requires the City to generate Gross Revenues from the Airport System in each Fiscal Year that are at least sufficient: (A) to pay all O&M Expenses during each Fiscal Year, and also (B) to provide an amount equal to 1.25 times the Annual Debt Service Requirements during each Fiscal Year on all outstanding Parity Obligations. Because the airline credit is calculated after all Parity and Subordinate debt service requirements and O&M Expenses are satisfied, Gross Revenue GARB debt service coverage was calculated before the application of the airline credit, based on the financial projections presented previously in this section. Gross Revenue GARB debt service coverage is projected to range between 4.09 in FY 2002 and 3.77 in FY 2011. The coverage is projected to decrease to a low of 3.30 in FY 2005, primarily due to the additional debt service associated with the Series 2002 Bonds. Therefore, based on the assumptions and financial projections presented in this section, it is anticipated that during the forecast period, the City will be able to satisfy the Rate Covenant contained in the Master GARB Ordinance.

TABLE VI - 10
SAN ANTONIO DEPARTMENT OF AVIATION
APPLICATION OF GROSS REVENUES
FOR FISCAL YEARS ENDED SEPTEMBER 30

	Fiscal Year									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Gross Revenues	$48,225,714	$50,199,732	$53,252,068	$60,069,127	$62,008,137	$64,505,907	$70,158,090	$73,153,293	$75,995,147	$80,438,926
Application of Gross Revenues										
Bond Fund										
Existing GARBs [1]	$11,781,114	$10,787,000	$11,593,811	$11,567,311	$11,588,249	$10,982,874	$10,996,602	$10,982,462	$10,995,694	$11,004,669
Series 2002 GARBs	0	0	0	6,651,321	6,656,393	6,660,188	6,662,157	7,688,577	7,691,967	8,211,385
Future GARBs	0	0	0	0	0	0	903,750	1,038,400	1,043,400	1,042,200
Bond Reserve Fund	0	0	0	0	0	0	0	0	0	0
O&M Expense Account	24,368,983	25,462,825	26,611,068	27,815,903	29,080,386	30,407,750	31,801,420	33,265,022	34,802,397	36,417,615
Special Contigency Reserve Fund	0	0	0	0	0	0	0	0	0	0
Airline Credit	4,757,789	5,692,825	6,135,143	4,785,046	5,102,850	5,386,373	6,941,350	6,988,361	7,633,777	8,721,165
Capital Improvement Fund	7,317,827	8,257,081	8,912,046	9,249,545	9,580,259	9,982,323	11,768,211	12,103,572	12,739,912	13,953,991
Total Application of Gross Revenues	$48,225,714	$50,199,732	$53,252,068	$60,069,127	$62,008,137	$64,505,907	$70,158,090	$73,153,293	$75,995,147	$80,438,926

[1] Including the Series 2003 Forward Refunding Bonds anticipated to be delivered in April 2003.

TABLE VI - 11
SAN ANTONIO DEPARTMENT OF AVIATION
PROJECTED PARITY DEBT SERVICE COVERAGE
FOR FISCAL YEARS ENDED SEPTEMBER 30

	Fiscal Year									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Gross Revenues **[A]** [1]	$48,225,714	$50,199,732	$53,252,068	$60,069,127	$62,008,137	$64,505,907	$70,158,090	$73,153,293	$75,995,147	$80,438,926
Less: O&M Expenses **[B]**	24,368,983	25,462,825	26,611,068	27,815,903	29,080,386	30,407,750	31,801,420	33,265,022	34,802,397	36,417,615
Net Revenues **[C = A - B]**	$23,856,731	$24,736,906	$26,641,000	$32,253,224	$32,927,751	$34,098,157	$38,356,670	$39,888,272	$41,192,750	$44,021,310
Less: Parity Debt Service **[D]**	11,781,114	10,787,000	11,593,811	18,218,632	18,244,642	18,729,462	19,647,109	20,796,339	20,819,061	21,346,154
Net Revenues Available to Pay PFC Debt Service **[E = C - D]**	$12,075,617	$13,949,906	$15,047,188	$14,034,592	$14,683,109	$15,368,695	$18,709,561	$19,091,933	$20,373,689	$22,675,157
Parity Debt Service Coverage:										
Based on Gross Revenues **[A / D]**	**4.09**	**4.65**	**4.59**	**3.30**	**3.40**	**3.44**	**3.57**	**3.52**	**3.65**	**3.77**
Based on Net Revenues **[C/D]**	**2.02**	**2.29**	**2.30**	**1.77**	**1.80**	**1.82**	**1.95**	**1.92**	**1.98**	**2.06**

[1] Because the airline credit is calculated after all debt service requirements and O&M expenses are satisfied, the coverage calculations on this table are based on revenues projected before the airline credit is deducted.

The Net Revenue GARB debt service coverage calculation is also presented on **Table VI-11**. Although the GARB Rate Covenant is based on Gross Revenues, the Department has historically presented the Net Revenue GARB debt service coverage calculation in order to demonstrate that Gross Revenues will exceed projected O&M Expenses and GARB debt service requirements. Net Revenue GARB debt service coverage, calculated before the application of the airline credit, is projected to range between 2.02 in FY 2002 and 2.06 in FY 2011. Net Revenue GARB debt service coverage (before the airline credit) is projected to decrease to a low of 1.77 in FY 2005, due to the additional GARB debt service associated with the proposed new parking structure. Therefore, based on the assumptions and financial projections presented in this section, it is anticipated that during the forecast period, the Department will be able to generate Net Revenues (Gross Revenues minus O&M Expenses) in each year in excess of 1.77 times the annual GARB debt service requirements.

3. PFC Revenues and PFC Debt Service Coverage With Subordinate GARB Net Revenues

As described in Section II, the Department has received approval from the FAA to impose a PFC to collect approximately $102.5 million in PFCs for 11 projects and to use approximately $44.1 million in PFCs for 5 projects. The estimated PFC collection expiration date is November 1, 2009. **Table VI-12** presents projected PFC revenues during the forecast period, based on the estimated PFC-eligible enplanements multiplied by the PFC rate (net of the airline collection fee) of $2.92 per enplanement[7]. PFC revenues are projected to increase from approximately $8.3 million in FY 2002[8] to approximately $12.8 million in FY 2011.

The City's ability to satisfy the Covenant to Budget Debt Service Coverage contained in the Master PFC Ordinance is evidenced by the projected PFC debt service coverage calculated based on PFC funds available (**Table VI-12)**. The Master PFC Ordinance requires the City to prepare an annual budget each Fiscal

[7] Ineligible PFC enplanements, which are those enplanements for which PFCs are not collected, include passengers on exempt carriers (any class of carrier that enplanes less than 1% of total annual enplanements at SAT), frequent flyer passengers, and passengers on the third segment of a trip. For this analysis, 7% of total enplanements are assumed to be ineligible, which is consistent with data at other airports with a high level of O&D traffic.

[8] Projected FY 2002 PFC revenues reflect 11 months of collections, based on the approved PFC collection start date of November 1, 2002.

TABLE VI - 12
SAN ANTONIO DEPARTMENT OF AVIATION
PROJECTED PFC REVENUES AND COVENANT TO BUDGET PFC BOND DEBT SERVICE COVERAGE
FOR FISCAL YEARS ENDED SEPTEMBER 30

	Fiscal Year									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
jected Enplanements [1]	3,087,922	3,667,761	3,913,194	4,132,431	4,275,448	4,388,975	4,500,333	4,610,990	4,723,741	4,825,024
eligible Traffic - 7.0 % [2]	216,155	256,743	273,924	289,270	299,281	307,228	315,023	322,769	330,662	337,752
ible Enplanements	2,871,768	3,411,017	3,639,270	3,843,161	3,976,166	4,081,747	4,185,309	4,288,221	4,393,079	4,487,272
Revenue **[A]** [3]	$8,385,561	$9,960,170	$10,626,668	$11,222,030	$11,610,406	$11,918,701	$12,221,103	$12,521,605	$12,827,791	$13,102,835
FCs from Prior Year	$0	$6,492,785	$10,413,694	$11,338,688	$13,942,632	$11,072,620	$6,860,177	$7,355,459	$9,402,064	$6,020,073
Revenue on PFC Fund	$80,158	$123,573	$125,652	$144,700	$94,934	$28,214	$19,241	$29,049	$0	$0
ve Available PFC funds **[B]**	$8,465,719	$16,576,528	$21,166,015	$22,705,418	$25,647,971	$23,019,535	$19,100,521	$19,906,114	$22,229,855	$19,122,908
-As-You-Go ("PAYGO") **[C]**	$1,313,773	$3,360,351	$5,763,571	$4,507,673	$8,888,201	$10,250,000	$3,900,000	$2,367,728	$8,066,940	$3,066,940
ls Net of PAYGO **[D = B - C]**	$7,151,946	$13,216,177	$15,402,444	$18,197,745	$16,759,770	$12,769,535	$15,200,521	$17,538,386	$14,162,915	$16,055,969
d Debt Service **[E]**	$659,161	$2,802,483	$4,063,756	$4,255,113	$5,687,150	$5,909,358	$7,845,062	$8,136,322	$8,142,842	$8,150,258
FCs -- Current Year **[F = D - E]**	$6,492,785	$10,413,694	$11,338,688	$13,942,632	$11,072,620	$6,860,177	$7,355,459	$9,402,064	$6,020,073	$7,905,711
to Budget PFCs **[G = D / E]** [4]	N/A	4.72	3.79	4.28	2.95	2.16	1.94	2.16	1.74	1.97
nues Available to Pay ebt Service (from Table 11) **[H]**	$12,075,617	$13,949,906	$15,047,188	$14,034,592	$14,683,109	$15,368,695	$18,709,561	$19,091,933	$20,373,689	$22,675,157
dged Revenues Available to Pay ebt Service **[I = A + H]**	$20,461,178	$23,910,077	$25,673,857	$25,256,622	$26,293,515	$27,287,396	$30,930,665	$31,613,538	$33,201,481	$35,777,991
t Service Coverage **[J = I / E]** [5]	N/A	8.53	6.32	5.94	4.62	4.62	3.94	3.89	4.08	4.39
d Debt Service of PFC Revenues **[K = E / A]**	N/A	28.1%	38.2%	37.9%	49.0%	49.6%	64.2%	65.0%	63.5%	62.2%

AA approved a PFC charge effective November 1, 2001. Therefore, FY 2002 represents 11 months (November 1, 2001 to September 30, 2002).

ble traffic includes passengers on exempt carriers (any class of carriers less than 1% of annual enplanements at an airport), frequent flyer passengers and passengers on the egment of a trip. For this analysis, 7% of total annual enplanements are assumed to be ineligible for PFC collections.

evenues of $3.00 per eligible enplanement, minus the $0.08 per eligible enplanement airline collection fee.

ty is required to prepare an annual budget each Fiscal Year which will indicate that unused PFCs from prior years, plus PFC Revenues during the current Fiscal Year, minus Pay-As-You-Go" costs during the current Fiscal Year, will equal at least 1.25 times the Annual Debt Service Requirements during the current Fiscal Year.

nd debt service coverage is based on total Pledged Revenues for the PFC Bonds.

Year which will indicate that unused PFC revenues from prior years, plus PFC Revenues during the current Fiscal Year, minus PFC "Pay-As-You-Go" costs during the current Fiscal Year, will equal at least 1.25 times the Annual Debt Service Requirements during the current Fiscal Year on all Outstanding Parity PFC Obligations. This calculation is projected to decrease from 4.72 in FY 2003 to 2.16 in FY 2007 and 1.94 in FY 2008, primarily due to the additional PFC bond debt service projected to begin in FY 2007. PFC bond debt service coverage is projected to fluctuate between 2.16 in FY 2009 and 1.97 in FY 2011. Therefore, based on the assumptions and financial projections presented in this section, it is anticipated that during the forecast period, the City will be able to satisfy the Covenant to Budget Debt Service Coverage contained in the Master PFC Ordinance.

The PFC debt service coverage calculated based on total Pledged Revenues available to pay PFC debt service, also shown on **Table VI-12**, is calculated as total Pledged Revenues available to pay PFC debt service divided by PFC debt service. Total Pledged Revenues available to pay PFC debt service is calculated as Net Revenues minus parity (GARB) debt service, plus PFC revenues. PFC debt service coverage is projected to range between 8.53 in FY 2003 and 4.39 in FY 2011, with decreases to 6.32 in FY 2004, 4.62 in FY 2006, and 3.89 in FY 2008, due to the start of additional PFC debt service associated with the PFC bonds anticipated to be issued in those years. PFC debt service coverage is not projected to decrease below 3.89 during the forecast period.

Table VI-12 also shows the projected annual debt service for the anticipated PFC-backed bonds as a percentage of projected PFC revenues. This ratio is projected to range from 28.1% in FY 2003 to 62.2% in FY 2011, with a high of 65.0% in FY 2009. Generally, the FAA prefers that an airport not commit more than 66% of its total projected PFC revenues to PFC bond debt service requirements. The ratio for SAT is projected to remain below 66% each year during the forecast period.

Pursuant to the PFC approval received by the City from the FAA in August 2001, the City has PFC "Impose Only" authority for the Concourse B project, which Department management anticipates funding partially with the proceeds of the Series 2002 PFC Bonds. The City is planning to sell the Series 2002 PFC Bonds prior to receiving PFC "Use" authority from the FAA for the Concourse B project. The City received airspace approval from the FAA for the Concourse B project in January 2002. The Department plans to begin the PFC "Use" application process in February 2002, and Department management anticipates that the City will receive PFC "Use" authority approval in August 2002.

The City also plans to submit a PFC amendment application to request approximately $15.0 million in additional PFC funding for the Concourse B project and approximately $1.7 million in additional PFC funding for an airfield project (the Construct Holding Bays project). It is assumed that FAA approval of the amendment application will be received within the next year. If the City does not receive an additional $16.7 million in PFC authority for the new concourse project and an

airfield project, it should be able to generate sufficient Net Revenues to support the issuance of additional GARBs to provide the $16.7 million in required project funding.

There can be no assurance that either the projections of passenger enplanements or PFC revenues will be met. If there were to be a shortfall in enplanements, the Covenant to Budget PFC Debt Service Coverage essentially would cause the Department to revise the CIP funding plan to delay certain planned future PFC-eligible project costs in order to ensure that sufficient PFC revenues would be available to pay off the PFC Bonds. Also, the City's authority to continue to impose and collect the approved PFC is subject to termination by the FAA if the City violates any of the PFC assurances agreed to pursuant to the PFC approval document, and does not mitigate such violations.

4. Airline Cost per Enplaned Passenger

An important component of the financial feasibility report is an assessment of how the planned capital improvements and the related financings will affect airline rates and charges. Based on the projections of O&M Expenses and Gross Revenue categories discussed above, the airline cost per enplaned passenger, presented on **Table VI-13,** is projected to range from $4.34 in FY 2002 to a high of $4.78 in FY 2009. The airline cost per enplanement is then projected to decrease during the remainder of the forecast period, to $4.62 in FY 2011. The projected increases in the airline cost per enplanement in FY 2005 and FY 2009 are primarily due to the anticipated additional GARB debt service associated with several capital projects scheduled to be completed at the end of FY 2004 and the end of FY 2008.

According to the 1999-2000 American Association of Airport Executives (AAAE) Survey of Airport Rates and Charges, which is the most recent survey information available, the 1999-2000 airline cost per enplanement for airports with a similar number of enplanements as SAT ranged between $2.87 and $8.68.[9] It should be noted that these historical amounts do not include the potential effect of future capital improvements at those airports. In addition, this comparison is being made to SAT's projected costs in FY 2011 (ten years in the future). Therefore, the Airport's projected airline cost per enplanement, which includes the effect of planned future capital improvements, appears reasonable when compared to other medium hub airports.

[9] Based on data for the following 12 airports with 1999 enplanements ranging from approximately 2.9 million to approximately 5.9 million: Albuquerque, Austin-Bergstrom, General Mitchell (Milwaukee), Indianapolis, Jacksonville, Kansas City, Memphis, Oakland, Palm Beach, Reno/Tahoe, San Jose, and William P. Hobby (Houston).

TABLE VI - 13
SAN ANTONIO DEPARTMENT OF AVIATION
PROJECTED AIRLINE COST PER ENPLANED PASSENGER
FOR FISCAL YEARS ENDED SEPTEMBER 30

	Fiscal Year									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Landing Fees	$6,128,528	$6,281,474	$6,662,613	$6,909,563	$7,225,614	$7,337,264	$8,020,816	$8,597,698	$8,911,422	$9,241,841
Airline Terminal Rentals	12,919,406	12,836,136	13,781,496	15,620,478	16,080,818	17,541,711	18,778,551	20,106,470	20,767,250	21,416,755
Ramp Fees	320,000	320,000	320,000	328,960	328,960	328,960	338,171	338,171	338,171	347,640
Credit to Airlines	(4,757,789)	(5,692,825)	(6,135,143)	(4,785,046)	(5,102,850)	(5,386,373)	(6,941,350)	(6,988,361)	(7,633,777)	(8,721,165)
Total Airline Revenues, net of credit	$14,610,145	$13,744,785	$14,628,966	$18,073,955	$18,532,543	$19,821,563	$20,196,188	$22,053,979	$22,383,066	$22,285,070
Total Enplaned Passengers	3,368,642	3,667,761	3,913,194	4,132,431	4,275,448	4,388,975	4,500,333	4,610,990	4,723,741	4,825,024
Cost per Enplaned Passenger	$4.34	$3.75	$3.74	$4.37	$4.33	$4.52	$4.49	$4.78	$4.74	$4.62

5. Sensitivity Analysis

Table 13A presents the projected GARB debt service coverage under the two alternative air traffic forecasts developed with the regression model and presented in Section IV. The alternative forecasts were prepared to address alternative assumptions about the future impact of the September 11, 2001 Events. As explained earlier, the "Base" scenario assumes that the negative impact of the September 11, 2001 Events diminishes gradually and enplanements return to normal levels by 2005. Under the "High" scenario, it is assumed that the negative impact of the September 11, 2001 Events lasts through 2002, and enplanements return to normal by 2003. Under the "Low" scenario, it is assumed that the negative impact lingers throughout the forecast period.

Under the "High" scenario, parity (GARB) debt service coverage is projected to remain at or above the following levels during the forecast period:

- Based on Gross Revenues: 3.30
- Based on Net Revenues: 1.78

Under the "Low" scenario, parity (GARB) debt service coverage is projected to remain at or above the following levels during the forecast period:

- Based on Gross Revenues: 3.21
- Based on Net Revenues: 1.68

PFC debt service coverage, based on total Pledged Revenues available for PFC debt service (including subordinate GARB Net Revenues), is projected to remain at 3.89 or above during the forecast period under the "High" air traffic forecast scenario, and at 3.46 or above under the "Low" air traffic forecast scenario. Due to the timing of the estimated CIP project costs, it is assumed (under the "Base" scenario and the two alternate air traffic scenarios) that certain PFC-eligible project costs in FY 2007 and FY 2008 will be funded with CIF monies and reimbursed with PFCs in later years. Under the "Base" scenario and the "High" air traffic scenario, it is assumed that the reimbursement will be completed prior to the end of the forecast period (FY 2011). However, under the "Low" scenario, PFC Revenues are projected to be insufficient to reimburse all of the CIF monies prior to the end of the forecast period. Therefore, it is assumed that if air traffic activity at SAT follows the "Low" scenario, the Department's reimbursement of the PFC-eligible project costs paid with CIF monies will continue past the end of the forecast period (years subsequent to FY 2011).

The airline cost per enplanement is projected to increase to a high of $4.78 (in FY 2009) under the 'High" air traffic forecast and $5.54 under the "Low" air traffic forecast scenario.

TABLE VI - 13A
SAN ANTONIO DEPARTMENT OF AVIATION
SENSITIVITY ANALYSIS
DEBT SERVICE COVERAGE AND AIRLINE COST PER ENPLANEMENT
FOR FISCAL YEARS ENDED SEPTEMBER 30

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GH SCENARIO										
evenue Projections										
Gross Revenues	$48,225,714	$50,712,993	$53,674,416	$60,170,073	$62,016,490	$64,514,324	$70,166,570	$73,161,838	$76,003,756	$80,447,600
Net Revenues	$28,614,520	$31,177,258	$33,397,568	$37,189,688	$38,043,131	$39,497,155	$45,310,741	$46,889,449	$48,839,441	$52,755,487
arity GARB Debt Service Coverage										
Based on Gross Revenues	4.09	4.70	4.63	3.30	3.40	3.44	3.57	3.52	3.65	3.77
Based on Net Revenues	2.02	2.34	2.33	1.78	1.81	1.82	1.95	1.92	1.98	2.06
FC Debt Service Coverage	N/A	8.86	6.51	5.98	4.62	4.62	3.94	3.89	4.08	4.39
ost per Enplaned Passenger	$4.34	$3.55	$3.58	$4.34	$4.33	$4.52	$4.49	$4.78	$4.74	$4.62
W SCENARIO										
evenue Projections										
Gross Revenues	$48,225,714	$49,686,471	$52,298,743	$58,497,890	$60,284,042	$62,722,933	$68,049,319	$70,977,236	$73,750,298	$77,845,629
Net Revenues	$28,614,520	$29,682,205	$31,382,443	$34,731,216	$35,495,659	$36,862,605	$42,188,721	$43,667,718	$45,515,775	$48,910,209
arity GARB Debt Service Coverage										
Based on Gross Revenues	4.09	4.61	4.51	3.21	3.30	3.35	3.46	3.41	3.54	3.65
Based on Net Revenues	2.02	2.25	2.22	1.68	1.71	1.73	1.84	1.81	1.87	1.94
FC Debt Service Coverage	N/A	8.20	5.90	5.32	4.12	4.11	3.52	3.46	3.64	3.91
ost per Enplaned Passenger	$4.34	$3.96	$4.13	$5.00	$5.00	$5.20	$5.21	$5.54	$5.49	$5.39

G. SUMMARY

The following points highlight the significant findings of the financial analysis contained in this section:

- Gross Revenue GARB debt service coverage (currently outstanding and future issues), calculated before the application of the airline credit, is projected to range from in 4.09 FY 2002 to 3.77 in FY 2011, with a low of 3.30 projected for FY 2005. Therefore, it is anticipated that during the forecast period, the City will be able to satisfy the 1.25 Rate Covenant requirement contained in the Master GARB Ordinance.

- Net Revenue GARB debt service coverage (currently outstanding and future issues), calculated before the application of the airline credit, is projected to range between 2.02 in FY 2002 and 2.06 in FY 2011, with a low of 1.77 projected for FY 2005. Therefore, it is anticipated that during the forecast period, the Department will be able to generate Net Revenues (Gross Revenues minus O&M Expenses) in each year in excess of 1.77 times the annual GARB debt service requirements.

- If the City does not receive an additional $16.7 million in PFC authority for the Concourse B project and an airfield project, as mentioned in Section II, it should be able to generate sufficient Net Revenues to support the issuance of additional GARBs to provide the $16.7 million in required project funding.

- Debt service coverage for the PFC bonds, based only on projected PFC revenues, is projected to range between 4.72 in FY 2003 and 1.97 in FY 2011, with a low of 1.74 projected for FY 2010. Therefore, it is anticipated that during the forecast period, the City will be able to satisfy the Covenant to Budget PFC Debt Service Coverage contained in the Master PFC Ordinance.

- PFC debt service coverage based on total Pledged Revenues available for PFC debt service (including Net Revenues after the payment of Parity debt service) is projected to range between 8.53 in FY 2003 and 4.39 in FY 2011, with a low of 3.89 projected for FY 2009.

- The annual PFC bond debt service as a percentage of projected PFC revenues is projected to reach a high of 65.0% in FY 2009, below the 66% preferred by the FAA.

- The airline cost per enplaned passenger is projected to remain reasonable during the forecast period, compared to the airline cost per enplanement amounts for airports with a similar number of enplanements as SAT.

SAT's airline cost per enplanement is projected to range between $4.34 in FY 2002 and $4.62in FY 2001, with a high of $4.78 projected for FY 2009.

- Following are the major findings *under the alternative air traffic forecasts*:

  - Gross Revenue GARB debt service coverage is projected to remain at or above 3.21 during the forecast period. The 3.21 represents the lowest level projected for Gross Revenue GARB debt service coverage under the "Low" scenario, after deducting the airline credit.

  - Net Revenue GARB debt service coverage is projected to remain at or above 1.68 during the forecast period. The 1.68 represents the lowest level projected for Net Revenue GARB debt service coverage under the "Low" scenario, after deducting the airline credit.

  - PFC debt service coverage based on total Pledged Revenues available for PFC debt service is projected to remain at or above 3.46 during the forecast period. The 3.46 represents the coverage projected under the "Low" air traffic forecast scenario.

APPENDIX E

FORM OF OPINIONS OF CO-BOND COUNSEL

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March __, 2002

CITY OF SAN ANTONIO, TEXAS
AIRPORT SYSTEM REVENUE IMPROVEMENT BONDS, SERIES 2002
DATED MARCH 1, 2002
IN THE AGGREGATE PRINCIPAL AMOUNT OF $92,470,000

AS CO-BOND COUNSEL FOR THE CITY OF SAN ANTONIO, TEXAS (the "City"), the issuer of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from March 1, 2002, until maturity or redemption, at the rates stated in the text of the Bonds, and maturing on July 1 in each of the years 2005 through 2017, inclusive, and in the years 2019, 2021, 2023 and 2027, with the Bonds maturing on and after July 1, 2013 being subject to optional redemption July 1, 2012, or any date thereafter, and with the Bonds maturing in the years 2019, 2021, 2023 and 2027 being subject to mandatory sinking fund redemption, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City relating to the issuance of the Bonds, including (i) two ordinances of the City (the *"Master Ordinance Establishing the Airport System Revenue Bond Financing Program"* which was adopted by the City Council of the City on April 19, 2001, and the *"Third Supplement to the Master Ordinance"* which was adopted by the City Council of the City on March 7, 2002, which authorized the issuance of the Bonds (collectively, the "Ordinance"), and (ii) other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

BASED ON SAID EXAMINATION, ***IT IS OUR OPINION*** that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding special revenue obligations of the City in accordance with their terms (except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally); and that the Bonds, together with the outstanding "Parity Obligations" (as defined in the Ordinance), are payable from and secured by an irrevocable first lien on and pledge of the "Gross Revenues" of the City's "Airport System" (as such terms are defined in the Ordinance). The owners of the Bonds shall never have the right to demand payment of money raised or to be raised by taxation, or from any source whatsoever other than the Gross Revenues of the City's Airport System.

THE CITY HAS RESERVED THE RIGHT, subject to the requirements stated in the Ordinance, to issue "Additional Parity Obligations" (as defined in the Ordinance) which also may be secured by and made payable from a first lien on and pledge of the aforesaid Gross Revenues of the City's Airport System on a parity with the Bonds and all other Parity Obligations then outstanding.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. The exceptions are as follows:

(1) interest on the Bonds will be included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code;

(2) interest on the Bonds will be included as an item of tax preference in determining the alternative minimum taxable income of the owner under section 57(a)5 of the Code;

(3) interest on the Bonds will be subject to the branch profits tax imposed on foreign corporations by section 884 of the Code; and

(4) interest on the Bonds will be subject to the tax imposed under section 1375 of the Code on the excess net passive income of certain S corporations that have subchapter C earnings and profits.

IN EXPRESSING THE AFOREMENTIONED OPINIONS as to the exclusion of interest from federal income taxes, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed or refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Co-Bond Counsel for the City, and in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds, and we have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the current outstanding Parity Obligations and as to the historical and projected Gross Revenues of the City's Airport System. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

SPECIMEN

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

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Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond
New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

SPECIMEN

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

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Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

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